

EUROPEAN PARLIAMENT



s e s s i o n d o c u m e n t s

ENGLISH EDITION

8 October 1992

A3-0293/92



REPORT

by the Committee on External Economic Relations

on the proposal from the Commission to the Council for a decision concerning the conclusion of a trade and cooperation agreement between the European Economic Community and Macao

(COM(92) 239 final - 6784/92 - C3-0280/92)

Rapporteur: Mr Michael HINDLEY

DOC_EN\RR\215\215338.WP5

PE 158.309/fin.
Or. EN/FR

* Consultation procedure requiring a single reading
**| Cooperation procedure (first reading)

**|| Cooperation procedure (second reading) requiring the votes of a majority of the current Members of Parliament
*** Parliamentary assent requiring the votes of a majority of the current Members of Parliament

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By letter of 19 June the Council consulted the European Parliament, pursuant to Article 235 of the EEC Treaty, on the proposal from the Commission to the Council for a decision concerning the conclusion of a trade and cooperation agreement between the European Economic Community and Macao.

At the sitting of 6 July the President of Parliament announced that he had referred this proposal to the Committee on External Economic Relations as the committee responsible and to the other committees concerned.

At its meeting of 26 May 1992 the Committee on External Economic Relations appointed Mr Hindley rapporteur.

At its meetings of 21/22 September 1992 and 30 September/1 October 1992 it considered the draft report. At the latter meeting it adopted the draft legislative resolution unanimously.

The following took part in the vote: De Clercq, chairman; Stavrou, vice-chairman; Hindley, rapporteur; Miranda de Lage, Rossetti, Ortiz Climent (for Moorhouse) Sainjon and Suarez Gonzales.

The opinions of the Committee on Budgets, the Committee on Energy, Research and Technology, the Committee on Transport and Tourism and the Committee on Development and Cooperation are attached.

The report was tabled on 8 October 1992.

The deadline for tabling amendments will appear on the draft agenda for the part-session at which the report is to be considered.

A
DRAFT LEGISLATIVE RESOLUTION

embodying the opinion of the European Parliament
on the proposal from the Commission to the Council
for a decision concerning the conclusion of a trade and cooperation
agreement between the European Economic Community and Macao

The European Parliament,

- having regard to Article 235 of Treaty,
 - having regard to the Commission proposal to the Council (COM(92) 239 final) ¹
 - having been consulted by the Council pursuant to Article 235 of the EEC Treaty and in accordance with the procedure laid down in Article 228 of that Treaty (6784/92 - C3-0280/92),
 - having regard to the report of the Committee on External Economic Relations and the opinions of the Committee on Budgets, the Committee on Energy, Research and Technology, the Committee on Transport and Tourism and the Committee on Development and Cooperation (A3-0293/92),
1. Approves in accordance with international law and practice the conclusion and entry into force of the trade and cooperation agreement between the European Economic Community and Macao;
 2. Instructs its President to forward this opinion to the Council, the Commission and the governments of the Member States and the authorities of Macao.

¹ OJ No. C 167, 4.7.1992, p. 6

EXPLANATORY STATEMENTI Introduction

Macao comprises the peninsula of Macao, an enclave on the mainland of Southern China, and two nearby islands, Taipa, which is linked to the mainland by a bridge, and Coloane, which is connected to Taipa by a causeway. The territory lies opposite Hong Kong on the western side of the mouth of the Xijiang (Sikiang) river. The climate is subtropical. In 1989 the population was estimated to be at 452.000 of which 135.000 were of Portuguese nationality.

Established by the Portuguese in 1557 as a trading post Macao is the oldest European trading port in China. It became a Portuguese Overseas Province in 1951. After the military coup in Portugal in April 1974, a new statute, promulgated in February 1976, redefined Macao as a 'Special Territory' under Portuguese jurisdiction, but with a great measure of administrative and economic independence.

