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REPORT

drawn up on behalf of the Committee on External
Economic Relations

on EEC-Cyprus economic and trade relations

Rapporteur: Mrs M. F. BADUEL GLORIOSO

PE 84.663/fin.

English Edition

At its sitting of 19 November 1982, the European Parliament referred the motion for a resolution tabled by Mr COTTRELL and others (Doc. 1-910/82/Corr.) and that tabled by Mr PLASKOVITIS and others (Doc. 1-1287/82) to the Committee on External Economic Relations as the committee responsible pursuant to Rule 47 of the Rules of Procedure.

At its meeting of 2 December 1982, the Committee on External Economic Relations decided to draw up a report and appointed Mrs Maria Fabrizia BADUEL GLORIOSO rapporteur.

The committee considered the draft report at its meetings of 19 April, 14 June and 22 June 1983. At the last meeting, it adopted it unanimously.

The following took part in the vote: Sir Fred Catherwood, chairman; Mrs Wieczorek-Zeul and Mr van Aerssen, vice-chairmen; Mrs Baduel Glorioso, rapporteur; Mr Bonaccini (deputizing for Mr Galluzzi), Mr Blumenfeld, Mr Gauthier (deputizing for Mr Bord), Mr Lemmer, Mr Mommersteeg, Mrs L. Moreau, Mr Pasmazoglou, Mr Radoux, Mr Rieger and Mr Seeler.

This report was submitted on 29 June 1983.

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The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on EEC-Cyprus economic and trade relations

The European Parliament,

- having regard to the motions for resolutions tabled by Mr COTTRELL (Doc. 1-910/82/Corr.) and Mr PLASKOVITIS (Doc. 1-1287/82),
- having regard to the report by Mr Deschamps (Doc. 1-233/81),
- intending to ensure compliance with both the letter and the spirit of the EEC-Cyprus Agreement,
- having regard to the report of the Committee on External Economic Relations (Doc. 1-501/83),

A whereas improved economic and trade relations between the Community and the Republic of Cyprus would facilitate an equitable and lasting solution to the Cyprus problem which would ensure the unity and integrity of the island, pursuant to the recent resolution adopted by the United Nations General Assembly on 13 May 1983 (A/Res/37/253),

B having regard to the particular importance and special role of the Republic of Cyprus in international relations and in particular in the complex political equilibrium of the eastern Mediterranean,

C whereas the creation of cooperation links between the Community and countries bordering on the Mediterranean implies concessions on the part of the Community's Mediterranean countries,

1. Confirms the need to strengthen economic and trade relations with the Republic of Cyprus;
2. Takes note of the outcome of the negotiations on the trade arrangements for 1983;
3. Recalls the Community's undertaking to begin, before the end of 1983, negotiations on the attainment of a customs union between the Community and Cyprus;
4. Welcomes the Council's decision to give the Commission a brief to negotiate the second Financial Protocol;
5. Notes with satisfaction that the Government of Cyprus has taken steps to ensure that the entire population of the island benefits from the first Financial Protocol;
6. Hopes that the Government of Cyprus will undertake to apply the second Financial Protocol in the same way;
7. Draws attention to the need to pursue a Community Mediterranean policy that takes account of the interests of all countries bordering on the Mediterranean and of the forthcoming enlargement;
8. Instructs its President to forward this resolution and the report of its committee to the Commission and the Council.

EXPLANATORY STATEMENT

I. INTRODUCTION

The agreement concluded by the Community with Cyprus forms part of the 'overall Mediterranean policy' under which the Community has entered into agreements with most of the Mediterranean countries that take account of the specific interests of its partners and at the same time balance concessions, financial aid and the abolition of customs duties etc. with the overall objective of guaranteeing general equilibrium in the economic and political relations it has established.

This agreement is an Association Agreement designed gradually to bring about customs union. Its aim is therefore to create particularly close economic ties of much greater scope and political motivation than the cooperation, trade, industrial, technical and financial agreements concluded by the Community with other Mediterranean countries, such as the countries of the Maghreb and the Mashreq, Israel and Yugoslavia.

The very nature of the EEC-Cyprus Association Agreement bears witness to the fact that the Community is aware of the special political and strategic importance of Cyprus in the eastern Mediterranean.

The way in which the various phases of the agreement have been gradually implemented shows, however, that the Community has not in fact been consistent in its political resolve to establish particularly close economic relations with Cyprus in keeping with the political assessments that prompted the Community to conclude an Association Agreement with it.

