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4th REPORT

from the Commission

**on the quantitative quotas
and
surveillance measures
applicable to certain non-textile
products originating in the
People's Republic of China**

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INTRODUCTION

A Historical background

By Regulation (EC) No 519/94 of 7 March 1994, the Council of the European Union introduced Community-wide quantitative restrictions on 7 categories of products originating in the People's Republic of China, namely gloves, footwear, porcelain tableware, ceramic tableware, glassware, car radios and toys, and certain surveillance measures

The introduction of such measures had been agreed, in principle by the Council in December 1993 as part of a global package including acceptance of the Uruguay Round results, reinforcement of the trade policy instruments and completion of the common commercial policy

The latter aspect of the package involved the unilateral elimination of 6 417 national quantitative restrictions (of which some 4 700 concerning Chinese products) and the introduction of Community-wide quotas on imports from China of a limited number of sensitive products, whose imports were at that time subject to national restrictions

The introduction of such quotas was based on the following considerations

- a) the sensitivity of the Community industries concerned,
- b) the increasing threat posed by imports from China to these industries, made more acute by the particular characteristics of the Chinese economy

B Objective of the Commission report

In the course of discussions in the Council on Regulation (EC) No 519/94, the Commission committed to report to the Council every year on the implementation of the surveillance measures and the quantitative restrictions provided for in Annexes II and III, on the need to maintain such measures, and to propose, as the need arises, the appropriate adjustments

This fourth report is in response to the above-mentioned commitment

C Methodology

- 1 The report first reviews the implementation of the quantitative restrictions, including the problems raised by their administration

In its second chapter, it addresses the question of the need to maintain the quantitative restrictions introduced by the Council. To this end, the Commission examined whether the conditions which justified the introduction of these measures in 1994 are still present, in particular

- a) the situation of the Community industries concerned, and
- b) the sensitivity of these industries to Chinese imports

This examination was conducted sector by sector

The implementation of the surveillance measures and the need to maintain them is dealt with in the third chapter

The fourth chapter presents, on the basis of the above analysis, the Commission conclusions

- 2 It should be noted that as in previous years, the Commission faced considerable difficulties in gathering information on the state of the Community industry, since producers generally produce a wide range of products, not just those subject to quota, and that the sectors concerned are made up of many small and medium-sized enterprises, of which a significant proportion are not even known by the relevant national federations

On the importers' side, the Commission received information of a general nature from one association and some individual importers

- 3 In general, the analysis is based on figures for 1997. However, trends for 1998 have been used, where possible

CHAPTER 1

IMPLEMENTATION OF THE QUANTITATIVE RESTRICTIONS

I Background and evolution since the previous report

Since their entry into force in March 1994 the quotas have been modified on a number of occasions in order to balance the objective of ensuring an appropriate protection of the Community industry concerned with that of maintaining trade flows with the People's Republic of China

- In July 1994, the Council decided to increase the 1994 level of the quota on certain toys
- In March 1995, the quotas were further increased to take account of the accession of Austria, Finland and Sweden
- In April 1996, following the conclusions contained in the Commission's first annual report on the implementation of the quotas the Council decided by Regulation (EC) No 752/96 to relax further the quota regime vis-a-vis China
 - the quotas on 3 products (gloves, car radios and combined car radios) were liberalised,
 - the 3 toy quotas were merged into one quota, to give more flexibility to traders and allow them to react more rapidly to market changes,
 - the remaining quotas were increased (ceramic and porcelain tableware and glassware by 5% and certain footwear by 2%)
- In October 1996, Council Regulation (EC) No 1897/96 excluded glass-fronted clip-frames from the quota applicable to glassware
- In May 1997 Council Regulation (EC) No 847/97 liberalised imports of toy parts and accessories and removed the quota on glass products tableware as from 1 January 1998

Finally, as a result of Council Regulation (EC) No 1138/98 of 28 May 1998 which implemented the Commission's proposals included in its 3rd annual report

- imports of toys have been liberalised,
- the quotas on ceramic and porcelain tableware have been increased by a further 5%

II Management of the quotas

a) Legal basis and objectives

- 1 The management of Community quotas is based on Council Regulation (EC) No 520/94 of 7 March 1994 establishing a Community procedure for administering quantitative quotas and Commission Regulation (EC) No 738/94 of 30 March 1994 laying down certain rules for the implementation of Council Regulation (EC) No 520/94 (mostly concerning procedural aspects, including the common import licence form)

It should be recalled that before the adoption of Regulation (EC) No 520/94, quotas were allocated among Member States, and not directly to importers. Since the reform of March 1994, uniform criteria, determined by the Commission after consultation of the Management Committee, apply to all Community importers, in conformity with the principles of the Single Market and the relevant case law of the European Court of Justice

