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Report

drawn up on behalf of the Committee on External Economic Relations

on ~~/~~trade relations between the EEC and the Gulf States

Rapporteur: Mrs WIECZOREK-ZEUL

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By letter of 11 June 1980 the Committee on External Economic Relations requested authorization to draw up a report on trade relations between the EEC and the Gulf States.

By letter of 24 June 1980 the President of the European Parliament gave the necessary authorization.

On 20 March 1980 the Committee on External Economic Relations appointed Mrs WIECZOREK-ZEUL rapporteur.

At its meetings of 26 November and 3 December 1980 the committee considered the draft report; it adopted the motion for a resolution together with explanatory statement unanimously at its meeting of 19 January 1981.

Present : Sir F. Catherwood, chairman; Mrs Wieczorek-Zeul, vice-chairman and rapporteur; Mr Van Aerssen, vice-chairman; Mr Antoniozzi, Mrs Baduel-Glorioso (deputizing for Mrs Caretoni Romagnoli), Mr Cohen (deputizing for Mr Hänsch), Mr de Keersmaecker (deputizing for Mr Majonica), Mr Filippi, Mr Galluzzi, Mr Giummarra, Mr Jonker, Mr Lemmer, Mr Louwes, Mr Martinet, Mrs L. Moreau, Mr Nicolaou, Lord O'Hagan, Mr Pelikan, Mr Plaskovitis (deputizing for Mr Seal), Mrs Pruvot (deputizing for Mr Irmer), Mr Radoux, Mr Rieger, Mr Seeler, Mr Spicer and Mr Welsh.

REVISED EXPLANATORY STATEMENT

Since the unanimous adoption by the Committee on External Economic Relations of Mrs Wieczorek-Zeul's draft report on trade relations between the EEC and the Gulf States at its meeting of 19 January 1981, the Committee on Economic and Monetary Affairs, the Committee on Energy and Research, the Committee on Development and Cooperation and the Political Affairs Committee were authorized to give their opinions.

At a meeting of the Committee on External Economic Relations, the Committee on Economic and Monetary Affairs, the Committee on Energy and Research and the Committee on Development and Cooperation on 8 April 1981, it was agreed that Mrs Wieczorek-Zeul could amend the Explanatory Statement to her report in the light of developments which had taken place since the adoption of the report and of the views expressed by the committees authorized to give their opinions.

The opinions of the Committee on Energy and Research and the Committee on Development and Cooperation are attached.

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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 trade relations between the EEC and the Gulf States

The European Parliament,

- having regard to the Council decision of January and February 1980 on the conclusion of an agreement with the Gulf States (Iraq, Kuwait, Bahrain, Qatar, United Arab Emirates, Oman, Saudi Arabia and the Arab Republic of Yemen), having regard also to the decision of the European Council of June 1980 and to the decisions or negotiations of 12/13 November in Luxembourg,
- draws attention to the close reciprocal economic and political interests of the Member States of the European Community on the one hand and the States of the Arabian Gulf on the other,
- regrets, in this situation, that no formal agreements exist as yet between the EEC and the Gulf States, although there are such agreements with other Arab countries and although the Community is the principal trading partner of the Gulf States,
- notes that bilateral agreements exist between individual European Member States and individual Gulf States and draws attention to the risks of uncoordinated national action by the EEC Member States, leading to senseless competition between the EEC Member States for trade,
- considers that it is in the joint interests of the oil-producing Gulf States and the industrialized countries of the EEC to prevent reciprocal disturbances to the EC economies through unpredictable increases in the price of oil, delivery fluctuations or growing problems in recycling the balance of payments surpluses of the Gulf States and to ensure that the Gulf States' resources are not used up prematurely, that these States are no longer dependent on a single product and that they can achieve an adequate return on their surpluses,
- having regard to the report by the Committee on External Economic Relations and the opinions of the Political Affairs Committee, the Committee on Economic and Monetary Affairs, the Committee on Energy and Research and the Committee on Development and Cooperation (Doc. 1-866/80/rev.),

1. Supports therefore the plans of the Council and Commission to conclude agreements between the EEC and the Gulf States and hopes that such agreements will be aimed at achieving long-term cooperation;
2. Hopes that bilateral agreements between the EEC and individual Gulf States will be concluded under the aegis of the Euro-Arab dialogue and sees the creation of a link between these negotiations or talks which have so far been conducted in isolation as the basis for promising cooperation in the future ;
3. Welcomes the proposed resumption of the Euro-Arab dialogue at the highest (ministerial) level with clearly-formulated policy objectives on the part of the EEC. This could have a favourable influence on economic negotiations and agreements ;
4. Points out that, in order to revive the dialogue, the EEC
 - must recognize the political implications of the dialogue,
 - should take a special initiative to bring about an overall solution to the conflicts in the Middle East through participation of all the parties concerned;
5. Stresses that individual agreements with the Gulf States should serve the particular interests of all parties concerned and calls upon the Commission to advance the work of the technical commission which is seeking to ascertain the special wishes of the individual Gulf States through talks with their representatives;
6. Sees a broad common basis for such cooperation agreements and advocates the inclusion of the largest possible number of sectors in these agreements, with the following general possibilities: cooperation in the energy sector, promotion of joint investment projects for diversification of industry in the Gulf States, the transfer of technology, cooperation in the development of training activities in the Gulf States, more intensive joint financing of development projects in countries of the Third World, cooperation in seeking solutions to recycling problems, trade concessions, and regular consultations in the context of a new joint committee;
7. Believes that it is in the interests of both sides to eliminate the problems generated by dependence on a single product, oil, and to create a climate of mutual trust which will help to restore more stable economic development (by alleviating unemployment, inflation, etc.) ;
8. Hopes to see, in the context of these agreements, specific Community measures for energy cooperation and to safeguard oil supplies, e.g., through direct agreements between the EEC and the producer countries

and the creation, to mention just one possibility, of a Community oil procurement and prospecting company and stresses the need for regular meetings between the Council of Energy Ministers and the responsible Ministers of the Gulf States;

9. Points out that the EEC must widen its trade with the Gulf States in order to create a balance of economic interests, thus enabling a contribution to be made to the diversification of the economies of the Gulf States. This might be achieved through an 'energy package'.

In return for a guarantee of specific oil deliveries, the EEC would undertake to buy petrochemical products as well. The EEC should adjust the trade instruments available to it (most favoured nation clause, etc.) to give the Gulf States easier access to the EEC market, e.g., for basic chemical products. Problems created for certain industries in the EEC Member States could best be solved by coordinated consultations under cooperation agreements;

10. Suggests that the following possibilities might be considered in the dialogue and agreements in order to exploit and expand the existing basis for cooperation:

- the Gulf States would undertake to supply specific quantities of crude oil at uniform prices with a binding formula to determine price changes: they would further guarantee specific delivery quantities;
- equilibrium in the balance of payments remains the long-term goal, but all the parties involved recognize that this will be difficult to achieve. The EEC States would offer the Gulf States for their investment of surpluses a guaranteed suitable rate of interest. For this purpose the EEC would set up a guarantee fund in conjunction with the European Investment Bank;
- some of the resources would be made over to a new development fund which would make them available on special terms to the oil-importing developing countries. The cost of the interest and the risks of non-repayment would be borne jointly by the EEC and the Gulf States. This fund would be jointly administered by the EEC and the Gulf States.

In this way the EEC and the Gulf States would be making a valuable contribution to effective and smooth recycling and to the more stable economic development of the developing countries which are particularly hard hit by the need to import oil at greatly increased prices. By so doing the EEC would also be improving its market prospects and helping to secure the growth of world trade;

11. Stresses the importance of the Gulf States as export markets for the EEC, at present primarily in the area of processed products and agricultural produce;
12. Urges the EEC and the oil-producing Arab countries to act to bring about the formal opening of a 'world dialogue on energy supplies' as part of the negotiations in the North-South dialogue. The basic principles of the proposed agreement to safeguard oil supplies and on the subject of recycling might also fall within the scope of this world dialogue;
13. Calls upon the Commission to shape the agreements in such a way that the broadest possible responsibility is vested in the Community itself.
14. Instructs its President to forward this resolution to the Council and Commission.

