

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(79) 402 final

Brussels, 18 July 1979

Recommendation for a

COUNCIL DECISION

authorizing the Commission to open negotiations with Bangladesh
and India with a view to concluding agreements on trade and
commercial cooperation in jute products

(submitted to the Council by the Commission)

COM(79) 402 final.

EXPLANATORY MEMORANDUM

1. The Community currently has agreements with both India and Bangladesh on trade and commercial cooperation in jute products; these remain in force until 31 December of this year. For these two countries, who are the principal Community suppliers, the agreements constitute the "special arrangements" mentioned in the context of the Community's offer on generalized tariff preferences with a view to giving developing countries the benefit of preferences for the products in question¹.

Inter alia, the two agreements provide for :

- the granting by the Community of autonomous, progressive tariff suspensions, resulting in zero duty from 1 January 1978;
- voluntary restraint by India and Bangladesh, at agreed levels, of their exports of unbleached (categories 4/5) and bleached (category 7) jute fabrics of a width of more than 150 cm; the quantitative restrictions applying to those products in some of the Member States are suspended;
- maintenance of the quotas applied in Germany, France and the UK to other jute products (narrow fabrics and sacks in categories 1 to 3); the volume of quotas in Germany and France allowing for annual increases in volume;
- one general and also one specific consultation clause, the latter allowing the Community, upon certain conditions, to ask its partners to exercise voluntary restraint on their exports of jute yarn to the Community or any of its markets;
- the setting up of a Joint Cooperation Committee responsible inter alia for investigating possibilities for cooperation in regard to research into and development of the production and uses of jute products.

¹Thailand also enjoys tariff preferences on its exports of jute products. However, in view of the volume of its exports the Community felt able to grant preferences without taking the sort of measures agreed upon with its main suppliers. There was nevertheless an exchange of letters with Thailand to the effect that it would enter into negotiations with the Community if necessary.

In accordance with that exchange of letters, consultations were held in December 1977 to reach agreement on voluntary restraint by Thailand of its exports of jute yarn to the Benelux; the voluntary restraint has effect until 31 December of this year.

2. The current agreements have worked more satisfactorily from the point of view of the two exporting countries than previous agreements.

a) With regard to tariffs, duties, which were only 50% or 60% suspended in 1976, have been completely suspended since 1 January 1978. The Community agreed to bring forward the total suspension of all duties six months from the date of 1 July 1978 specified in the agreements.

b) From the point of view of trade development, Bangladesh's, and particularly India's exports of goods subject to voluntary restraint showed an improvement in relation to the period covered by the old agreements, in particular for products falling within categories 4/5¹. Formerly only the United Kingdom share of the Community ceiling was fully utilized each year. In 1978 India's exports to the Benelux reached 65% of the quota, with 100% in the case of France and the UK, 71% for Italy and 86% for Ireland. As regards Bangladesh, exports to the UK were satisfactory (100% of the quota), as were those to the Benelux (74%). German and Danish imports, on the other hand, were negligible in relation to the possibilities open. Both India's and Bangladesh's exports of decorative jute fabrics (category 7) were much less than they might have been. Both countries have made use every year of the transfer facility between categories included in the agreements.

Jute yarns (category 6) are liberalised at Community level; they are, however, covered by a consultation clause which enables the Community, under certain conditions, to ask for voluntary export restraint (in the case of the United Kingdom and Benelux consultations may be requested where "indicative levels" are exceeded). In this sector, India's exports to the whole Community grew by 400% between 1976 and 1978². This large increase is mainly due to India's Benelux trade. In 1976, Benelux imported 762 t, in 1977 3,128 t, while for the first six months of 1978 imports had risen to 3,516 t³.

¹ Narrow jute fabrics and sacks (categories 1 to 3) are not subject to voluntary restraint. In Germany (fabrics only), France and the United Kingdom (certain sacks only) they are however subject to national quotas. Bangladesh and Indian exports of these products have also increased, and in France and the UK the quotas are used up each year. It should be recalled that the Community has agreed that, as part of its MTN offer, these quotas should be converted into voluntary restraint measures, the implementation of this undertaking to be discussed in detail in the course of the negotiations (see point 4 below).

² It should be noted that total EEC imports of jute yarn (predominantly from India, Bangladesh and Thailand), which in 1978 came to 24,000 t, correspond to 23.5% of EEC production (102,000 t in 1978). The figure for 1976 was 7%.

