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**3rd 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 made the following statement which was included in the minutes :

*"The Commission will report to the Council before 31 December 1995 and before the 31 December of every year thereafter on the implementation of the surveillance measures and the quantitative restrictions provided for in Annexes II and III, the need to maintain such measures, and will propose, as the need arises, the appropriate adjustments."*

Like the first two reports (doc COM(95) 614 final of 6 December 1995, and doc COM (97) 11 final of 29 January 1997), this third 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. As in the previous years, the Commission faced considerable difficulties with regard to the collection of statistical and factual data on the industries concerned, as well as on the development of the Chinese export potential. In particular, it should be noted that not all sectors concerned provided detailed information nor did they make known their position as clearly as in previous years.

Regarding information on the state of the Community industry, these difficulties were amplified by the fact that producers generally produce a wide range of products, not just those subject to quota, and that nearly all these sectors 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 only a small number of associations or individual importers.

It should also be noted that once more only one Member State, the United Kingdom, submitted factual data and comments to the Commission for the purposes of this report.

3. In general, the analysis is based on figures for 1996, as full statistics for 1997 were not available at the time of the drafting of this report. However, trends for 1997 have been used, where possible.

## CHAPTER 1

### IMPLEMENTATION OF THE QUANTITATIVE RESTRICTIONS

#### **I. Background and evolution since the previous report**

1. 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-à-vis China:
    - the quotas on 3 products (gloves, car radios and combined car radios) were liberalized;
    - 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.
  - Finally, as a result of Council Regulation (EC) No 847/97 of 12 May 1997, which implemented the Commission's proposals included in its 2nd annual report:
    - imports of toy parts and accessories have been liberalized;
    - the quota on glass tableware will be removed as from 1 January 1998.

## **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 realized during a reference period, while ensuring a fair access to the quotas to non-traditional importers.

This allocation method, while it would appear to have worked satisfactorily, still raises however certain practical problems in relation to the choice of the reference period and the determination of the relative shares set aside for traditional and for other importers respectively.

In addition, the management of the part of the quotas set aside for the non-traditional importers raises a problem. The chronological method ("first come, first served"), whose use for the management of the 1994 quotas did not prove practicable, has been replaced by the third method provided for by Regulation (EC) No 520/94, *i.e.* the method of proportional allocation to the quantities requested. The problem resulting from the unrestricted access to that part of the quota however remains. In 1994, 12 232 import licence applications were submitted by non-traditional importers; this figure grew to 21 926 applications for the first tranche of 1995, to 19 613 for the second tranche (with fewer product quantity to be allocated), to 28 204 applications for the allocation of the 1996 quotas. While last year the number of applicants for the 1997 allocation decreased to 19 708, this year the number of applicants has increased to 21 439, and considering that the number of products under quota has been further reduced, the problem remains. This extremely high number of applications results in those non-traditional importers being allocated more and more limited quantities, a fact which may lead to underutilization of the quotas. However, this trend has been partly corrected by the 5% increase of the portion of the quotas reserved for non-traditional importers, which will allow them to be granted, for 1998, similar quantities than in previous years despite the increase of applicants.

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 1998 quotas well before the beginning of the quota year, in July 1997, and allowed importers to introduce their applications during 2 months, until September 1997.

3. The 1998 management rules currently provide for a 12-month validity of the import licences. Moreover, the unused 1997 quotas will be redistributed during 1998. The Commission considers that the quantities redistributed from the previous year should be kept separate from the current annual quota. The licences allocated in the redistribution exercise, therefore, have been set to expire one month earlier than the regular quota licences, in order to avoid a "snow-ball" effect towards the end of the year. This differentiated date of expiry has raised strong concerns by several Member States which are currently the subject of an examination involving the Commission's Legal Service.
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 licencing 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, 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. 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		
		1993	1994	1995	1996	1996 quotas (annual basis)	1997 quotas (annual basis)	unused quantities in 1996
rubber and plastic uppers shoes (6402 99)	pairs	37 894 757	35 270 099 (9 989 423 hi- tech incl.)	27 050 401 (1 517 290 hi- tech incl.)	48 845 047 (6 344 717 hi- tech incl.)	39 151 481 (hi-tech not included)	39 151 481 (hi-tech not included)	9 242 791
leather shoes (6403 51 & 59)	pairs	3 942 271	2 602 553	1 241 989	1 395 015	2 795 000	2 795 000	1 337 516
leather shoes (6403 91 & 99)	pairs	36 215 974	30 610 418 (14 122 199 hi- tech incl.)	15 621 517 (10 331 353 hi- tech incl.)	18 539 881 (17 561 189 hi- tech incl.)	12 120 000 (hi-tech not included)	12 120 000 (hi-tech not included)	2 928 143
textile shoes (6404 11)	pairs	20 853 012	22 607 883 (6 288 335 hi- tech incl.)	14 043 417 (4 466 577 hi- tech incl.)	21 318 791 (15 975 984 hi- tech incl.)	18 228 780 (hi-tech not included)	18 228 780 (hi-tech not included)	6 804 272
textile shoes (6404 19 10)	pairs	31 039 693	25 672 115	18 892 609	14 089 768	31 897 716	31 897 716	16 239 641
total shoes	pairs	129 945 707	116 763 068 (33 361 807 hi- tech incl.)	76 849 933 (21 223 220* hi-tech incl.)	104 188 502 (39 881 890 hi- tech incl.)	104 192 977 (hi-tech not included)	104 192 977 (hi-tech not included)	36 552 363

