

## COMMISSION REGULATION (EEC) No 1087/84

of 18 April 1984

introducing protective measures in respect of certain electronic piezo-electric quartz watches with digital display

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,

Having regard to Council Regulation (EEC) No 288/82 of 5 February 1982 on common rules for imports<sup>(1)</sup>, and in particular Article 15 (1) thereof,

After consultation within the Advisory Committee established by the abovementioned Regulation,

Whereas :

## A. Procedure

(1) On 6 September 1983 the Commission was informed by the French authorities that piezo-electric quartz watches originating in non-Community countries were being imported in such quantities and/or on such conditions as to cause, or threaten to cause, substantial injury to a Community industry. The French authorities asked that measures be taken to limit these imports as soon as possible.

(2) The French request was backed by evidence concerning the trend of imports of the products in question and the terms on which the products are imported.

Information was also provided on the repercussions of these imports on Community producers of like or directly competing products.

(3) Having decided, after consultation, that the evidence in its possession was sufficient to justify an investigation, the Commission consequently announced, in a notice published in the *Official Journal of the European Communities*<sup>(2)</sup>, the initiation of a Community procedure for investigating imports into the Community of the products in question and opened the investigation.

(4) The Commission officially informed the importers known to be concerned and gave all the

parties involved the opportunity of making their views known in writing and of requesting an oral hearing.

Various importers took this opportunity of making their views known in writing and, in addition, the Federation of European Wholesalers and International Trade Association (FEWITA) and the Foreign Trade Association of European Retailers (FTA), further to the written submission of their positions, requested and were granted an oral hearing.

No submissions have been received on behalf of the Community consumers of the articles in question.

(5) Countries exporting quartz watches to the Community were also offered the chance of making their views known in writing and of asking for an oral hearing. Accordingly, the representatives of Japan, Hong Kong and South Korea requested and were granted an oral hearing. Furthermore, the non-confidential parts of the investigation report have been notified to the authorities of the exporting countries that asked for them.

(6) In the course of its investigation the Commission endeavoured to gather and check all the information it deemed to be necessary and undertook on-the-spot checks in France and Germany where almost all the watches produced in the Community are made. The following companies were thus visited by Commission staff :

— *Community producers of assembled watches :*

- Établissements Claude Bouhelier, Villers-le-Lac,
- Cattin-Mortima, Morteau,
- Fralsen, Besançon,
- Michel Herbelin, Charquemont,
- Matra-horlogerie, Paris,
- Arctos/Philipp Weber GmbH, Pforzheim,
- Erich Lacher GmbH, Pforzheim,
- Paul Raff GmbH, Pforzheim,
- Gebrüder Junghans GmbH, Schramberg,
- Kienzle GmbH, Villingen-Schwenningen ;

<sup>(1)</sup> OJ No L 35, 9. 2. 1982, p. 1.

<sup>(2)</sup> OJ No C 285, 22. 10. 1983, p. 5.

— *Community producers of movements (without case):*

- France-Ebauches, Besançon,
- PUW, Pforzheim;

— *importers:*

- 'Les 3 Suisses', Croix (Lille),
- Éts Climpex, Paris,
- Éts UTI, Paris,
- Icam-France, Paris,
- Piranha Marketing GmbH, Hanau,
- Neckermann Versand AG, Frankfurt.

As regards producers, the Commission obtained detailed replies to its questionnaires from a total of 12 French undertakings and received information from six German undertakings.

A certain number of importers did not reply to the questionnaires, notably French importers selling directly to the public and not using the traditional distribution networks. Information on these parties, which was needed for the analysis, was thus collected on the basis of available data.

### B. Imports concerned

- (7) The products which are the subject of the investigation are pocket-watches, wrist-watches and other watches, electronic, with piezo-electric quartz crystal regulating device.

