

COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION COMMUNICATION TO THE COUNCIL
ON THE RENEWAL OF COMMUNITY FINANCIAL AID
TO THE MEDITERRANEAN COUNTRIES (MAGHREB,
MASHREQ, ISRAEL, CYPRUS AND MALTA)

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CO-OPERATION WITH THE MEDITERRANEAN COUNTRIES :
RENEWAL OF FINANCIAL AID TO THE MAGHREB AND MASHREQ
COUNTRIES AND ISRAEL, MALTA AND CYPRUS

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1. INTRODUCTION

1.1. The Community is linked to ten Mediterranean countries by agreements the aim of which is to promote the economic and social development of the partner countries and to strengthen their relations with the Community.

The countries in question are the Maghreb countries (Algeria, Morocco and Tunisia), the Mashreq countries (Egypt, Jordan, Lebanon and Syria), the State of Israel, Malta and Cyprus.

The cooperation aspect of the Community's relations with Turkey and Yugoslavia has recently been the subject of special agreements. Relations with Turkey were defined by the Association Council decision of 30 June. The Cooperation Agreement with Yugoslavia was signed in Belgrade on 2 April and is now being ratified. No provision is made in it for aid to finance cooperation. In order to achieve the objectives of this agreement, therefore, a study should be made of possible ways of financing certain cooperation measures provided for in the Agreement.

1.2. The agreements referred to in this document are of unspecified duration. However, the arrangements for technical and financial co-operation are laid down in special protocols of fixed duration, which lay down the amount and terms of the financial aid that may be committed over a specified period, expiring, in most cases, on 31 October 1981.

The total volume of aid for the countries in question amounts to 745 million European Units of Account (1), made up in varying proportions according to the country (see annex) of loans from the European Investment Bank, and of loans on special terms and grants financed from the Community budget.

1.3. The purpose of this communication is to establish the guidelines which the Community should follow in fixing the amount and terms of its financial aid to the ten partner countries for a further period and to formulate appropriate negotiating directives for the Commission. It does not, however, at this stage attempt to answer the points of concern being expressed in the countries involved with regard to the trend of their terms of trade with the Community or the possible repercussions of the Community's enlargement southwards.

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(1) This amount includes the exceptional aid of 20 million EUA provided to Lebanon by the EIB in 1977.

These questions will be dealt with at the appropriate time in a separate Commission communication following up the communication of March (COM (80) 55 final).

- 1.4. In deciding to give financial support to the Mediterranean countries, the Community has shown its willingness to deepen existing relations with those countries, thereby adding a new dimension to relations hitherto based on simple commercial arrangements. Their permanent nature of the agreements (i.e. the fact that they are of unlimited duration) is a reflection of that willingness.

In this way, the Community has confirmed its determination to conduct an active Mediterranean policy - a determination it has demonstrated on many other occasions, for example in the Euro-Arab Dialogue, in the formulation of the "overall approach", with regard to the southward enlargement, and through the conclusion of the co-operation agreement with Yugoslavia.

- 1.5. Within the agreements, the trade arrangements, the provisions relating to economic, financial and technical co-operation and those governing the institutions form an indissoluble whole within which each element is necessary for the overall balance.

This economic, financial and technical co-operation has many positive advantages for the partner countries :

- it is intended to contribute to the mobilisation of other official external assistance, notably for the co-financing of major development projects. The recent meeting in Brussels between the Commission and the ten Arab funds and banks offers encouraging prospects in this matter ;
- it offers an appropriate framework for fruitful transfers of knowhow to the benefit of the partner countries ;
- lastly, financial aid, which is the medium of this co-operation, involves - except in the case of Israel - a quite considerable grant element.

These advantages have not escaped the attention of the partner countries, who have expressed on various occasions - notably at meetings of the co-operation bodies - their desire to see this economic, financial and technical co-operation maintained and developed.