- figures on hi-tech shoes from Community surveillance are based on surveillance documents issued, which do not necessarily reflect actual levels of imports

- 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 is not known.

Products	Unit	Imports				Quotas		
		1993	1994	1995	1996	1996 quotas (annual basis)	1997 quotas (annual basis)	unused quantities in 1996 <sup>(*)</sup>
porcelain tableware (691110)	tonnes	42 300	50 045	31 966	34 742	45 800	45 800	10 756
ceramic tableware (691200)	tonnes	36 686	38 910	26 372	28 454	34 650	34 650	7 823
stuffed toys (9503 41)	ECU	302 917 000	246 564 000	179 717 000	207 330 000	NA <sup>(1)</sup>	NA <sup>(1)</sup>	NA <sup>(1)</sup>
toys (9503 49)	ECU	171 339 000	87 263 000	45 853 000	65 177 000	NA <sup>(1)</sup>	NA <sup>(1)</sup>	NA <sup>(1)</sup>
toys (9503 90)	ECU	678 942 000	472 977 000	309 862 000	345 325 000	NA <sup>(1)</sup>	NA <sup>(1)</sup>	NA <sup>(1)</sup>
total toys	ECU	1 153 208 000	806 804 000	535 432 000	617 832 000	1 056 996 632	1 056 996 632	319 850 908

Source : - EUROSTAT

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

(1) breakdown no longer available because of merger of the quotas

b) Import prices of products originating in China

Product	Unit price in 1994	Unit price in 1995	Unit price in 1996
<b>Footwear :</b>			
- 6402 99	3.78 ECU/pair	4.22 ECU/pair	4.81 ECU/pair
- 6403 51	11.85 ECU/pair	6.74 ECU/pair	7.56 ECU/pair
- 6403 59	3.26 ECU/pair	3.17 ECU/pair	3.04 ECU/pair
- 6403 91	10.14 ECU/pair	11.20 ECU/pair	12.15 ECU/pair
- 6403 99	8.02 ECU/pair	9.25 ECU/pair	9.54 ECU/pair
- 6404 11	4.30 ECU/pair	7.13 ECU/pair	8.31 ECU/pair
- 6404 19 10	0.90 ECU/pair	0.83 ECU/pair	1.11 ECU/pair
<b>Porcelain tableware(*) :</b>			
6911 10	1 012.34 ECU/tonne	1 070.03 ECU/tonne	1 149.61 ECU/tonne
<b>Ceramic tableware(*) :</b>			
6912 00	1 077.59 ECU/tonne	1 077.92 ECU/tonne	1 212.91 ECU/tonne
<b>Toys :</b>			
- 9503 41	7 316 ECU/tonne	6 247 ECU/tonne	7 148 ECU/tonne
- 9503 49	6 113 ECU/tonne	5 987 ECU/tonne	5 618 ECU/tonne
- 9503 90	4 924 ECU/tonne	4 909 ECU/tonne	5 308 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 of the Community footwear industry

##### 1. Structure of the industry

This year's trends followed those of earlier years: in the south of the EU the number of producers has remained more or less stable, but there have been further closures in the north. The number of undertakings in this sector has continued to decrease.

##### 2. Community production

Despite a 4% increase in exports, production fell slightly in 1996. It was strongly affected by the fall in sales within the Community, where EU producers' share of the market fell by 3%.

1000 pairs	1993 (x)	1994 (x)	1994 (xx)	1995 (x)	1995 (xx)	1996 (xx)
Production	1 090 166	1 107 140	1 124 532	1 087 305	1 104 339	1 097 266
Exports	291 889	339 687	N A	298 528	306 575	319 054
Consumption	1 529 857	1 524 135	N A	1 504 666	1 545 934	1 594 863
Sales/Community production on internal market	798 277	767 453	N A	788 777	797 764	778 212
Market share of Community production	52 %	50 %	N A	52 %	52 %	49 %

(x) EUR 12 - (xx) EUR 15

Full and comparable specific figures for products under quota are not available, but the general trends outlined below give a fairly representative idea of how they fared.

##### 3. Employment

In 1996 there were a further 6000 job losses in the Community of Fifteen in this sector.