³ A rise of this magnitude, concentrated on a single Community region, prompted a request for consultations with India with a view to achieving voluntary restraint of its jute yarn exports to Benelux. Agreement was reached on voluntary restraint to be effective until 31 December of this year (13,000 t for the period 1.1.78-31.12.

Nevertheless, while India and Bangladesh have increased their exports under the current agreements, where products subject to voluntary restraint are concerned the quantities involved remain beneath the ceilings, at Community level. This situation is doubtless more particularly due to a shrinking market for jute products caused by the growing use of synthetic substitutes and partly as a result of changes in packaging techniques. It is, however, true that, as India and Bangladesh have repeatedly pointed out, the allocation of the Community voluntary restraint ceilings among the Member States in the form of virtually fixed shares, offering no real scope for the transfer of unutilized amounts from one Member State to another, has resulted in a partial freeze on export openings.

c) The results of the commercial cooperation provisions of the current agreements have been modest. In June 1977, however, a round table was organized under the Commission's auspices, bringing together Community and Indian representatives concerned with industry, trade and research in the field of jute products. Among the conclusions reached by the round table was an acknowledgement of the need for joint action on research and trade promotion, and a list of priority projects. It has not been possible yet, however, to put some of these projects into effect (financing).

3. The Community jute industry, which has been in the throes of rationalisation, reconversion and restructuring for a considerable time already, is still facing grave difficulties in the form of falling production, factory closures and lay-offs. In 1970, Community production in the spinning and weaving sectors was 300,000 tonnes and 176,000 tonnes respectively, but in 1978 only 102,000 tonnes and 44,000 tonnes. If the production index is set at 100 for 1970, in 1978 it stood at 34 for yarn and 25 for fabrics and sacks. The general tendency has been for apparent consumption of both fabrics and sacks to fall during the 12 years following 1967.¹ In the course of the last two years there has been a certain steadying of the market, but it is too early to say whether this will be maintained. What is certain is that the corresponding decline in European production, accompanied by a growth in imports, has resulted in a major rise in the level of import penetration. This reached 81% for fabrics and sacks in 1978.

¹ For yarn: 1967: 362,000 tonnes, 1970: 301,000 tonnes, 1978: 122,000 tonnes.
For fabrics and sacks : 1967: 342,000 tonnes, 1970: 267,000 tonnes, 1978: 142,000 tonnes.

It should be noted, however, that only one quarter (29,500) of the total quantity of fabrics and sacks imported in 1978 is limited under agreements or nationally established ceilings, the remainder being free.

It cannot be ruled out that the confirmation of consumer tastes in favour of natural products for certain uses, the lower flammability of jute compared with certain competing synthetic substitute products, and the likely price increase for these latter products following a rise in petroleum prices, may maintain or even enhance Community demand for certain more refined products such as those used in soft furnishings and decoration.

The drop in Community production can be explained by the contraction of the market, which is more marked each year and caused principally by the ever-greater use of synthetic substitutes for jute, and new means of packaging; and is also a reflection of the difficulty of maintain a sufficiently competitive mass production in the case of the much lower production costs in India and Bangladesh.

The Community's jute industry employed some 13,000 people in 1978, compared with 19,000 in 1973. This represents a reduction of approximately 31.5%. In 1973 77 firms were in operation; in 1978, only 56 remained.

The industry is located in relatively undeveloped Community regions. 8,000 of the 13,000 jobs in the Community's industry are concentrated in Dundee in Scotland where they constitute 8% of all employment in an area where the rate of unemployment in February 1979 was 9.3% of the workforce.

Despite the fact that these regions are considered as priority development areas, and as a result benefit from the Regional Development Fund, the level of unemployment remains high because the opportunities for providing alternative employment are very low. It is therefore likely that a continued decline in activity in the jute industry will increase those difficulties which are being currently experienced. In addition to this, if opportunities for transfers to other jobs were to be made available, the age structure of the employees in the jute sector would give rise to problems, because the majority of workers are aged between 40 and 50.

It must also be borne in mind that the three countries preparing to join the EEC also have a jute industry, employing 600 people in Greece, 1,100 in Spain and 1,200 in Portugal, with a production of some 27,000 tonnes of yarn and 16,000 tonnes of fabric.