2. TIMETABLE

- 2.1. In most of the financial protocols, it is stipulated that the Community aid may be committed over a period expiring on 31 October 1981 and that any remaining funds not committed by that date will be used until they are exhausted on the basis of the same conditions as previously.
- 2.2. In the light of the financing decisions already adopted and the volume of projects at an advanced stage of preparation, a substantial proportion of the funds available, possibly even the total amount can be expected to be committed by 31 October 1981. The main reason for the delays recorded is the short period during which the protocols have actually been in application given the amount of time taken by the Member States of the Community to ratify the agreements - which is in no way the fault of the partner countries. On the other hand, the considerable pace of commitments in 1979 and 1980 shows that the absorptive capacity is sufficient to enable any outstanding amounts to be taken up and at the same time to guarantee that any future allocation is used at a normal rate.
- In any event, the Commission feels that everything should be done to try to avoid any hiatus between 31 October 1981 and the date on which a further instalment of Community aid will become available.
- 2.3. It seems appropriate to discuss the amount of Community aid for a period of approximately five years expiring on 31 October 1986.

3. AMOUNT AND GEOGRAPHICAL DISTRIBUTION OF THE FINANCIAL AID

- 3.1. The trend of the Community's economic and budget situation makes it difficult to envisage an increase in Community financial aid beyond what is necessary to maintain the level in real terms. However, an updating of the amount of budget aid in order to compensate for the increase in the costs of implementing development programmes - and in line with the method used in the negotiations for the second Lomé Convention - certainly represents the minimum that is reasonable if Community action in this sphere is to remain credible.

The Commission feels that it would be premature and dangerous at this stage to formulate quantified proposals or even to propose a precise calculation

method for this updating exercise. It reserves the right to do this at a later stage, and with the utmost discretion, when the discussion it proposes to initiate on the basis of this communication produces the general criteria for the amount and terms of the Community aid.

3.2. The amount and grant element of the aid to be allocated to the various recipient countries will be established at a later stage, particular account being taken of the following :

- the overall amount of funds available, comprising both budgetary resources and EIB loans (as provided for by the Bank's Board of Directors) ;
- the trend of the economic and financial situation in each country ;
- the desirability of correcting certain anomalies or certain temporary features of the initial allocation.

Overall, the Community should, however, make an effort to maintain as far as possible the average grant element of its financial support.

4. AREAS OF USE AND TERMS OF COMMUNITY AID

4.1. It should be remembered that each form of financing - EIB loans, loans on special terms and grants - has certain categories of development project or operation for which it is ideally suited, and this is not without importance for the composition of Community aid.

4.2. Budget funds, principally in grant form, are particularly suited for the financing of operations where profitability is difficult to establish and involves a long-time span and where, in addition, the Community contribution takes the specific form of a transfer of knowhow. This category includes :

- a) scientific, commercial and industrial co-operation and co-operation in the fields of energy (particularly applied research into renewable sources of energy), information and the environment, in the forms that have already been tried out with success under the present agreements ;
- b) the strengthening of the institutions that are responsible for framing and applying the overall and sectoral development policies ;

c) the creation of a national capacity for the preparation and implementation of major development projects and direct assistance towards the preparation of such projects. Experience has shown that this form of action can be valuable in mobilising international aid (catalyst effect).

In this type of project, training and technical assistance operations have to play a particularly important role.

4.3. Without neglecting more traditional types of action, the recipient countries are showing an increasing interest in this type of co-operation with a partner, which, because of its high level of technological and scientific development, is in a position to make a specific high-quality contribution in these fields.

Since loans on special terms and grants are the forms of financing that are best suited for supporting these operations, there is a threshold relating to the availability of funds of budget origin - admittedly varying from country to country - below which one cannot go without compromising the forms of co-operation with the greatest promise for the future. Proof of this can be seen in the EEC-Israel co-operation agreement in which it has not been possible to exploit certain possibilities because of a lack of budget resources.