	1993	1994	1995	1996
Numbers directly employed EUR 12	320 405	317 990	312 102	306 271
Numbers directly employed EUR 15		325 436	319 416	313 666

N.B. : Under the altered nomenclature (PRODCOM), the employment statistics now cover a broader sector. The 1993 and 1994 figures have been extrapolated to take account of the changes and provide a valid comparison between the new and older statistics.

#### 4. Current restructuring

Restructuring of the industry over the last few years has begun to bear fruit and productivity is increasing. The sector also became more competitive thanks to quality improvements, diversification and greater use of automation and information technology. However, it has become clear that it is essential for Community products to obtain better access to non-Community markets if the industry is to continue modernising and restructuring.

### B. Sensitivity to Chinese imports

#### 1. Import trends

1996 Community footwear imports from all origins totalled 816 651 000 pairs, approximately 8 % up on 1995, and accounted for 51% of the Community market.

The table below shows import trends from different supplier countries from 1993 to 1996.

1000 pairs	1993 (x)	1994 (x)	1995 (x)	1995 (xx)	1996 (xx)
Non-EC total	731 580	736 682	715 889	748 170	816 651
China	296 700	301 406	280 143	295 072	337 484
Indonesia	86 673	104 192	99 601	102 476	99 798
Vietnam	32 752	58 064	74 915	76 757	97 165
Thailand	61 118	51 336	35 937	37 717	32 268
Taiwan	21 538	17 278	19 690	20 725	21 992
India	18 393	20 989	19 209	19 650	21 779
Brazil	23 269	17 811	14 834	15 375	12 976
South Korea	30 410	20 462	14 288	15 345	9 113

(x) EUR 12 - (xx) EUR 15

68 million more pairs were imported in 1996 than in 1995, with 42 million of the increase accounted for by China and 20 million by Vietnam.

Imports from China fell in 1995, but rose again by 13 % in 1996, demonstrating the capacity of Chinese exporters to adapt to Community quota conditions.

Chinese imports accounted for 41% of all footwear imports into the Community in 1996, and their share of the EC market was 21%, 2% up on 1995.

The following table shows overall trends in EC footwear imports from China:

1000 pairs	1993(x)	1994(x)	1995(x)	1995(xx)	1996(xx)
Quota footwear	137 679	117 141	71 611	77 073	104 690
Non-quota footwear	159 021	184 265	208 532	217 999	232 794
Total	296 700	301 406	280 143	295 072	337 484

(x) EUR 12 - (xx) EUR 15

The main increase is in imports of quota footwear (+ 26% as opposed to + 6% for non-quota footwear).

This renewed increase in quota footwear imports from China breaks down by tariff heading as follows:

pairs	1993(x)	1994(x)	1995(x)	1995(xx)	1996(xx)
6402 99	33 498 463	35 292 487	24 270 835	27 083 126	49 133 985
6403 51 and 59	3 030 801	2 602 553	1 100 882	1 241 996	1 395 151
6403 91 and 99	24 860 632	30 638 814	14 857 004	15 652 049	18 594 437
6404 11	23 849 323	22 662 404	12 717 094	14 182 196	21 410 712
6404 19 10	34 789 708	25 944 728	18 664 920	18 914 149	14 155 867

(x) EUR 12 - (xx) EUR 15

Between 1995 and 1996 imports of quota footwear under CN code 6402 99 (rubber/plastic) rose very sharply, by more than 80 %, while imports under CN code 6404 11 (textile) also rose by more than 30 %. Only imports of slippers (textile soles, CN code 6404 1910) fell between 1995 and 1996, by 25%.

## 2. Import prices

As a result of the recent anti-dumping investigations, dumping margins were established at 133 % for footwear with textile uppers and 47.6 % for shoes with leather/synthetic uppers.

Comparing average footwear prices for imports from China and exports from the Community gives some idea of the huge gap between Chinese and Community prices:

Product		ECU/pair				
		1993(x)	1994(x)	1995(x)	1995(xx)	1996(xx)
6402 99	China	3.68	3.78	4.25	4.22	4.81
	EU	5.98	6.44	6.24	6.36	6.70
6403 51	China	9.76	11.86	6.66	6.74	7.59
	EU	21.19	21.68	21.04	21.06	21.59
6403 59	China	3.30	3.26	3.00	3.17	3.05
	EU	16.64	16.43	18.11	18.13	21.84
6403 91	China	9.54	10.14	11.27	11.17	12.15
	EU	18.71	19.72	20.25	20.87	21.20
6403 99	China	7.45	8.02	9.31	9.25	9.54
	EU	14.12	14.51	14.62	14.69	15.03
6404 11	China	3.94	4.31	7.19	7.17	8.32
	EU	8.80	9.32	10.73	10.72	12.40
6404 19 10	China	1.00	0.89	0.82	0.83	1.11
	EU	4.12	4.12	4.00	4.03	4.21

(x) EUR 12 - (xx) EUR 15

As in previous years, most average prices per pair for imports from China were lower in 1996 than those of any of the Community's other principal suppliers. However, they remained almost unchanged in relation to 1995 levels. The same applies to price differences per pair for the different categories of footwear.

