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REPORT

on the communication from the Commission to the Council and the European Parliament: The European Union and Macau: beyond 2000
(COM(1999) 484 – C5-0169/2000 – 2000/2099(COS))

Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy

Rapporteur: Mário Soares

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PROCEDURAL PAGE

By letter of 12 November 1999, the Commission forwarded to Parliament the communication to the Council and the European Parliament: The European Union and Macau: beyond 2000 (COM(1999) 484 – 2000/2099(COS)).

At the sitting of 10 April 2000 the President of Parliament announced that she had referred this communication to the Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy as the committee responsible and the Committee on Industry, External Trade, Research and Energy for its opinion (C5-0169/2000).

The Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy had appointed Mário Soares rapporteur at its meeting of 23 September 1999.

The committee considered the Commission communication and the draft report at its meetings of 4 December 2000 and 22 January 2001.

At the latter meeting it adopted the motion for a resolution by unanimously.

The following were present for the vote: Baroness Nicholson of Winterbourne, acting chairman; Mário Soares, rapporteur; Bastiaan Belder, Maria Carrilho (for Rosa M. Díez González), Michael Gahler, Alfred Gomolka, Vasco Graça Moura (for José Pacheco Pereira), Bertel Haarder, Pedro Marset Campos, Linda McAvan, Emilio Menéndez del Valle, Raimon Obiols i Germà, Hans-Gert Poettering, Jacques F. Poos, Jannis Sakellariou, José Ignacio Salafranca Sánchez-Neyra, Ioannis Souladakis, Giorgos Katiforis (for Hannes Swoboda), Johan Van Hecke, Paavo Väyrynen, Matti Wuori.

The opinion of the Committee on Industry, External Trade, Research and Energy is attached.

The report was tabled on 25 January 2001.

The deadline for tabling amendments will be indicated in the draft agenda for the relevant part-session.

MOTION FOR A RESOLUTION

European Parliament resolution on the communication from the Commission to the Council and the European Parliament: The European Union and Macau: beyond 2000 (COM(1999) 484 – C5-0169/2000 – 2000/2099(COS))

The European Parliament,

- having regard to the communication from the Commission to the Council and the European Parliament: The European Union and Macau: beyond 2000 (COM(1999) 484 – C5-0169/2000),
 - having regard to its resolution of 16 December 1999 on Macau,¹
 - having regard to the decisions of the Cologne European Council (3-4 June 1999) and the Helsinki European Council (10-11 December 1999),
 - having regard to its resolution of 12 June 1997 on the communication from the Commission on a long-term policy for China-Europe relations²,
 - having regard to the report of the Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy and the opinion of the Committee on Industry, External Trade, Research and Energy (A5-0017/2001),
- A. noting the exemplary negotiations between Portugal and the People's Republic of China, which resulted in the 1987 Joint Sino-Portuguese Declaration and the 1993 Basic Law of the Macau Special Administrative Region, hereinafter referred to as the Macau SAR,
- B. stressing the importance of the 1987 Joint Declaration and the 1993 Basic Law, which are the main instruments defining the specific character of the Macau SAR and which guarantee respect for the current economic, cultural and social systems and the granting of independent executive, legislative and judicial powers, including the final court of appeal,
- C. welcoming the fact that the Macau SAR has been provided with a modern legal system which guarantees fundamental rights and freedoms, including an express ban in the penal code on application of the death penalty,
- D. welcoming the agreement on the application of the International Pact on Civil and Political Rights (IPCPR) and the International Pact on Economic, Social and Cultural Rights (IPESCR),
- E. whereas Macau will be able to make a significant contribution to relations between the European Union and the People's Republic of China, and with other countries in the region, thanks to its specific culture and its modern system of infrastructure and prospering economy, in which services are playing an increasingly important part,
- F. welcoming the Commission's commitment to follow closely the process of transition and help to ensure the consolidation of the 'one country, two systems' principle; applauding, in

¹ not yet published in OJ C

² OJ C 200, 30.6.1997, p. 158.