- 2 In the management of the quotas the Commission has been guided by the following principles
 - that administrative procedures would not add to the intended effect of the quotas on trade and that the available quantities would be fully used, and
 - that non-discrimination among all Community importers, no matter where they are established and no matter where they submit a licence application would be ensured

b) Functioning of the quota management system

- 1 In conformity with the above-mentioned principles the Commission felt it appropriate to resort to the first allocation method provided for by Regulation (EC) No 520/94, *i.e.* the method based on traditional trade flows, which guarantees that "traditional" importers receive at least a part of their previous trade performance realised during a reference period, while ensuring a fair access to the quotas to non-traditional importers

The method used for the allocation of the part of the quotas set aside for the non-traditional importers is the third method provided for by Regulation (EC) No 520/94, *i.e.* the method of proportional allocation to the quantities requested. In addition, in order to exclude speculative applications, a maximum quantity which may be applied for by non-traditional importers, is set

This allocation system, while it would appear to have worked satisfactorily, still raises however certain problems, in particular in relation to the determination of the relative shares set aside for traditional and for other importers respectively

In 1996 28 204 import licence applications were submitted by non traditional importers, this figure amounted to 19 708 for the 1997 allocation and 21 439 for the 1998 allocation, while it decreased to 17 416 for the 1999 exercise (a decrease which has to be qualified as the number of products under quota has been further reduced in 1998)

This extremely high number of applications results in those non traditional importers being allocated very limited quantities, a fact which may lead to under-utilisation of the quotas. Moreover, it is clear that all importers which were classified as non-traditional in 1994 have been prevented since then to make applications as "traditional importers" due to their limited previous trade performance. This leads to a situation where some importers, who have *de facto* become "traditional", cannot be treated as such while some of those who were traditional importers in 1994 may have turned to other types or origins of products. Such a situation is not sound and should thus be corrected

In an attempt to do so the portion of the quotas reserved for non-traditional importers was increased by 5 percentage points in 1997 for the 1998 quota year and a similar increase was decided, in 1998, for the 1999 quota year. These limited increases have, at best, allowed non-traditional importers to be granted quantities similar to those, very limited, they were granted in previous years.

The Commission therefore considers that the allocation system which guarantees that most of the quotas are set aside for traditional importers, which was appropriate during the first 4 years, should now be markedly amended with a view to eliminating or at least reducing the imbalance between the quantities granted to "traditional" and "other" importers.

2. In the management of the quotas, the Commission made every effort to satisfy the wish of importers to receive information as early as possible on their allocation for the following period. To this end, the Commission opened the allocation procedures for the 1999 quotas well before the beginning of the quota year in July 1998 and allowed importers to introduce their applications during 2 months until September 1998.
3. The 1999 management rules currently provide for a 12 month validity of the import licences. Moreover, the unused 1998 quotas will be redistributed during 1999. The Commission considers that the quantities redistributed from the previous year should be kept separate from the current annual quota.
4. Concerning the administrative procedures, the Community management system is based on a "single-stop" approach, whereby all Community importers, irrespective of where they are established in the Community may submit a licence application to the competent authority of the Member State of their choice, and obtain an import licence which is valid throughout the Community.

In addition, the application procedure has been made as simple as possible and the formalities reduced to a strict minimum, the licensing process is totally free of charge for the Community importers.

c) Conclusion

As is unavoidable when trade is subject to restrictions, the management of these quotas raised some problems. Some of them, such as the selection of the reference year for traditional importers and the different duration of the redistribution licences compared to the regular annual quota licences, have been solved. The small quantities allocated to non-traditional importers remain a matter of concern which should be addressed in the near future. The Commission considers, however, that the system adopted has on the whole worked well, thanks to the cooperation of Member States. In particular, it is felt that any (legitimate) concerns that the management system should not add to the effect of the quotas, as decided by the Council, have been met.

III Developments in the trade of the products subject to quantitative restrictions

The following two tables give a factual summary of the developments in the trade of each product subject to quantitative restrictions, both in terms of volume and value.

a) Evolution in volume of the products concerned (imports and quotas)

Products	Unit	Imports				Quotas		
		1994	1995	1996 (**)	1997 (**)	1997 quotas (annual basis)	1998 quotas (annual basis)	unused quantities in 1997
rubber and plastic uppers shoes (6402 99)	pairs	35 292 487 (9 989 423 "hi-tech" incl)	27 083 126 (1 517 290 "hi-tech" incl)	49 133 985 (6 344 717 "hi-tech" incl)	37 181 298 (4 065 843 "hi-tech" incl)	39 151 481 ("hi-tech" not included)	39 151 481 ("hi-tech" not included)	4 483 572
leather shoes (6403 51 & 59)	pairs	2 602 553	1 241 996	1 395 151	1 477 919	2 795 000	2 795 000	767 358
leather shoes (6403 91 & 99)	pairs	30 638 814 (14 122 199 "hi-tech" incl)	15 652 049 (10 331 353 "hi-tech" incl)	18 594 437 (17 561 189 "hi-tech" incl)	23 060 223 (11 721 485 "hi-tech" incl)	12 120 000 ("hi-tech" not included)	12 120 000 ("hi-tech" not included)	1 486 444
textile shoes (6404 11)	pairs	22 662 404 (6 288 335 "hi-tech" incl)	14 182 196 (4 466 577 "hi-tech" incl)	21 410 712 (15 975 984 "hi-tech" incl)	28 247 818 (15 095 769 "hi-tech" incl)	18 228 780 ("hi-tech" not included)	18 228 780 ("hi-tech" not included)	4 111 457
textile shoes (6404 19 10)	pairs	25 944 728	18 914 149	14 155 867	1 572 259	31 897 716	31 897 716	16 420 473
total shoes	pairs	117 140 986 (33 361 807 "hi-tech" incl)	77 073 516 (21 223 220* "hi-tech" incl)	104 690 152 (39 881 890 "hi-tech" incl)	91 539 517 (30 883 097 "hi-tech" incl)	104 192 977 ("hi-tech" not included)	104 192 977 ("hi-tech" not included)	27 269 304

