

COM(77) 51 final.

Brussels, 3 March 1977.

DETERMINATION OF TRADE ARRANGEMENTS
BETWEEN THE COMMUNITY AND CYPRUS

(Communication and recommendation from the Commission to the
Council)

COM(77) 51 final.

COMMISSION COMMUNICATION TO THE COUNCIL ON
THE DETERMINATION OF TRADE ARRANGEMENTS
BETWEEN THE COMMUNITY AND CYPRUS

1. The first stage of the Association Agreement between the Community and Cyprus - which entered into force on 1 June 1973 - is due to expire on 30 June 1977. Under the terms of the Agreement, the second stage - in principle of five years' duration - should provide for a further elimination of obstacles to trade between the Community and Cyprus and the adoption by Cyprus of the Common Customs Tariff.

In accordance with the objective laid down in the Agreement the Commission proposes to the Council that negotiations be initiated with Cyprus for the establishment of a customs union. To this end, it is transmitting to the Council its recommendations, which are given in Annex I.A.

These negotiations should be opened promptly so that the customs union arrangements can be negotiated and established by 1 July.

With regard to ECSC products, the Commission is transmitting to the Council a draft decision on the opening of negotiations with Cyprus for the conclusion of a framework agreement (Annex III).

2. The Commission does not exclude the possibility that it may be found in the negotiations that not all the economic data are available yet to enable Cyprus to form a customs union with the Community as soon as 1 July 1977. Moreover, it seems that it will be difficult to negotiate the protocol on the customs union between now and May and to apply it on 1 July because of the considerable technical work which would have to be done before that date.

If these points of concern are confirmed in the negotiations the Commission would envisage postponing the commencement of the customs union with Cyprus to, for instance, 1 January 1980. From 1 July the trade arrangements would be governed by a re-extension of the first stage of the Agreement, subject to the measures contained in Annex I/B of this communication.

3. The Commission is also transmitting a proposal on the arrangements applicable to imports into the Community of certain wines, including that known as "Cyprus sherry" wine (Annex I.C). Since the present arrangements expire on 30 June 1977, it would be appropriate to adopt, as soon as possible, the measures which would replace, on 1 July, those at present in force.

The Commission considers that the measures for this wine should be applicable throughout the Community and that it should enjoy in the Community balanced treatment in relation to that enjoyed by similar wines from non-member countries. The treatment for imports of Cyprus sherry cannot therefore be less favourable than that accorded to similar wines from other countries.

4. Furthermore, the Commission would remind the Council that, in its Communication of 4 February 1976 (COM(76)34 final) it invited the Council to act on the Community declaration annexed to the Association Agreement concerning agricultural products, in which it declares that it is prepared "to re-examine with the Republic of Cyprus the agricultural content of the Agreement in the light of the result of work in progress with a view to a global approach on the Community's relations with the Mediterranean countries. In the course of this work the interests of Cyprus shall also be taken into consideration".

It should be noted that from 1 July, Cyprus's agricultural exports will no longer qualify for Commonwealth treatment on the United Kingdom and Irish markets.

5. In the same Communication of 4 February 1976, the Commission transmitted proposals for establishing cooperation with Cyprus, in the same way as with the other Mediterranean countries.

6. Finally, on the same occasion, the Commission proposed the alignment of the rules on origin applicable in EEC-Cyprus relations with those applicable to other countries.

7. The Commission recommends that the Council adopt the directives annexed hereto and those contained in its Communication of 4 February 1976 as soon as possible.

Annex I

RECOMMENDATION FOR A COUNCIL DECISION
CONCERNING THE DETERMINATION OF TRADE ARRANGEMENTS
BETWEEN THE EUROPEAN ECONOMIC COMMUNITY AND CYPRUS

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,
and in particular Article 238 thereof,

Having regard to the recommendation from the Commission,

Whereas it is necessary to determine the trade arrangements to be
applied between the Community and Cyprus as from 1 July 1977,

HAS DECIDED AS FOLLOWS:

Sole Article

The Commission is hereby authorized to open negotiations with Cyprus.
It shall conduct those negotiations within the framework of the
directives annexed hereto and subject to future directives, in
consultation with the representatives of the Member States.

