

INFORMATION

EXTERNAL RELATIONS

THE EUROPEAN COMMUNITY AND IRAN

97/75

C O N T E N T S

1. The Iranian economy	2
2. Iranian trade with the E.E.C.	4
Structure of the trade	5
3. E.E.C. - Iran relations - the first agreement	5
4. E.E.C. relations with Iran, the petroleum Power	7

Note circulated on the occasion of the visit to Iran of
Sir Christopher SOAMES, Commission Vice-President in charge
of external relations (May 12 - 14, 1975)

Free reproduction authorised, with or without indication of source.
Voucher copies would be appreciated. 5/75.

254/X/75-F (E)

1. The Iranian economy

Iran covers an area of 1,648,000 sq.km., which makes it three times the size of France. It has a population of 32 million, or a little more than half that of Germany.

In 1973 36 % of the manpower was engaged in agriculture
32 % in the oil industry and
27 % in the service trades.

Iran's economic structure has gone through important changes during the present decade. Its traditional products were cereals, beet, raw cotton, dry grapes, tobacco and tea; but now these have been supplanted by oil.

Iran is now the 4th biggest oil producer in the world. It brings in 82 % of the country's income.

The G.N.P. has grown very considerably. In 1963 it was \$ 5,200 million; and by 1973 it had risen to \$ 17,000 million, representing a rise in the income per head per annum from \$ 194 to \$ 555.

The external trade has followed the same up-swing. Imports rose from \$ 518 million in 1963 to \$ 2,858 million in 1973; and exports rose in the same period from \$ 917 million to \$ 4,177 million.

Since 1953 Iran's economic expansion has been organised in a succession of five-year plans.

The 4th plan (1968-73) was based on a growth of 12 % p.a. in the GNP; and agriculture contributed only 14 % of the increase.

Developments in industry and agriculture do not follow the same path. Public investment in agriculture is insufficient and only 48 % of the soil is cultivable.

The objectives of the 5th plan (1973-78) were originally framed to develop the agricultural and social sectors and the infrastructure; but with the spectacular rise in incomes owing to the higher oil prices, they have been revised on much more ambitious lines.

At the same time Iran is beginning to use new sources of energy (especially nuclear) which will, in the years to come, make it possible to deal with a shortfall in oil supplies. A beginning has been made, too, on the use of natural gas, of which Iran is the world's third biggest producer.

Iran invests 40 % of its income in developed countries, especially Europe.

Economically Iran was formerly a debtor and has now become a lender. As lately as 1971 Iran's external debt was over \$ 2,000 million; but since 1973 the country has lent more than three times as much as this, especially to industrial countries.

Forecasts for the 6th plan : (1978-83)

By the end of the 6th plan Iran's oil income should result in a G.N.P. ten times the 1973 figure and the external trade should have risen four-fold.

By then Iran will possess a nuclear energy production potential. Between now and then 400,000 foreigners will have had jobs in Iran, especially for training Iranian nuclear technicians.

By 1983, when the 6th plan is at an end, Iran will be one of the countries with a consumption economy.

2. Iranian trade with the EEC

Increase in the trade

Total exports from Iran (thousand units of account)

	To the Community of Six	To the Community of Nine
1964	357,399	--
1972	1,259,157	--
1973	(1,755,013)	2,215,760
1974 (Jan-Sept)	n.a.	4,660,059

Oil exports from Iran (thousand units of account)

	To the Community of Six	To the Community of Nine
1964	297,051	--
1972	1,060,347	(1,356,161)
1973	(1,071,337)	n.a.
1974 (Jan-Sept)	n.a.	n.a.

Imports into Iran (thousand units of account)

	From the Community of Six	From the Community of Nine
1964	175,151	--
1972	737,818	(1,018,652)
1973	(1,032,560)	1,439,150
1974 (Jan-Sept)	n.a.	1,456,615

n.a. = not available

Structure of the trade

The European Community is Iran's biggest supplier and biggest customer.

In 1973, 44 % of Iran's imports came from the EEC

29 % of the oil exports and

33 % of exports other than oil were consigned to the EEC.

Imports

Iran's chief purchases from the European market are industrial products, more especially motor vehicles, machinery and apparatus, pipes and tubes, iron and steel bars and shapes, textile yarns and medical supplies.

Exports

Oil is of course the main constituent of Iran's exports to the European Community. Other exports include carpets, cotton, mineral ores, sausage casing, raw hides, dried fruits, raw wool, oil-bearing materials and caviar.

