The following communication, dated 31 May 1989, has been received from the Delegation of the Commission of the European Communities.

On 1 January 1989, the United States put into effect the conversion of its tariff schedule to the Harmonized System (HS).

The negotiations conducted in this connection between the United States and the Community in the first half of 1987 did not conclude satisfactorily for the Community, particularly in the areas of textiles and clothing, and it reserved its rights under the General Agreement, including those under Article XXVIII:3.

The Community recognizes that, by and large, the United States has carried out the conversion in a neutral manner. However, the increased customs duty on some textile products is totally unjustifiable; it runs counter to the guidelines established for negotiations on the HS (L/5470/Rev.1) and directly nullifies the benefits of tariff concessions granted to the Community. In the cases in question, the Community considers that the changes made by the United States were connected solely to trade policy and were not necessary for conversion to the HS. In the Community's view, the United States should have invoked Article XXVIII for the specific purpose of adjusting its customs duties on textile products following conversion to the HS and negotiating the question of compensation with the principal suppliers.

The textile products concerned relate to the United States tariff items Nos. 33662, 33664 and 33815. Community exports of these products to the United States exceed US$100 million and, in terms of increased duty imposed by the United States, on an annual basis, the harm to the Community is about US$1.5 million. During the bilateral negotiations, the United States acknowledged that the benefits accruing to the Community from these concessions had been at least partly nullified, as the United States offered compensation which the Community considered inadequate.

The Community has made various unsuccessful representations to the United States authorities to re-open the bilateral negotiations. The Community has also raised the matter in the Council of Representatives on several occasions (meetings of December 1988, and of February and April 1989) and proposed submitting the dispute to the Director-General for arbitration. This proposal was not accepted by the United States.
Consequently, the Community hereby notifies its intention of withdrawing substantially equivalent tariff concessions, as provided for in Article XXVIII:3. The nature of the proposed action will be notified by the Community at a later date.