4.4. In addition, a proportion of the grants and loans on special terms will have to be used, as is presently the case, to make possible the provision of loans from the European Investment Bank, either by means of interest rate subsidies (grants), or as a component of mixed financing operations (loans on special terms).

The foreseeable increase in EIB support should therefore logically be reflected in an increase in the funds of budget origin that are required to "soften" directly or indirectly the terms of the loans made available by the Bank for the implementation of production projects and projects to improve the economic infrastructure.

5. IMPLEMENTATION OF FINANCIAL AND TECHNICAL CO-OPERATION

In the present situation, the protocols relating to financial and technical co-operation make no mention, with regard to the funds administered by the Commission, of any provision setting out the arrangements under which the

financial and technical co-operation is to be implemented ; in particular, nothing is specified with regard to competition and the role of the various implementing organs (national authorising officer, Commission delegate, paying agent). This legal vacuum has led the Commission to incorporate appropriate provisions in the general clauses of the financing agreements concluded with partner countries.

Such a situation is hardly satisfactory. It means that the recipient States can take the opportunity of the signing of each financing agreement to call into question any part of the general clauses that they might feel no longer suits them. This could be the case, for example with regard to the precise framework laid down in the general clauses with regard to possible exceptions from the rules of competition, or the role of the Commission delegate, in those countries where the Commission is represented, in following up the financial and technical aspects of projects. It is therefore in the interests of the Community, which cannot but be involved in the arrangements under which projects are implemented, to see the appropriate provisions take on a contractual nature that is applicable for the whole duration of the protocol. That is why the Commission will propose introducing in an annex to the protocols on financial and technical co-operation provisions governing, at the level of general principles, the execution of such co-operation.

6. SUMMARY AND CONCLUSIONS

In conclusion, the Commission considers that :

- provisions must be adopted to ensure the renewal of the Community's financial aid without any major hiatus following the expiry dates written into the agreements, which means that the Commission must receive negotiating directives before the end of this year ;
- the total amount written into the agreements in force must be updated, this being justified by the increase in cost of goods and services since the time when the volume of financial aid was first established ;
- the allocation of the total amount among the countries and the grant element in the Community aid must be re-examined for each country in the light of its economic situation ;

- the new amount of aid must include a sufficient proportion of budget funds, which are essential for the functioning of the co-operation provided for in the agreements and for the provision of the EIB support. As a general rule, it will be necessary to maintain as far as possible an average grant element close to the current level.

The Commission proposes to present to the Council, at the appropriate time and in the appropriate forms, a supplementary communication concerning the amount and terms of the financial support to be provided for each of the countries concerned.

CEILINGS ON COMMITMENTS (MEDA) UNDER ASSOCIATION OR COOPERATION AGREEMENTS WITH
MEDITERRANEAN COUNTRIES

COUNTRY	PERIOD COVERED BY THE FINANCIAL PROTOCOL.	EIB LOANS FROM ITS OWN RESOURCES (1)	BUDGET FUNDS			TOTAL EIB LOANS AND BUDGET FUNDS
			TOTAL	LOANS ON SPECIAL TERMS	GRANTS (2)	
Algeria	1.11.1978 31.10.1981	70	44	19	25	114
Morocco	1.11.1978 31.10.1981	56	74	58	16	130
Tunisia	1.11.1978 31.10.1981	41	54	39	15	95
Egypt	1.11.1978 31.10.1981	93	77	14	63	170
Jordan	1.11.1978 31.10.1981	18	22	4	18	40
Lebanon	1.11.1978 31.10.1981	20 20	10 -	2 -	8 -	30 20 50
Syria	1.11.1978 31.10.1981	34	26	7	19	60
Israel	1.11.1978 31.10.1981	30	-	-	-	30
Malta	1.11.1978 (31.10.1983)	16	10	5	5	26
Cyprus	1.01.1979 31.12.1983	20	10	4	6	30
						745

(1) Guaranteed under the terms set out in the contract of guarantee between the Commission and the Bank.

(2) Used in past to provide interest-rate subsidies for EIB loans.