4. The present agreements are due to expire on 31 December¹, and it is therefore necessary to work out the arrangements for imports of these products from 1 January 1980. In the light of the various factors, the Commission considers it advisable to aim, by means of fresh agreements with India and Bangladesh, for a system consisting of :

i) continuing quantitative import protection for a given period to allow the Community jute industry to adapt itself to the new market circumstances. This aim should be achieved with the consent of the exporting countries concerned by keeping up a system of voluntary restraint of exports⁽²⁾ to the Community allowing for a limited growth of these exports, and providing for the suspension of restrictions for all jute products before the expiry of the agreements.

The implementation of the MTN offer to convert quotas in force in certain Member States for categories 1 to 3 into voluntary restraint measures ⁽²⁾ would take place within this framework.

ii) Maintaining the zero rates of duty in force under GSP since 1 January 1978.

The grounds for this approach are as follows :

- a) With regard to tariffs, the Community's basic offer on preferences (GSP) for jute "includes the elimination of customs duties only where special arrangements have been made with the developing exporting countries". The duties have now been eliminated and should not be reintroduced.
- b) In the case of the two exporting countries concerned, the export of jute products plays an importance part in India's economy, being concentrated in the Bengal region which is largely devoid of other resources (about 20 000 are employed in the jute industry). For Bangladesh the production and export of jute products constitute the key to the country's economy, accounting for 70% of its export earnings.

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(1) The arrangement with Thailand for voluntary restraint on its exports of jute yarn also expires on 31 December. However, since this was an ad hoc economic measure adopted within the framework of an exchange of letters which remains in force, the Commission services consider it advisable to deal separately with this point. Whether or not to continue with voluntary restraint will need to be considered in the light of the situation on the Benelux market for these products and of the results of the negotiations with India and Bangladesh.

(2) With a double control system used in the framework of the MFA agreements.

Bangladesh is, in addition, one of the "least developed countries" which, in accordance with the results of the Multilateral Trade Negotiations, are to be granted special treatment.

c) In the course of the Multilateral negotiations Bangladesh repeatedly drew the Community's attention to the fact that in its case, special treatment would have necessarily to consist of measures in the jute sector, and detailed proposals were put forward (in particular, the removal of Community import restrictions at the end of 1981).

In this context, the Community's MTN offer to India and Bangladesh on jute products being again the subject of national quotas, (categories 1 to 3), and as a move towards the elimination of quantitative restrictions, was to convert these import quotas in force in certain Member States (Germany, France and the United Kingdom) into voluntary export restraint measures as for the other jute products covered by these agreements, with the exporting country administering the ceilings¹.

At the end of the Multilateral Trade Negotiations, no further reaction having been forthcoming from India or Bangladesh, the Community agreed to send a letter to both countries, informing them :

- that the Community was maintaining its offer;
- that the details and implementation of the offer would be discussed again on a bilateral basis at the next negotiations.

On the basis of the Tokyo Declaration generally, but in particular of its sixth paragraph which states that the least developed countries should enjoy special treatment, it would be logical to grant such treatment to Bangladesh particularly since jute products indisputably constitute a production essential to this country.

¹The initial reactions to this offer were as follows: India called for liberalisation of the products in question (categories 1 to 3), or at least for the new agreement to contain consultation levels rather than ceilings, as is currently the case of yarn; Bangladesh again stressed the need for "special treatment" as a "least developed" country.

In view of this declaration, and taking into account the less competitive nature of certain jute products made in Bangladesh in comparison with certain of those made in India, it is essential that the solutions envisaged by the Community in the negotiations do not in practice, damage the interest of Bangladesh.

However, in implementing the offer made in the MTN, it would not be opportune to treat Bangladesh and India differently and to change the quantitative restrictions into self limiting arrangements for one country and not for the other.

- d) Within the context of the renegotiation of the jute agreements with India and Bangladesh, the Community envisages an analogous renewal of the protection for the Community market (with a suspension of restrictions before the end of the agreements) to allow the jute industry enough time to carry out its adjustment to market conditions and the member States to tackle the serious problems currently facing the Community's depressed regions where this industry is located.

5. In order to avoid additional difficulties arising at the end of the agreement, which would exacerbate the problems of the regions concerned, the Commission considers that it will be important to encourage work on the restructuring of this sector as well as the development of alternative employment opportunities.

In this respect, socio-industrial measures will have to be considered in order to facilitate reconversion activities for the jute industry, to create new employment in the jute-producing regions, and to retrain the labour force to enable them to work in other sectors.