The slowness with which the negotiations were conducted on implementation of the various phases of the agreement and in particular the inadequacy of the trade concessions granted to Cyprus suggest that there is some discrepancy between the political motivation and the financial aid and trade concessions.

II. THE ASSOCIATION AGREEMENT

The European Community and Cyprus concluded an Association Agreement which was signed on 19 December 1972 and entered into force on 1 June 1973. It provides for tariff reductions on numerous products and includes clauses aimed at bringing about technical and industrial cooperation.

In June 1974 there was a coup d'état in Cyprus followed by an invasion of Turkish troops and the division of the island into a Greek sector and a Turkish sector.

Despite this, the Cyprus Agreement was not frozen, but the intended transition to the second stage of association was postponed and the first phase, which should have ended on 30 June 1977, was extended until 31 December 1979. A transitional period, which should have ended on 31 December 1980, was introduced to prepare for the entry into force of the second stage provided for in the Agreement. Pending the conclusion of the negotiations on the entry into force of the second stage the Association Council decided to adopt a protocol on trade arrangements which was extended until 1981. As regards 1982 and 1983, it was decided that the parties would negotiate a new trade arrangement to be applied during that period. It was not until October 1982 that a mandate for the Commission to negotiate with Cyprus was adopted. It contains only minor concessions:

- the quota of table grapes to be exported to the Community at a reduced tariff rate of 60% for a limited period (from 8 June to 31 July) was increased from 7,000 tonnes to 7,500 tonnes. The export period was not extended,
- no concession was granted for potatoes, and the quota remained fixed at 60,000 tonnes.

III. THE ECONOMY OF CYPRUS

Despite the economic and political difficulties encountered in the last 10 years, the economy of Cyprus has in general displayed considerable dynamism and a rare ability to adapt.

Economic growth in 1981 (2.5%) was lower than in 1980. Nevertheless, tourism continued to increase rapidly and the industrial sector, composed of small and medium-sized industries, was particularly dynamic and quite successful. Inflation stabilized at 12%. The trade deficit has increased fairly constantly in the past few years and rose to \$662 million with the world and \$47 million with the EEC in 1980 (see Table 1).

TABLE NO. 1

(Cypriot trade balance)¹

in \$ million

<u>Total trade balance</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
with the world	- 404	- 544	- 662	
with the EEC	- 307	- 383	- 437	
 <u>Agricultural trade balance</u>				
with the world	19	19	2	
with the EEC	21	25	2	
 <u>Non-agricultural trade balance</u>				
with the world	- 424	- 563	- 664	
with the EEC	- 328	- 407	- 439	

¹ Mission of Cyprus to the European Communities

The following tables show the trend of imports and exports between the Community and Cyprus.

TABLE No. 2

EEC TRADE WITH CYPRUS

	Imports (EEC 10)		Exports (EEC 10)		Trade balance million ECU
	in million ECU	1970=100	in million ECU	1970=100	
1970	86	100	133	100	47
1971	88	102	159	120	71
1972	84	98	184	138	100
1973	93	108	221	166	128
1974	85	99	242	182	157
1975	75	87	179	135	104
1976	128	149	262	197	134
1977	156	181	333	250	177
1978	187	217	399	300	212
1979	204	237	463	348	259
1980	269	313	579	435	310
1981	273	317	696	523	423
1982	297		738		441

Source: Eurostat

PREFERENTIAL ARRANGEMENT APPLIED BY THE COMMUNITY TO EXPORTS FROM CYPRUS

Agricultural products:

- New potatoes : from 1/1 to 15/5: 60% reduction in the CCT
- (the EEC accounts for 84% of Cypriot potato exports) from 16/5 to 30/6: 55% reduction in the CCT up to a maximum tariff quota of 60,000 tonnes
- Lemons and grapefruit: Lemons: 40% reduction
- (the EEC accounts for 75% of Cypriot exports) Grapefruit: 80% reduction
- Wine : 70 - 75% reduction up to the maximum tariff quota
- Fresh grapes : 60% reduction (7,000 tonne tariff quota from 8/6 to 31/7)
- (the EEC accounts for 76% of Cypriot fresh grape exports)

Non-agricultural products

The Community guarantees the duty-free entry of almost all Cyprus' industrial products except for petroleum products (which are excluded by the Agreement - synthetic fibres and men's underwear which are subject to tariff quotas.