EXPLANATORY STATEMENT

1. Community agreements with Arab states

In view of the great economic and political importance of the Arab Gulf States, Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates and the Arab Republic of Yemen, it is surprising that the European Community as a whole has no formal contractual agreements with these countries, though it has agreements with eleven Arab League countries. In April 1976 three Maghreb countries (Algeria, Morocco and Tunisia) signed cooperation agreements with the Community. The four Mashrek countries (Egypt, Syria, Jordan and Lebanon) followed suit in January 1977 (Lebanon in May because of the civil war). Sudan, Somalia, Mauritania and Djibouti have signed the Lomé Convention with the Community.

These countries represent more than 70% of the total population of the Arab countries and account for over 50% of Community exports to this region. They are also the Arab League countries which have a trade deficit with the Community and therefore have an interest in special contractual arrangements.

The cooperation agreements between the Community and the Maghreb and Mashrek countries mainly cover the following areas, with differences applying for individual countries :

trade preferences (far-reaching abolition of customs duties on industrial products, although only limited concessions for agricultural products), financial and technical cooperation to encourage economic development in the Maghreb and Mashrek countries, cooperation in marketing and sales promotion and in the area of science, technology and protection of the environment, special provisions for immigrant workers from these countries. The agreements are administered on a parity basis. The Council of Ministers, on which both parties are represented on a parity basis, draws up an annual report on their joint activities.

2. The four Arab states which are members of the Lomé Convention enjoy the advantages it offers them in the field of financial cooperation through the European Development Fund, more or less free access to the market of the Community countries and guaranteed stable raw material prices.

3. EEC-Gulf States dialogue

In December 1979, after a visit to the Gulf States, the German Minister for Economic Affairs, Mr Lambsdorff, followed on 15 January 1980 by the German Foreign Minister, Mr Genscher, brought up the proposal for bilateral cooperation agreements with the Gulf States for discussion in the Council - this was clearly designed as a means of getting round the political problems

which had brought the Euro-Arab dialogue (see below) to a standstill. Mr Genscher's proposals did not refer to direct cooperation in the area of oil supplies between the EEC and the Gulf States but did cover exchanges of information as part of the plan for energy cooperation. They also included granting the most-favoured nation clause to the Gulf States, the encouragement and protection of investment, economic and industrial cooperation to diversify the Gulf States' industries and technical and scientific cooperation.

It was suggested that in formal terms the agreements could be signed according to the same procedures as the ASEAN agreement.

The proposal was subsequently discussed on a number of occasions. Finally, at its meeting of 5 February 1980, the Council agreed to negotiations between the EEC and the Arab League States with which no form of institutional cooperation exists outside the Euro-Arab dialogue.

A technical committee of the Commission was to visit these countries in order to identify more closely the interests of the individual Gulf States. For the present no negotiations are under way, largely because of the war between Iraq and Iran.

A few weeks ago, however, a technical committee took part in negotiations in the Arab Republic of Yemen.

At the beginning of 1981 six Gulf states decided to set up a Council for Cooperation in the Gulf, a body which did not exist when the EEC Council of Ministers' Gulf initiative was launched in 1980. A close watch will have to be kept to see in what fields the proposed broad cooperation is actually put into practice.

4. The Community is the Arab Gulf States' main trading partner. In 1977 35.5% of their total imports came from the Community (compared to 17.5% from Japan and 16.4% from the USA). The same year they sold 33.5% of their exports to the Community, 19.8% to Japan and 12.7% to the USA, with different percentages for the individual Gulf States. The Gulf States provide the world as a whole with over 30% of its crude oil; in 1979 more than 50% of the Community's supplies came from the Gulf and 98% of imports into Community countries from the Gulf were energy products. Since 1973 the Gulf States have offered an increasingly important market for exports from the EEC Member States. While in 1973 EEC exports to the Gulf States accounted for only 1.6% of total exports, by 1978 they accounted for 6.5%, a percentage which almost compares with that of EEC exports to Eastern Europe. The bulk of EEC exports consists of processed products (88.9% of total Community exports to the Gulf States). Sales of agricultural produce are almost equally high and in 1978 accounted for nearly five times as much as in 1973. All the Gulf States are

probably interested in buying agricultural products. They cannot compete with the EEC Member States in labour-intensive industries, if only because of their own high wage costs. The main areas in which they want to further their own development are in oil products, petrochemical products including fertilizers, aluminium processing and iron and steel.

At present they export very little to the EEC in this area; their processing capacity is less than 3% of total world capacity.

If customs duties were reduced, however, they could become highly competitive, unless joint arrangements were made in good time.

The Gulf States' special advantages deriving from their oil and natural gas are offset by the high costs of investment to diversify their industry, the shortage of qualified workers and the general shortage of indigenous labour. Cooperation in training and joint ventures to promote industry offer a further chance of cooperation between the EEC Member States and the Gulf States. It would certainly be easier for the two parties to coordinate their approach in the framework of cooperation agreements.

Their strong economic growth and trade surpluses have made the Gulf States a focus of private capital investment and have also attracted the interest of other big trading powers such as the USA and Japan. The EEC is already cooperating with the Gulf States by the circuitous route of European loans to help them reinvest the proceeds of their oil trading. It is also cooperating with them so that these surpluses can be invested to the advantage of developing countries which have no oil.

5. This is the starting point for the rapporteur's proposal that the negotiations between the Gulf States and the EEC Member States should also include an agreement to ensure rational recycling and the stable economic development of both regions. It is based on general proposals from very different sources, for example, a joint suggestion by Mr Roth and Prof. Gutowski from the Federal Republic of Germany and Prof. Reddaway from the United Kingdom.

I would refer at this point to the motion for a resolution by Mr Müller-Hermann and others on the creation of a European financial instrument for recycling petrodollars to increase and diversify world energy supplies (Doc. 1-779/80), on which the Committee on Economic and Monetary Affairs is drawing up a general report. The rapporteur's proposal neither anticipates nor contradicts this general initiative in any way.

Although it is limited to the regions of the Community and the Gulf, it does not exclude other interested oil-producing countries, and could in fact constitute an appropriate model for relations between the Community and other oil-producing countries, or for relations between OPEC and the industrialized countries as a whole.

The proposal is based on the following considerations:

(a) As a result of the oil prices rises, the Gulf States will have substantial current account surpluses in coming years, given that their imports will not increase as sharply as in the past. Reddaway refers to the OPEC countries' current account surpluses for 1980 (Source : OECD), which amount to US \$ 120,000 million, while the OECD countries' deficits total US \$ 47,000 million and that of the developing countries US \$ 62,000 million.

OECD forecasts for 1980 and 1981 put OPEC current account surpluses in the region of US \$ 198,000 million after the OPEC countries have made their aid payments.

(b) This entails several risks for the Community Member States and for the industrialized countries as a whole :

- If the current account surpluses are invested as in the past, serious disturbances and fluctuations could occur in the currencies of the EEC Member States as a result, for instance, of switching from one investment currency to another in a period of high international liquidity.
- Recycling of surpluses could be so out of balance that there would be no inflow of capital to countries with weaker economies to offset their deficits, and recycled funds would instead be concentrated in the major financial centres. This danger will be all the greater if the Community fails to take action.
- There is an acute danger in these circumstances of individual countries adopting the beggar-my-neighbour approach to cope with their deficits. The results would be:
 - protectionist moves and a general tendency for trade and economic activity to contract, resulting in unemployment and a decline in development aid.
 - higher oil bills for the industrialized countries, also resulting in a decline in purchasing power.

