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BACKGROUND NOTE

THE EC'S NEW MEDITERRANEAN ACCORDS

Agreements recently concluded by the Community with Cyprus, Egypt, and Lebanon will reinforce the European Community's "Mediterranean Policy" in 1973. These agreements, signed December 18-19 in Brussels, supplement older Mediterranean accords established by the Community -- with Greece, Turkey, Israel, Malta, Morocco, Portugal, Spain, Tunisia, and Yugoslavia. Other Mediterranean countries, including Algeria, Jordan, and Syria, have expressed interest in negotiating agreements with the Community.

These agreements can be divided into two categories: trade agreements and association agreements. The trade agreements, subsumed under the Community's common commercial policy, are negotiated and concluded under the authority of the Common Market Treaty's Article 113. The association agreements, on the other hand, usually involve more than trade and include economic and technical aid and cooperation. As defined under the Treaty's Article 238, association with the Community embodies "reciprocal rights and obligations, joint actions, and special procedures."

Toward the "Gradual Achievement of a Free Trade Area"

The newly concluded agreement between the Community and Lebanon deals only with trade. The five-year preferential accord grants tariff concessions to over 58 per cent of Lebanese industrial exports into the Community. Including imports which previously entered the Community at zero duty levels, 85 per cent of Lebanese industrial exports to the Community will qualify for tariff-free entry or tariff reduction. Immediate customs reductions amount to 45 per cent on these products. An additional 10 per cent reduction will be made on January 1, 1974. In the agricultural sector, Community concessions cover almost 40 per cent of Lebanese products.

In exchange, Community industrial exports to Lebanon receive varying customs reductions. Together with Community products already enjoying zero duty on entry, these customs reductions mean that approximately 60 per cent of Community exports to Lebanon will benefit from reduced or zero duties. Lebanon, however, may withdraw these concessions if they hinder its industrial development.

A year and a half before the five-year agreement expires, the Community and Lebanon plan to negotiate an extension and progressive expansion of the trade accord. For, as noted in the joint statement at the signing of the agreement, the aim is "the gradual achievement of a free trade area."

Egypt Signs Accord

Like the EC-Lebanon agreement, the mutual tariff reductions between Egypt and the Community are part of "the progressive achievement in the long term of a free trade area," according to the joint statement issued by the signatories.

Initially, more than 45 per cent of Egyptian industrial exports to the Community will enjoy tariff concessions. Added to concessions previously in effect, almost 90 per cent of Egyptian industrial exports to the Community will receive reduced or zero customs. The customs reductions take effect in the same way as in the EC-Lebanon accord -- a 45 per cent reduction immediately and an additional 10 per cent reduction next year.

More than 50 per cent of Egyptian agricultural exports to the Community receive, under terms of the agreement, similar concessions. As in the EC-Lebanon accord, the reciprocal concessions received by the Community are contingent upon Egypt's industrial development and budgetary requirements.

The agreement is valid for five years. Eighteen months before its expiration, negotiations are to start for a second phase.

Cyprus Becomes an EC Associate

The association agreement between the Community and Cyprus comprises two stages. During the first stage, which ends June 30, 1977, the Community will reduce customs duties on Cypriot industrial goods (except oil products) by 70 per cent and on citrus fruits by 40 per cent. Locust beans will receive total exemption of duties. Also during this stage, Cyprus will reduce tariffs on Community goods by 35 per cent. While the Community's concessions to Cyprus take effect immediately, those of Cyprus will be gradually effected through a three-phase timetable. A safeguard clause is included to protect both parties.

The aim of the second stage, for which negotiations will start in January, 1976, is to complete the mutual removal of obstacles to the bulk of trade between the Community and Cyprus.