Cyprus for its part offers a 35% reduction in customs duty on a wide range of Community goods.

Cypriot exports to the Community:

Exports comprise 58% agricultural and 42% non-agricultural products.

Agricultural products:

New potatoes	:	34%	of total agricultural exports to the EEC
Lemons and grapefruit	:	13%	" " " "
Wine	:	12%	" " " "
Fresh grapes	:	10%	" " " "

(25% of the working population are employed in the agricultural sector)

Non-agricultural products:

Clothing	:	43%	of non-agricultural exports to the EEC
Travel goods, handbags	:	11.6%	" " "
Mineral fertilizers	:	15.6%	" " "

(32% of the working population are employed in the industrial sector)

Main products imported by Cyprus from the EEC:

Agricultural products:

<u>Products</u>	<u>Community share of total imports</u>
Cereals	35%
Sugar	91%
Feedingstuffs	58%

Non-agricultural products:

Cyprus buys 56% of the non-agricultural products it imports from the Community

Main products:

Machines, other than electric
Textile goods, other than made up
Transport equipment.

The following summary provides some clarification of the balance of payments situation. The balance of payments fell in 1980 despite the satisfactory export trend, firstly because of the increased cost of oil and lubricant imports, secondly because of the problems caused by inflation throughout Europe and the world and thirdly because of increased inflation in the country itself.

Total exports increased less in 1980 (15%) than in 1979 (23%) mainly because of a fall in international prices, particularly for some basic agricultural products. Despite the very competitive international climate industrial exports continued to increase at a fairly sustained rate (20%) in 1980 and played a more important role in total exports, increasing from 68% in 1979 to 71% in 1980.

The lower rate of economic growth in the country, combined with some restrictive credit and fiscal measures, helped to limit the growth rate of imports to 20% in 1980 compared with 26% in 1979. Fuel and lubricant imports accounted for 13% of the value of total imports in 1979 and 19% in 1980. The increase in imports of consumer goods declined somewhat, to 17.5% in 1980 compared with 23% in 1979.

The increase in imports of raw materials also slowed down to 7.4% in 1980 compared with 38% in 1979. This decline was particularly noticeable in the case of raw materials for the construction industry. Nevertheless, the economic situation of the country is in general satisfactory. The main negative aspect is the increase in unemployment from practically zero to 1.8% in 1979 and 2.1% in 1980.

In 1975 the gross national product fell by about 20% and private investments by about 55%, whereas unemployment reached a peak of 25%, mainly because of the war with Turkey. In the years that followed economic recovery was rapid partly because of external aid and the financial policy adopted by the government and partly because of considerable flexibility in the private sector. Between 1976 and 1978 the gross national product increased by about 12% a year.

During the third emergency economic plan for the period 1979-1981, the growth of the gross national product fell to 6% in 1979 and 4.3% in 1980. The industrial sector, almost entirely composed of small and medium-sized undertakings, continued to be the most productive sector. In the agricultural sector, the production trend was more or less constant, but its contribution to the gross national product was limited although it increased from 2% in previous years to about 11% in 1980. Tourism became an important contributor to the balance of payments: 350,000 tourists visited the island that year, bringing in about \$200 million.

VI. THE FINANCIAL PROTOCOL

The first Financial Protocol provided for the allocation of 30 million ECU which has already been used up.

First Financial Protocol

	<u>Bank Loans</u>	<u>Special Loans</u>	<u>Gifts</u>
Electricity	12	-	1.5
Water systems	8	1	-
Nicosia drainage system	-	3	4.5
	-----	-----	-----
Total	20	4	6.0

It should be borne in mind that the Cypriot Government has allocated the most advantageous part of the Financial Protocol to the Turkish community (the Bank loans are given at the market rate and amount to 20 million ECU). The 10 million ECU from the Protocol broken down into special loans and gifts have therefore been used predominantly for initiatives to benefit the northern part of the island.

The Commission has recently proposed to the Council a second Financial Protocol for 40 million ECU broken down as follows: 28 million in EIB loans, 14 million in gifts and 6 million in special loans.

The EEC-Cyprus Agreement is therefore of particular importance, especially from a political point of view. Because of the geographical position of the island, the strategic implications thereof and the continuing political conflict, the Community must weigh carefully its economic, trade and financial measures on behalf of the island's population.

It should be pointed out that some agricultural products such as potatoes, citrus fruit and grapes are a particularly important source of revenue for farmers in Cyprus although the quantities of these goods would not seem to cause the Community concern.