(c) The Gulf States and the OPEC countries as a whole face the following problems:

Income from investment of their surpluses was eroded by inflation between 1973 and 1979. If they also have cause to fear that real returns will be very small or even negative, they will tend to produce less oil and to leave it in the ground, particularly as their main concern must be to avoid using up their resources too quickly.

The alternative would be further sharp oil price increases to compensate for lost value. Any economic relationship or agreement between the Community and the Gulf States must take account of this problem and draw the appropriate conclusions if it is to be of any long-term value.

(d) The non-oil-producing developing countries are finding it increasingly difficult to obtain additional loans to finance their oil-induced balance of payments deficits, because the private banks can no longer take the legal or economic risks of recycling in the long term.

Recycling in this area is therefore no longer a straightforward process.

The legal difficulties include the existing legal lending limits while the economic obstacles preventing non-oil-producing developing countries from obtaining private bank loans include the risks faced by private banks if they grant major loans, interest rate and currency risks and the risks inherent in the need to grant long-term loans funded from short-term deposits.

It follows that the non-oil-producing developing countries must reduce their share of world trade considerably, a move which adversely affects world trade as a whole.

If the developing countries reduce their other imports in order to pay their oil bills, the direct result is higher deficits in the exporting industrialized countries, particularly the Community Member States.

The plight of the non-oil-producing developing countries appears even more acute when viewed in the light of possible future developments. It is estimated that they will have a combined current account deficit of US \$ 80,000 million in 1981. It is the low income countries which have the highest balance of payments deficits. Given this, how can they obtain or raise the financial resources which, according to the North-South Commission's report (US \$ 90,000 million between 1975 and 1990), would be necessary to finance investment and expenditure on the development of their own agricultural production in order to fight hunger in their countries? The loans from the IMF or the World Bank are inadequate to fund the necessary package of projects.

The rapporteur considers that the Community and the Gulf States have a mutual interest in creating secure reciprocal expectations which will help avoid any disturbances to their respective economic development.

- It is in the interests of the oil-exporting Gulf States to obtain a value guarantee for their financial assets. At the same time they are pursuing a price policy for their oil which at the very least takes into consideration the price trend of the industrial goods they import.

They want to draw out their oil deliveries to make their resources last longer. They want to diversify their own industries widely enough to give them some security in the post-oil age.

- It is in the interests of the Community Member States to ensure a secure oil policy at tolerable prices. They want to avoid any major disturbances to their respective currencies. They are concerned to ensure the smooth operation of recycling. They want to avoid falls in growth and employment.

- It must be in the interests of both parties to prevent the possible economic collapse of the developing countries, which are particularly hard hit by the rise in the price of petroleum, and relieve them of part of the burden of this rise in cost.

A contractual agreement, which would reduce the risks all round, would therefore be sensible for all concerned.

- Under the proposal, the EEC would set up a guarantee fund for the investment of the Gulf States' current account surpluses. The fund would guarantee its investors an appropriate interest rate.

This arrangement would give the Gulf States a secure return on the investment of their surpluses, ensure that selling their oil gave them an investment opportunity equivalent to the value of the oil still in the ground and ensure that they did not drastically cut their oil production and raise oil prices to a new peak.

At the same time this arrangement must not stimulate inflation. That is why an 'appropriate' interest rate must be negotiated under the agreement, taking account of the following factors: the inflation rate for OPEC imports, the international market interest level, the rate of the rise in oil prices (opportunity cost principle) etc.

- A specified annual amount would be transferred from the guarantee fund to a new development fund to be formed jointly by the EEC and the Gulf States. This fund would grant loans on special terms to the developing countries.

6. The need for Community action on cooperation in energy matters and security of oil supplies and for direct Community agreements with producer countries was explained at length in connection with the problem of recycling. It is also necessary because bilateral trade-in-exchange-for-oil agreements, such as are already being signed between some European governments, are to the advantage of the oil-producing countries and could lead to totally uncoordinated and unplanned competition by the Community Member States to grant trade preferences. Moreover, bilateral agreements between individual countries do not benefit the small Member States, which are less well able to keep pace in this race for

'preferential oil supplies', and undermine the negotiating position of the EEC as a whole.

Arms deliveries in exchange for oil will probably in the long term achieve the opposite objective of economic cooperation, namely, political, social and economic stability.

In the long term, the playing-off of one Member State against another in the manner described entails more disadvantages for them and for the Community than economic and political agreements coordinated at Community level or concessions granted in the framework of direct agreements between the Community and the oil-producing countries.

In 1979, as much as 15% of net crude oil imports to Europe were covered by various bilateral agreements. In the first nine months of 1980 this figure reached 36%. Recently it has levelled out at 31% (following the Iran-Iraq war). Most governments conclude such bilateral agreements through the intermediary of specially-created national oil companies.

There are some positive aspects to these bilateral agreements which could be put to good use in direct Community agreements. An example is the initiative of the Italian national oil company, ENI, which, at the beginning of April 1981, invited both OAPEC (Organization of Arab Petroleum Exporting Countries) and government representatives from southern European countries to a conference on development and cooperation with particular reference to oil.

Japan doubled the number of direct agreements with oil-producing countries between 1977 and 1979 (1.33 million barrels a day in 1979, IVth quarter).

As far as direct agreements are concerned, the following is largely true: 'The emergence of government-to-government deals as a normal feature of crude trading represents a significant change in the relationship between consumers and producers.

Oil trading is thus placed in a more political context, involving questions of trade, armaments and foreign relations; this presents not only disadvantages and risks, but also opportunities for all parties concerned, and an urgent need for governments to appraise their long-term interests'.¹

Just as the national governments have, in the case of bilateral agreements, a national 'agency' for oil supplies and negotiations in the form of national oil companies, a 'European agency' would be a necessary follow-up to direct agreements between the Community and the oil-producing countries. If oil supplies are to be linked in direct agreements with, say, long-term credits, a Community oil institution or agency is just as necessary as is a Community guarantee fund operated in conjunction with the European Investment Bank as a source of loans.

¹ British Petroleum 'Government-to-Government Deals'

The rapporteur proposes that a 'European agency' should be set up in the form of an oil procurement and prospecting company. It should offer existing national oil companies the option of participation and cooperation. It is therefore not intended to replace them but merely to be a logical extension at Community level.

As well as being a positive response to the growing tendency of producer countries to sell directly to the customer, the Community procurement company would have many other advantages:

- It could ensure supplies of oil for the Member States in cases where this was no longer possible on the basis of the latter's bilateral agreements.
- The company could participate in developing new oil resources in the producer countries. A number of these countries have difficulties in finding companies prepared to make available the expensive and complex new technologies which could enable known reserves to be exploited for a much longer period.

Similarly, additional prospection activities could be undertaken jointly in cases where costs would be too high for individual national companies.

- The oil majors would be faced with a competitor more concerned with the public interest thus making for increased competition.

The rapporteur considers that public authorities should have a clear majority stake in the oil procurement agency to be set up with participation by the Community and the national oil companies. There is, of course, room for discussion on the nature and scale of public participation. Widely varying degrees of control are possible, as in the case of the national oil companies.

Consideration could be given, for example, to whether it should be allowed greater independence and operate 'at arms length'.

Japan has shown that apparent independence from the State does not necessarily prevent governments from exercising influence.

The firms involved operate in cooperation with their governments in respect of all direct agreements.

It is worth mentioning at this point the motion for a resolution tabled pursuant to Rule 25 (old Rules) by Mr G. Schmid and others on the subject of a Community oil procurement company.

Matters arising in connection with the oil procurement company are to be dealt with in greater depth in the report on this motion, for which the Committee on Energy is the committee responsible.

7. Some EEC Member States expressed doubts prior to the Council of Ministers' decision to open negotiations with the Gulf States, making the following reservations: they feared, as did many Gulf States, that signing bilateral agreements could be viewed as an attempt to divide the Arab states among themselves or felt that, since the Euro-Arab dialogue was now under way, there was no justification for new initiatives.