**C. Conclusion**

The footwear sector is still particularly sensitive to imports from China because of their volume, their large share of the Community market, the extremely wide price gaps and the export potential of Chinese producers. Furthermore, the fall-off in quota imports in 1995 was very short-lived and was reversed by the 26 % increase in 1996. It therefore seems that there is still a need to keep the growth of Chinese imports under control.

## **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 very small producers which are not members of any national federation.

### **A. Situation of the Community tableware sector**

#### **1. Structure of the industry**

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 sensitive to the effects of low-priced competition.

The sector is made up of some big producers, such as Villeroy & Boch of Germany, and Royal Doulton and Wedgwood of the UK, the three biggest producers in the world, but also a large number of very small and medium-sized enterprises. These producers have a vast range of products, which differ greatly between producers and depend to a large extent on public taste and disposable income.

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, the Limousin in France, northern Bavaria in Germany, and Maastricht in the Netherlands.

#### **2. Trends in production and apparent consumption**

The figures given below are estimates of production, etc, for EUR 12 and EUR 15. They apply to all ceramics sectors.

Units: million ECU

	<b>1993</b>	<b>1994</b>	<b>1995</b>		<b>1996</b>
	EUR 12	EUR 12	EUR 12	EUR 15	EUR 15
<b>Production</b>	21216.2	22187.4	22581.3	26081.4	25506.9
<b>Exports Extra-EU</b>	3667.2	4217.4	4475.4	4234.2	4614.4
<b>Imports Extra-EU</b>	1259.4	1342.1	1360.5	1323.1	1396.5
<b>Apparent Consumption</b>	18808.4	19312.1	19466.4	23170.3	22289.0
<b>EU sales on domestic market</b>	17595.2	17981.5	18105.9	21847.3	20884.8
<b>EU market share</b>	93.55%	93.11%	93.01%	94.29%	93.7%
<b>Imports market share</b>	6.45%	6.89%	6.99%	5.71%	6.26%
<b>Direct employment</b>	292889	280586	279270	322386	n/a.
<b>N° companies</b>			c2000		

Import and export figures above for EUR 12 and EUR 15 are taken from COMEXT. Production and employment figures come from the DEBA database (Eurostat: 1995 and 1996 for EUR 15 using NACE Rev. 1, 26.2 + 26.3 + 26.4.).

In comparison, similar information on **tableware**

CN 6911 + 6912 + 6913

Units: million ECU

	<b>1993</b>	<b>1994</b>	<b>1995</b>		<b>1996</b>
	EUR 12	EUR 12	EUR 12	EUR 15	EUR 15
<b>Production</b>	3400**	3000**	2800*	2850**	2800**
<b>Exports Extra-EU</b>	901.4	1002.6	1043.4	959.9	1014.8
<b>Imports Extra-EU</b>	544.7*	653.9*	705.6*	650.8*	710.5*
<b>Imports Extra-EU</b>	659.0	677.0	651.7	678.9	736.7
<b>Imports Extra-EU</b>	370.0*	399.3*	377.6*	395.0*	448.8*
<b>Apparent Consumption</b>	3157.6	2674.4	2408.3	2569.0	2521.9
<b>EU sales on domestic market</b>	2498.6	1997.8	1755.6	n/a	n/a
<b>EU market share</b>	79.1%	74.7%	72.9	n/a	n/a
<b>Imports market share</b>	20.9%	25.3%	27.1%	n/a	n/a
<b>Direct employment</b>	90 000	81 000	80 000	n/a	75000**
<b>N° companies</b>	170(6911)				171***

Source: imports/exports from COMEXT

*production and employment from Cérame-Unie*

- \* CN 6911.10 + 6912.00
- \*\* estimate by Cérame-Unie
- \*\*\* number of tableware producers which are members of Cérame-Unie

As is evident from the figures above, import penetration for all ceramic products together is not significant, except that it must be borne in mind that Europe is a strong traditional 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 17.2% in 1996 (in value terms). This is alarming the EU ceramics industry, since at present, the Chinese export very small quantities of tiles to the EU, but they have been equipping massively 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 expected to increase drastically 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 below:

'000

	<b>Total ceramic industry*</b>	<b>Tableware sector</b>	<b>Tableware as % of total</b>
1993 - EUR 12	293	90	30.7
1994 - EUR 12	281	81	28.8
1995 - EUR 15	322	80	24.8
1996 - EUR 15	n/a	75	n/a

- \* includes coarse ceramics - refractory products, building bricks and roof tiles. 1996 figure is estimated by Cérame-Unie.

Figures for the total industry employment come from the DEBA/EUROSTAT database; figures for the tableware sector are Cérame-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 have played a major role in the decision making process.