These articles fall within heading No ex 91.01 of the Common Customs Tariff, corresponding to NIMEXE codes 91.01-15 (electronic quartz watches with case of precious metal and mainly analogue display), 91.01-21 (electronic quartz watches with cases of other materials and analogue display) and 91.01-25 (electronic quartz watches with case in other materials and without hands — mainly liquid crystal digital display (LCD)).

### C. Like or directly competing products

- (8) Since the aim is to determine which Community industry is likely to suffer substantial injury or is threatened with substantial injury from the imports in question, that is the Community industry producing like products or products competing directly with the imported quartz watches, both analogue and digital, it should be noted that the watches produced in the Commu-

nity are either mechanical, or quartz with analogue display.

- (9) While the Community analogue quartz watch and the imported analogue quartz watch are obviously like products, the question arises, however, as to whether the imported digital watch and Community watches, namely the mechanical watch and the analogue quartz watch, are directly competing products.

- (10) 'Directly competing products' are products which can essentially be substituted one for the other, that is to say, which are suitable for the same purposes and accordingly are basically interchangeable.

In addition to the movement which, from the point of view of technology, is the heart of the watch, all watches comprise external components, these being mainly a case with a rim and glass and possibly a strap to allow the watch to be worn on the wrist.

- As regards the general aspect, all watches, whether mechanical, quartz with digital display or quartz with analogue display, look, if not identical, at least very similar.
- As for the technology, while the analogue quartz watch is a product of the synthesis between traditional, i.e. mechanical, watch-making techniques, and electronic technology by the addition of the quartz crystal regulating device, the digital quartz watch is an essentially electronic product.

Given these initial observations, it should be noted, however, that the digital watch, while quite often displaying several functions, none the less systematically possesses one main function without which it would not, by definition, be a watch, namely that of giving the time (digital display of hours, minutes and possibly seconds).

Thus, once a consumer has bought a digital quartz watch which tells him the time in a satisfactory manner, in the current Community context of stagnating purchasing power he will very likely not be concerned with buying another watch regardless of its type of display or technology (quartz or mechanical).

Finally, because of their high degree of commercial interchangeability for the user digital quartz watches, mechanical watches and analogue quartz watches must be considered as directly competing products.

#### D. Production industries concerned

- (11) The Community industry manufacturing like products or products directly competing with the imported quartz watches thus comprises all Community producers of assembled watches, whether mechanical or quartz (with analogue display).

In each of the producer Member States, undertakings producing assembled watches, both mechanical and analogue quartz, form one and the same industry, since almost all the firms in question produce the two types of watch and the basic reason for the consumer to buy a watch is to have on his or her wrist (or, more rarely, elsewhere on his or her person) a device showing the time at any given moment.

The fact that to meet this need the consumer is presented with a range of watches which is virtually endless in terms of style and design reflects the very high degree of commercial interchangeability of these articles and shows that there exists in each of the producer Member States one and the same regional industry producing assembled watches.

- (12) Within the Community three Member States, namely France, the Federal Republic of Germany and the United Kingdom, have a small-scale watchmaking industry, whereas the Italian industry is craft-based rather than industrial (small-scale watchmaking is the branch of watchmaking geared to the manufacture of watches and their parts while large-scale watchmaking involves the manufacture of clocks).

The information the Commission has on the United Kingdom shows that there is only one producer in that Member State and that that producer manufactures only certain parts of mechanical watches and sub-assemblies of quartz watches.

The German industry, located in the main in Baden-Württemberg (Schwarzwald) is engaged, just like the French industry, in both small- and large-scale watchmaking but, unlike the French, the German industry is geared mainly to large-scale production, which accounts for about 73 % in terms of value of the German industry's total output (estimate for 1982). The overall production of German watches in 1983 was 3 100 000 units, including all types, and accounted for about 28 % of total Community watch output (11 100 000 watches).

In contrast with the German industry, the French industry, which is located in and around Besançon, is predominantly engaged in small-

scale watchmaking activity — 79 % of the value of the industry's total output (estimate for 1982). Producing 2,6 times as many watches as the Germans — 8 000 000 watches of all kinds in 1983 as against 3 100 000 in Germany — French manufacturers account for some 70 % of the Community's total watch output.