The Arab states also expressed various reservations:

While Bahrain, the UAE and Oman made it known through COREPER that they were in favour of the proposals for the technical committee, Iraq, Saudi Arabia and Kuwait expressed reticence, for a variety of reasons.

These initial reactions were confirmed at talks which the rapporteur held on 4 June 1980 with the representatives of the Arab embassies in Brussels, chaired by the Saudi Arabian ambassador (in which Saudi Arabia, the UAE, Qatar and Iraq took part).

In addition to the special interest of the Arab countries interested in closer cooperation with the EEC as a group, because it did not pursue big power interests like the USA and the USSR, the following points were raised: the representatives said this was a short-term proposal made only because of the EEC countries' present uncertainty about their oil supplies and one which totally disregarded the other aspects of cooperation; this cooperation would be forgotten as soon as the oil question had been resolved with some degree of certainty. The attitude of the Community, which insisted on Egypt's participation in the Euro-Arab dialogue although Egypt had now left the Arab League, had blocked the Euro-Arab dialogue. The Community must seek a global solution to the Middle East conflict instead of submitting to the US Government's plans, like the very narrow approach of the Camp David Agreement. The PLO must at last be formally recognized, now that the EEC had to all intents and purposes accepted it informally.

A less critical approach was admittedly discernible during the individual talks which took place in the intervening period at another level and were led by the chairman of the Committee on External Economic Relations.

In the meantime, there have, for example, been informal indications from one of the oil-producing countries that the planned economic negotiations could also be conducted outside the framework of the Euro-Arab dialogue. However, this country has not yet reacted positively to the Gulf initiative of the Council and the Commission.

The parallel Franco-German loan shows that the actions called for in this report in the area of relations between the Community and the Gulf States are possible in principle. However, at its April part-session the European

Parliament rightly pointed to the dangers of failing to adopt a coordinated Community approach and called on the Community institutions to draw the appropriate conclusions for the Community.

8. The German proposal was aimed at political stability in the Gulf but did not go far enough, for various reasons: it did not take into account the fact that the Gulf States also had a political interest in the EEC making a full contribution to solving the Middle East problem and recognizing the PLO per se and as a partner in negotiations and dialogues.

After all, Japan or the USA could also satisfy the Gulf States' economic interest. The proposal also disregarded the fact that the Gulf States, albeit for very different reasons, did not intend to be deflected from the solidarity achieved in the Euro-Arab dialogue and on questions such as oil with the OPEC countries and the developing countries as a whole.

This approach, which did not go far enough, must be more broadly based:

- The Community should make clear, both in the general North-South negotiations and in the forthcoming summit, that its proposed regional initiative vis-à-vis the Gulf States is part of a global approach based on the principles set out in paragraph 5. This would allay OPEC fears that the Community is trying to prise the Gulf States out of the OPEC camp or undermine the solidarity of the Group of 77.

The Community should press, within the framework of the global North-South negotiations, for the formal establishment of a 'world dialogue on secure energy supplies' (in line with the proposals put forward by the Group of 77 and UNCTAD), which would include the main points of the oil supply and recycling proposals set out in paragraph 5.

- The Community should make clear to the Gulf States that special prices under long-term contracts on special terms do not infringe any OPEC decisions, but instead represent a form of long-term cooperation.

- The Community should make it clear that offers of cooperation with the Gulf States would in no way impede future negotiations and contacts with other oil-producing countries.

- There appears to be absolutely no prospect for an agreement between the Community as such and the group of Gulf States as a whole (on the lines of the ASEAN agreement). This emerged clearly from the talks between the rapporteur and the Arab Ambassadors.

However, bilateral agreements between the Community and individual Gulf States might be feasible once a framework economic agreement had been reached within the context of the Euro-Arab Dialogue. Bilateral agreements

would get nowhere if they were not integrated in this way in the Euro-Arab Dialogue.

- In the meantime, the Community Member States have given up deluding themselves into thinking that the Euro-Arab Dialogue could be limited to economic cooperation, a view which in recent years led to a stalemate in the dialogue. The Community has now clearly accepted that political issues will also be discussed and political goals pursued as part of the dialogue. The joint meeting of foreign ministers in November 1980 in Luxembourg decided that the Euro-Arab Dialogue should be resumed at the highest political level in early summer 1981.

The Community must accordingly evolve its position, which the European Council had further defined in Venice in June 1980, on the Middle East conflict. That means openly recognizing that all attempts to solve the Middle East conflict are inadequate if they disregard in the negotiations important participants in the region, or if they risk meeting their massive opposition. So the Community must either urge the USA to adopt a new approach to the negotiations or, failing this, put forward its own plan to bring together all those concerned in the region round the negotiating table. Such a proposal could be implemented under the aegis of the United Nations.

9. One further factor which impaired the effectiveness of the Euro-Arab dialogue was the fact that trade in oil was not included in cooperation. The rapporteur is therefore trying to bring together the hitherto separate strands of negotiations - the Euro-Arab dialogue, cooperation on energy with the Arab oil-producing countries, and the planned trade cooperation with the Gulf States.

The appeal of the EEC Heads of State or Government in 1973 to the oil producers met with opposition from the USA which sought to set up a pressure group of consumer countries. The USA eventually achieved its aim by setting up the International Energy Agency through which it could exercise considerable influence, although France did not become a member.

Meanwhile the situation has changed, especially in the Arab countries. For example Saudi Arabia, which had been politically very dependent on the USA and in 1973 still complied with the Americans' wishes that the oil trade should not be included in the dialogue, has moved towards closer cooperation with the EEC. The Arab ambassadors made this widespread interest in closer cooperation with the EEC very clear in their talks with the rapporteur in June 1980.

It is of course very easy to understand why the EEC is once again seeking the inclusion of the oil trade in the agreements today.

Although it is the major world oil importer, the USA is less dependent on Middle Eastern imports than is Western Europe. And even if some countries such as the United Kingdom will eventually become more self-sufficient here thanks to its own oil production, at present it must still rely on exporting its oil against imports of heavy crude oil from the Gulf States because this is easier for the British refineries to process.

So it is vital for the EEC Member States to adopt a joint position on the inclusion of the oil trade in agreements with the Arab League.

Selected statistics relating to trade between the EEC and the countries of the Gulf States and the Arab League

EEC RELATIONS WITH ARAB GULF STATES

EEC-GULF Basic Data

<u>Population of Gulf Countries - 1978</u>		<u>GDP per Capita -</u>		
<u>Mid-Year est. (Mill.)</u>	<u>Total</u>	<u>(in US \$)</u>		
Bahrein	0,34			
Saudi Arabia	7,87			
Qatar	0,20			
Iraq	12,33			
Oman	0,84			
Kuweit	1,20			
UAE	0,71			

<u>External trade of Gulf countries</u>	<u>1973</u>	<u>1977</u>	<u>1978</u>
Total Gulf <u>Exports</u> in mill. US \$	16.161	73.103	71.447
EEC in %	45,9 %	33,5 %	n.v.
Japan	15,8 %	19,8 %	n.v.
USA	3,5 %	12,7 %	n.v.
Total Gulf <u>Imports</u> in mill. US \$	5.636	33.775	34.915
EEC in %	28,6 %	35,5 %	n.v.
Japan	14,0 %	17,5 %	n.v.
USA	13,9 %	16,4 %	n.v.