The structure of Iran's exports to the EEC is gradually changing. The traditional products are being increasingly replaced by more elaborately processed goods, many of which are the products of joint ventures with European firms who have sought to benefit from the political stability and abundant energy supplies which Iran has to offer.

3. Iran-EEC relations -- the first agreement

The Iranian Mission was accredited to the European Community on March 20 1962; and on May 24 of the same year it sent in a memorandum asking for negotiations with the Community for a trade agreement.

The negotiations were handled between the Commission and an Iranian delegation; and in July 1963, they culminated in the approval of the text of a trade agreement which was duly signed on October 14 1963.

On the EEC side this was the first agreement of a strictly commercial character which had ever been negotiated.

This agreement provided :

- the suspension of EEC common external tariff duties on knotted carpets of wool or fine hair, dried grapes, dried apricots and caviar ;
- a non-discriminatory tariff quota for dried grapes, equal in volume to 15 % of the annual imports from countries outside the EEC and to be shared between the member countries of the Community as the latter might determine ;
- appointment of a mixed Iran-EEC Committee to look to the right execution of the agreement and examine the course of trade between the Community and Iran. This Committee was to meet annually, but in fact met only twice. The first occasion was at Brussels (October 20-22 1964) and the second time at Teheran (July 10-15 1967).

Administration of the Agreement

The meetings of the mixed committee were able to take note that, since signature of the agreement the trade between the EEC and Iran had expanded in both directions.

At the 1967 meeting the Iranian delegation asked for the extension to their country of the advantages in customs duties granted by the Community to the other contracting parties in GATT, following the multilateral trade negotiations in 1963-67. The Community, having regard to its settled policy of non-discriminatory application of the common external tariff, duly extended to Iran the duty reductions which had been negotiated in GATT.

The agreement had originally been for three years, but it was renewed annually from 1966 until 1973. At the time of the request for its renewal in 1971, Iran expressed a desire to increase its exports to the EEC.

In 1972, Iran pointed out that between the signature of the agreement and the year 1971, the country's imports from the EEC had risen by 223 %, whereas Iranian exports to the EEC (excluding oil) had risen only 85 %. This disequilibrium in the Iranian balance of payments was not in accord with Iran's external trading

policy, which is conditioned by the country's economic and social requirements.

Iran accordingly wished to increase her exports of manufactured and semi-finished goods. In this way her external trade policy and her economic development policy would be brought into line.

In December 1973, Iran did not ask for the renewal of the 1963 agreement. She now considered it to be no longer conformable to her position and potentialities and expressed her desire for negotiations with the Community for a new agreement.

4. Relations of the EEC with Iran, the petroleum Power

Early in December 1973, the Commission decided to maintain for Iran the trade advantages, of which she had benefited under the 1963 agreement. These consisted of reductions in duties for a number of agricultural goods (apricots, pistachio nuts, caviar) and a few artisan products (the most important of which were carpets).

Exploratory talks for a new agreement began in Brussels on January 16 1974. The Community delegation was led by Mr. Wellenstein, the Commission Director for External Relations, and the Iranian delegation by Ambassador Abdol Ali Jahanshahi.

The desire of Teheran was, that the new agreement should eliminate all discrimination against Iranian goods and provide free access to the European Community for products made under EEC-Iran joint ventures.

The Shah of Iran has stated that he favours cooperation between oil-producing and oil-consuming countries (i.e. between OPEC and OECD). This proposal is regarded in European circles as a positive contribution, and there has been talk of the possibility of developments in Community policy in this field.

In a communication dated January 23 1974, the Commission proposed framework cooperation agreements as a basis for relations between the EEC and all energy producing countries.

The Council of Ministers, at its meeting on November 12 1974, reaffirmed the political and economic importance the Community attaches to its relations with Iran. The Council recognised that a trade agreement in the normal form would not be the most suitable solution, and stated its willingness to discuss with Iran what might be the best forms of agreement to enable both parties to develop their future economic and commercial relations to their mutual satisfaction.

On February 11 1975 the Council expressed the wish that the Commission should re-open the exploratory talks with Iran.

On March 25 1975 the Iranian Mission to the Communities notified the agreement in principle given by the Iranian government to the resumption of these talks aimed at a general agreement of economic cooperation, taking into account the current economic realities in Iran, in the European Communities and in the world at large.