In May 1985, the Portuguese President Eanes visited Beijing and Macao, and it was announced that the Portuguese and Chinese Governments would negotiate the future of Macao during 1986. It was expected that an eventual transfer of administration in Macao would be based on an accord similar to the agreement between China and the United Kingdom concerning Hong Kong. On 13 April 1987, a joint declaration was formally signed in Beijing by the Portuguese and Chinese Governments, during an official visit to China by the Prime Minister of Portugal. According to the agreement (which was formally ratified in January 1988), Macao was to become a 'special administrative region' (SAR) of the People's Republic (to be known as Macao, China) on 20 December 1999. Macao was thus to have the same status as that agreed (with effect from 1997) for Hong Kong, and was to enjoy autonomy in most matters except defence and foreign policy.

The question of the return of Macao to China has been noticeably less controversial than that of Hong Kong for a number of reasons. Primarily, because China does not regard Portugal's administration of Macao as being a result of an "unequal treaty" forced upon China in a time of her weakness. Indeed, Portugal itself tried to negotiate the return of Macao to China shortly after the revolution in 1974; however, at that stage China preferred to maintain the status quo.

II The economy of Macao

In 1989, according to official estimates, Macao's gross domestic product (GDP), measured at current prices, was 24,747m. patacas (US \$3,074m.), equivalent to 55,300 patacas (\$6,869) per head. During 1985-89 the territory's GDP increased, in real terms, at an average annual rate of 8,1%. In 1989 real GDP expanded by 5,7% compared with the previous year. Between 1980 and 1989 the population increased at an average annual rate of 3.9%.

Agriculture is of minor importance. In 1989 only 0.6% of the economically active population were employed in agriculture and fishing. The main crops are rice and vegetables. Cattle, buffaloes and pigs are reared.

Industry (including manufacturing, construction and public utilities) employed 42.5% of the economically active population in 1990. Mining is negligible. The most important manufacturing industry is the production of textiles and garments. Other industries include plastic, toys, footwear, furniture, electronics and precision instruments. In recent years the Portuguese government has made a deliberate attempt to diversify the manufacturing base of Macao. A result of this has been that the share of textiles and garments of Macao's total exports has declined from 90% in 1977 to 72.1% in 1989. Diversification of the production base is also one of the primary objectives of the proposed EC-Macao Trade and Cooperation Agreement.

Macao possesses few natural resources. The territory receives part of its water supply from the People's Republic of China. In 1984 China also began to supply electricity to Macao. It was envisaged that Macao would eventually receive 70% of its power requirements from the People's Republic. Imports of fuels and lubricants accounted for 4.2% of total import costs in 1989.

Involvement by the People's Republic of China in the territory also includes cooperation between Macao and the neighbouring Chinese Special Economic Zone of Zhuhai in the form of joint ventures. It is hoped that Macao can act as a base for foreign capital to invest in Zhuhai, but in this respect it finds itself in direct competition with the larger and more vigorous Hong Kong.

Tourism makes a substantial contribution to the territory's economy, the number of arrivals by sea from Hong Kong totalling almost 6m. in 1990. Much of this tourism from Hong Kong is to take advantage of the more liberal laws on gambling which exist in Macao. In fact, gambling is a very important provider of income for Macao and the casinos, often Hong Kong owned, bring in an estimated US\$ 450 million per year.

Macao's economy is highly dependent on trade with the rest of the world. Macao depends on imports for virtually all its requirements and depends on its exports to generate sufficient foreign exchange earnings for those imports. That is the reason why external trade is so important for Macao's economy.

The main origins of Macao's 1989 imports were Hong Kong (42.2%); People's Republic of China (19.6%); Japan (10.2%) and the EC (7.0%).

As for the geographical orientation of Macao's exports, in 1989, the USA was its most important export market (34.4%), followed by the EC (31.4%) and Hong Kong (15.3%).

The most salient feature in recent years has been the increasing importance of the US market, where the share of total exports has risen steadily from 29% in 1980 to 34.4% in 1989. On the other hand, the weight of EC markets has declined from a peak of 40% in 1979 to 31.4% in 1989.