<u>EEC Trade with the Gulf countries</u>	<u>1973</u>	<u>1978</u>	<u>1979</u>
EEC Imports (in mill. EUA)	7.704	21.027	28.904
EEC Exports	1.299	11.442	13.616
Trade Balance	-6.405	- 9.585	- 15.288

<u>Breakdown (in %)</u>	<u>1973</u>	<u>1978</u>	<u>1979</u>
<u>EEC Imports</u>	<u>100</u>	<u>100</u>	<u>100</u>
- Energy products	96,8%	98,5 %	98,5%
- Others	3,2 %	1,5 %	1,5%
<u>EEC Exports</u>	<u>100</u>	<u>100</u>	<u>100</u>
- Agricultural products	12,8 %	6,6 %	8,0%
- Manufactured goods	85 %	88,9 %	87,9%

<u>EC Imports from Gulf countries as percentage of total EC Extra imports</u>	<u>1973</u>	<u>1978</u>	<u>1979</u>
	9 %	11,7 %	13,3%

<u>EC Exports to Gulf countries as percentage of total EC Extra exports</u>	<u>1973</u>	<u>1978</u>	<u>1979</u>
	1,5 %	6,5 %	6,7%

<u>OIL (Crude oil)</u>			
EC Imports from Gulf states		<u>1978</u>	<u>1979</u>
% of total EEC Imports	53,1%	254	288,8
			60,8%
Gulf Exports in % - to Community	35,6%		n.v.
- to rest of the world	64,4%		n.v.

<u>Balance of Payments Gulf countries (not including Bahrein) in 1975</u>				
Current account balance in bill. US \$	32.08			

<u>Community Private Investm. in Gulf countries</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
(Values: Mill. US \$)	-6.77 ¹⁾	-36.30	58.87	37.97

1) minus indicates repatriated Community capital

DEVELOPMENT OF TRADE BETWEEN THE COUNTRIES OF THE GULF
and the EEC

Value M EUA

	1973			1975			1978		
	IMP	EXP	EC	IMP	EXP	EC	IMP	EXP	EC
Total trade between the Community and the countries of the Gulf	7.704	1.299-6.405		19.062	5.657-13.405		21.027	11.442-9.585	
IRAQ	966	226- 740		2.985	1.954- 1.031		4.534	1.916-2.618	
S. Arabia	3.767	427-3.340		9.640	1.549- 8.091		10.001	5.656-4.345	
Kuwait	1.688	240-1.448		2.667	623- 2.044		2.931	1.300-1.631	
Qatar	394	68- 326		775	202- 573		752	355- 397	
UAE	743	190- 553		2.544	811- 1.733		2.567	1.598- 969	
OMAN	110	73- 37		405	338- 67		193	304+ 111	
BAHRAIN	36	75+ 39		46	180+ 134		47	313+ 266	
		1978 6 months			1979 6 months				
	IMP	EXP	EC	IMP	EXP	EC			
Total trade between the Community and the countries of the Gulf	10.281	5.416-4.865		12.306	6.420-5.886				
IRAQ	2.099	873-1.226		2.647	1.162-1.485				
S. Arabia	5.084	2.658-2.426		5.985	3.071-2.914				
Kuwait	1.351	649- 702		1.878	665-1.213				
Qatar	345	167- 178		400	225- 175				
UAE	1.268	742- 525		1.304	930- 374				
Oman	111	167+ 56		70	181+ 111				
BAHRAIN	23	160+ 137		22	186+ 164				

Source: SOEC monthly bulletin

There is a small difference in
the total imports and exports
in the other SOEC sources

ENERGY FICHE

	Total	Bahrain	UAE Abu Dhabi Dubai	Qatar	Kuwait	Saudi Arabia	Iraq	Oman
1. Production of crude oil 1978 *)	767.4	2.7	87	23.2	96	413	129	16.5
1st semester 1979	438.4	1.2	43.4	12.0	65	229.4	80	7.4
% world 1st semester 1979	28.1	-	2.8	0.9	4.2	14.7	5.1	0.4
2. Gulf Exports of crude oil to EEC in 1977	756.4	2.0	96.3	19.8	81.2	428.2	12.9	15.50
in %	269.8	-	33.3	8.5	30.3	148.7	47.8	1.20
	35.6	-	34.5	42.4	37.3	34.7	42.3	7.70
3. EEC imports of crude oil from Gulf States 1978	254.9	-	28.6	8.3	35.6	122.2	58.7	1.5
% of total imports	53.1	-	6.0	1.7	7.4	25.2	12.2	2.3
4. Gulf reserves of crude oil 1979 **)	31.8	-	4.1	0.5	9.5	23.0	4.4	0.3
% of world total	36.3	-	4.7	0.6	10.8	26.3	5.0	0.4
5. Refinery capacity 1.1.78 ***)	77.65	12.5	-	-	30.1	35.15	8.75	-
% of world total	2.29	0.33	-	-	0.80	0.93	0.23	-
6. Export of refined products to EEC in 1978 ****)	-	-	-	-	2.47	2.44	0.08	-
7. Production of natural gas 1977 ***)	19.9	2.4	3.7	1.6	6	4.5	1.6	0.1
Proportion of world total (%)	1.35	0.2	0.25	0.1	0.4	0.3	0.1	-
8. Reserves of natural gas early 1979 ****)	6,470	200	600	1,130	960	2,730	790	60
% world total	9.1	0.3	0.9	1.6	1.3	3.8	1.1	0.1

- *) million tonnes per annum
 **) billion tonnes
 ***) million tonnes per annum
 ****) billion cubic metres per annum

CRUDE OIL: PRINCIPAL PRODUCTION DATA

10⁶ metric tons

COUNTRY	FIRST YEAR OF PRODUCTION	ACCUMULATED PRODUCTION SINCE 1/1/79	PRODUCTION		PRODUCTION CAPACITY	PRODUCTION CEILINGS SET BY GOVERNMENT	1979 PRODUCTION AS % OF WORLD PRODUCTION
			1978	1979			
BAHRAIN	1932	93 ¹⁾	2.7	2.5	3	NONE	0.1%
IRAQ	1927	1,816	129.0	175.0	196	NONE	5.4%
KUWAIT	1946	2,827	109.0	130.0	167	100	4.0%
NEUTRAL ZONES	INCLUDED BY 50% EACH IN KUWAIT AND SAUDI ARABIA DATA						
OMAN	1967	190 ¹⁾	15.5	14.8	17	NONE	0.4%
QATAR	1949	383	23.5	25.0	31	NONE	0.8%
SAUDI ARABIA	1936	4,803	422.0	510.0	540	425	15.7%
UNITED ARAB EMIRATES, of which:	1962	845 ¹⁾	89.6	88.9	121	73	2.75%
ABU DHABI	1962	719	70.0	70.0	.	73	2.1%
DUBAI	1969	118	18.5	18.2	.	.	0.6%
SHARJAH	1974	8	1.1	0.7	.	.	-
TOTAL		10,956	791.30	946.20	1,075	598	29.5%

¹⁾ Situation at 1/1/79

IMPORTS OF CRUDE OIL AND FINISHED OIL PRODUCTS
FROM THE GULF STATES INTO EEC

	Bahrain	Iraq	Kuwait	Neutral Zones	Oman	Qatar	Saudi Arabia	United Arab Emirates	Total Gulf	Total EEC Imports from Gulf Countries	Share of Gulf States in Total EEC Imports
	1999 metric tons										
1977											
Crude Oil	.	47 77,811	30,222	.	1,194	8,546	148,699	33,281	269,823	485,290	55.6
Finished Products	148	332	1,584	-	-	24	705	14	2,807	38,781	7.2
1978											
Crude Oil	.	58 28,735	35,567	.	1,543	8,265	122,162	28,588	254,860	480,011	53.1
Finished Products	314	84	2,467	-	-	-	2,440	26	5,331	50,931	10.5
First six months 1979											
Crude Oil	.	33 22,731	21,055	.	647	4,848	72,593	13,389	145,713	245,110	59.4
Finished Products	-	16	1,056	-	-	-	234	-	1,306	13,701	9.5

Source: Statistical Office of the European Communities

SHARES OF THE ARAB LEAGUE IN EC MAIN PRODUCT IMPORTS
1978
(million EUA)

Products	from world	of which from Arab League
Crude petroleum	37 682	69.5%
Natural gas	1 044	26.3%
Fertilizers	1 134	22.4%
Petroleum products	4 225	17.8%
Cotton	885	17.4%
Vegetables	1 336	10.6%
Dried fruit	2 834	5.9%
Iron ores and concentrates	1 724	5.4%
Clothing	5 286	4.0%
Textiles	4 225	3.0%
Food	10 024	2.1%
Machinery	26 129	1.5%

Source : Study by "Istituto di scienze statistiche e matematiche" of Milan University and published by Eurostat in "EC trade with the ACP states and the South Mediterranean states (n° 1-1980).