In the light of the above, it is necessary to assess the injury caused by imports of quartz watches to the French industry producing assembled watches, on the one hand, and to the German industry, on the other.

#### E. Trend of imports

##### *Community market*

- (13) As for determining the volume of imports and, in particular, whether they have increased significantly, either in absolute terms or in relation to Community production or consumption, Community figures show that the number of quartz watches imported into the Community increased from 42 000 000 in 1980 to 52 900 000 in 1982 and came to 26 800 000 in the first six months of 1983.

The bulk of these imports (more than 80 %) are digital quartz watches, which increased from 36 700 000 units in 1980 to 45 100 000 units in 1982 and accounted for 22 300 000 units in the first three months of 1983 alone.

Imports of analogue quartz watches rose from 5 400 000 units in 1980 to 7 800 000 units in 1982 and stood at 4 500 000 units for the first six months of 1983.

- (14) The average annual rate of increase of these imports into the Community for all quartz watches therefore amounts to 12,2 % for the period 1980 to 1982 and 14,8 % for the period 1981 to 1983.

Within this total the rise in imports of analogue quartz watches, which still account for only 17 % of imports, has been more rapid than the average, their average annual rate of increase being 20,5 % over the period 1980 to 1982 while the rate for digital watches increased by 11 % over the same period.

- (15) In relation to consumption of like or directly competing products, that is Community consumption which has stabilized at around 63 000 000 to 65 000 000 since the late 1970s of all kinds of watches, the market share of imports of quartz watches from outside the Community has increased substantially, from 64,3 % in 1980, to 83,3 % in 1982 and to 88,6 % in 1983 (estimate).

Most of this increase is due to the greater penetration of digital quartz watches, the market share of which rose from 56,1 % in 1980 to 73,6 % in 1983, that is a gain of 17,5 points in three years (estimate).

Imports of analogue quartz watches have also increased their market share from 8,2 % in 1980 to 15,0 % in 1983 (estimate), but in view of their still relatively moderate volume their market share gain was only 6,8 points over the period in question.

- (16) In addition to the above analysis, which was made over the entire Community market, the trend of imports on the regional markets of the French and German watch producers should also be assessed.

#### *French market*

- (17) Since a large and indeed increasing proportion of the quartz watches imported into France from outside the Community are in free circulation, not only direct imports but all imports originating outside the Community should be taken into account for the French market.

These imports have practically doubled each year since 1975 — when they amounted to no more than 480 000 — to attain 10 200 000 in 1980.

Following the re-imposition at the end of 1981 in respect of imports originating in Hong Kong of an annual national quota of 4 400 000 watches that had previously been suspended, imports temporarily slowed down in 1982. In 1983, however, imports other than those from Hong Kong (Japan, China, Macao, Taiwan, South Korea, etc.) increased considerably, mainly on account of growing free circulation imports (3 800 000 units in 1983 compared with 780 000 units in 1980, that is 40 % of the imports originating outside the Community), which brought the total number of watches imported from outside the Community to 9 600 000.

From 1979 to 1983 total imports of quartz watches originating outside the Community therefore rose from 4 500 000 units to 9 600 000 units, making an average annual rate of increase of 20,6 %.

Of this total, imports of digital quartz watches rose from 3 600 000 units in 1979 to 7 800 000 units in 1983, which gives an average annual progression of 21,5 %. Imports of analogue quartz watches rose from 955 000 units in 1979 to 1 800 000 units in 1983, thus giving an average annual increase of 17,5 %.

- (18) Overall, the market share of quartz watches imported into France thus rose from 33,9 % in 1979 to 67,7 % in 1983, an increase of 33,8 points. Most of this increase (28,1 points) is due to digital quartz watches, whose market share rose from 26,8 to 54,9 %. Imported analogue quartz watches advanced from a penetration of level of 7,1 % in 1979 to 12,8 % in 1983, that is a gain of only 5,7 points.