To this end, discussions should be held between interested groups and the responsible authorities in order to draw up the general outline for this approach.

The Community have at its disposal financial instruments which could facilitate the introduction of such measures, notably :

- The European Social Fund: this can, from now onwards, facilitate the readaptation and the redeployment of workers in the jute industry by financing vocational training schemes under Decision 76/206/EEC¹ on intervention by the European Social Fund in favour of persons occupied in the textile and clothing industries.

- The European Regional Development Fund : the Fund could intervene in the eligible regions, notably in the Dundee area by way of its "subject to quota" section. The economic problems which would result from the Community negotiations between India and Bangladesh would also enable the "not subject to quota" section of the FEDER to be used.

The Commission considers it desirable that the Council, when it adapts this Recommendation, should indicate its interest in such measures by means of the statement shown in Annex II which would be included in the Minutes of the Council's deliberations.

6. There exists, on the one hand, the need for the Community to regulate, on the basis of the lines indicated and the considerations laid down, the trade arrangements for jute products; and on the other hand, for understandable reasons, it is appropriate doing so by measures which are non-unilateral. It is also desirable for the Community to take a step forward towards meeting, at least in part, the requests of India and Bangladesh. It is further desirable that conditions be created which enable these negotiations to have a likelihood of success. It is necessary, however, to take into account the need to allow the European jute industry, which is located in regions which are economically weak, to adapt to new market conditions. It seems appropriate that the approach towards such negotiations should envisage, under a contractual arrangement, a system of self-limitation on exports, analogous in its major outlines, to that currently in force and the fixing, before the end of the year, of agreements suspending all restrictions.

The Commission therefore recommends that the Council adopt the annexed draft Decision.

¹ C.J. No L 39/39 of 14.1.1976; modified by Decision 77/802/CEE (C.J. No L 337 of 27.10.1977, p. 100).

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RECOMMENDATION FOR A COUNCIL DECISION

authorizing the Commission to open negotiations with Bangladesh and India with a view to concluding agreements on trade and commercial cooperation in jute products

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 113 thereof,

Having regard to the recommendation from the Commission,

Whereas the Community's offer on generalized tariff preferences provides that the elimination of customs duties should also be envisaged for jute products "where special arrangements have been made with the developing exporting countries";

Whereas the European Economic Community has negotiated agreements on trade in jute products, which constitute such "special arrangements", with the Republic of India, and with the People's Republic of Bangladesh; whereas the said agreements expire on 31 December 1979;

Whereas it is desirable to authorize the opening of negotiations with India and Bangladesh with a view to determining the arrangements to be applicable after that date to trade in jute products;

HAS DECIDED AS FOLLOWS :

Sole Article

The Community is hereby authorized to open negotiations for the conclusion of agreements between the European Economic Community and, on the one hand, the Republic of India and, on the other, the People's Republic of Bangladesh, on trade and commercial cooperation in jute products.

The Commission shall conduct the negotiations in consultation with the Special Committee provided for in Article 113 of the Treaty and in accordance with the directives contained in the Annex to this Decision.

For the Council

Done at Brussels

NEGOTIATING DIRECTIVES

1. Agreement to be valid for six years, i.e. until 31 December 1985.
 2. India and Bangladesh to exercise voluntary restraint on their exports to the Community of jute products falling within categories 1 to 3, 4,5 and 7, until 31 December 1984. The voluntary restraint to take the following form:
 - for categories 4/5 and 7, Community ceilings based on those in force in 1979, with a suitable annual percentage increase;
 - for categories 1 to 3, ceilings for some Member States only, based on existing national quotas or on imports, where such quotas are expressed in terms of value or constitute global quotas, with a suitable annual percentage increase.
 3. Suspension, as from 1 January 1985, of all the quantitative restrictions in force in the Community.
 4. Arrangements concerning flexibility (between quota shares of the Member States and between quota shares of one Member State; carry-forward and advanced deliveries) analogous to those fixed in the current agreements.
 5. The consultation clause in force for jute yarns (category 6) under the present agreements to be maintained.
 6. The zero-duty tariff suspension applied under the GSP to be maintained.
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Declaration to be inserted in the Council's Minutes

The Council considers it advisable to encourage the continuation of the restructuring of the jute sector together with, in the poorer of the regions concerned, the creation and development of new activities.

It will examine favourably all such Community action as the Commission considers it necessary to propose to this end.