Additional Protocol to the Association Agreement
between the European Economic Community and Cyprus

The Additional Protocol would adopt the terms, procedures and timetable for the progressive establishment of a customs union between the European Economic Community and Cyprus over a transitional period of six years.

Subject to the arrangements described below, the provisions of the Association Agreement would be maintained¹. The protocol would form an integral part of that Agreement.

The notice required for denunciation of the Agreement would be increased to twelve months.

I. INDUSTRIAL PRODUCTS

1. Free movement of goods

The provisions below would cover goods produced in the Community or Cyprus, including those obtained, wholly or partially, from products coming from non-member countries and in free circulation in the Community or Cyprus, goods from non-member countries in free circulation in the Community or Cyprus, and goods obtained in the Community or Cyprus in whose manufacture products have been used which come from non-member countries and are not in free circulation in either the Community or Cyprus, provided that a compensatory levy whose rate is equal to

¹The system of safeguard clauses would be reviewed and supplemented, for example, by a provision concerning deflection of trade.

a percentage of the Common Customs Tariff duties laid down for the third country products used in their manufacture is charged in the State from which those goods are exported.

Products imported under preferential customs arrangements applied only by one of the two contracting parties would not be eligible for freedom of movement.

The Community and Cyprus would adopt methods of administrative cooperation for their trade in goods similar to those established under the agreements based on the customs union concept which have been concluded by the Community with other non-member countries.

Cyprus would also, where necessary for the proper functioning of the customs union, align its laws, regulations and administrative provisions relating to customs matters in order to ensure uniform application.

2. Elimination of customs duties between the Community and Cyprus

(a) Upon the entry into force of the protocol the Community would abolish customs duties and charges having equivalent effect, including the customs duties of a fiscal nature, applying to imports from Cyprus¹. For products falling within tariff heading No 56.04 or 61.01, the Community would apply a system of annual ceilings; this system would be abolished by the end of the transitional period at the latest. For the petroleum products in List B of Annex I to the Agreement, the present arrangements would not be changed before 31 December 1979.

(b) On the basis of the duties actually applied vis-à-vis the Community on the date of signature of the protocol, Cyprus would make reductions in the customs duties and charges having equivalent effect, including

¹The treatment applicable to the products in List A of Annex I to the Agreement (and also to vermouths and spirits) is described in Section II.

customs duties of a fiscal nature, in accordance with the following timetable:

<u>Timetable</u>	<u>Rate of reduction</u>
from entry into force	20%
from the beginning of the third year	40%
from the beginning of the fifth year	70%
from the beginning of the seventh year	100%

(c) The timetable for Cypriot tariff dismantling could, within the limits of the transitional period, be adapted as necessary by the Association Council to take account of Cyprus's economic development and the priorities laid down in its plan.

(d) Where protective measures prove necessary to meet the requirements of industrialization and development, Cyprus could reintroduce, increase or establish customs duties up to 20% ad valorem and, in exceptional cases 25%, upon 10% of the total value of Cypriot imports from the Community in 1975.

These measures should be abolished no later than three years after the end of the transitional period.

(e) During the transitional period Cyprus could replace the customs duties of a fiscal nature by an internal tax in accordance with decisions to be taken on taxation matters.

3. Adoption by Cyprus of the Common Customs Tariff

The Cypriot Customs Tariff would be progressively aligned with the Common Customs Tariff as it stands at any given moment, on the basis

of the duties actually applied by Cyprus vis-à-vis non-member countries on the date of signature, as follows:

In the case of products for which the duties actually applied by Cyprus do not differ from the CCT by more than 15% either way, the CCT duties are to be applied by Cyprus upon the entry into force of the protocol.

In the other cases Cyprus will apply upon the entry into force of the protocol duties reducing by 10% the difference between the rate actually applied and that of the CCT. This difference shall again be reduced by 10% at the beginning of the second, third and fourth years and by 20% at the beginning of the fifth, sixth and seventh years.

4. Elimination of quantitative restrictions between the Contracting Parties

(a) Cyprus would progressively abolish quantitative restrictions and measures having equivalent effect by the end of the transitional period at the latest in accordance with arrangements to be defined during negotiations.