- figures on "hi-tech" shoes subject to Community surveillance are based on surveillance documents issued. As the latter do not necessarily reflect actual levels of imports figures were adjusted where appropriate on the basis of data available from the Taric database

- figures on unused quantities based on import licences returned to the Member States

(*) including 4 908 000 pairs for Italy for which the breakdown by category was not known in 1995

(**) total imports include quantities imported under redistribution licences while "hi tech" figures are restricted to quota year

Products	Unit	Imports			Quotas			
		1994	1995	1996	1997	1997 quotas (annual basis)	1998 quotas (annual basis)	unused quantities in 1997 (*)
porcelain tableware (691110)	tonnes	50 045	31 966	34 742	37 969	45 800	48 090	8 780
ceramic tableware (691200)	tonnes	38 910	26 372	28 454	32 105	34 650	36 383	5 5249

Source EUROSTAT

(*) figures on unused quantities based on import licences returned to the Member States

b) Import prices of products originating in China

Product	Unit price in 1995	Unit price in 1996	Unit price in 1997
Footwear			
- 6402 99	4 22 ECU/pair	4 81 ECU/pair	5 12 ECU/pair
- 6403 51	6 74 ECU/pair	7 59 ECU/pair	8 38 ECU/pair
- 6403 59	3 17 ECU/pair	3 05 ECU/pair	2 69 ECU/pair
- 6403 91	11 17 ECU/pair	12 15 ECU/pair	13 76 ECU/pair
- 6403 99	9 25 ECU/pair	9 54 ECU/pair	11 13 ECU/pair
- 6404 11	7 17 ECU/pair	8 32 ECU/pair	8 69 ECU/pair
- 6404 19 10	0 83 ECU/pair	1 11 ECU/pair	1 16 ECU/pair
Porcelain tableware(*)			
6911 10	1 070 03 ECU/tonne	1 149 61 ECU/tonne	1 364 42 ECU/tonne
Ceramic tableware(*)			
6912 00	1 077 92 ECU/tonne	1 212 91 ECU/tonne	1 404 18 ECU/tonne

Source EUROSTAT

CHAPTER 2

SHOULD COMMUNITY QUOTAS BE MAINTAINED?

I Approach adopted by the Commission

To reply to this question the Commission sought to find out if the conditions that had provoked the introduction of quantitative restrictions in 1994, namely the sensitivity of the Community industries concerned and the threat posed by Chinese products to them, still prevailed

It did this by carrying out a sector-by-sector analysis on the basis of the following economic indicators

- 1 Structure of the industry
- 2 Production
- 3 Employment
- 4 Import trends
- 5 Import prices
- 6 China's export potential

II Analysis of the sectors concerned

FOOTWEAR

CN 6402 99, 6403 51 and 59, 6403 91 and 99, 6404 11, 6404 19 10

A Situation in the Community footwear industry

1 Introduction

The industry has been undergoing modernisation and restructuring for a number of years under pressure from increasing international competition and technological change. There has been a shift in EU countries towards more diversified, quality products with higher added value. However, the competitive strengths developed by the industry over the last few years can only be brought to bear if exporters enjoy effective access to world markets. Therefore, any liberalisation of Community imports will have to go hand in hand with equivalent access to third-country markets and we should continue to make use of the leeway afforded by the quotas to press ahead with the structural adaptation of what remains an essentially labour-intensive sector.

2 Structure of the industry

The Community footwear industry consists of a large number of small firms (averaging 20 workers), most of them in regions which tend to have little in the way of industrial diversification. There are differences from one Member State to another however. Firms in Germany and France employ an average of 100 workers, whereas the average in Spain and Italy is closer to ten, with the other Member States fitting somewhere between those two extremes.

The number of manufacturers in the EU as a whole has been in decline throughout the nineties, falling from 15 897 in 1989 to 14 817 in 1997

Being so labour-intensive the industry is vulnerable to low-priced imports particularly from planned economies. When we add to labour-intensiveness the geographical concentration of the sector we see that any fluctuation in the level of activity has major regional and social repercussions.