N.B. Numbers employed in the ceramics industry as a whole went down by an estimated 12.7% between 1992 and 1995; numbers employed in the **tableware sector** went down by an estimated **28.6%** over the same period.

## 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 generally export up to 30% of their production, although the quantity of tableware exported is generally well below import levels. The tables below show the trend of imports in the EU, and its biggest export markets in 1996.

#### Evolution of Imports: EUR 15

Source: COMEXT

CN 6911.10	1995		1996	
	Tonnes	% total imports	Tonnes	% total imports
<b>China</b>	<b>31965.9</b>	<b>29.46</b>	<b>34742.3</b>	<b>28.88</b>
Poland	17054.7	15.72	21026.6	17.48
Czech Rep.	12823.6	11.82	14330.7	11.91
Romania	7842.9	7.23	8537.2	7.10
Hong Kong	4642.0	4.28	4885.2	4.06
Philippines	3995.0	3.68	4974.7	4.13
Bulgaria	3757.6	3.46	3744.0	3.11
Thailand	2687.0	2.48	3482.2	2.89
Indonesia	3253.5	3.00	2554.4	2.12
others	20502.2	18.89	22038.0	18.32
Total	108524.4	100.00	120315.3	100.00

CN 6912.00	1995		1996	
	Tonnes	% total imports	Tonnes	% total imports
<b>China</b>	<b>26371.7</b>	<b>25.70</b>	<b>28454.6</b>	<b>26.33</b>
Poland	10251.3	9.99	9716.3	8.99
Czech Rep.	995.7	0.97	1366.6	1.26
Romania	6415.4	6.25	7063.4	6.54
Hong Kong	913.0	0.89	706.8	0.65
Philippines	1210.9	1.18	2016.8	1.87
Bulgaria	707.8	0.69	488.4	0.45
Thailand	14476.0	14.11	9695.0	8.97
Indonesia	5162.8	5.03	4657.0	4.31
Others	36096.6	35.18	43892.0	40.62
Total	102601.2	100.00	108056.9	100.00

## Exports in 1996: EUR 15

Source: COMEXT

	CN 6911.10		CN 6912.00	
	Tonnes	% total exports	Tonnes	% total exports
USA	10136.6	23.5	63334.1	59.1
Czech Rep.	6255.9	14.5	790.6	0.7
Switzerland	3607.4	8.4	3161.7	2.9
Japan	3725.8	8.6	3733.6	3.5
Israel	2671.2	6.2	4326.0	4.0
Australia	1630.6	3.8	6114.8	5.7
Canada	1569.0	3.6	3752.9	3.5
<b>China</b>	<b>11.0</b>	<b>0.02</b>	<b>34.7</b>	<b>0.03</b>
Total Extra EU	43137.2	100.0	107203.7	100.0

So while imports from China are growing and constitute the most important source imports into the EU of porcelain and chinaware and earthenware, EU exports to China remain virtually nil. The Chinese can not import, principally because they have plenty of capacity themselves, but also because they do not have the financial means.

They can, however, export, since, it is alleged, their exports are priced not in accordance with production costs, but in accordance with foreign currency needs. Chinese exporters continue to sell tableware on European markets at very low prices, and this is damaging to European markets.

The three biggest tableware producing countries of the EU are France, Germany, and the United Kingdom where producers consider great harm has been done to the main producing areas by cheap Chinese imports over the years. Developments in French, German, and UK consumption of tableware over the last three years are shown below. (NB movements in domestic sales figures have been checked: whilst 1996 was a very disappointing year on the German market, demand in the UK was said to be at its highest since the end of the second world war.)

*CN 6911 Source: Imports - COMEXT; Domestic sales - Cérame-Unie*

NB: Imports are extra-EU imports + imports from other Member States.

## FRANCE

'000 ECU

	1994	1995	1996
Domestic sales	111555	102261	98276
Imports	85442	82230	81285
Of which, China	11473	6906	5030
China as % total imports	13.4	8.4	6.2
Apparent consumption	196997	184491	179561
China as % of apparent consumption	5.8	3.7	2.8

**GERMANY**

'000 ECU

	1994	1995*	1996*
Domestic sales	579813	670744*	614355*
Imports	111979	394616*	400254*
Of which, China	6358	119284	132371
China as % total imports	5.7	62938*	70839*
		7976	8559
Apparent consumption	691792	1065360*	1014609*
China as % of apparent consumption	0.9	n/a	n/a
		5.9*	7.0*
		n/a	n/a

\* 6911 + 6912 + 6913

**UNITED KINGDOM**

'000 ECU

	1994	1995	1996
Domestic sales	168197	174592	285441
Imports	46387	44677	47326
Of which, China	2943	3728	4590
China as % total imports	6.3	8.3	9.7
Apparent consumption	214584	219269	332767
China as % of apparent consumption	1.4	1.7	1.4