Macao's development has in the past been hindered by the lack infrastructure and an airport is therefore planned to open in 1994. Given the difficulties with the development of the new Hong Kong airport on Lantau island, there is growing interest in the proposed Macao airport. It is to be noted that the Chinese authorities have plans to upgrade to international standards the airport in the

special economic zone of Shenzhen, just across the border from Hong Kong. Whether the burgeoning economy of the Pearl River Delta demands three international airports, is an open question.

There are also plans to develop a network of fast roads around the Pearl River Delta linking Hong Kong, Guangzhou and Macao. This would end Macao's virtual isolation and would be a welcome boost to the economy. There may be possibilities for European investment in this project.

III Relations with the EC

In 1991 EC imports from Macao amounted to 561m. ECU while exports were at a mere 49m. ECU resulting in an EC trade deficit of 573m. ECU. This disequilibrium in trade is not a new phenomenon, but has in fact existed over a longer period, (see table below). More than 80% of EC imports from Macao consist of textiles and clothing.

Community trade with Macao, 1981-1991

	1,000 ECU		
	EC-imports (cif)	EC-exports (fob)	Balance
1981	288,342	9,683	-278,659
1982	327,528	19,142	-308,386
1983	348,551	16,537	-332,014
1984	442,006	10,852	-431,154
1985	433,119	13,997	-419,122
1986	470,069	23,688	-446,381
1987	478,844	22,747	-456,097
1988	493,687	25,596	-468,091
1989	502,580	35,295	-467,285
1990	518,421	50,325	-468,096
1991 (1)	561,714	49,151	-512,563
1991: average 1981/82/83=100	174.7	325.1	
1991 (2)	562,148	49,110	-513,038

Sources: CRONOS-FRIC and SIENA, EUROSTAT

Production: European Parliament/Statistical Service

(1) D (W)

(2) concerns F.R. Germany as constituted October 1990

In 1991 Macao's most important trading partners within the Community were Germany, France and the U.K., accounting for 33.6%, 23.9% and 20.5% respectively of total Community imports from Macao in 1991.

At present the only contractual relation between the EC and Macao is a bilateral textile agreement, which sets out the conditions for textile trade between these two trade partners.

The current EC/Macao agreement is valid from 1 January 1987 to 31 December 1991. It has been extended for one year up to 31 December 1992 pending the outcome of the GATT Uruguay Round negotiations.

The agreement establishes quotas for Macao's exports to the Community for 28 categories of textile products (20 categories of products under Community quota and 8 categories under regional quota) and establishes a mechanism whereby categories of textile products not yet under quota may be subject to quantitative restraints once the EEC's imports from Macao of the product in question reach a certain level (basket exit extractor mechanism) and are causing a real risk of market disruption.

Macao is a beneficiary of the Community's GSP scheme. Macao exports to the EEC under GSP represented only 12,91%, in 1990, of total exports from Macao to the EEC. This low figure is explained by the fact that some 80% of Macao's exports to the Community are MFA textile items for which, as a dominant country, Macao has a reduced GSP offer. Moreover, a large majority of products exported to the Community do not meet the GSP origin requirement and consequently do not qualify for preferential access.

In October 1991 Macao expressed the desire to strengthen its ties with the EC. On 28 April 1992 the Council adopted a negotiating mandate for a trade and cooperation agreement with Macao. The agreement was initialled on 12 May and signed on 15 June 1992.

IV The trade and cooperation agreement between the EEC and Macao.

The agreement is non-preferential. The parties shall accord each other most-favoured-nation treatment under the terms of GATT.

The main purpose of the Agreement is to consolidate, deepen and diversify relations between the Parties in their mutual interest and it is designed to intensify and diversify trade and actively to develop co-operation in an evolutionary and pragmatic manner.

With regard to the basis of the Co-operation, both parties undertake to strengthen their relations and resolve to promote the development of their co-operation, taking account of Macao's special situation and its level of development.

Co-operation between the Community and Macao and the implementation of the Agreement are based on respect for the democratic principles and human rights which inspire the policies of the Community and Macao. Both the preamble of the agreement and its Article 1 refer to this.