3 Community production

Production declined slightly, by around 1.5%, in 1997. The fall in output reflects a 3% drop in exports and a 1.4% drop in sales on the Community market. However, because of a simultaneous decline in imports EU manufacturers held on to their 49% market share.

1000 pairs	1993 (A)	1994 (A)	1994 (AA)	1995 (A)	1995 (AA)	1996 (AA)	1997 (AA)
Production	1 090 166	1 107 140	1 124 552	1 087 505	1 104 339	1 104 590	1 088 435
Exports	291 889	59 687	N A	298 528	506 575	516 100	506 529
Consumption	1 529 857	1 524 135	N A	1 504 666	1 545 954	1 605 311	1 585 220
EC producers sales on internal market	798 277	767 455	N A	788 777	797 764	788 490	781 906
EC producers market share	52%	50%	N A	52%	52%	49%	49%

(A) EU 12 (AA) EU 15

4 Employment

Employment continued to decline in 1997 with the loss of a further 8 000 jobs.

	1993	1994	1995	1996	1997
Direct employment EU 12	320 405	317 990	306 475	300 283	292 548
Direct employment EU 15	N A	325 436	313 789	307 699	299 670

N B Following the change to the more comprehensive PRODCOM nomenclature the figures for 1993 and 1994 have been adjusted in the interests of comparability.

B Sensitivity to Chinese imports

1 Trends in imports

In 1997 EC imports of footwear from all sources were down approximately 1 9% from the previous year's levels

This reflects a fall in demand on the Community market. The most marked decline was in imports from China and Indonesia, down 23% and 15% respectively. By contrast, imports from Vietnam and Taiwan surged (up 41% and 61%), this made Vietnam the Community's second-largest supplier, accounting for 17% of total footwear imports from all third countries.

1000 pairs	1993 (x)	1994 (x)	1995 (x)	1995 (xx)	1996 (xx)	1997 (xx)
Total extra EU	731 580	756 682	715 889	748 170	816 651	801 314
China	296 700	301 406	280 143	295 072	337 484	261 387
Indonesia	86 673	104 192	99 601	102 476	99 798	84 450
Vietnam	32 752	58 064	74 915	76 757	97 165	136 680
Thailand	61 118	51 336	35 937	37 717	32 268	36 643
Taiwan	21 538	17 278	19 690	20 725	21 992	35 521
India	18 393	20 989	19 209	19 650	21 779	23 689
Brazil	23 209	17 811	14 834	15 375	12 976	14 517
South Korea	30 410	20 462	14 288	15 345	9 113	6 283

(x) EU 12 (xx) EU 15

Overall, the trend of EC imports from China is as follows

1000 pairs	1993(x)	1994(x)	1995(x)	1995(xx)	1996 (xx)	1997(x)
Footwear under quota	120 029	117 141	71 611	77 073	104 690	91 540
Non quota footwear	159 021	184 265	208 532	217 999	232 794	169 847
Total	279 050	301 406	280 143	295 072	337 484	261 387

(x) EU 12 - (xx) EU 15

So the fall in imports from China spanned both quota and non-quota products (down 12.5% and 27% respectively). Among quota products slippers of CN code 6404 19 10 were affected essentially because a provisional anti-dumping duty was imposed in February 1997 for nine months (the definitive measure adopted in November 1997 excluded slippers), as was "footwear with outer soles and uppers of rubber or plastics" of CN code 6402 99. Other categories registered an increase.

While imports from China are declining, however, the proportion of the total represented by quota imports is rising (from 31% in 1996 to 35% in 1997).

The fact remains that imports from China taken as a whole accounted for 33% of total EU footwear imports, a market share of approximately 17%, which still gives them a considerable influence over conditions on the Community market.

Quota footwear (pairs)	1993(x)	1994(x)	1995(x)	1995(xx)	1996 (xx)	1997(xx)
6402 99	33 498 463	35 292 487	24 270 835	27 083 126	49 133 985	37 181 298
6403 51 and 59	3 030 801	2 602 553	1 100 882	1 241 996	1 395 151	1 477 919
6403 91 and 99	24 860 632	30 638 814	14 857 004	15 652 049	18 594 437	23 060 223
6404 11	23 849 323	22 662 404	12 717 094	14 182 196	21 410 712	28 247 818
6404 19 10	34 789 708	25 944 728	18 664 920	18 914 149	14 155 867	1 572 259
TOTAL	120 028 927	117 140 986	71 610 735	77 073 516	104 690 152	91 539 517

(x) EU 12 - (xx) EU 15

2 Import prices

Comparing the average prices of imported Chinese footwear with those of Community exports, we see the extent to which Chinese imports are undercutting prices on the Community market