#### *German market*

- (19) Since direct imports into the Federal Republic of Germany of quartz watches from outside the Community give rise to a considerable amount of re-exporting within the Community, for the German market the figures which should be taken into account are imports minus (estimated) re-exports due to the free circulation trade between Germany and the other Member States, that is to say net direct imports.

Over the period 1979 to 1983 net direct imports into the Federal Republic of Germany of quartz watches from outside the Community rose from 8 600 000 to 20 300 000 units, which corresponds to an annual average rate of increase of 25 %.

Imports of digital quartz watches rose from 7 300 000 units in 1979 to 17 400 000 units in 1983 while, over the same period, imports of analogue quartz watches increased from 1 300 000 to 2 900 000 units.

- (20) Overall, the market share of quartz watches imported into Germany thus increased from 47,6 % in 1979 to about 84 % in 1983. Of this, digital quartz watches rose from 40,4 to 71,9 %; whereas the penetration of imported analogue quartz watches climbed from 7,2 to 12,1 % over the same period.

#### *F. Import prices*

- (21) As for determining import prices and, in particular, whether there has been significant undercutting of the price of a like product in the Community, the prices of imported analogue quartz watches, which can be compared with those of like Community products, and the prices of imported digital quartz watches, which can be compared with those of directly competing Community products, namely analogue mechanical and quartz watches, should be examined separately.

This examination should be conducted in respect of French products, on the one hand, and German products, on the other.

- (22) As for the average import prices for the whole of the Community, the price trend for analogue quartz watches has so far shown relative stability; the average price per watch of watches with cases other than in precious metals was 26,12 ECU in 1980, 29,48 ECU in 1981, 28,97 ECU in 1982, and 27,92 ECU during the first six months of 1983.

In contrast, the uninterrupted fall in the world price of digital watches that has been observed year after year is reflected in a rapid drop in the average prices for LCD watches imported into the Community: 8,40 ECU per watch in 1980, 7,96 ECU in 1981, 5,84 ECU in 1982, and an average of 5,16 ECU during the first six months of 1983. Between 1978 and 1983 the price of LCD watches imported into the Community therefore dropped by more than 60 %.

#### *French market*

- (23) A comparison between the average prices of imported analogue quartz watches and the prices of like French products has not revealed any significant undercutting for products originating in Japan and Switzerland, which, in 1983, accounted for some 81 % of French imports of analogue quartz watches.

Significant undercutting was found in the case of watches originating in other countries, especially Taiwan, but the quantities in question at any event only involve less than 20 % of French imports of analogue quartz watches.

- (24) For imported digital watches considerable price differences were discovered between the average ex-importer prices and the average ex-works prices of directly competing French products, namely mechanical and analogue quartz watches.

Depending on the products and the countries of origin, these price differences are between 12,1 and 77,4 % of the average ex-works price.

For some places of origin (Hong Kong, Taiwan, China, Macao, etc.) significant price differences were found not only in relation to the average prices of directly competing French products, but also in relation to the most competitive French prices for these products.

#### *German market*

- (25) Since the sample of German producers who gave satisfactory replies to the Commission's questionnaires was not very representative, the average ex-works prices of German watches, both mecha-

nical and analogue quartz, could not be determined with sufficient accuracy. In fact, the German small-scale watchmaking industry has a far less concentrated structure than the French industry, and the five undertakings visited in Germany account for only 3 % of the production of mechanical watches and 38 % of the production of analogue quartz watches in Germany. Consequently, the comparison of prices of like products and the evaluation of price differences between directly competing products were made on the basis of the most competitive products, both German and imported.

- (26) A comparison of prices between analogue quartz watches imported into Germany and like German products did not show any significant undercutting, regardless of origin.