In addition to the most-favoured-nation treatment within the field of trade the Parties undertake to promote to the greatest possible degree the development and diversification of their trade, taking into account their respective economic situations and granting each other the widest possible opportunities.

Both Parties agree to develop co-operation, within the bounds of their respective powers and on the basis of mutual interest, in all areas in which they have responsibility for policy, notably the following:

- industry,

- trade,
- science and technology,
- energy,
- transport,
- telecommunications,
- data processing,
- intellectual and industrial property, standards and specifications,
- protection of the environment,
- social development,
- tourism,
- financial services,
- fisheries,
- customs matters,
- statistics.

In addition the Parties will cooperate within the field of investments, training and fight against drugs.

The two Parties will encourage the use of the various forms of industrial and technical co-operation to benefit their firms and entities, within the bounds of the needs and capabilities of the Parties.

The parties will promote the development and diversification of Macao's production base in industry and services, in particular by targeting co-operation activities at small and medium-sized undertakings and by encouraging steps to facilitate access on the part of such enterprises to sources of capital, markets and appropriate technology. Such measures could include the joint establishment of suitable mechanisms and institutions.

The Agreement is concluded for a period of five years. It will be renewed tacitly on a yearly basis unless one of the Parties denounces it to the other Party in writing six months before the date of expiry.

The Agreement provides for future developments whereby the parties may by mutual consent expand the Agreement with a view to enhancing the levels of co-operation and supplementing them, within the bounds of their respective laws, by means of agreements on specific sectors or activities.

V Conclusions

The agreement can be seen as an expression of a desire on the part of the Community and Macao to strengthen their mutual relations in the period up to, and possibly after, the time when Macao comes under Chinese sovereignty. In principle the agreement is limited to the time when Macao is under Portuguese administration and there have, until now, been no negative reactions from China against its conclusion. In these circumstances nothing seems to speak against the European Parliament's giving its unconditional support to the Council's approval of the agreement on behalf of the Community.

OPINION
of the Committee on Budgets

Letter from Mr Thomas von der VRING, chairman, to Mr Willy DE CLERCQ, chairman
of the Committee on External Economic Relations

Brussels, 8 October 1992

Subject: Proposal for a Council decision concerning the conclusion of a trade
and cooperation agreement between the European Economic Community and
Macao (COM(92) 239 fin. C 3-280/92)

Dear Mr Chairman,

At its meeting of 1 and 2 October 1992, the Committee on Budgets considered the
above proposal.

The Committee on Budgets noted that the signing of the agreement for five years
is intended to encourage commercial and economic cooperation in various fields.
The committee further noted that this agreement takes account of the most-
favoured nation clause.

The Committee on Budgets noted the particular situation of Macao and as a result
has expressed a wish to know whether the necessary conditions for signing this
agreement have been met.

With regard to the financial aspects of the agreement, the Committee on Budgets
would observe that the required appropriations authorized by the Budgetary
Authority must be charged against the budgetary chapters 'Other cooperation'
and, particularly, to the articles concerning cooperation with developing
countries in Asia.

Saving the foregoing observations, the committee has delivered a favourable
opinion.

(closing formula and signature)

The following were present for the vote: von der Vring (Chairman); Böge,
Cassidy, Colom i Naval, Goedmakers, Kellett-Bowman (for Elles), Samland,
A. Smith, Wynn and Zavvos.

OPINION
of the Committee on Energy, Research and Technology

Letter from Mr Claude DESAMA, chairman, to Mr Willy DE CLERCQ, chairman of the Committee on External Economic Relations

Brussels, 1 October 1992

Subject: Proposal for a Council decision concerning the conclusion of a trade and cooperation agreement between the European Economic Community and Macao (COM(92) 239 fin. C 3-280/92)

Dear Mr Chairman,

At its meeting of 30 September, 1 and 2 October 1992, the Committee on Energy, Research and Technology considered the abovementioned proposal.

As with other cooperation agreements between the EC and third countries, our committee is particularly interested in those aspects which concern its own area of competence, which are principally covered by Articles 4, 5, 8 and 10 of this Agreement.