particular, the proposal to publish a report on relations between the European Union and Macau before the end of 2000,

- G. welcoming the positions taken at the Cologne Council and the Helsinki Council, which expressed Europe's support for Macau and underlined the importance of full application of the rights and freedoms enshrined in the Joint Declaration and the Basic Law,
 - H. stressing the importance of the remaining in force of the Trade and Cooperation Agreement between the European Union and Macau, which has been in force since 1 January 1993 - as well as the preservation of the structures created by that agreement, particularly the annual Joint Committee - which is strengthening relations between the two sides and reinforcing the degree of autonomy enjoyed by the Macau SAR,
 - I. whereas the work of Macau's economic and trade office to the European Union, based in Brussels, has played a decisive role in consolidating relations between the two sides,
-
- 1. Welcomes the peaceful way in which the transferral of administration in the Macau Special Administrative Region took place;
 - 2. Considers that Macau is continuing to play an important role following its integration into China as a Special Administrative Region, remaining, for the European Union, a stable economic centre in the Asia-Pacific region;
 - 3. Appeals to the Chief Executive of the Macau SAR, within the framework of the powers granted to him, to ensure that the Basic Law is complied with, recalling that its full application offers the best guarantees for the future of Macau, in the knowledge that the European Union is closely following the SAR's development;
 - 4. Appeals to the Government of the Macau SAR to prepare and submit to the United Nations the reports provided for under the International Pact on Civil and Political Rights (ICCPR) and the International Pact on Economic, Social and Cultural Rights (ICESCR);
 - 5. Reiterates its endorsement of the communication from the Commission to the Council and the European Parliament: The European Union and Macau: beyond 2000;
 - 6. Welcomes the Commission's intention to publish annual reports on EU-Macau relations and requests the Commission to issue its first report within three months following the adoption of the EP report, in order to provide an updated evaluation of the situation in Macau, in the expectation that it will provide a firm basis for the consolidation of relations between the European Union and Macau and clearly signal the importance of Macau's autonomy;
 - 7. Approves the Commission's intention to maintain the Macau issue as one of the topics of dialogue between the EU and China;

8. Stresses that the Union is in a position to make a vital contribution to safeguarding the high degree of autonomy enjoyed by the Macau SAR and its specific character, which are inherent to respect for the 'one country, two systems' principle;
9. Urges the Council, in this connection, to continue its support for the Macau SAR;
10. Calls on the European Union to make active use of the instruments available to it, in particular the political dialogue, joint actions, the adoption of positions and, in particular, cooperation measures;
11. Encourages the European Union to strengthen the basis of the dialogue with the SAR authorities, in particular by sending representatives of its institutions to Macau;
12. Encourages the European Union to promote cooperation activities with Macau, in particular in the area of legal training and cooperation, financial services, the development of public administration and the promotion of tourism, in the knowledge that Macau represents a springboard for developing cooperation between the European Union and the other countries in the region;
13. Reiterates its belief that the continuation of the 1993 European Union-Macau Trade and Cooperation Agreement represents a fundamental instrument for permanent dialogue between the two sides, whilst safeguarding the protection for human rights enshrined in the preamble to the Agreement;
14. Calls for a dynamic approach to the activities of and results of the decisions taken by the Macau-European Joint Committee, a body which meets annually under the 1993 Trade and Cooperation Agreement;
15. Welcomes the existence of good relations between Macau and Hong Kong in view of the fact that the two areas are applying the 'one country, two systems' principle and are members of the WTO;
16. Emphasises that it is necessary to facilitate European investment in the SAR of Macau, through Community measures and programmes that are already available or, probably, through new ones;
17. Calls on the European companies which are developing operations in Macau, and via Macau in China, to observe the basic ILO labour standards in their operations and asks the Commission to monitor developments in this area;
18. Asks the Commission to appoint an EC-Macau co-operation officer to Macau, as announced in its communication to the Council and the European Parliament: The European Union and Macau: beyond 2000, to assist in the co-ordination of bilateral co-operation, in order to demonstrate its commitment to consolidating relations between the two sides;
19. Appeals to the Macau economic and trade delegation to the European Union to intensify its activity, boost its relations with the European institutions and give a visible demonstration of its commitment to the consolidation of Macau-EU relations;

20. Instructs its President to forward this resolution to the Council, the Commission, the governments of the Member States, the Government and Legislative Assembly of the Macau SAR and the Government of the People's Republic of China.