EC ARAB LEAGUE TRADE :
IMPORTS, EXPORTS AND TRADE BALANCES WITH INDIVIDUAL COUNTRIES
1979
(million EUA)

EC IMPORTS FROM AND EXPORTS TO :	EC IMPORTS (c.i.f.)	EX EXPORTS (f.o.b.)	BALANCE Exports minus Imports
Saudi Arabia	14 260	6 392	-7 868
Iraq	5 969	2 667	-3 302
Kuwait	4 527	1 354	-3 173
Libya	4 876	3 387	-1 489
United Arab Emirates	3 119	1 790	-1 329
Qatar	870	417	-453
Mauritania	117	103	-14
Jibuti	3	60	+57
South Yemen	43	105	+62
Somalia	26	148	+122
Oman	159	191	+32
Sudan	169	401	+232
Bahrain	45	322	+277
North Yemen	9	294	+285
Tunisia	796	1 233	+437
Syria	612	1 053	+441
Jordan	20	532	+512
Morocco	1 016	1 677	+661
Lebanon	38	819	+781
Algeria	2 764	3 816	+1 052
Egypt	1 186	2 324	+1 138

Source : EUROSTAT : Monthly External Trade Bulletin, 4/1980

OPINION OF THE COMMITTEE ON ENERGY AND RESEARCH

Draftsman : Mr E. MÜLLER-HERMANN

On 15 January 1981 the Committee on Energy and Research requested authority to draft an opinion on Mrs WIECZOREK-ZEUL's report on behalf of the Committee on External Economic Relations.

The Bureau of the European Parliament authorized it to do so. on 23 February 1981.

At its meeting of 26 February 1981 the committee appointed Mr MÜLLER-HERMANN draftsman.

It considered the draft opinion at its meetings of 23 April and 14 May 1981, and adopted it at the latter meeting.

Present : Mrs Walz, chairman; Mr Gallagher, Mr Normanton and Mr Ippolito, vice-chairmen; Mr Müller-Hermann, draftsman, Mr Beazley, Mr Fuchs, Mr Georgiadis, Mr Ghergo, Mr Griffiths (deputizing for Mr Linde), Mr Herman (deputizing for Mr Croux), Mr Kellett-Bowman (deputizing for Mr Purvis), Mr Linkohr, Mr Pedini (deputizing for Mr Rinsche), Mr Percheron, Mr Petersen, Mr Pisani, Mr Price, Mr Sassano, Mr Schmid, Mr Seligman, Mr Turcat, Mr Vandenmeulebroucke (deputizing for Mrs Bonino), Mr Vandewiele, Mrs Viehoff (deputizing for Mrs Charzat) and Mr Veronesi.

Recitals and paragraph 1 of the motion for a resolution

1. Any measures aimed at long-term and comprehensive cooperation between the EEC and the Arab Gulf States to the advantage of both parties deserve support. The attempt to present the Arab Gulf States with an offer that is attractive to all concerned is, therefore, welcome. In this context more use should be made than in the past of the findings of the existing Joint Economic Commission, on which Parliament would like information from the Commission.

2. Realistic results can be obtained provided that the interests and mentality of the Arab Gulf States are properly understood. The Arabs hold the view that it was they who assured the prosperity of the West in the 1950s, 60s and early 70s through exceptionally cheap supplies of oil. Even today they are producing considerably more oil than they need to, in order to guarantee the functioning of the Western economies. They believe that their future would in fact be better assured if they were to leave more oil underground. In the light of this, the Arabs consider that they have already made, and are continuing to make, considerable concessions by comparison with the Western states. The Arab Gulf States are also conscious of their position of power as oil suppliers. But they also regard themselves as the full heirs of an ancient culture. That is why it is important to promote mutual understanding for each other's culture.

3. Even if it takes radical energy-saving measures, turns increasingly to coal and nuclear power and develops new energy systems, the EEC will have to rely on oil imports for its energy supplies for a long time to come, especially for the chemical industry and transport. In the year 2000, 40% of energy will probably still be oil-based. The Gulf States reputedly have over two-thirds of known world oil reserves. Given the present geological information and the predicted increase in world energy demand, the Gulf States could have a monopoly of oil supplies to Europe within 30 to 60 years. That is why the EEC is so heavily dependent on political stability in the Middle East, more so than the USA which, with its own enormous resources, will be far less reliant on Middle Eastern oil within the next ten years. On the other hand, the USA plays an important role in ensuring stability in the Gulf area and the security of oil transport routes. The EEC should therefore try to coordinate its Middle East policy with that of the USA, making sure that the various interests involved are taken into account.

The EEC can therefore make only a limited contribution to political and economic stability in the Gulf and must seek to coordinate its Middle Eastern policy closely with that of the USA.

Paragraphs 2 to 4 of the motion for a resolution

4. These paragraphs touch on highly contentious political issues. It is not for the Committee on Energy and Research to comment on political strategy.

However, it is important to stress that an agreement on long-term energy supplies should be separated as far as possible from the changing political situation in this area.

5. For the EEC, dialogue with the Arab Gulf States is and will remain a central political task with the aim of creating the general background conditions for an expansion of economic and trade relations.

Paragraphs 6 and 7 of the motion for a resolution

6. It is right to advocate cooperation agreements; this view must be qualified, however, when it comes to 'the inclusion of the largest possible number of sectors'. The impression should not be given that a cooperation agreement would imply State regulation in as many sectors as possible. State activity must therefore be restricted and the right conditions created in which dynamic private economic forces can be brought into play.

7. An appropriate answer would be a framework agreement like those which the EEC has concluded with other third countries or groups of states under which the EEC should assume certain responsibilities in its relations with the Gulf States, such as assured trade concessions, the joint financing of development projects, aid for education and training and perhaps the creation of instruments for recycling petro-dollars. Industry should play the leading role in other areas, such as cooperation in energy extraction, the transfer of technology and joint industrial ventures. Under no circumstances should the expansion of trade relations be based solely on bilateral state agreements, private initiative and industrial interests should be involved wherever possible.

Paragraph 8 of the motion for a resolution

8. The creation of a Community oil procurement and prospecting company is a proposal which has frequently been discussed. A good number of reservations must be made as to the purpose it would serve. As a general rule it can be said that in spite of all the criticism levelled at the international oil companies, from various quarters, the international oil supply system proved itself, particularly in times of crisis, simply because of its unusually high standard of logistics and the astonishing flexibility of the oil companies which, in the conflict between Iran and Iraq for example, always assured adequate supplies to the EEC by turning to alternative sources. At present the international oil supply system is the cornerstone of the IEA's and the EEC's machinery for dealing with crises.

9. Consideration must be given to whether a company of this kind can in fact obtain more oil at lower prices. Furthermore, the danger of bureaucracy and national subsidies cannot be dismissed out of hand.

10. It is worth considering whether the new company might increase competition on the oil market, to the benefit of the consumer. It must be borne in mind here that conditions of competition on the oil market are determined primarily by the fact that the oil-producing countries - legitimately from their point of view - will always push for a lower level of supply in order to stretch out their resources to the utmost. The industrialized countries' efforts to cut down their oil consumption and find non-oil based, even if costlier, energy supplies is the other side of the same coin. It is at least worth considering whether state companies might not step up the rivalry between oil purchasers in times of shortage.

