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**NOTE D'INFORMATION  
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EXTENSION OF THE SCOPE OF THE FREE-TRADE AGREEMENT WITH PORTUGAL

The two Protocols to the 1972 Free-Trade Agreement between the Community and Portugal, to be signed in Brussels on 20 September 1976, constitute further proof of the Community's willingness to contribute to Portugal's economic recovery and accordingly to foster closer links with that country. The Additional Protocol to the 1972 Agreement is intended to improve the Agreement in the trade sphere and to extend it to new areas such as economic and financial cooperation as well as labour and social security. Under the terms of the Interim Agreement signed on the same day the trade provisions of the Additional Protocol will be applied in advance without awaiting the entry into force of the Protocol. The Financial Protocol, which lays down conditions for financial cooperation between the Community and Portugal, will follow up the emergency aid for Portugal granted by the Community in October 1975.

Background

On 22 July 1972 Portugal signed a Free-Trade Agreement with the Community, the entry into force of which coincided with the enlargement of the Community on 1 January 1973. This Agreement was concerned purely with trade and was negotiated concurrently with the Free-Trade Agreements concluded with the other EFTA countries which were not applicants for membership. In order to take account of Portugal's level of development and economic structure the Agreement, unlike the agreements with the other EFTA countries, included a slower timetable for the dismantling of tariffs on the Portuguese side, as well as a number of concessions by the Community in agriculture and for fishery products.

The development of a closer relationship between the Community and Portugal dates back to the events of April 1974, which cleared the way for the establishment of democracy in Portugal. In May 1974, following the visit of Mr. Mario Soares to Brussels, the Commission drew attention to the economic, financial, technical and other support which the Community and the Member States could provide to help Portugal in its determination to bring about democracy and economic recovery. The Commission considered that a democratic Portugal naturally had a part to play in the construction of Europe.<sup>1</sup>

On 27 June 1974, at the meeting of the Joint Committee responsible for administering the 1972 Agreement, the Portuguese delegation reaffirmed that Portugal subscribed fully to the democratic principles and fundamental objectives of the Community. The delegation stated that the Portuguese Government wished to strengthen ties of co-operation with the Community going beyond the 1972 Agreement, on the basis of the evolutive clause in that Agreement, and expressed the hope that the Community would be able to help in the reorganization of the Portuguese economy in order to enable Portugal to play a full part in a democratic Europe. The Community delegation welcomed the political developments in Portugal which, by opening the way towards a democratic order, made the establishment of closer relations with Portugal possible.<sup>2</sup>

<sup>1</sup> IP(74)77

<sup>2</sup> IP(74)114

In view of the Community's favourable attitude, the Portuguese Government indicated at the next meeting of the Joint Committee in Lisbon on 25 and 26 November the ways in which it wished to improve the 1972 Agreement in trade matters and areas not included in the Agreement. The Working Party set up to examine these requests submitted its report on 28 May 1975 to the Joint Committee, which recommended the opening of negotiations.

On 11 June 1975 the Commission forwarded to the Council a set of proposals not only to improve and extend the Free-Trade Agreement but also to provide immediate and substantial financial aid. The purpose of this aid was to permit the Portuguese Government to deal with the economic crisis without waiting for the conclusion of a formal financial protocol requiring a long delay. On 16 July the European Council confirmed the principle of aid for Portugal but pointed out that the Community would only be able to support a pluralist democracy. On 7 October the Council decided to offer Portugal emergency exceptional aid amounting to 180 million units of account, including 150 million u.a. in the form of EIB loans and 30 million u.a. in interest rate subsidies from the Community budget. On 20 January 1976 the Council authorized the Commission to open negotiations with Portugal for the improvement and development of the 1972 Agreement.

### Results of the negotiations

The negotiations for the improvement of the 1972 Free-Trade Agreement began on 13 February and were completed on 9 June 1976. The following outlines the results of the negotiations.

#### I. Additional Protocol

##### Trade

The Community will apply the following additional concessions to encourage Portuguese exports:

##### (a) Industry

The final abolition of customs duties on imports into the Community of industrial products subject to the greater tariff dismantling arrangements, has been brought forward from 1 July 1977 - the date stipulated in the 1972 Agreement - to 1 July 1976. This measure has already been applied in advance.

As regards the sensitive products for which the 1972 Agreement makes special provision, the Protocol specifies the following improvements:

Textiles: Increase in the volumes of import ceilings beyond which customs duties may be reimposed for certain textile products and ready-made articles, provided that Portugal takes the necessary measures so that its exports to the United Kingdom do not exceed the levels agreed for 1976.

Paper: Opening of a zero-duty tariff quota for certain categories of paper for which the 1972 Agreement stipulates a slower tariff dismantling timetable (final abolition on 1 January 1984).

##### (b) Agriculture

The Community will apply tariff reductions to certain agricultural and preserved fishery products (cucumbers, sweet peppers, cauliflowers, herrings, mackerel, crustaceans, and so on), in addition to the concessions already contained in the 1972 Agreement.

As regards wine, the Community will increase the volume of tariff quotas and the rate of tariff reduction for Port, Madeira and Setubal Muscatel.

In addition, certain provisions of the 1972 Agreement on imports into Portugal have been amended in order to permit Portugal to provide greater protection for certain of its most vulnerable industries.

- Transfer of certain products from List A (final abolition on duties on 1 January 1980) to List B (final abolition on 1 January 1985).
- Reimposition of customs duties of up to 20% on certain products, subject to their progressive abolition by 1 January 1985.
- In order to protect new industries, Portugal may be authorized to reimpose customs duties of up to 20% on products exceeding 10% of the total value of Portugal's imports from the Nine.

#### Cooperation

Industrial, technical, technological and financial cooperation will be instituted as a means of contributing to Portugal's economic and social development (see also the Financial Protocol).

#### Labour and social security

Portuguese workers in the Community will benefit from non-discriminatory treatment as regards working conditions and pay. As regards social security they may:

- add together periods of insurance or residence completed in the various Member States, for the purpose of calculating pensions and medical care;
- receive medical care and family allowances for themselves and the members of their families resident in the Community;
- freely transfer to Portugal old age and invalidity pensions, etc.

#### II. Financial Protocol

Amount: 200 million European units of account in the form of loans from the EIB's own resources, including 150 million EUA attracting interest rate subsidies of 3% per annum (cost to the Community: 30 million EUA).

Duration: Five years to run from the entry into force of the Protocol or from 1 January 1978, whichever is the later (the emergency exceptional aid of 180 million u.a. (150 + 30) granted in October 1975 is intended to cover 1976 and 1977).

Purpose: Financing of capital projects helping to increase productivity and to diversify the Portuguese economy, and promoting in particular the industrialization of the country and the modernization of its agriculture. The loans attracting interest rate subsidies are reserved for the financing of small and medium-sized businesses, economic infrastructure, agricultural development and the processing of agricultural and fishery products.