EXPLANATORY STATEMENT

I. INTRODUCTION

1. Macau was the first permanent point of contact to be established by Europe in the Far East, and has since played a fundamental role in relations between the two regions. More than four centuries of Portuguese administration in the territory were emblematic of peaceful coexistence between European civilisation and Chinese civilisation, and it is crucial to bear this in mind in order to comprehend the need to safeguard Macau's specific character.
2. On 20 December 1999 the Macau Special Administrative Region was created, marked by the transfer of sovereignty from Portugal to China and the swearing-in of the SAR Government. The terms of the transfer were the subject of tough negotiations between Portugal and China and were enshrined in the 1987 Sino-Portuguese Joint Declaration and the 1993 Basic Law.
3. The Joint Declaration establishes the SAR for a period of 50 years in accordance with the 'one country, two systems' principle. In line with that principle, the SAR has been granted independent executive, legislative and judicial powers and the continued existence of the social, cultural and economic systems existing at the time of the transfer of sovereignty is safeguarded. The 1993 Basic Law is the main instrument for the full application of the rights and liberties recognised under the 'one country, two systems' principle in a context of clear respect for the rule of law.
4. In accordance with the above system, Macau retains its own currency, legislative, judicial and customs autonomy. Rights and freedoms have also been preserved, including freedom of expression, assembly and association, as well as religious freedom. Even though the central government in Beijing is competent in the areas of foreign and defence policy, Macau maintains a degree of autonomy as an international partner in the pacts, agreements and organisations of which it is a signatory.
5. Macau guarantees respect for human rights and fundamental freedoms, at least in the areas controlled by the region's government. The penal code contains provisions regarding the non-implementation of the death penalty.

II. THE EUROPEAN UNION'S RESPONSE

6. The Cologne European Council in June 1999 welcomed the positive spirit which marked the process of transition to the transfer of administration in Macau. It expressed confidence in the 'full implementation of the 1987 Sino-Portuguese Joint Declaration' as a guarantee for the 'harmonious transfer of responsibilities' on 20 December 1999. It also expressed the belief that 'a high degree of autonomy' for the Special Administrative Region 'and continuity of Macau's specific social, economic, legal and cultural identity' will provide a basis for its stability and prosperity.
7. The Helsinki European Council in December 1999, on the eve of the transfer of sovereignty over Macau, emphasised 'the importance it attaches to Macau's stability and prosperity' as a Special Administrative Region of China. In that connection, it reiterated its conviction that the preservation of its specific identity and the full implementation of the rights and freedoms enshrined in the Sino-Portuguese Joint Declaration and the Basic Law act as a guarantee for Macau's future.
8. In its communication, the Commission seeks to define the framework for relations between the European Union and Macau after the establishment of the Special Administrative Region, affirming its belief that Macau 'has a vital role as a bridge between Asia and Europe, notably in the following areas:
 - Democracy, human rights, individual freedoms and related issues
 - Economic and trade issues, including WTO
 - Cultural issues, as a regional hub for training and exchange'.
9. The Commission identifies a number of ways in which relations between the European Union and Macau can be maintained and further developed:
 - negotiating directly with the SAR Government in areas in which competence has been assigned to it under the Basic Law, recognising Macau as an international partner;
 - closely following and promoting the implementation of the 'one country, two systems' principle in such a way as to provide unequivocal support for the preservation of Macau's autonomy;
 - guaranteeing full implementation of the Trade and Cooperation Agreement between the EU and Macau as a motor for the strengthening of bilateral relations;
 - boosting European investment in the SAR by using existing and future Community instruments and promoting contact between those involved in economic activity in the two regions;
 - encouraging Macau to bring its experience as a member of the WTO to bear in its contacts with China;
 - monitoring implementation of and encouraging participation in the international conventions of which Macau is a member;
 - supporting Macau's regional role in the area of human resources, particularly through training, information and exchange activities;
 - publishing an annual report on relations between the European Union and Macau, starting in the year 2000.