**CN 6912** *Source: Imports - COMEXT; Domestic sales - Cérame-Unie***FRANCE**

'000 ECU

	1994	1995	1996
Domestic sales	21284	20912	19306
Imports	94200	98082	85749
Of which, China	4685	2750	2768
China as % total imports	5.0	2.8	3.2
Apparent consumption	115484	118994	105055
China as % of apparent consumption	4.1	2.3	2.6

## GERMANY

'000 ECU

	1994	1995*	1996*
Domestic sales	n/a	670444*	614355*
Imports	92909	394616*	400254*
Of which, China	16067	62938*	70839*
China as % total imports	17.3	15.9*	17.7*
China as % total imports		12.4	13.8
Apparent consumption	n/a	1065360*	1014609*
China as % of apparent consumption	n/a	5.9*	7.0*
China as % of apparent consumption		n/a	n/a

\* 6911 + 6912 + 6913

## UNITED KINGDOM

'000 ECU

	1994	1995	1996
Domestic sales	n/a	n/a	402030
Imports	70750	67284	80734
Of which, China	2705	4043	7086
China as % total imports	3.8	6.0	8.8
Apparent consumption	n/a	n/a	482764
China as % of apparent consumption	n/a	n/a	1.5

It must be stressed that total imports as mentioned above means imports not only from third countries, but also includes imports from **all other Member States**, and that there is significant intra-EU trade in ceramic tableware.

Apart from the good year enjoyed by the UK tableware sector in 1996, EU tableware producers are still generally feeling the effects of the recession in the sector and consumption levels are still depressed. They also feel that, despite the existence of the quota system, the threat posed by Chinese imports of low-priced ceramics is still harming their industry.

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. For instance, there is **no** local production of ceramic tableware in **Hong Kong**, yet in 1996, Hong Kong exported to the EU (EUR 15) the tonnages and values shown below:

	<b>Tonnes</b>	<b>Value (million ECU)</b>	<b>ECU/kg</b>
<b>CN 6911.10</b>	4893.3	5.8	1.19
<b>CN 6912.00</b>	706.8	0.9	1.26

*Source: COMEXT*

## 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: Cérame-Unie members*

		<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>
CN 6911	Chinese	1.06	1.11	1.04	1.10	1.57*
	European	5.55	4.15	5.34	3.39	5.99*
CN 6912	Chinese	1.04	1.08	1.19	1.10	n/a
	European	2.38	2.21	2.34	2.06	n/a

\* Germany only. N/a for rest of EU.

For the two specific products subject to quota, Chinese prices compared with the average intra-EU levels in 1996 were:

*ECU/kg*

*Source: COMEXT*

	<b>Chinese</b>	<b>Intra-EU</b>
<b>CN 6911.10</b>	1.15	5.50
<b>CN 6912.00</b>	1.21	2.27

As can be seen from the above figures, whilst the existence of quotas may have limited the quantity of Chinese imports, the prices of these have remained fairly stable. 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 still a certain 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, including one of a product manufactured in Germany whose list price is **41 times** the selling price of the product made in China.

### 4. Opinion of the Community Industry

The European ceramic tableware sector is represented at European level by the Fédération européenne des Industries de Porcelaine et de Faïence de Table et d'Ornementation (FEPPF), which in turn is a member of the general European ceramics federation, Cérame-Unie. Cérame-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 European Glass and Pottery Wholesalers Associations, on the other side, believe that the persistence of quantitative restrictions on Tableware would harm the European Industry, and that imports should therefore be fully liberalized.

### C. Conclusion

In view of the above, the tableware sector remains sensitive because of the high volume of the Chinese imports, their considerable disruption potential and the substantial price undercutting.

## Toys

**CN 9503 41, 9503 49 and 9503 90**

### A. Situation of the Community toy industry

#### 1. Structure of the industry

The structural features outlined in the two previous reports have changed considerably. Fresh data from reliable sources (Eurostat's Comext and Deba databases and the Industry) have been considered, contributing to define a clear picture of the sector. Overall, the EC toy industry appears to be significantly healthier and capable to compete in the foreign markets, as well as -much less vulnerable to low-priced imports as compared to previous years.

#### 2. Community production and export performance

Community consumption in 1996 was almost stable (-0.32% on 1995<sup>1</sup>), as well as the production (-0.49%<sup>1</sup>). Exports of European toys outside the Community have grown by a record 16.8%<sup>2</sup> while imports have grown by 3% over the same year 1996.