11. It is true that OPEC, to which all the Arab Gulf States belong, has repeatedly opposed all forms of purchasing cartels, presumably because they are wary of the creation of a 'counter-force'. At the same time they are keen to conclude agreements with states rather than with international oil companies, primarily in order to exploit every means of exerting political pressure on the importing countries.

12. The proposal for a Community oil-purchasing company must therefore be examined very carefully. It should be mentioned only as a possibility in the report of the Committee on External Economic Relations. It can be given final consideration in the context of the motion on this subject tabled recently pursuant to Rule 47.

Paragraph 9 of the motion for a resolution

13. We support the proposal to contribute to the diversification of the economies of the Arab Gulf States by meaningful transfers of technology. Presumably the Arab Gulf States want their own energy-intensive heavy industry and also to diversify their energy supplies, e.g. by using nuclear power and solar energy.

14. The proposal to link oil deliveries to an undertaking to buy petrochemical products, for example, is dangerous. It could make the EEC's supply situation even more insecure and extend the threat of blackmail to further areas.

15. Giving the Gulf States an artificial advantage in respect of the chemical industry would lead to serious distortion of competition, if only because Saudi Arabia, for instance, levies no taxes at all. The adverse effects would be felt mainly by the developing countries where the EEC has commitments and is striving to promote economic development. Such an arrangement would also run counter to the Gulf States' own declared intention to increase their aid to the Third World.

16. The purchasing guarantee proposed in the resolution also raises the question of the qualitative and quantitative rules which would then be necessary and of the quota system to be applied within the EEC. The problems that arise here must be examined carefully because they would have far-reaching consequences.

Paragraph 10 of the motion for a resolution

17. The proposal that the Gulf States should undertake to supply specific quantities at uniform prices with a binding formula to determine price changes can be regarded only as an internal maximum negotiating aim. It will be extremely difficult to reach agreement on a long-term basis. It must also be noted that the Gulf States have only very recently and with great difficulty freed themselves from their dependence on Britain and the United States, by buying back their oil concessions and rights.

18. The problem of recycling the petro-dollars is a central political issue for the EEC, given its vast deficit on current account, but even more for the Third World countries. As against the huge current account surpluses which the oil-supplying countries cannot use up, there is a worldwide need for capital, particularly in the energy sector. It is becoming increasingly clear that opening up existing energy resources throughout the world requires vast injections of capital. It must also be assumed that in many cases, the market alone cannot ensure that petrodollars will find their way to the 'right' places because the opening up of energy sources often does not become profitable for a long time and even then entails considerable political and economic risks.

The Committee on Economic and Monetary Affairs is responsible for drafting a report on the motion for a resolution tabled by the EPP Group (CD Group) on the creation of a European financial instrument for recycling petrodollars to increase and diversify world energy supplies (Doc. 1-779/80). The Committee on Energy and Research is also involved.

The European Parliament's final opinion on the question of recycling petrodollars should be given only after this report has been carefully considered. The model proposed in Mrs WIECZOREK-ZEUL's report is thus only one of many which must be examined.

Conclusion

19. The Committee on Energy and Research agrees with the Committee on External Economic Affairs that it is the European Parliament's role to express its opinion and point the way ahead in the matter of relations

with the Arab Gulf States and to urge the Commission to take firm action. At the same time the Committee on Energy and Research must emphasize that this is a complex issue. It considers, therefore, that the European Parliament should not define its position on specific questions until it has examined carefully the related problems.

OPINION OF THE COMMITTEE ON DEVELOPMENT AND COOPERATION

Draftsman : Mrs CASTELLINA

On 23 April 1981 the Committee on Development and Cooperation appointed Mrs CASTELLINA draftsman.

At its meeting of 13 May 1981 the committee considered the draft opinion and adopted it unanimously.

Present : Mr Poniatowski, chairman; Mr Bersani, vice-chairman; Mrs Castellina, draftsman; Mr Barbi (deputizing for Mr Lecanuet), Mrs Carettoni Romagnoli (deputizing for Mr Ferrero), Mr Cohen, Mr Enright, Mrs Focke, Mr Fotilas (deputizing for Mr Glinne), Mr Irmer (deputizing for Mr Sablé), Mr Katsafados, Mr Lezzi, Mr Michel, Mr Narducci, Mr Sherlock, Mr Vardakas, Mr Vergeer, Mr Wawrzik and Mrs Wiczorek-Zeul, invited to attend as rapporteur of the Committee on External Economic Relations.

The Committee on Development and Cooperation welcomes the initiative taken by the Committee on External Economic Relations in drawing up a report on trade relations between the EEC and the Gulf States.

The establishment of closer relations between the Gulf States and the EEC is of interest to the Committee on Development and Cooperation for two reasons: from a general point of view, because it is a matter that touches on an increasingly important and necessary process of collaboration between the oil-producing states, the Community and the developing countries, and, more specifically, because the problem of the availability and cost of energy is decisive to the growth prospects of the developing countries.

Clearly, these two issues reflect only a few of the manifold problems of relations between the Gulf States and the Community. The whole range of political, economic and trade-linked problems are dealt with in the own-initiative report drawn up by Mrs WIECZOREK-ZEUL on behalf of the Committee on External Economic Relations, and it is the intention of our committee to confine itself in this opinion to the two aforementioned issues, which fall specifically within its terms of reference. Both these issues involve a principle that has been consistently defended by our committee, namely the need to go beyond the bilateral agreements and eventually to establish an institutionalized, three-way system of cooperation (involving the Community, the oil-producing countries and the developing countries). Speaking of cooperation, it is particularly encouraging to note that the Committee on External Economic Relations advocates that the agreements proposed should not be restricted to questions of trade, but should also encompass all matters of economic, financial and industrial importance, etc. (see paragraph 6 of the motion for a resolution).

Without presuming to exceed its terms of reference, it is nevertheless apparent to our committee that a report dealing with trade relations between the EEC and the Gulf States within the framework of the Euro-Arab dialogue cannot disregard the political difficulties affecting the Middle East. At its meeting in Venice in June 1980 the European Council recognized the need to give added weight to political debate in the Euro-Arab dialogue.

(A) The need to increase the financial resources set aside for the development of the Third World countries

According to the Brandt Report, the achievement of 0.7% growth target in 1985 will require an additional annual transfer from the industrialized to the developing countries of 30,000 million dollars. In its resolution on measures to combat hunger in the world Parliament, for its part, underlined the need for a massive and effective transfer of financial and technological resources to the less-favoured countries and regions.

At the same time, the industrialized countries are tending to use their economic and financial difficulties as a pretext, if not for reducing, then at least for not increasing, the amount of their development aid. This tendency was further confirmed recently at the meeting of the Development Assistance Committee (DAC) of 23 and 24 November 1980.

Finally, the financial situation of the developing countries continues steadily to worsen, notably because of the deterioration of the terms of trade and, in particular, because of the constant increase in their oil bill.

It would be inappropriate to embark in this opinion on an analysis of all the various measures that might be employed to rectify this situation, that is to say, the sort of measures that would permit, inter alia, the mobilization of more financial resources for development purposes. We can only properly concern ourselves here with the possibilities of expanding development aid in the context of the Euro-Arab dialogue and, more particularly, through better cooperation between the Gulf States and the Community.

(a) The recycling of oil revenue surpluses

An initial means of increasing the funds available to the Community Member States and, hence, the resources earmarked for official development aid, might be to exploit the different systems applied for the recycling of oil revenue surpluses. At their meeting in Venice in June 1980 the industrialized countries emphasized the need to improve and develop the recycling process.