III. THE POLITICAL SYSTEM IN THE SPECIAL ADMINISTRATIVE REGION

10. Even though sovereignty over Macau reverted to the Government of the People's Republic of China on 20 December 1999, adoption of the Basic Law, which enshrines the 'one country, two systems', principle, by the Chinese National People's Congress in 1993 guaranteed that Macau would be governed according to a different political, legal and economic system from the Chinese system, which resulted in the creation of a 'special administrative region'.
11. The structure of the SAR is based on the post of the Chief Executive, supported by an Executive Council and a legislative body which, in keeping with the Sino-Portuguese Joint Declaration and in accordance with the provisions of the Basic Law, are composed exclusively of permanent residents of Macau. The President of the Court of Final Appeal, the Procurator and all holders of the main posts in the regional government must also be permanent residents of the territory.
12. The SAR Government is the region's executive body and is led by the Chief Executive:

Chief Executive

The Chief Executive is the Head of the Macau Special Administrative region and is accountable to the Central People's Government and the Macau Special Administrative Region.

The Chief Executive is appointed by the Central People's Government on the basis of the results of elections or consultations held at local level. The first Chief Executive, Edmund Ho, was appointed after he had been elected to the post by the Selection Commission, and was sworn in on the day on which the Special Administrative Region was created, 20 December 1999. The term of office of the Chief Executive is five years and a second term is permitted.

The Chief Executive is responsible for leading the Government of the Macau Special Administrative Region, implementing the Basic Law and other laws which apply in the Macau SAR, signing bills passed by the Legislative Council and promulgating laws, signing draft budgets passed by the Legislative Council and forwarding the budget and final accounts to the Central People's Government, deciding on Government policies and issuing executive orders, drawing up, promulgating and ensuring the implementation of administrative regulations, forwarding nominations to the Central People's Government for the posts of Secretaries, Commissioner against Corruption and the Director of Audit, as well as senior posts in the police and customs and excise services, and submitting to the People's Central Government proposals for the removal of the above-mentioned holders from those posts, appointing part of the Members of the Legislative Council, appointing and removing members of the Executive Council, nominating the candidate for the post of Procurator for appointment by the Central People's Government and recommending the removal of the Procurator, appointing or removing Presidents or judges of the courts at all levels, procurators and holders of public office and, under certain circumstances, dissolving the Legislative Council.

Executive Council

The Executive Council of the Macau Special Administrative Region is the body responsible for assisting the Chief Executive in decision-making. The Executive Council is presided over by the Chief Executive and meets at least once a month. Its members are appointed by the Chief executive from among the holders of the main government posts, members of the Legislative Council and public figures. The Executive Council may be composed of between seven and eleven persons.

Legislative Council

The term of office of the Legislative Council of the Macau Special Administrative Region is four years, except for the first term.

The first Legislative Council of the Macau SAR comprises 23 members, 8 returned by direct suffrage, 8 by indirect suffrage and 7 appointed by the Chief Executive. The second Legislative Council will comprise 27 members, 10 of them elected by direct suffrage, 10 by indirect suffrage and 7 appointed by the Chief Executive, with a term of office lasting until the year 2005. The third and subsequent Legislative Councils will comprise 29 members, 12 elected by direct suffrage, 10 by indirect suffrage and 7 appointed by the Chief Executive. Under the Basic Law, any changes after the end of the third term must be approved by two-thirds of the members, receive the agreement of the Chief Executive and be reported to the Standing Committee of the Chinese National People's Congress.

The Legislative Council has a President and a Vice-President who are elected by and from among its members.