- (27) With regard to digital watches imported into Germany considerable price differences were found between the lowest ex-importer prices and the most competitive ex-works prices for analogue quartz watches, these differences being as much as 75 %.

In contrast, no significant difference was found between the prices of imported digital watches and those of mechanical watches since the German producers use mechanical movements imported from the German Democratic Republic.

#### **G. Impact on French and German producers of assembled watches**

- (28) In the matter of determining the impact of imports of quartz watches on Community producers of like or directly competing products, the injury suffered by the industries producing assembled watches in France and Germany should first be evaluated before, in a second phase, examining the causal link between the substantial injury established and the imports in question.

#### *Injury to the French industry producing assembled watches*

- (29) The French industry producing assembled watches has been engaged since the mid-seventies in a process of switching to the production of analogue quartz watches and has seen its total watch output drop considerably while at the same time imports of quartz watches on the French and Community markets have risen sharply.

Thus during the period 1979 to 1983 alone, production of assembled watches dropped by about a third, from 12 000 000 to 8 000 000 units.

Alongside the rapidly declining production of mechanical watches — about 11 700 000 units in 1979, 8 700 000 units in 1980 and 4 500 000 units in 1983 — switching to the production of analogue quartz watches — 1 300 000 units in 1980, 3 500 000 units in 1983 — has by no means enabled the level of overall output to be maintained.

Overall, French production of all types of watches was about 7 900 000 units in 1983, well below the yearly output levels (around 14 000 000 to 15 000 000 units) 1975 to 1980.

According to data obtained from the sample of firms visited, total watch sales dropped by 27,4 % between 1980 and 1983 while the French market remained stable over the same period (at about 13 000 000 watches).

By the same token the market share held by French producers — for all types of watch — fell steadily, from 55,7 % in 1979 to 22,9 % in 1983.

Between 1979 and 1982 the number of manufacturers of assembled watches also slipped from 82 to 65, the work force in the industry dropping from 4 900 to 4 000, i.e. a decrease of 18,1 %. This phenomenon was even more marked in the sample of firms visited, where the number of staff had been cut by 20 % between 1980 and 1983.

The most revealing sign of injury to French producers of assembled watches is without doubt the fact that almost all the main producers are suffering losses and that these losses grew over the period 1980 to 1983.

As a percentage of net turnover, operating losses amounted, again according to the sample data, to 3,8 % in 1980, 10,2 % in 1981, 8,2 % in 1982 and about 11,4 % in 1983.

- (30) It appears from the results of the investigation set out above that the French industry producing assembled watches is suffering substantial injury. Its sales and production levels have been falling considerably while the market has remained stable, its share of the domestic market in 1983 was only 23 % and its operating losses have reached 11,4 % of turnover.

*Injury to the German industry producing assembled watches*

- (31) Although it embarked upon the process of switching to the manufacture of analogue quartz

watches before the French industry, the German industry producing assembled watches has also seen its total production of watches drop considerably as imports from outside the Community increased.

Between 1980 and 1983 German watch production decreased by 46,6 %, from 5 900 000 to 3 100 000 units. Furthermore, of this total the production of analogue quartz watches, which began between 1975 and 1978, levelled off in 1980 at 1 400 000 units and fell back to 1 200 000 units in 1983.

Total watch sales by German producers dropped, according to the sample data, by about 18,7 % between 1980 and 1983 while the Community market remained stable at around 65 000 000 watches and the German market apparently increased in volume to some extent over the same period, from 20 600 000 watches in 1980 to 24 100 000 in 1983.

At the same time the market share held by German producers (all types of watches), which in 1980 was already only 20 %, dropped below 10 % in 1983.

As regards employment, it is estimated that at the end of 1982 the number of staff employed by assembled watch producers amounted to about 2 000 to 2 600 persons only, following considerable job losses. Between 1980 and 1983 52,1 % of jobs were lost in the sample of German firms visited.

Finally, as in the case of the French producers, the data from firms to which the Commission had access showed a considerable deterioration in the financial results of German producers, especially in 1982 (losses of 4,5 %).