In its opinion (dated January 1981) on the problems of recycling, the Monetary Committee of the European Communities draws attention to the difficulties of the present situation, pointing out:

- that in 1980 the OPEC surplus is likely to reach 100,000 to 120,000 million dollars, if not more;
- that the corresponding deficit is likely to be of the order of 80,000 million dollars for the OECD area, including 33,000 million dollars for the Community;
- that this deficit is likely to be 60,000 million dollars for the developing countries that are not oil producers;

- that the medium and long-term, direct and guaranteed official external debt of the latter developing countries increased between end 1973 and end 1979 by a factor of three in nominal terms (from 75,000 to 250,000 million dollars) and by a factor of two in real terms, and that some developing countries are approaching their limit of their capacity to bear debt.

In its analysis of the various aspects of the problems of recycling, the Monetary Committee maintains that in the case of the poorest countries an increase in development aid is an essential part of any solution. To help find a solution at world level, the Community should encourage the OPEC countries to invest their oil revenue surpluses for a longer term, in or outside the markets and in the form of direct loans to the developing countries, more active cooperation with the international organizations and participation in three-way operations.

These objectives, many of which are discussed in the report by the Committee on External Economic Relations, obviously cannot be achieved unless the Euro-Arab dialogue is reactivated in such a way that it will be possible - as Mrs WIECZOREK-ZEUL rightly points out - to conclude bilateral agreements between the EEC and the Gulf States dealing, inter alia, with the terms and procedures for promoting the recycling of oil revenue surpluses. In paragraph 10 of the motion for a resolution submitted by the Committee on External Economic Relations it is suggested that 'the EEC States would offer the Gulf States for their investment of surpluses a guaranteed suitable rate of interest. For this purpose the EEC would set up a guarantee fund in conjunction with the European Investment Bank'.

The system recommended by the Committee on External Economic Relations would certainly ensure 'the smooth operation of recycling', while avoiding a slackening of growth and greater unemployment (see last paragraph on page 7 of the explanatory statement). If this system of recycling was adopted, the advantage of putting floating petrodollars to some use could be enhanced by virtue of the role the ECU is likely to have to play in the reform of the European Monetary System.

For this reason, and again strictly from the point of view of increasing the financial resources available for official development aid, our committee must indicate its support for such a system, while requesting the Commission to consider appropriate EIB guarantee mechanisms and means of participation.

(b) Contribution from the Arab funds to development aid - co-financing

Since 1973-74 the Arab League countries have been steadily increasing their contribution to development aid. It is estimated that the aid granted by the OPEC countries will soon account for as much as 30% of all official aid. This OPEC contribution takes many different forms and is made through various Arab organizations set up for the purpose (see paragraph 10 of the report of the Committee on External Economic Relations).

However, it is primarily thanks to co-financing schemes that the growth in Arab contributions to development aid has been so rapid. Since 1975 a three-way system of cooperation between the Arab countries, the Community and the developing countries - starting with the ACP countries - has become established on the basis of co-financing.

We find, for instance, that there was an expansion of co-financing operations under the First Convention of Lomé. About 23% of the 4th EDF (515 m EUA), earmarked for projects, has become integrated into co-financing schemes. 48 projects are being financed in this way at a total cost of 3,600 m EUA. The main contributors are:

- the Community : 36% (including 19% from the EDF and the EIB)
- the Arab funds : 16%
- the World Bank : 12%.

Taking all the co-financing operations carried out under Lomé I, i.e. those operations in which the EDF and the EIB are jointly involved as well as those in which the EIB is the only party engaged (risk capital and loans with interest rate subsidies), the respective contributions are as follows:

- Arab funds : 713.2 m EUA
- EDF : 518.5 m EUA
- EIB : 258.8 m EUA
- Member States : 723.2 m EUA

Attention should also be drawn to the fact that co-financing plays a part in the implementation of the Maghreb-Mashrek agreements, as well as in the deployment of the financial and technical aid granted to the non-associated developing countries.

In the case of the Maghreb-Mashrek agreements, 6 co-financing operations worth 1,706.7 m EUA have received 148 m EUA from the Arab funds, as against only 130 m EUA from the Commission and the European Investment Bank (situation in November 1980).

Of the instruments through which the Arab funds contribute to development aid, special mention must be made of the International Fund for Agricultural Development (IFAD). Created in 1977 subsequent to the World Food Conference in Rome, IFAD has raised 1,000 million dollars for the development of agriculture in the Third World. Significantly, the OPEC countries contributed as much as 43% of this amount.

These few figures have been provided simply to bring out more clearly the extreme importance of close cooperation between the Community and the Arab States, including the Gulf States, in the matter of development aid. The reactivation of the Euro-Arab dialogue and the conclusion of agreements between the Community and the Gulf States should make it possible to increase cooperation, particularly on the basis of Articles 96 to 200 of the Second Convention of Lomé.

The motion for a resolution submitted by the Committee on External Economic Relations suggests that the Euro-Arab dialogue and the agreements resulting therefrom should lead to the creation of a new 'development fund', which would grant loans on special terms to the oil-importing developing countries (third indent of paragraph 10 of the motion for a resolution). This development fund would be financed by the guarantee fund mentioned earlier. It should be noted that the idea of such a fund is not new: its creation has been prevented hitherto by an absence of political will.

The Committee on Development and Cooperation is of the opinion that such a fund could usefully supplement the existing instruments of development cooperation and thus strengthen the three-way system of cooperation between the Community, the Arab countries and the developing countries. While recognizing the complexity of the technical issues involved, it would ask the Commission to endorse this proposal and to begin forthwith a study of the means whereby it may be implemented.

(B) The need to improve the energy situation of the developing countries

With the advent of the energy crisis, the situation in the energy sector, which was already extremely precarious, underwent a further marked deterioration. Various data relating to the ACP countries will suffice to illustrate this decline:

- in the ACP group per capita consumption of energy sold is less than 100 kg oil equivalent, in other words, four times less than the average for the developing countries and 40 times less than the average per capita consumption in Europe;

- the ACP countries' level of dependence on oil is higher than 80%;
- between 1972 and 1978 the oil bill of these countries increased by a factor of 6.

These few figures speak volumes. They are, moreover, largely substantiated, particularly as far as the disastrous consequences for the economy of the developing countries of the perpetual increase in their oil bill are concerned, by the information gathered by delegations from our committee to the ACP countries.

In the face of this situation the new Convention of Lomé has attached greater importance to energy problems. It is clear, however, that the magnitude of the problem is such that the provisions of Lomé II will not be capable of finding an appropriate remedy. It is therefore essential to introduce complementary measures, particularly within the framework of the Euro-Arab dialogue. The Committee on External Economic Relations calls on the Community and the oil-producing Arab countries to act to bring about 'the formal opening of a world dialogue on energy supplies' as part of the negotiations in the North-South dialogue. The basic principles of the agreement proposed above, concerning the availability of supplies and recycling, might also fall within the scope of this world dialogue (paragraph 12 of the motion for a resolution).

As far as our committee is concerned, the importance of such a world dialogue derives above all from the fact that it will be compelled to take account of the special situation of the developing countries that are not oil producers and to formulate satisfactory solutions.

In the opinion of your draftsman, however, the Euro-Arab dialogue and the agreements resulting therefrom should also lead to a more constructive type of relationship and to more precise commitments as regards the energy policy of the developing countries.

We have already mentioned the possibilities open to the Arab funds for assisting with the financing of projects prepared under the Lomé Convention. Such assistance should accord priority to projects in the energy sector.

Furthermore, your draftsman has already endorsed the proposal that provision be made in the agreements between the Community and the Gulf States for the creation of a development fund. As regards the energy situation, it would seem that the simplest and most effective solution would be to ensure that the poorest developing countries received petroleum products at preferential prices. This solution has already been advocated by the OPEC countries, e.g. at its meeting in Caracas (1980), when an undertaking of principle to take the necessary steps was made. The Community should make every effort, particularly within the framework of the Euro-Arab dialogue, to ensure that this solution is successfully applied.