Product		Price per pair (ECU)					
		1993(x)	1994(x)	1995(x)	1995(xx)	1996(xx)	1997 (xx)
6402 99	China	3 68	3 78	4 25	4 22	4 81	5 12
	EU	5 98	6 44	6 24	6 36	6 70	7 47
6403 51	China	9 76	11 86	6 66	6 74	7 59	8 38
	EU	21 19	21 68	21 04	21 06	21 59	23 57
6403 59	China	3 30	3 26	3 00	3 17	3 05	2 69
	EU	16 64	16 43	18 11	18 13	21 84	22 07
6403 91	China	9 54	10 14	11 27	11 17	12 15	13 76
	EU	18 71	19 72	20 25	20 87	21 20	23 96
6403 99	China	7 45	8 02	9 31	9 25	9 54	11 13
	EU	14 12	14 51	14 62	14 69	15 03	16 78
6404 11	China	3 94	4 31	7 19	7 17	8 32	8 69
	EU	8 80	9 32	10 73	10 72	12 40	10 59
6404 19 10	China	1 00	0 89	0 82	0 83	1 11	1 16
	EU	4 12	4 12	4 00	4 03	4 21	4 67

(x) EU 12 (xx) EU 15

Overall, average unit import prices of footwear from China in 1997 again made this the cheapest of the Community's major suppliers

3 Opinion of the Community industry

According to the European Confederation of the Footwear Industry the economic situation in Asia, while causing markets to shrink generally, has also depressed prices across the board, affecting not only the price of exports to the Community but also the prices on Community manufacturers' export markets

That being so, the high penetration rates and rock-bottom prices of imports from China mean that they continue to be a major worry for the Community industry, which therefore wants the quota to remain in place

4 Opinion of importers

The Foreign Trade Association (FTA) has stated that job losses in the Community footwear industry are a natural phenomenon basically caused by automation and advances in information technology. It does not believe Chinese imports are a threat to the industry.

C Conclusion

The footwear sector remains acutely vulnerable to Chinese imports because of their sheer volume, their share of the Community market, the price gap and the enormous export potential of the Chinese industry. The occasional levelling-off of the market penetration rate can be put down in part to the measures in force and to generally weak demand, giving the Community industry some degree of respite. But we should be clear that the Community industry cannot carry on with the process of structural adaptation without the leeway afforded by the Chinese quotas.

**Porcelain or china tableware and ceramic tableware
CN 6911 10 and CN 6912 00**

Statistics and detailed information on the two positions under quota are difficult to obtain, since most producers produce a wide range of tableware products which, when they are reported, are usually reported as "tableware", that is, CN 6911 + 6912 + 6913 combined, and also because producers are usually reluctant to disclose what they consider to be commercially sensitive information to their federations. Moreover, in the tableware sector there are many small producers which are not members of any national federation.

A Situation in the Community tableware sector

1 Structure of the EU ceramic tableware sector

Originally production of ceramic products was built up near to the source of raw materials and energy and where transport facilities were good. These are no longer the primary deciding factors, but the sector is still very concentrated geographically, with, for example, big concentrations in Staffordshire in the UK, Limousin in France, northern Bavaria in Germany and Maastricht in the Netherlands.

The sector is principally made up of small and medium enterprises although larger ones do exist such as Villeroy & Boch of Germany, and Royal Doulton and Wedgwood of the United Kingdom, which are probably the three biggest tableware producers in the world. There is a vast range of products, which differ greatly between manufacturers and depend to a large extent on public taste and disposable income.

Whilst output in the tableware sector typically represents about one tenth of total output of the EU ceramics industry in value terms, it accounts for something like a quarter in terms of numbers employed. It is the most labour intensive of the six ceramics sub-sectors and is therefore particularly susceptible to the effects of low-priced competition.

2 Trends in production and apparent consumption

The figures directly below apply to all ceramics sectors

Units million ECU for items 1 to 5, percentage for 6 & 7 and absolute figures for 8 & 9

	1995	1996	1997
1 Production	26 081 4	25 506 9	25 429 4
2 Exports Extra EU	4 234 2	4 614 4	5 205 5
3 Imports Extra EU	1 323 1	1 396 5	1 640 7
4 Apparent Consumption	23 170 3	22 289 0	21 864 6
5 EU sales on domestic market	21 847 2	20 892 5	20 223 9
6 EU market share	94 29%	93 7%	92 5%
7 Imports market share	5 71%	6 26%	7 5%
8 Direct employment	322 386	306 614	277 234
9 N° companies	2 500	2 000	n/a

N B Due to the fact that the DEBA database no longer exists and pending the full recovery of the former work by Eurostat production and employment figures for 1997 are calculated using the short term indicators supplied by the Eurostat LINDA database

Import and export figures for EUR 15 are taken from COMEXT Production and employment figures come from the former DEBA database and the Eurostat-LINDA database (1995, 1996 and 1997 for EUR 15 using NACE Rev 1, 26 2 + 26 3 + 26 4)

Similar information on tableware

CN 6911 + 6912 + 6913

Units million ECU for items 1 to 5, percentage for 6 & 7 and absolute figures for 8 & 9