The Legislative Council has powers to enact, amend, suspend or repeal laws, to examine and approve draft budgets submitted by the Government and to examine the report on the implementation of the budget submitted by the Government. It is also responsible for defining the main features of the tax system, on the basis of a proposal submitted by the Government, and authorising the Government to contract debts, as well as hearing and debating the report on the Government's action programme presented by the Chief Executive and debating issues of public interest.

Under certain circumstances, the Legislative Assembly may also pass a motion of censure of the Chief Executive, by a two-thirds majority of its members, and forward it to the Central People's Government for a decision.

The Judiciary

The courts of the Macau SAR have independent judicial power and exercise that power without interference, being subordinated only to the law. The SAR has Courts of First Instance, a Court of Second Instance and a Court of Final Appeal. The power of final adjudication rests with the Court of Final Appeal of the Macau SAR.

If necessary, the Courts of First Instance may set up specialised courts. The previously existing examining magistracy in criminal cases has been retained.

The Macau SAR has an administrative court which has jurisdiction in administrative and

fiscal matters. Appeals against decisions of the administrative court may be brought before the Court of Second Instance.

Judges at the courts of the Macau SAR at all levels are appointed by the Chief Executive on a proposal from an independent commission comprising judges, lawyers and local eminent persons. The presidents of the courts at the various levels are appointed by the Chief Executive from amongst the judges of the courts. Decisions on the appointment or removal of the President of the Court of Final Appeal must be reported to the Standing Committee of the National People's Congress for the register.

Commission against Corruption

The Commission against Corruption is an independent body and its Commissioner is accountable to the Chief Executive. The Commission and the bodies subordinate to it enjoy all the rights provided by law and are free from any interference by the public services, government and public figures. The Commission against Corruption is the most powerful means available to the Government in the fight against corruption.

Commission of Audit

Under the Basic Law, the Commission of Audit works independently and is free from any interference. The Commissioner of Audit is accountable to the Chief Executive.

Customs services

Under the Basic Law, customs services are to be created in the course of the year 2000. The Central People's Government has already selected the Director of the customs services. At present, the services responsible for the economy and the maritime and tax police are jointly responsible for carrying out the duties of the customs services.

Police services

Work to restructure the police forces in the Macau SAR is already underway, and the police services are due to be established in the course of the year 2000 in accordance with the Basic Law, with, in particular, the appointment of their director.

IV. FACTS ON MACAU

13. Macau has around 450 000 inhabitants, with a per capita income of around USD 17 000 per year, one of the highest in Asia. GDP stands at USD 7.8 billion.
14. Macau's economy was previously based on traditional industries, focused on sectors such as textiles and toys. It is currently undergoing a transition to an economy based on the provision of services, taking advantage of its privileged geographical location, modern infrastructure, customs autonomy and skilled workforce.
15. Macau has a modern infrastructure system which will enable it to play a strategic role in Asia, including:

- a modern, safe and efficient international airport;
 - a state-of-the-art telecommunications network;
 - a waste disposal network including the treatment of solid waste;
 - a water treatment system which is considered to be one of the best in Asia;
 - an efficient and diversified transport network;
 - a network of modern hotels supported by an excellent training centre, the Macau Institute for Tourism Studies;
 - its own hospital.
16. Macau also has a sound education system, including its own institutes of higher education, which is proving to be essential, particularly in view of the fact that young people make up the majority of the population.
17. Some success was achieved during the Portuguese administration in combating corruption, illicit trafficking and prostitution linked to gambling, which is still the main activity in Macau, and in particular in combating sects.

The main heads of sects were detained and sentenced when sovereignty was transferred. Combating sects was made more difficult by Macau's proximity to mainland China, where the sects found refuge. With the transfer of sovereignty to China, the former Portuguese administrative authorities believe that the fight against sects and their illicit activities will become more effective. It might also be noted that the current Chief Executive of the SAR, Edmund Ho, has promised to take all the necessary steps to help Macau become a prosperous business centre, diversifying the economy into the area of service provision and reducing its dependence on gambling revenue.