(b) Quantitative restrictions on exports and all measures having equivalent effect would be prohibited between the Contracting Parties and would be abolished between them not later than at the beginning of the third year after the entry into force of the Protocol.

(c) State monopolies of a commercial character would be progressively adjusted up to the end of the transitional period in order to ensure that there is no discrimination between nationals of the Member States of the Community and Cyprus regarding the conditions under which goods are procured and marketed.

5. Coordination of commercial policy

The Contracting Parties would hold consultations within the Association Council to coordinate their commercial policies towards third countries in order progressively to achieve a commercial policy based on uniform principles which could also cover preferential arrangements.

6. Alignment of economic policies

The conditions and detailed rules for the application of the principles set out in Articles 85 (agreements between undertakings), 86 (dominant position of an undertaking), 90 (public undertakings), 92 (aids granted by States), 95 (taxation of products), 96 (repayments on exportation), 97 (turnover taxes), 98 (remissions and repayments in respect of exports) and 100 (approximation of laws) of the Treaty establishing the European Economic Community would be laid down in the Protocol.

II. AGRICULTURAL PRODUCTS

(a) For the products in List A in Annex I to the Agreement and for vermouth (22.06) and spirits (22.09), the Community would abolish the fixed component upon the entry into force of the Protocol.

(b) During the transitional period, Cyprus would progressively bring its agricultural policy in line with that of the Community.

Before the end of the transitional period, and following the adoption by Cyprus of the common agricultural policy measures, the provisions required for the establishment of free movement of agricultural products between the Community and Cyprus and the abolition of the variable component for the products referred to in (a) would be adopted.

Measures leading to the establishment of the Customs Union
between the Community and Cyprus

1. The first stage of the Association Agreement would be extended until 31 December 1979.

The transitional period for the establishment of the Customs Union would begin on 1 January 1980.

2. As regards the industrial sector, the EEC would grant Cyprus duty-free entry from 1 July 1977 for the products covered by the Agreement.

As concerns the products referred to in Article 4 of Annex I to the Agreement, the abolition of customs duties relates only to the fixed component. List A in Annex I to the Agreement would be supplemented by the addition of vermouth (22.06) and spirits (22.09).

The derogations from the rules of origin would be maintained until 31 December 1979.

3. On the basis of the Cypriot customs tariff, Cyprus would make tariff reductions as follows:

	<u>1.7.77</u>	<u>1.1.79</u>
General arrangements	35%	45%
List A	35%	45%
List B	15%	25%

I/72/77

Annex I/C

Treatment applicable to
certain wines originating in Cyprus

(Page 5 of the Annex to the Commission proposal (COM(76)
34 final of 4 February 1976) should be replaced by the
attached text.)

CCT	Description	Rate of Reduction
22.05	<p>Wine of fresh grapes; grape must with fermentation arrested by the addition of alcohol:</p> <p>C. Other</p> <p>I. Of an actual alcoholic strength not exceeding 13°, in containers holding:</p> <p>ex a) 2 litres or less:</p> <p style="padding-left: 40px;">- Wine of fresh grapes</p> <p>II. Of an actual alcoholic strength exceeding 13° but not exceeding 15°, in containers holding:</p> <p>ex a) 2 litres or less:</p> <p style="padding-left: 40px;">- Wine of fresh grapes</p> <p>III. Of an actual alcoholic strength exceeding 15°, but not exceeding 18°, in containers holding:</p> <p>a) 2 litres or less:</p> <p style="padding-left: 40px;">ex. 2. Other:</p> <p style="padding-left: 80px;">- Wine of fresh grapes</p> <p>b) More than 2 litres:</p> <p style="padding-left: 40px;">ex 3. Other:</p> <p style="padding-left: 80px;">- Wine of fresh grapes</p> <p>IV. Of an actual alcoholic strength exceeding 18°, but not exceeding 22°, in containers holding:</p> <p>a) 2 litres or less:</p> <p style="padding-left: 40px;">ex 2. Other:</p> <p style="padding-left: 80px;">- Wine of fresh grapes</p> <p>b) More than 2 litres:</p> <p style="padding-left: 40px;">ex 3. Other:</p> <p style="padding-left: 80px;">- Wine of fresh grapes</p>	<p>75%¹</p> <p>75%¹</p> <p>70% 2,3</p> <p>70% 2,3</p> <p>70% 2,3</p> <p>70% 2,3</p>