	1995	1996	1997
1 Production	2850**	2800**	n/a
2 Exports Extra EU	959.9 650.8*	1014.8 710.5*	1147.8 805.8*
3 Imports Extra EU	678.9 395.0*	736.7 448.8*	875.0 513.7*
4 Apparent Consumption	2569.0	2521.9	n/a
5 EU sales on domestic market	n/a	n/a	n/a
6 EU market share	n/a	n/a	n/a
7 Imports market share	26.4%	29.2%	n/a
8 Direct employment	n/a	75000**	51309***
9 N° companies	n/a	171****	n/a

Sources imports/exports from COMEXT

- production and employment from Cerame-Unie

* CN 6911 10 + 6912 00

** & *** estimates by Cerame Unie (** without Portugal and Finland)

**** number of tableware producers which are members of Cerame Unie

As is evident from the figures above import penetration for all ceramic products together is not significant. It should be borne in mind however, that Europe is traditionally a big exporter of ceramic products and exports form an integral and indispensable part of many European companies' order books.

It should be further noted that the Chinese share of extra-EU imports of all ceramic products has been climbing steadily, and accounted for 19.2% in 1997 (in value terms – against 17.2% in 1996). This is alarming the EU ceramics industry since there have been imports of only very small quantities of tiles to the EU, but Chinese tile producers have been building up production capacity over recent years, and have now overtaken Spain and Brazil to become the world's second biggest producer, after Italy. Imports of Chinese tiles into the EU are therefore expected to increase in the next few years.

3 Employment trends

Numbers employed in the ceramics industry have been decreasing steadily in recent years as can be seen from the table shown overleaf below

'000

	Total ceramic industry*	Tableware sector	Tableware as % of total
1995	322	80	24.8
1996	307	75	24.4
1997	277	51**	n/a

* includes coarse ceramics refractory products building bricks and roof tiles

** without Portugal and Finland

Figures for the total industry employment come from the former DEBA database or from the Eurostat LINDA database (for 1997) figures for the tableware sector are Cerame-Unie estimates

It is not easy to determine how much of the decline in employment in this sector is a direct result of growing imports of low priced Chinese tableware but there is no shortage of examples of closures or relocations where the existence of cheap imports has played a major role in the decision making process

Numbers employed in the ceramics industry as a whole went down by an estimated 24.9% between 1992 and 1997, the decrease in numbers employed in the **'tableware sector'** alone between 1992 and 1996 has been roughly estimated at 33.0%

B Sensitivity to Chinese imports

1 Trends in imports and exports

As mentioned above, exports are very important for EU tableware producers, many of whom regularly export up to 30% of their production although the quantity of tableware exported is generally well below import levels. The following tables show EU trade in 1997 with its biggest export markets, and its biggest importers

Extra-EU imports in 1997 EUR 15

Source COMEXT

	CN 6911 10		CN 6912 00	
	Tonnes	% total imports	Tonnes	% total imports
China	37969	29.6	32105	27.9
Taiwan	2441	1.9	14435	12.5
Thailand	4671	3.6	12112	10.5
Romania	9413	7.3	8483	7.4
Poland	22253	17.3	8003	6.9
Brazil	1325	1.0	7234	6.3
Indonesia	3170	2.5	3944	3.4
Malaysia	547	0.4	2995	2.6
Philippines	4401	3.4	1530	1.3
Czech Rep	17284	13.4	1348	1.2
Hong Kong	2300	1.8	464	0.4
Total extra-EU	128444	100.0	115043	100.0

Extra-EU exports in 1997 EU 15

Source COMEXT

	CN 6911 10		CN 6912 00	
	Tonnes	% total imports	Tonnes	% total imports
USA	12814	27.9	77522	62.4
Australia	1570	3.4	6871	5.5
Canada	1456	3.2	5431	4.4
Japan	3524	7.7	4546	3.6
Israel	2658	5.8	3678	2.9
Switzerland	3826	8.3	3185	2.6
Norway	1211	2.6	2449	2.0
Russia	665.1	1.4	1180	0.9
Czech Rep	8233	17.9	730	0.6
China	57	0.1	110	0.09
Total extra-EU	45919	100.0	124275	100.0

So whilst imports from China remain high and constitute by far the most important source of imports of porcelain and china and earthenware EU exports to China remain virtually nil

As the import figures above are from COMEXT they are reported figures. What is not known is if this is the true extent of the Chinese presence on European markets, since there is a suspicion that imports are also being routed through other countries, such as Hong Kong and more recently, Vietnam

2 Prices

Average prices of Chinese imports have usually been well below European prices both for porcelain and chinaware and for earthenware. Below is a comparison of average prices charged for imported Chinese goods, with the average price of similar products manufactured in the EU.