V. MACAU AND EXTERNAL ACTIVITIES

18. The Government of the People's Republic of China has given a commitment to guarantee that the International Pact on Civil and Political Rights (IPCPR) and the International Pact on Economic, Social and Cultural Rights (IPESCR) will continue to apply in the Macau SAR. The Government of the SAR is now responsible for drawing up the reports provided for under the pacts and forwarding them to the competent bodies of the United Nations.
19. Macau is a founding member of the World Trade Organisation and, as such, the European Union can encourage Macau to impart its experience in the application of international trade rules and play an active role with regard to China's possible participation in the WTO.
20. Thanks to its particular features and the fact that China and Portugal were never in conflict, Macau has always played an important part in linking China to the outside world, and this potential might be exploited in the political dialogue between the European Union and China.

VI. EU-MACAU RELATIONS

21. The EU is the third biggest investor in Macau, after China and Hong Kong. Of the 15 Member States, Portugal is the major investor in Macau, followed by France and the United Kingdom.
22. It might be noted that Portugal obtained an agreement from China on the continuation of the most important franchise contracts, which involve the participation of European companies in the area of public services, thus providing a greater guarantee for European investment.
23. The Trade and Cooperation Agreement between the European Union and Macau, which has been in force since 1993, is a basic instrument in promoting bilateral relations and provides the basis for direct dialogue between the two sides. By agreement with all interested parties – EU, Portugal and China – the agreement remains in force in the SAR. Its continued existence should be safeguarded, given its importance in the area of bilateral EU-Macau relations and in reinforcing the high degree of autonomy granted to Macau, and also because this agreement defends and safeguards protection for human rights, which is enshrined in the preamble to the agreement.
24. In parallel with the Trade and Cooperation Agreement, the EU has also signed Cooperation and training agreements with Macau in key sectors such as public administration, European studies, tourism, business management and financial services. It is the promotion and implementation of this type of action which will make relations between the EU and Macau more dynamic.
25. While Macau was still under Portuguese administration, the Commission announced its decision to appoint a representative who would be responsible solely for relations between the European Union and Macau, thus demonstrating its determination to boost those relations.
26. Macau has an economic and trade delegation to the European Union, which reflects the importance which it attaches to relations between the two sides.

VII. CONCLUSIONS

The Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy:

27. Reaffirms that full application of the principles enshrined in the Joint Declaration and in the Basic Law is vital for Macau's prosperity and therefore continues to pay attention to the SAR's development;
28. Takes the view that the EU should follow developments in the SAR closely and encourage the strengthening of the political dialogue between the European Union and Macau, and believes that reciprocal visits by bodies and senior figures should be encouraged;

29. Calls on the Commission to reiterate its position on the continuation of the Trade and Cooperation Agreement between the European Union and Macau;
30. Encourages the EU-Macau Joint Committee, which meets once a year under the Trade and Cooperation Agreement, to give an impulse to its activities and the results achieved;
31. Believes that cooperation on a wide range of levels represents an excellent opportunity to consolidate relations with Macau and strengthen its strategic role in relations between the European Union and Asia;
32. Urges that close cooperation be established with Macau as a founding member of the WTO, as part of the political dialogue with China;
33. Hopes that the SAR will uphold its international commitments, in particular as regards the International Pact on Civil and Political Rights (IPCPR) and the International Pact on Economic, Social and Cultural Rights (IPESCR).

13 September 2000

OPINION OF THE COMMITTEE ON INDUSTRY, EXTERNAL TRADE, RESEARCH AND ENERGY

for the Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy

on the Communication from the Commission to the Council and the European Parliament –
‘The European Union and Macau: Beyond 2000’
(COM(1999) 484 – C5-0169/2000 – 2000/2099(COS))

Draftsman: Christos Folias

PROCEDURE

The Committee on Industry, External Trade, Research and Energy appointed Christos Folias draftsman at its meeting of 25 May 2000.

