

# EUROPEAN BACKGROUND INFORMATION COMMUNITY

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BACKGROUND NOTE

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## EC SIGNS ACCORDS WITH EGYPT, SYRIA AND JORDAN

On January 18, the European Community signed major trade and cooperation treaties with Egypt, Syria and Jordan. The ceremonies in Brussels brought to a virtual conclusion the Community's four year effort to build stable links with the countries of the southern Mediterranean. During 1975 and 1976 the Community reached similar accords with Algeria, Morocco, Tunisia and Israel. At present, negotiation is starting for a treaty with Lebanon after the delay caused by that country's civil war. This accord is all that remains to complete the EC's carefully balanced "global approach" to the volatile region.

The economic purpose of the new accords with Egypt, Syria and Jordan is to help the developing countries sell more goods in Europe and attract investment and technical assistance from EC sources. They provide unrestricted duty free entry by 1980 for industrial exports to Europe and major tariff concessions on farm goods. To encourage investment in the developing countries, the accords supply approximately \$300 million in low cost loans for infrastructure improvement and manpower training.

These new treaties and the other recent accords create a uniform system of economic relations between the Community and the countries of the region built on the principle of equality between developing and developed countries. They replace an earlier hodge-podge of agreements with some of the countries of the area which had been concluded in the 1960's without a clear development concept. They are of unlimited duration to allow the steady, assured growth of the development benefits, but also contain provisions for examination and updating at fixed intervals starting in 1979.

### Political Significance

Besides their economic value, the new treaties have a major political significance. The southern Mediterranean region has strong historical and economic ties to western Europe and because of European dependence on mid-east oil supplies, peace in the region is vital to the Community's security. In announcing its global Mediterranean policy in 1972, the Community made clear that by promoting trade and economic growth in the region and seeking closer ties with all countries it hoped to increase the fragile political stability there.

Negotiating with both Israel and Arab states simultaneously during the last three years raised delicate problems for EC diplomats. When the Community's talks with Algeria, Morocco and Tunisia bogged down in 1975, the Community went ahead with its accord with Israel, bringing Arab protests. These were echoed by the Israelis when the Arabs later won a financial aid package from the EC that the Israelis had not obtained. In late 1976, as the EC accords with Egypt, Syria and Jordan were being finalized, the Community also reached agreement with Israel over a new protocol providing about \$33 million in EC loans and more technical cooperation.

### Trade Benefits

The treaties with Egypt, Syria and Jordan are aimed at liberalizing trade in both directions. But because of the heavy EC trade surplus with the three countries (see chart) and their immediate development needs, the emphasis is on easing the flow of exports from the Arab countries to Europe through tariff concessions. The three agree to grant the Community most-favored-nation treatment for its exports and reserve the right to use tariffs to protect new domestic industries.

Trade between the Community and Egypt, Jordan and Syria - 1975  
in \$ million

	EGYPT	JORDAN	SYRIA	TOTAL
EC imports from	395,07	10,16	575,78	981,01
EC exports to	1,674,55	271,26	724,40	2,670,21
Community trade surplus	1,279,48	261,10	148,62	1,689,20

For industrial products and non-farm raw materials, the EC granted the three countries an 80 per cent tariff cut upon signing and a final 100 per cent tariff cut as of July 1, 1977. The Community will also abolish quantitative restrictions on imports except for a number of sensitive products where a tariff-rate quota system will be applied until the end of 1979. For these products (refined petroleum products, phosphatic fertilizers, cotton yarn and woven cotton products) goods can enter the EC duty free up to certain fixed levels. The Community can charge tariffs on imports above these ceilings. The products involved are the chief focus for future industrialization of the region since they involve finished manufacture of local raw materials. The prospect of a free market in the EC for these goods by 1980 should attract a stream of European investment into the local industries.

Of the three Arab countries, only Egypt is a major farm exporter to Europe so the agricultural part of the accord centers mainly on its needs. The Community will grant tariff concessions ranging from 40 to 80 per cent on a range of goods including citrus fruit, tomatoes, onions and melons.

#### Financial and Technical Aid

Under the three accords, the EC will grant \$300 million in soft loans and grants for projects to improve the infrastructure and human resources of the countries. Egypt will receive a total of \$188.7 million, Jordan \$44.4 million and Syria \$66.6 million over a period extending to October 1981. The loans will come from the European Investment Bank and be accompanied by interest and special pay back terms. The aid system leaves open the possibility that other funds, including those from the oil-rich Arab nations, can be brought in together with the EC aid to enhance development projects.

The technical cooperation terms of the accords are aimed at creating contact between firms in Europe and development groups in the Arab lands. This should lead to easier patent exchange, marketing accords, joint exploration and production ventures and eventually increased industrialization.

#### The Euro-Arab Dialogue

By concluding these three newest accords, the Community has increased to nine the number of Arab countries with which it has strong treaty links. Besides the previous accords with Algeria, Morocco and Tunisia, the Community's 48-nation Lomé association arrangement includes the three Arab states Mauritania, Somalia and Sudan. At present, the Community does not envisage similar formal links with the other Arab states, most of whom have less economic need because of their oil wealth. But the Community has begun to strengthen contacts with them through the Euro-Arab Dialogue. This effort was begun in 1974, after the shock of the 1973 oil embargo, and has developed into a system of frequent talks at which the Community and the Arabs, represented by the Arab League, discuss development plans and economic problems. While the Arabs have sought to inject a political tone into the semi-annual meetings of the group's General Commission, the Community has successfully resisted this trend. During 1976, various technical groups inside the Euro-Arab Dialogue held meetings to discuss possible European industrial and agricultural projects in Arab lands and also to examine oil production and refining plans in the two regions.

The need for this sort of contact and exchange of information is clear to the EC because of the great increase in the value of trade between the Community and the Arabs in the last five years. This dramatic rise has been caused both by the oil price explosion and the increased imports of European industrial goods by the oil-rich nations. EC imports from the 20 Arab League states increased to \$31 billion in 1975, a 291 per cent rise from 1970, and Community exports to the Arab states rose to \$18.9 billion in 1975, a 414 per cent rise over 1970. EC imports from the Arab countries made up 20 per cent of the Community's total import bill in 1975 compared to 16.4 per cent for goods from the US. Also European sales to Arab countries made up 12.6 per cent of its total exports compared to 10.9 per cent for exports to the US.