- (32) The results of the investigation thus lead to the conclusion that the German industry producing assembled watches is also suffering substantial injury.

#### H. Causal link

- (33) With regard to determining whether there is a causal link between the substantial injury sustained by the French and German producers of assembled watches and the imports in question, it should be examined whether — and to what extent — the injury is the result of imports of digital watches, of imports of analogue quartz watches, or of other causes yet to be defined.

*Causal link with imports of digital quartz watches*

- (34) It is clear that since the late seventies, that is since watch consumption stabilized in the Community, imports of digital quartz watches have been increasing both on the Community market as a whole and on each of the regional markets, especially the French and German markets, to by far the greatest degree in terms of volume and market share while at the same time total sales of assembled watches made by Community producers have slumped and these producers are now running at a considerable loss.

As has been seen above, the penetration of the Community market by digital quartz watches jumped, despite the remarkable stability of that market, from 56,1 % in 1980 to 73,6 % in 1983, representing a gain in the market share of 17,5 points. On the French regional market the progression between 1979 and 1983 was 28,1 points (from 26,8 to 54,9 %) whereas the increase in penetration of the German market was 20,3 points (from 51,6 % in 1980 to 71,9 % in 1983).

Regardless of the effect of any other imports, therefore, the reduction in Community outlets for Community watch manufacturers due solely to imports of digital quartz watches has been considerable since the late 1970s: outlets for these producers have been reduced from 43,9 to 26,4 % of the market for the Community as a whole, from 73,2 to 45,1 % of the French market, and from 59,6 to 28,1 % of the German market.

It is clear to the Commission that a reduction in outlets of this magnitude coupled, as has been the case for imports of digital watches, with significant price differences between the imported products and directly competing Community products, must to a very large degree be responsible for the substantial injury suffered by the French and German industries producing assembled watches.

*Causal link with imports of analogue quartz watches*

- (35) No category of imported watches has increased both its volume and market share over the same period to an extent which bears comparison with digital quartz watches.

Imports of analogue quartz watches, although they too have progressed, had a market share in 1983 of only 15 % in the Community as a whole,

on account of their still relatively moderate volume, and an even lower market share in France (12,8 %) and Germany (12,1 %).

Furthermore, given the relative stability of the prices at which analogue quartz watches are imported into the Community and the fairly generally observed lack of significant undercutting of the prices of like French and German products — which doubtless facilitated the switch to analogue quartz watch production, particularly in the French industry — it would seem that imports of analogue quartz watches have contributed to only a minor degree to the substantial injury suffered by the French and German watch assembly industries.

*Other possible causes of injury*

- (36) With regard to determining the effect of causes of injury other than imports of quartz watches, it appeared that two questions had to be considered; first, the role played by imports of mechanical watches, and secondly, the effect of structural changes in demand over the range of different types of watch.

*Imports of mechanical watches*

With regard to imports of mechanical watches, there can be no question of concluding that these have been the cause, since the late 1970s, of substantial injury to the Community industries producing assembled watches.

In so far as determining the volume of these imports is concerned, and in particular whether they have increased significantly, either in absolute terms or in relation to Community production or consumption, it emerges from Community statistics that imports of mechanical watches into the Community fell from 16 500 000 units in 1980 to 7 700 000 units in 1983, i.e. a drop of 53,4 % in four years.

As far as the French and German markets are concerned, the absolute levels of these imports have never been such as to be able to contribute significantly to the creation of the substantial injury suffered by the French and German industries producing assembled watches.

Thus the market share of imported mechanical watches fell in France from 10,4 % in 1979 to 9,4 % in 1983, and in Germany from 19 % in 1980 to 6,6 % in 1983.



*Structural changes in watch demand*

It has been argued by certain interested parties first that the main cause of the economic difficulties facing French and German watch producers was the drop in demand for mechanical watches in favour of quartz watches for reasons of consumer taste and secondly that, accordingly, there was no causal link between the fall in demand for mechanical watches and imports of digital watches, since the LCD watch had created its own market without reducing the outlets for Community producers.