It considered the draft opinion at its meetings of 25 May, 12 July and 13 September 2000.

At the last meeting it adopted the conclusions below by 38 votes with 16 abstentions. The following were present for the vote: Carlos Westendorp y Cabeza, chairman; Peter Michael Mombaur, vice-chairman; Christos Folias, draftsman; David Robert Bowe (for Glyn Ford), Massimo Carraro, Gérard Caudron, Giles Bryan Chichester, Nicholas Clegg, Dorette Corbey (for Harlem Désir), Willy C.E.H. De Clercq, Claude J.-M.J. Desama, Concepció Ferrer, Colette Flesch, Neena Gill (for Elena Valenciano Martínez-Orozco), Norbert Glante, Alfred Gomolka (for Godelieve Quisthoudt-Rowohl), Lisbeth Grönfeldt Bergman (for Marjo Tuulevi Matikainen-Kallström), Michel Hansenne, Helmut Kuhne (for François Zimeray), Werner Langen, Peter Liese (for Paul Rübig), Rolf Linkohr, Eryl Margaret McNally, Erika Mann, Elizabeth Montfort, Angelika Niebler, Hervé Novelli (for Malcolm Harbour), Reino Kalervo Paasilinna, Elly Plooi-j-van Gorsel, John Purvis, Daniela Raschhofer, Imelda Mary Read, Mechtild Rothe, Christian Foldberg Røvsing, Umberto Scapagnini, Ilka Schröder, Konrad K. Schwaiger, Esko Olavi Seppänen, Astrid Thors, Claude Turmes (for Yves Piétrasanta), Jaime Valdivielso de Cué, Alejo Vidal-Quadras Roca, Dominique Vlasto, Carlos Anders Wijkman, Myrsini Zorba

1. Introduction

After more than four centuries under Portuguese administration, Macau was transferred to

China on 20 December 1999. In 1987 Portugal and China had reached an agreement on Macau's return to China in December 1999. They also agreed on a series of provisions to safeguard its autonomy; these include the right to elect local leaders, the right of residents to travel freely and Macau's right to preserve its way of life for a 50-year period from 1999.

Macau is now administered by a Chief Executive who is nominated following the procedure laid down in the Basic Law of the Special Administrative Region (SAR). The Chief Executive who is the head of state and government, is supported by a 17-member Legislative Council of whom six are directly elected, six are elected by community, political and economic organisations and five are appointed by the Chief Executive. All these measures are included in the Joint Sino-Portuguese Declaration of 1987, which makes provision for the creation of a Special Administrative Region (SAR), in accordance with the 'one country, two systems' principle. This system was applied for the first time in the case of Hong Kong after its transfer from the United Kingdom to China.

The SAR of Macau enjoys a high degree of autonomy in all areas which fall within its responsibility, with the exception of foreign and defence affairs, while residents of Macau will exercise independent executive, legislative and judicial powers, without intervention from the central authorities of the People's Republic of China. The terms of the joint declaration as approved by the Chinese National People's Congress in 1993 are embodied in the Basic Law – or mini-constitution – of the SAR.

Trade with China officially began in 1553 and since then Macau has been the main transit centre for international trade with China and Japan. For this reason, the international business community settled in Macau. At the end of the nineteenth century, Hong Kong supplanted Macau's market and a few years later the traders abandoned the Portuguese dominion, which never regained its former commercial importance.

Macau's strategic location in the Asian region, on the coastline of southern China and close to Hong Kong, and the fact that it has distinct values as a result of its cultural cohabitation with Portugal, contribute to the maintenance of the European Union's good relations with Macau. Finally, as an autonomous customs area and as a region of enhanced/improved economic opportunities and an important gateway to an area of high dynamism, Macau is creating incentives and providing security for boosting commercial cooperation between Macau and the European Union.

In the future the European Union must play an active part in promoting the stability and progress of the SAR of Macau. Moreover, in June 1999 the Cologne European Council expressed its conviction that existing relations between the Union and Macau are contributing significantly to the area's development.