From a general standpoint, the violent repression of the movement for democracy in China which took place in June 1989 hangs over Macao, which enjoys the status of a Portuguese special territory due, as agreed by both parties, to become a special administrative region of the People's Republic of China on 20 December 1999¹.

In reality, both the Portuguese and Chinese governments consider Macao to be a Chinese territory under Portuguese jurisdiction. In this, there are close parallels with the British colony of Hong Kong, underlined by the fact that their economies are heavily interdependent, and both face an uncertain future, despite China's having promised to respect the economic and social system and the area's existing lifestyle during the fifty-year transition period, even if this promise has been supported by major investment.

Even if the Portuguese enclave enjoys a flourishing economy based on remarkable rates of growth, nonetheless, there are infrastructure problems for air transport and communication with the mainland from the island of Taipa.

There is also a lack of raw materials and a reliance for energy supplies on the People's Republic. Electricity supplies cover 70% of Macao's needs and industrial activity there accounts for over 40% of employment.

¹ Agreement between Portugal and the People's Republic of China, signed 13 April 1987

Taking these facts into consideration, the Committee on Energy, Research and Technology:

- welcomes the trade and cooperation agreement between the EC and Macao and trusts that it will constitute a valid basis for developing scientific and technical exchanges and exchanges in the energy field, in accordance with the principle of mutual benefit;
- recognizes that the agreement with Macao is of interest as an experiment in tackling relations between the Community and the People's Republic for the coming millennium, a task facilitated by the solution of the problems in China's special economy regions;
- stresses the importance of establishing scientific cooperation links with scientific bodies such as the University of East Asia so as to find partners open to Community thinking on complex issues of regional and global importance, requiring joint efforts in the fields of technological research and development;
- observes, with regard to energy, that the growing energy demands of the region, with its powerful economic growth, will entail even heavier reliance on coal from the People's Republic; this will require cooperation on transfer of clean, high-efficiency energy technology, possibly within the framework of the Energy Charter;
- draws attention to the fact that almost 70% of the population of this part of the world lives on the coast, with disastrous effects on the coastal environment. In this connection, the Community's experience in controlling marine pollution means that cooperation should encompass the transfer of results and programmed research in this sphere;
- recalls, once again, the conclusions of its report on scientific and technological cooperation with third countries (rapporteur, Mrs Goedmakers);
- recommends that the Committee on External Economic Relations, as committee responsible, should approve the agreement proposed by the Commission.

(closing formula and signature)

The following took part in the vote: Desama, chairman; Bettini, Chiabrande, Herman (for Lamassoure), Herve, Lannoye, Linkohr, Regge, Rosving and Seligman, pursuant to Rule 111(2).

OPINION

of the Committee on Transport and Tourism

Letter from the chairman of the committee to Mr DE CLERCQ, chairman of the Committee on External Economic Relations

Brussels, 29 September 1992

Subject: Proposal for a Council decision concerning the conclusion of a trade and cooperation agreement between the European Economic Community and Macao (COM(92) 0239 final - C3-0280/92)

Dear Mr De Clercq,

At its meeting of 29 September 1992 the Committee on Transport and Tourism examined the above proposal for a decision. The committee has also been informed that the trade and cooperation agreement between the European Economic Community and Macao was signed at ministerial level in a ceremony held in Luxembourg on 15 June 1992.

The principal aim of the agreement is to develop, deepen and extend relations between the two parties, with a view to stepping up and diversifying trade and actively developing cooperation in an evolutionary and pragmatic manner. Cooperation between the Community and Macao and the implementation of the agreement are based on respect for the democratic principles and human rights which inspire the policies of both the Community and Macao.

In addition to trade cooperation, the agreement provides for the promotion of cooperation by both parties within the framework of their respective competences, on the basis of the principle of mutual interest in all areas falling under their respective policies, and (with particular reference to the field of responsibility of this committee) specifically in the area of transport and tourism.

Macao is a very small territory, with an area of 17 km². The main transport infrastructure project currently under way is the construction of an airport, which is expected to open in 1995 (at present Macao uses Hong Kong's airport).