- (1) The tariff reduction is subject to the condition that the prices in the EEC plus the customs duties actually levied should at all times be not less than the Community's reference price applicable to these wines.
- (2) These conditions would be granted provided that a minimum export price is observed which would be fixed in such a way that the EEC import prices plus the customs duties actually levied would at all times be equal to the reference price applicable to these wines. This condition would be applicable as soon as comparable wines coming from third countries became the subject of a similar measure.
- (3) Within an annual Community tariff quota of 250 000 hl for all the subheadings 22.05 C III a) ex 2 and b) ex 3 and 22.05 C IV a) ex 2 and b) ex 3.

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Draft Decision
of the Representatives of the Governments of the Member States
of the ECSC,
meeting in Council, on the opening of negotiations with Cyprus

THE REPRESENTATIVES OF THE GOVERNMENTS OF THE MEMBER STATES OF THE
EUROPEAN COAL AND STEEL COMMUNITY, MEETING IN COUNCIL,

Whereas the abovementioned Member States have concluded between them
the Treaty establishing the European Coal and Steel Community;

Whereas they have also concluded the Treaty establishing the European
Economic Community, Article 232 of which stipulates that the provisions
of that Treaty shall not affect the provisions of the Treaty establishing
the European Coal and Steel Community, in particular as regards the
rights and obligations of Member States;

Mindful of the fact that the Agreement establishing an Association
between the European Economic Community and Cyprus does not apply to
the products covered by the European Coal and Steel Community;

Desiring, however, to maintain and increase trade in those products
between the Member States and Cyprus,

HAVE DECIDED AS FOLLOWS:

1. The Commission is requested to open negotiations with Cyprus on
behalf of the Member States. The objective of those negotiations
will be to investigate whether an agreement can be reached in respect
of the products covered by the European Coal and Steel Community on
the basis set out below and subject to directives to be issued
subsequently.
2. The Commission will be assisted by the Representatives of the
Member States in the implementation of this Decision.

Annex

1. For products from the Member States and Cyprus covered by the European Coal and Steel Community, customs duties and charges having an equivalent effect and quantitative restrictions and measures having equivalent effect in force between the Member States and Cyprus would be progressively abolished under the conditions set out in 2.

2. The barriers to trade would be abolished by the Member States and Cyprus in accordance with a timetable fixed by mutual agreement between the Contracting Parties.

The Contracting Parties would also establish the conditions under which the products in question would benefit from the preferential arrangements.

3. Cyprus could not be accorded treatment more favourable than that applied by the Member States among themselves.

4. Consultations would be held between the parties concerned wherever, in the opinion of one of the parties, the application of the above provisions made this necessary.

FINANCIAL RECORD SHEET

Date: 11 February 1977

1. Relevant budget entry: Title 1 "Own resources"
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2. Title of project: Exchange of letters between the Community and Cyprus concerning the arrangements for the importation into the Community of "Cyprus Sherry" originating in and coming from Cyprus
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3. Legal basis: Article 113 of the EEC Treaty
-
4. Aims of the project: Determination of the arrangements for the importation into the Community of "Cyprus Sherry" originating in and coming from Cyprus

5. <u>Financial implications:</u>	during the marketing year	current financial year 1977	following financial year 1978
5.0 <u>Expenditure</u>			
- charged to the EEC Budget (refunds and intervention)	-	-	-
- charged to national administrative departments			
- charged to other national sectors			
5.1 <u>Revenue</u>			
- EEC own resources (levies/customs duties)	nil ¹	nil ¹	nil ¹
- at national level			
5.0.1 <u>Multiannual timetable expenditure</u>	year	year	year
5.1.1 <u>Multiannual timetable revenue</u>			

5.2 Method of calculation

¹This wine is marketed only on the United Kingdom and Irish markets. The purpose of the proposal is to give a Community framework to the arrangements applied by the United Kingdom and Ireland.