- (37) These two arguments, which are in fact connected, are not borne out by the results of the Commission's investigation.

If there were consumer preference for digital quartz watches and if that consequently caused injury in itself, regardless of the traditional reasons such as price and quality differences, this consumer preference ought to be reflected uniformly throughout the entire watchmaking industry.

It is clear that digital watches do not sell above a certain price threshold despite the fact that their precision, thanks to the technology involved, is superior to that of mechanical watches. This indicates that price is a key factor for the 'average' watch buyer and what is referred to as 'consumer preference' for digital quartz watches is in fact no more than the expression of natural consumer attraction to a cheap product.

In other words, the basic explanation for the marked increase in sales of digital quartz watches on the Community (and world) market is, typically, the low price level at which these watches are offered. At the very most, in certain quite specific areas of the market, such as among young children and sportsmen, it is the fashion aspect which may have promoted their development, over and above the influence of the price factor.

As regards the alleged lack of a causal link between the fall in demand for mechanical watches and imports of digital watches by virtue of the creation of a new demand not affecting outlets for Community producers, it is obvious that on a market with stable consumption, which has been the case of the Community watch market since the late seventies, any influx of

imports on such a marked scale as that of digital quartz watches will inevitably lead to a corresponding reduction in outlets for domestic producers (compare points 13, 15 and 34).

- (38) It follows from the above points with regard to the causes involved that, taken in isolation, imports of digital quartz watches are responsible for the substantial injury suffered by the French and German industries producing assembled watches, at a time when adaptation of their industries is in full swing, by reason of the decline in overall production and sales levels and the resultant deterioration in financial results.

The other factors that, individually or in combination, might affect these industries — be they imports of analogue quartz watches, imports of mechanical watches or even structural changes in demand — have played only a minor part in the substantial injury caused to the two industries in question.

**I. Community interests**

- (39) Having established that digital quartz watches are being imported into the Community, and in particular on to the German and French regional markets, in such greatly increased quantities and on such terms as to cause substantial injury to the French and German industries producing assembled watches, the question arises as to whether regional protective measures for each of the two Member States in question are necessary to safeguard Community interests. In other words, it must be determined whether it is appropriate to extend to the German market the regional protective measure requested by the French authorities on behalf of their watch manufacturers.

- (40) The German authorities have not asked for protection for the German market. Furthermore, the parties primarily concerned by a measure of this kind, namely the producers themselves, proved, at the time of the investigation, to be very much divided as to the usefulness of any protection, although their federation, the Verband der Deutschen Uhren Industrie eV, was in favour of the measure.

The attitude of German firms to the Commission investigation was, at all events, indecisive and the information needed to analyze the situation on the German regional market was collected with a certain amount of difficulty.



At the same time, it should be borne in mind that the German industry is geared above all to large-scale watchmaking, since the manufacture of assembled watches accounts for only 27 % of the total turnover of the German watch- and clock-making industry. In contrast, the French industry is predominantly concerned with watches, which account for 79 % in value terms of the overall output of the French industry (clocks and watches).

In other respects, contrary to what has been seen in the French industry, the restructuring of the German industry is virtually complete but not necessarily apparent in view of the lack of any sign of concentration. In fact, while 90 % of French production is now in the hands of about 15 companies, German production is spread between some 60 firms.

In addition, on account of the extent of French watch production and the fact that the corresponding labour force is relatively much higher than that of the German industry, any social consequences are likely to be quite different in the two areas of production. In 1983 the French small-scale watchmaking industry comprising 7 500 employees produced 8 000 000 watches while the German industry with 3 200 employees produced 3 100 000 watches.

Lastly, the two producing industries are situated in areas which are very different in terms of their economic position in particular as regards possible diversification and consequent redeployment of labour.