The overall picture for products under Codes CN 9501 to 9505 (NACE 36.5 for production and consumption) is as follows:

ECU '000	1995	1996
Production (excl.VAT)	5,307,500	5,281,500
Exports	1,153,021	1,346,989.24
Imports	4,413,423.35	4,548,081.51
of which imports from China	2,199,355.40	2,419,509.24
Apparent consumption	8,221,800	8,195,300
Market share of imports (est.) <sup>3</sup>	53.7%	55.5%
Market share of imports from China (est.)	26.8 %	29.5 %

<sup>1</sup> Source: Eurostat Deba database, considering NACE Rev. 1 Code 36.50, i.e. CN 9501 to 9504

<sup>2</sup> Source Eurostat Comext database, CN 9501 to 9505

<sup>3</sup> As the figures on apparent consumption do not include CN 9505, the market share of imports is probably lower.

These figures clearly indicate that the EC toy industry has recently been able to adapt to the new global conditions and is becoming increasingly competitive in foreign markets. The healthier situation that the industry is now enjoying, confirmed by last year's record export performance, is a result of the restructuring efforts accomplished successfully thanks to the temporary relief ensured by the quotas.

### 3. Employment

Direct employment fell by 4.3% in 1996<sup>4</sup>. However, this loss is compensated by a considerable growth in indirect employment, mainly distribution (import-export, wholesale and retail). According to the representatives of the industry, "the European Union has 2,000 companies working in the toys and games sectors. The toy industry employs over 100,000 people in the European Union, 55,000 of which working in indirect employment".

Workforce	1995	1996
Direct employment	51,553	49,321

## B. Sensitivity to Chinese imports

### 1. Import trends

Total toy imports from outside the EU (excluding China) fell by 3.9%; while imports from China rose 10%. Non-quota toys from China, accounting for 74.4% of total Chinese imports into the EU, were up 8.3%, while those under quota were growing at almost twice this rate (15.2%).

ECU '000	1995	1996	1996/1995 (%)
Toys under quota 1994	537,750.03	619,641.39	+15.2
- 9503 41	179,798.42	207,387.39	+15.3
- 9503 49	46,391.40	65,609.46	+41.4
- 9503 90	311,560.21	346,644.54	+11.3
Non-quota toys	1,661,605.37	1,799,867.85	+8.3
Total imports from China	2,199,355.40	2,419,509.24	+10.0
Total imports from other countries	2,214,067.95	2,128,572.27	-3.9

<sup>4</sup> Source: Eurostat Deba database, considering NACE Rev. 1 Code 36.50, i.e. CN 9501 to 9504

## 2. Import Prices

The import prices of toys under quota from China have slightly increased (+ 5.60 %) since 1993, as shown in the table below. At the same time, the difference between the import prices of the same products and the EU export prices has significantly decreased, due to an improved productivity of the EC industry

*Prices in ECU/tonne*

	1993	1994	1995	1996	Evolution 93-96
<b>Toys under quota</b>	<b>5 537</b>	<b>5 602</b>	<b>5 379</b>	<b>5 847</b>	<b>+ 5.60 %</b>
<b>Differential with EU export price</b>	<b>2 023</b>	<b>1 614</b>	<b>1 434</b>	<b>1 524</b>	<b>- 28.66 %</b>

Source : EUROSTAT

## 3. Current restructuring moves

The temporary protection ensured by the quota has helped the EC toy Industry to gradually adapt its production structure in order to meet the needs of a fast-changing market. The efforts undertaken during the last years appear to have born fruit in terms of restructuring production and improving the quality of the products. Most manufacturers in Europe are now also becoming importers for some items which may be necessary for them to keep their market share both in the EU and on export markets.

## C. Opinion of the Community industry

Toys Manufacturers of Europe and Fédération Européenne des industries du Jouet recently merged and formed a new umbrella organisation, Toy Industries of Europe (TIE), which represents over 90% of the industry within the EU.

While expressing satisfaction for the suppression, on the occasion of last year's review, of quotas on toy parts and components, TIE clearly expressed its strong support for an immediate and total abolition of all quotas on toys. According to TIE these quotas would represent an additional administrative burden, which affects particularly small businesses, while failing to restrict imports of Chinese toys into the EU.

## D. Conclusion

The market share of Chinese toys in the EC remains high and is likely to increase. However, the situation of the EC industry has considerably improved since the quota was introduced in 1994. The quotas have allowed the EC industry to successfully implement, in a gradual way, the necessary restructuring efforts and to reorganise its production during the last years. Many imported products are no longer produced in the EC. At the same time, the EC industry is now increasingly exporting and competing successfully in foreign markets, as shown by the above

figures. Given these recent changes that the toy sector has experienced and in light of the EC Toy industry's position, which appears to have become now sufficiently resistant, the Commission believes that the maintenance of a quantitative restriction does not appear to be necessary any longer.

### **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: all these industries are affected in varying degrees by stagnating production, declining sales and exports, closures and job shedding.
  - Most 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.
  - Most are engaged in restructuring exercises which look promising but are costly and difficult to carry out - a waive of low-priced imports during this particularly vulnerable situation would condemn them to failure.
  - Some, such as the toy industry, have recently relocated part of their production, are considering doing so, or have subcontracted work in low-cost countries in order to reduce costs and so compete with these low-cost countries. The toy industry has clearly shown to have benefited from the temporary relief ensured by the quotas and it appears now to be ready to compete on a sufficiently strong position in the global toy market.
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 liberalize 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.