ECU/kg Source Cerame-Union members

		1995	1996	1997
CN 6911	Chinese	1 10	1 19	1 41
	European	3 39	6 72*	10 86**
CN 6912	Chinese	1 10	1 17	1 43
	European	2 06	2 06*	2 12**

* France and Portugal only

** France only

For the two specific products subject to quota, Chinese prices compared with the average intra-EU levels in 1997 were

ECU/kg Source COMEXT

	Chinese	Intra-EU
CN 6911 10	1 37	5 61
CN 6912 00	1 40	2 59

As can be seen from the above figures, the existence of quotas may have limited the quantity of Chinese imports, and there are signs of small increases in Chinese selling prices. In general European prices have, however, come increasingly under pressure, not only because of the presence of low priced imports notably from south east Asia and central and eastern Europe, but also because there is significant production over-capacity in the European Union.

3 Counterfeiting problem

An additional problem which European tableware manufacturers face due to Chinese imports is that they are often counterfeit. That is Chinese producers have been known to send representatives to Europe where they copy European designs, which are produced in China and sold in Europe at much lower prices than the European products. Examples have been shown in the past of Chinese products being sold in European markets, as virtually exact replicas of European products.

4 Opinion of the Community industry

The European ceramic tableware sector is represented at European level by the *Federation européenne des Industries de Porcelaine et de Faïence de Table et d'Ornementation* (FEPF), which in turn is a member of the general European ceramics federation, Cerame-Unie. Cerame-Unie, which represents some 75% of all tableware producers in the European Union, remains firmly in favour of the continuation of the quotas.

5 Opinion of importers

The Union of Glass and Pottery Wholesalers Associations and the Foreign Trade Association on the other side believe that the persistence of the quotas on Tableware would harm the European Industry, and that imports should therefore be fully liberalised.

C Conclusion

In view of the above, the EU tableware sector remains sensitive because of the high volume of Chinese imports, their considerable disruption potential, and the substantial price undercutting. Furthermore, the Community industry is undergoing a further rationalisation process which will increase productivity and competitiveness. During the rationalisation, the industry will be particularly susceptible to low priced imports and this is considered an additional reason for which the quotas should remain in force.

III Overall conclusions

From the information it has gathered the Commission has drawn the following conclusions

1 In general terms the sectors covered by the quantitative restrictions have made efforts that have borne fruit in terms of restructuring production and improving the quality of the products under quota. However, while the European producers are continuing in this effort the Footwear and Tableware sectors remain particularly sensitive

- The overall situation is precarious both industries are affected in varying degrees by stagnating production, declining sales and exports, closures and job shedding

- The sectors concerned are labour-intensive, fragmented industries that are particularly vulnerable to competition from low-cost countries and have already lost a large share of the Community market to them

- The industries are engaged in restructuring exercises which look promising but are costly and difficult to carry out - a wave of low-priced imports during this particularly vulnerable situation would condemn them to failure

2 Chinese competition in general, remains a real threat

- China has enormous - and growing - production and export capacity in the sectors covered by quantitative restrictions and its exporters would, in their absence, soon be in a position to unleash huge quantities on the Community market

- Imports from China had already seized sizeable market share, or were in the process of doing so when quantitative restrictions at Community level were introduced

- The prices of imported Chinese products remain much below those of comparable Community products. They are also well below those of other Community suppliers

- Frequent occurrences of counterfeiting in the case of some products, namely porcelain and ceramics, further distort competition

- An additional consideration is the particular nature of the Chinese economy. China has been striving, over the last few years, to liberalise its trade regime and open its economy to the world. These measures represent important steps forward; however, the Chinese authorities still exercise great influence on the operation of the Chinese industry, e.g. artificially low prices that do not reflect the real economic cost of the products concerned and export strategies that are governed by not strictly commercial considerations. On the import side, China maintains high tariffs on many consumer products, but the more prohibitive restrictions stem from non-tariff barriers such as quotas, licence requirements, restrictions on foreign currency and technical barriers. Products may be imported only by foreign trade corporations that are authorised, and essentially controlled by the Central Government.

There is thus reason to believe that the abolition of the remaining quantitative restrictions would lead to a renewed upsurge in imports from China and a further dangerous weakening of the market position of the Community industry concerned.

As regards the level of the remaining quotas, an examination of the actual use of import licences by Community importers shows that unused quantities are relatively substantial, ranging from 12 to 20%^(*) of total quotas. While a part of these unused quantities are likely to result from the allocation of very limited quantities to "non traditional" importers (the latter renouncing to import quantities that they consider as not economically significant), a large portion thereof appears to correspond to traditional importers' decisions not to fully use their import licences. For certain sub-categories of footwear (slippers and certain synthetic and leather shoes), it is true that such decisions may have resulted in 1997 from the existence of anti-dumping measures or pending investigations. This is however not true for most of the products under quotas for which unused quantities were found to be substantial.

(*) With the exception of slippers (CN 6404 19 10)

In these circumstances, the Commission considers that it can be assumed that the overall quantities available are not clearly insufficient to cover the importers' needs and do not call for an immediate increase. As explained earlier in this report, a readjustment of the allocation method, to the benefit of non traditional importers, appears to be warranted. The Commission believes that such a readjustment, together with the efforts already made with a view to correcting the existing imbalance between traditional and non traditional importers, is likely to improve the overall use of import licences and thus to result in an increase of quantities actually imported.