2. Macau's economy

Macau has a healthy financial system and the per capita income is around 17 000 euros a year, one of the highest in Asia. The GDP is of the order of \$7.8 million. The economy was originally mainly industry-based and covered sectors such as textiles and toys, but over time it has developed into one characterised by the provision of services, chiefly tourism.

Macau is a founding member of the World Trade Organisation (WTO) and can thus play an important role with regard to China's expected participation in the organisation, and can provide its experience on the way in which the rules of the world trade system are applied.

Some special features give Macau a competitive advantage over the other Asian economies and make it attractive to foreign investors. These features include a free port, low taxation and fiscal advantages, low operating costs, modern infrastructure and a sophisticated telecommunications system. In addition, the familiar legislative and political system facilitates matters for foreign investors in their commercial relations with China.

At the time of Macau's handover to China, the Governor promised to take steps to ensure that Macau would develop into a prosperous commercial centre, by diversifying its service provider's economy and reducing the reliance of the economy on tourism and gambling. Currently, over 50% of the country's revenue and around a quarter of the work force relies on the gambling industry. This fact has caused several problems in Macau and the industry has developed significant links with extortion.

China is Macau's largest investor, followed by Hong Kong and the European Union. Of the 15 EU Member States, Portugal is the largest investor with 27 active investing firms, followed by France with five and the United Kingdom with four. The Chinese investments are mainly focused on infrastructure, trade and tourism.

3. EU/Macau economic relations

The EU is Macau's second largest trading partner. It absorbs roughly 30% of its total annual exports, while 11% of Macau's imports come from the EU. As already mentioned, the EU is the third biggest investor in the region. It should be noted that the most important franchising contracts in public service areas, which make provision for the participation of European companies, were renewed after Macau's transfer to China.

Bilateral relations between the European Union and Macau and the framework for direct dialogue are based on the 1993 Trade and Cooperation Agreement. The interested parties – China, Macau and the EU – have already agreed to extend the agreement after the transfer of power. The main aim of this device is to intensify and diversify trade and economic relations with Macau, chiefly in the services sector, in accordance with the priorities laid down by the Macanese Government. For this reason, the EU must step up its efforts to facilitate EU investment in the region both through existing instruments, such as Asia Invest, and through new ones. The EU must also take steps to promote direct dialogue between business representatives.

In parallel with the Trade and Cooperation Agreement, the EU has concluded cooperation

agreements with Macau in key areas such as business management, public administration, European studies, financial services and tourism.

4. Conclusions

The Committee on Industry, External Trade, Research and Energy calls on the Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy, as the committee responsible, to incorporate the following points in its draft resolution:

Regarding economic and trade relations between Macau and the EU

1. considers that Macau is continuing to play an important role following its handover to China and that it remains, for the European Union, a stable economic centre in the Asia-Pacific region;
2. welcomes the Commission's intention to publish annual reports on EU-Macau relations and requests the Commission to issue its first report within three months following the adoption of the EP report, in order to provide an updated evaluation of the situation in Macau after the hand over.
3. emphasises that China's expected accession to the World Trade Organisation is creating a new situation and dynamic in Macau's relations with the EU, resulting from the evolution and qualitative shift in China's relations with the EU and the United States; calls on the Commission to monitor individual developments closely;
4. welcomes the establishment of a Trade and Economic Office to the EC by Macau and encourages close co-operation between the Commission and this office;
5. emphasises that it is necessary to facilitate European investment in the SAR of Macau, through Community measures and programmes that are already available or, probably, through new ones;
6. calls on the European companies who are developing operations in Macau, and via Macau in China, to observe the basic ILO labour standards in their operations and asks the Commission to monitor developments in this area;
7. approves the Commission's intention to maintain the Macau issue as one of the topics of dialogue between the EU and China;
8. welcomes the existence of good relations between Macau and Hong Kong in view of the fact that the two areas are applying the 'one country, two systems' principle and are members of the WTO.