- (41) Given all these differences between the watch-producing industries in France and Germany it would appear that the German companies have already themselves to mitigate the substantial injury caused to them by imports of digital quartz watches.

Accordingly, immediate regional protective measures for watchmakers in the Federal Republic of Germany are not necessary to safeguard Community interests.

In contrast, the substantial injury suffered by the French industry producing assembled watches, seen against the background of the poor general economic situation in Franch-Comté, where watchmaking is the main source of employment, makes immediate regional protective measures for the French market indispensable in the interest

of the Community, in order to enable the current switch in production to be achieved under optimum conditions.

#### J. Community protective measures

- (42) Regional protective measures for the French market should be adopted in conformity with the Community's international obligations and consequently these measures should be applied to imports originating in third countries covered by Regulation (EEC) No 288/82, with the exception of those imports covered by an agreement establishing a system of free trade with the Community. Also, traditional patterns of trade should, where possible, be maintained.
- (43) It therefore seems appropriate to make, within an overall quota for imports of digital watches, an allocation of quantities among the main supplier countries, to take into consideration the existence, since the last quarter of 1981, of a national quota for imports of quartz watches originating in Hong Kong and, lastly, to take account of the level of free circulation trade between the Member State in question and the rest of the Community.
- (44) In view of these factors, annual quotas could reasonably be fixed for 1984 at the level of average total imports into France, either direct or in free circulation, originating in the countries in question over the past three years.

As regards Hong Kong, however, the quota should be fixed at a level reflecting trade flow over a longer period and hence imports originating in that country should be restricted to a figure of 4 400 000 units, which corresponds to the national quota previously allocated for all imports of quartz watches originating in Hong Kong.

- (45) Furthermore, in order to impede as little as possible the harmonious development of world trade, the regional protective measures for the French market should be adopted only for the period strictly necessary for eliminating the substantial injury.
- (46) To allow the Community firms in question to plan their modernization or conversion measures, the date on which these protective measures will expire should be fixed immediately and the level of protection should be progressively reduced by means of an annual increase of 5 % in the quotas in question,

HAS ADOPTED THIS REGULATION :

*Article 1*

1. Imports into France of pocket-watches, wrist-watches and other watches, electronic, with cases other than of precious metals, piezo-electric quartz crystal regulating device and display other than with hands, falling within heading No ex 91.01 of the Common Customs Tariff, corresponding to NIMEXE code 91.01-25, are hereby subject to production of an import authorization issued by the French authorities.

2. The measures introduced in paragraph 1 shall be applicable to imports originating in third countries covered by Regulation (EEC) No 288/82, with the exception of imports covered by an agreement establishing a system of free trade with the Community.

3. The authorization referred to in paragraph 1 shall be granted by the French authorities for total annual quotas of 6 793 000, 7 133 000 and 7 489 000 watches in 1984, 1985 and 1986 respectively.

It shall be granted for the places and countries of origin indicated below, in accordance with traditional patterns of trade and within the limits of the following quotas :

('000 units)

Origin	Annual quotas		
	1984	1985	1986
Hong Kong	4 400	4 620	4 851
Japan	815	856	899
South Korea	497	522	548
Macao	496	521	547
Taiwan	425	446	469
Other	160	168	175

4. Import licences issued by the French authorities between 1 January 1984 and the day on which this Regulation enters into force shall be set off, for each place or country of origin concerned, against the quotas opened, in accordance with paragraph 3, for 1984.

*Article 2*

The Community investigation procedure concerning imports of pocket-watches, wrist-watches and other watches, electronic, with piezo-electric quartz crystal regulating device, is hereby terminated.

*Article 3*

This Regulation shall enter into force on the day following its publication in the *Official Journal of the European Communities*.

Subject to the possibility of review in accordance with Article 18 of Regulation (EEC) No 288/82, it shall apply until 31 December 1986.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 18 April 1984.

*For the Commission*

Étienne DAVIGNON

*Vice-President*