The tourist sector in Macao has considerable development potential, in view of the particular richness of its historical and cultural heritage arising from its role as meeting-point between Portuguese and Chinese cultures. The Committee on Transport and Tourism wishes to stress, in this connection, the need for a tourism policy based on the preservation of this heritage, and welcomes the fact that the agreement provides for cooperation in the field on the basis of specific actions, including the development of promotion, an interchange of information and statistics, exchanges of experts and training focused on a transfer of technology and improved administration in the industry. The appropriate financial resources and financial mechanisms are to be made available for these actions.

In the light of the above, the Committee on Transport and Tourism welcomes the cooperation agreement and delivers its favourable opinion thereon to the Committee on External Economic Relations.¹

Yours sincerely,

(sgd) Nel van DIJK

¹The following took part in the vote: van Dijk, chairman; Bourlanges, Cornelissen (for Jarzembowski), Dinguirard, Lüttge, Sanchez (for Speroni, pursuant to Rule 111(2)), Sapena Granell, de Vitto and van der Waal.

O P I N I O N

(Rule 120 of the Rules of Procedure)

of the Committee on Development and Cooperation
for the Committee on External Economic Relations

Draftsman: Mr A. de MONTESQUIOU-FEZENSAC

At its meeting of 15 July 1992 the Committee on Development and Cooperation appointed Mr A. de MONTESQUIOU-FEZENSAC draftsman.

At its meeting of 22 September 1992 it considered the draft opinion and adopted the conclusions contained therein.

The following took part in the vote: Saby, chairman; Belo, vice-chairman; de Montesquiou Fezensac, rapporteur; Andrews, Braun-Moser, Daly, Ewing, Laroni, Romeria i Alcazar, van Hemeldonck, van Putten and Wynn (for Buchan).

A. Conclusions

The Committee on Development and Cooperation,

- A. having regard to the historic links between Macao and Portugal and consequently the European Community,
 - B. having regard to Macao's economic and social development problems,
 - C. having regard to the proposed trade and cooperation agreement¹,
1. Welcomes the substantial strengthening of cooperation links between the European Community and Macao that implementation of the proposed trade and cooperation agreement will signify;
 2. Particularly approves the fact that the proposed agreement is based on respect for democratic principles and human rights;
 3. Believes that the agreement will make it possible for Community development policy to give greater consideration to Macao;
 4. Welcomes, in this connection, the fact that the proposed agreement explicitly mentions various important areas of cooperation with scope for expansion to any other area of mutual interest;
 5. Approves the proposed agreement and asks the Committee on External Economic Relations to take account of the Committee on Development and Cooperation's opinion when drawing up its report.

¹ COM(92) 239 final

B. Explanatory statement

Macao currently has 500 000 inhabitants, 90% of whom are of Chinese origin. It has been under Portuguese rule since the sixteenth century, with domestic autonomy since the mid-1970s. Under the agreement concluded between Portugal and China in 1987, Macao will return to China in December 1999.

The GNP per capita is about US \$ 3900. Macao's main resources are fisheries, the textile industry and tourism. Chinese illegal immigrants - estimated at 100 000 - are a major social problem.

Macao is not one of the Overseas Countries and Territories that have ties with the Community because of their special association status.

Since the end of the 1970s Macao has been linked to the Community by a textile products trade agreement and also benefits from the Community's Generalized System of Tariff Preferences.

The agreement under consideration covers both trade and cooperation. Article 1 states that cooperation is based on respect for democratic principles and human rights. The trade part of the agreement grants Macao most-favoured-nation status.

Provision is also made for developing cooperation in a number of sectors - the list being left open - which, in addition to traditional areas such as trade and industry, includes areas reflecting concerns expressed by Parliament such as protection of the environment, social development and an anti-drug policy.

A Joint Committee will oversee the functioning of the agreement, which is concluded for a period of five years, with subsequent renewal on a yearly basis unless one of the parties denounces it.

Cooperation activities will be financed under various budget headings, including financial and technical cooperation with Asian developing countries.