Accordingly, while keeping in mind the objective of eventual liberalisation of the quotas, the Commission considers it appropriate to recommend that their level remain unchanged in 1999.

CHAPTER 3

IMPLEMENTATION AND MAINTENANCE OF SURVEILLANCE MEASURES

I Purpose of surveillance measures

The Council introduced these measures to keep imports of a variety of products under closer observation in cases where the trend gave cause for concern but was of no immediate danger to the Community industry

II Implementation

Prior Community surveillance is carried out through a system whereby licences are automatically issued free of charge for any quantity requested within five days of the lodging of a request by a Community importer

Regulation (EC) No 519/94 as amended by Regulation (EC) No 139/96, brought in a standard simplified Community surveillance document which reduced to a minimum the formalities to be accomplished by importers and Member States in connection with imports under surveillance

In May 1997, following the conclusions contained in the Commission's second report, the Council decided by its Regulation (EC) No 847/97

- to remove a range of products of which the imports in 1995 were lower than in 1994, from the list of products subject to Community surveillance,
- to insert the products in respect of which quotas were abolished (toy parts and accessories and glassware as from 1 January 1998) in the list of products subject to prior Community surveillance

In May 1998, following the conclusions contained in the Commission's third report, the Council decided by its Regulation (EC) No 1138/98 to insert toys, in respect of which quotas were abolished in the list of products subject to prior Community surveillance

III Trends in imports of products under surveillance

The table below gives import figures in thousands of ecus, for products under surveillance in 1997, excluding certain "hi-tech" footwear, and sets them against the 1996 figures

CN code	Description	1996	1997	Imports China/Extra- EC (1997)
2827 10 00	Ammonium chloride	1112	1239	77 58%
2905 49 90	Other polyhydric alcohols	5801	7121	20 65%
2918 14 00	Citric acid	13179	17347	48 81%
2941 30 00	Tetracyclines and their derivatives	55431	60756	76 95%
2941 40 00	Chloramphenicol	6479	6352	93 78%
3204 13 00	Basic dyes	5121	9710	32 82%
3204 15 00	Vat dyes	8888	15125	22 40%
3604	Pyrotechnic articles	89280	84004	88 72%
3905 30 00	Polyvinyl alcohols	16721	24301	22 30%
4203 29 91	Gloves	7581	16028	41 07%
4203 29 99	Gloves	5582	14481	24 35%
6402 19	Footwear ¹	9411352	12129432	45 11%
6403 19	Footwear ¹	5768424	5884694	27 11%
6913 10	Ornamental articles of porcelain	65326	79905	72 02%
8712 00	Bicycles	2404	701	0 14%
9503 30	Construction sets	42353	55874	20 70%
9503 41	Stuffed toys	207461	285568	61 42%
9503 49	Toys representing animals	65185	88895	66 39%
9503 60	Puzzles	8545	13620	38 95%
9503 90	Toys	346790	444711	59 89%
9504 40	Playing cards	1989	3344	23 89%
9603 29	Brooms and brushes	23408	29621	46 12%
9603 30	Brooms and brushes	8989	14385	35 65%
9603 40	Brooms and brushes	19037	24655	67 35%
9603 90	Brooms and brushes	13620	17001	26 51%

Source: EUROSTAT

¹ measured in pairs

In the case of certain 'hi-tech' sports footwear imports Eurostat figures do not distinguish between those under surveillance and those not(*), so the Commission can only refer to the surveillance documents issued in 1997

ex 6402 99	4 065 843 pairs
ex 6403 91 et 99	11 721 485 pairs
ex 6404 11	15 095 769 pairs
total	30 883 097 pairs

IV Should surveillance measures be maintained?

The figures provided here show that the share of imports from China of all but one(**) of these products is still very high. The Commission believes that prior surveillance should be maintained for these products.

(*) The same would apply to certain parts and accessories of toys but no reliable figures could be established for 1997 as the relevant surveillance measure was introduced by Regulation (EC) No 847/97 which entered into force on 14 May 1997.

(**) Namely bicycles a product subject to definitive anti dumping duties and whose sensitivity cannot therefore be solely assessed in terms of imported volume. On 10 September 1998 an expiry review of the anti dumping measures in force in respect of Chinese bicycles was initiated. Pending the outcome of the expiry review it appears reasonable despite the limited share held by Chinese imports not to lift the prior surveillance measure in place.

CHAPTER 4

CONCLUSIONS AND PROPOSALS OF THE COMMISSION

In view of the above the Commission believes that the system of quantitative restrictions and surveillance measures set up under Regulation (EC) No 519/94, as last modified by Regulation (EC) No 1138/98, should be maintained. No change in the structure and the level of the remaining quotas appears to be warranted while the product coverage of the surveillance should also remain unchanged.

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DOCUMENTS

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