3. There is thus reason to believe that the outright 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, with the exception of the toys sector for which such outcome is less likely.
4. However, it should be noted that China is likely to achieve full WTO membership in the next few years. In the context of China's accession to the WTO, the EC quotas will be gradually phased out. The EC Industry will then be faced with a situation in which imports from China will be unrestricted. Consequently, the Commission considers it important to move towards a gradual liberalization of the quotas, which would avoid a sudden disruption of the EC market. A moderate increase in the level of the quotas, therefore, would be a step in view of allowing the industry to gradually adapt to compete in the global market.
5. This does not mean that specific issues relating to imports from China will not be dealt with appropriately. Under WTO rules, particular import problems concerning prices or volumes can be tackled effectively by specific trade policy instruments. Chinese membership to the WTO is also likely to favour a solution to the problem of counterfeiting.

In light of the above, the Commission believes that the reasons that led the Council to introduce the quantitative restrictions covered in this report are, excluding toys, overall, still valid. At the same time, a gradual and limited increase in the level of some of the remaining quotas, without disrupting the market, would also appear to be appropriate.

## 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 April 1996, following the conclusions contained in the Commission's first report, the Council decided by its Regulation (EC) No 752/96:

- to remove a range of products of which the imports in 1994 were negligible or lower than in 1993, from the list of products subject to Community surveillance;
- to insert certain products in respect of which quotas were abolished (gloves and combined car radios) in the list of products subject to prior Community 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.

### III. Trends in imports of products under surveillance

The table below gives import figures, in thousands of ecus, for products under surveillance in 1996, excluding certain hi-tech footwear, and sets them against the 1995 figures.

CN code	Description	1995	1996	Imports China/Extra- EC (1996)
2827 10 00	Ammonium chloride	1307	1112	81.00%
2905 49 90	Other polyhydric alcohols	3463	5801	17.28%
2918 14 00	Citric acid	21313	13179	40.56%
2941 30 00	Tetracyclines and their derivatives	48402	55431	64.41%
2941 40 00	Chloramphenicol	7786	6479	85.70%
3204 13 00	Basic dyes....	7773	5121	21.29%
3204 15 00	Vat dyes ...	9927	8888	14.98%
3604	Pyrotechnic articles	67210	89280	77.31%
3905 30 00	Polyvinyl alcohols	19711	16721	16.96%
4203 29 91	Gloves	5513	7581	26.17%
4203 29 99	Gloves	4041	5582	13.52%
6402 19	Footwear <sup>1</sup>	5562722	9411352	44.44%
6403 19	Footwear <sup>1</sup>	4196854	5768424	25.34%
6913 10	Ornamental articles of porcelain	75303	65326	69.95%
8712 00	Bicycles	2001	2404	0.53%
9503-30	Construction sets	50884	42353	15.98%
9503 60	Puzzles	6163	8545	40.30%
9504 40	Playing cards	2592	1989	17.66%
9603 29	Brooms and brushes	20235	23408	47.22%
9603 30	Brooms and brushes	7037	8989	30.08%
9603 40	Brooms and brushes	17895	19037	65.23%
9603 90	Brooms and brushes	15857	13620	24.76%

Source : EUROSTAT

<sup>1</sup> 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 1996:

ex 6402 99	6 344 717 pairs
ex 6403 91 et 99	17 561 189 pairs
ex 6404 11	15 975 984 pairs
total	39 881 890 pairs

**IV. Should surveillance measures be maintained?**

The figures provided here show that the share of imports from China of most of these products is still very high. The Commission believes that prior surveillance should be maintained for these products.

## 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 should be maintained but with the following adjustments.

#### 1. Quantitative restrictions

- Abolition of the quota on Toys (CN 9503 41, 9503 49 and 9503 90).
- Increase of 5 % in the level of the Tableware quotas.

The Commission believes that a balance should be kept between ensuring an adequate protection of the industries concerned and maintaining an acceptable flow of trade with China, taking into account all the interests at stake and in the context of the developing global market conditions.

Consequently, a moderate increase of 5% in the level of the Tableware quotas would be appropriate and in conformity with the above objective, without being likely to disrupt the Community market conditions.

The proposed increases give the following results:

Products	CN code	Quotas 1997	Level of Quotas after 5% increase
Porcelain	6911 10	45 800 tonnes	48 090 tonnes
Ceramic	6912 00	34 650 tonnes	36 383 tonnes

#### 2. Surveillance measures

The proposal is to include the Toys for which the quota is no longer considered necessary (CN 9503 41, 9503 49 and 9503 90) among the products under surveillance.