It is therefore to be hoped that in the new agreement the Community will take due account of the political considerations that provide valid justification for some economic and financial concessions particularly as regards the Community's willingness to accept some agricultural products which are an important source of revenue and support for the island's economy.

Lastly, it is recommended that the amount allocated under the second Financial Protocol be earmarked for projects from which the entire population of the island can benefit.

MOTION FOR A RESOLUTION (Doc. 1-1287/82)

tabled by Mr PLASKOVITIS, Mr VGENOPOULOS,
Mr KONSTANTINOS NIKOLAOU, Mr MARKOPOULOS, Mr PAPANTÓNIOU,
Mr LAGAKOS, Mrs PANTAZI, Mrs KALLIOPI NIKOLAOU,
Mr PONIRIDIS, Mr ZIAGAS and Mr GLINNE
on behalf of the Socialist Group
and Mr BATTERSBY, Mr GEROKOSTOPOULOS,
Mr KALLIAS, Mr KYRKOS, Mrs BONINO and
Mr PESMAZOGLOU

pursuant to Rule 47 of the Rules of Procedure

on the EEC-Cyprus Agreement

The European Parliament,

- A. having regard to the EEC-Cyprus Association Agreement of 1972 and, in particular, Article 2 of this Agreement,
 - B. having regard to the decision by the EEC-Cyprus Association Council of 24 November 1980 on transition to the last phase of the second stage of the Association Agreement,
 - C. having regard to the resolution of 22 April 1982 (Doc. 1-1085/82/rev.) on the negotiations on the trade arrangements applicable in 1983 to replace the unilateral measures applied at present,
 - D. expressing its regret at the continuing delays in negotiations on the trade arrangements for 1983 due to the unwillingness of the Community to submit proposals which reflect the needs of the economy of Cyprus,
 - E. taking into account the fact that an improvement in economic relations between Cyprus and the Community will benefit the people of Cyprus as a whole,
1. Calls on the Council and the Commission to improve the Community proposals on trade arrangements for 1983 made during the current negotiations with the Government of the Republic of Cyprus;
 2. Calls on the Council to examine, as a matter of urgency, the question of transition to the last phase of the second stage of the Association Agreement and to give a mandate to the Commission to begin negotiations for transition to this phase before the expiry of the deadlines;
 3. Considers that representatives of the EEC-Cyprus Joint Committee should visit Cyprus to examine the economic situation in Cyprus and to report on the extent to which the Association Agreement is being properly implemented by both contracting parties, while recognizing the inviolability of the sovereign rights of the Republic of Cyprus;
 4. Calls on the Commission to inform the European Parliament as a matter of urgency of the present state of EEC-Cyprus relations and its intentions as regards the negotiations on the 1983 trade arrangements, and the transition to the last phase of the second stage of the Association Agreement.

MOTION FOR A RESOLUTION (Doc. 1-910/82/Corr.)

**tabled by Mr COTTRELL, Mr FORTH, Mr HORD
and Mr PEARCE**

pursuant to Rule 47 of the Rules of Procedure

on the EC/Cyprus agreement

The European Parliament,

- A. concerned that the EC/Cyprus agreement should be honoured in letter and intention,
- B. concerned that, so far as the Turkish Cypriot administered area of the island is concerned, this appears not to be the case,
- C. believes that Community resources are not reaching infrastructure projects in the north of the island,
- D. convinced that internal divisions within the island must not be allowed to divert the Community from its original intentions in reaching an accord with the Republic of Cyprus,
- E. expressing concern at reports of an economic blockage imposed on the north by the Greek Cypriot authorities, apparently aided and encouraged by the Greek Government in Athens,
- F. regarding the continuance of this situation as wholly unsatisfactory for the economic development of Cyprus and a likely contributor to instability within the entire Cypriot community,

RESOLVES

- to urge the Commission
 - (a) to undertake an immediate inquiry into the current state of the EC/Cyprus agreement, and to report urgently to Parliament,
 - (b) to undertake a further inquiry into reports of an economic blockage of the north, with particular regard to transport by sea and air, and to request the full cooperation of the Greek Government;
- to request the Commission
 - (a) to seek also the full cooperation of both the Greek and Turkish Cypriot administrations in these investigations,
 - (b) to report urgently to Parliament, as an interim measure, on the current state of trade between Cyprus and Member States of the Community, again with reference to the respective Greek and Turkish Cypriot communities.