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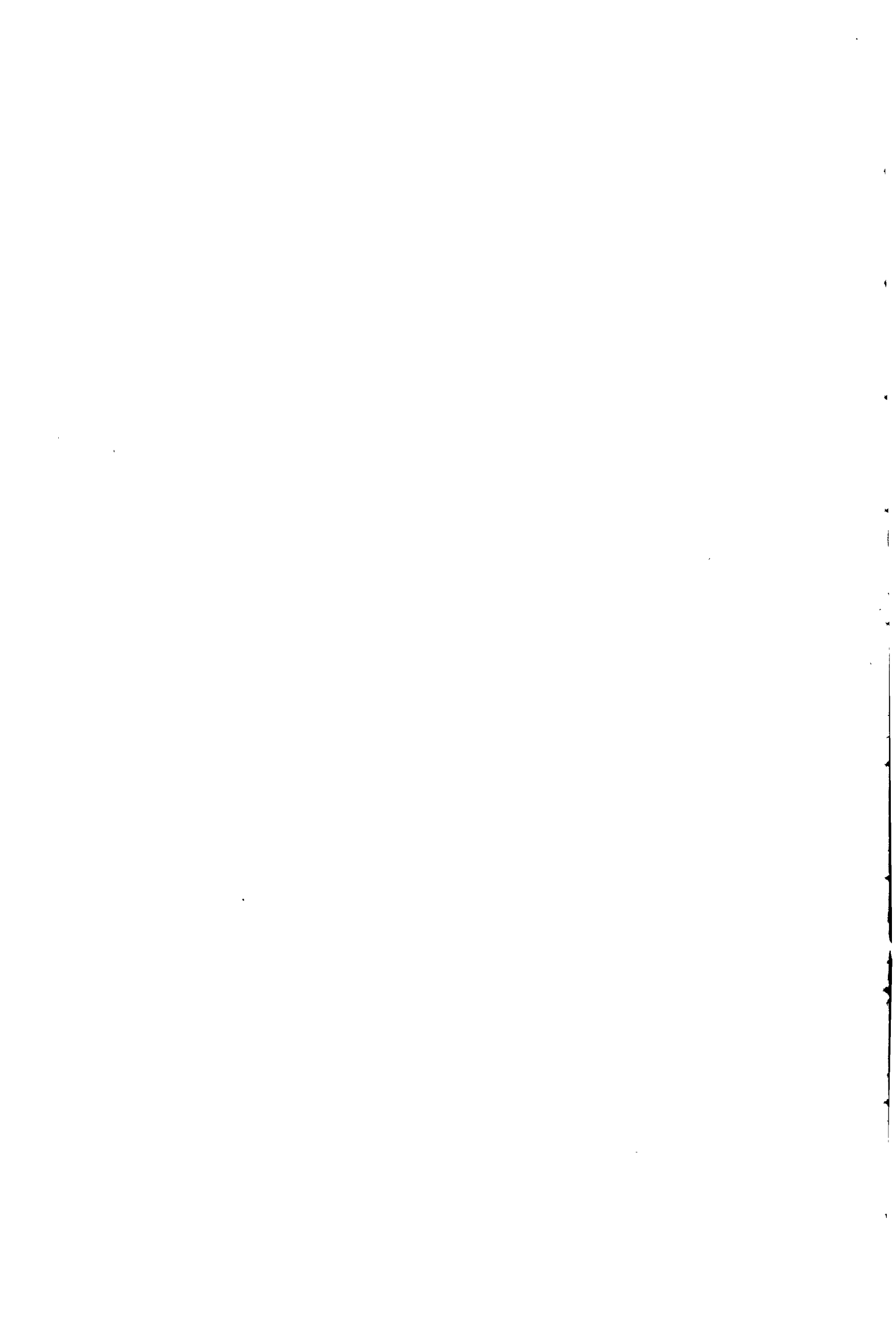
DOCUMENT 1-683/80

Report

drawn up on behalf of the Committee on External Economic Relations

on the proposal from the Commission of the European Communities to the Council (Doc. 1-650/80) for a regulation on the conclusion of the agreement in the form of an exchange of letters between the European Economic Community and the Portuguese Republic concerning the implementation of pre-accession aid to Portugal prior to accession

Rapporteur : Mr R. FILIPPI



By letter of 27.11.1980 the President of the Council of the European Communities consulted the European Parliament on the basis of Article 235 of the EEC Treaty on the proposal from the Commission to the Council concerning a regulation on the conclusion of an agreement in the form of an exchange of letters between the European Economic Community and the Portuguese Republic concerning the implementation of aid to Portugal prior to accession.

The President of the European Parliament referred the proposal to the Committee on External Economic Relations as the Committee responsible and to the Committee on Budgets for its opinion.

The Committee on External Economic Relations appointed Mr FILIPPI rapporteur on 26 November 1980.

At its meeting of 2 December 1980 the Committee on External Economic Relations considered the draft report and motion for a resolution which it adopted unanimously with one abstention.

Present: Sir Frederick Catherwood, Chairman
Mrs Wieczorek-Zeul, Mr van Aersen, Vice-chairman
Mr Filippi, rapporteur
Mrs Caretoni Romagnoli, Mr Bøgh, Mr Dechamps, Mr Giumarra
Mr Hänsch, Mr Irmer, Mr Lemmer, Mrs Lenz, Mrs Moreau L.,
Mr Nord (deputizing for Mr Louwes), Lord O'Hagan, Mrs Pruvot
(deputizing for Mr De Clercq), Mr Radoux, Mr Rieger (deputizing
for Mr Seal), Mr Seeler, Mr Segre (deputizing for Mr Galluzzi)
Mr Spicer, Sir John Stewart-Clark, Mr Welsh.

The opinion of the Committee on Budget is 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

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council concerning a regulation on the conclusion of an agreement in the form of an exchange of letters between the European Economic Community and the Portuguese Republic concerning the implementation of aid to Portugal prior to accession

The European Parliament,

- having regard to the proposal from the Commission of the European Communities (COM(80) 776 final),
 - in view of the need to take careful action to deal with the problems which will inevitably arise in the course of the enlargement of the Community,
 - aware of the need to prepare the Portuguese economy to integrate as smoothly as possible into the economic framework of the Community,
 - with a view to the accession of Portugal in as short a time as possible,
 - having been consulted by the Council pursuant to Article 235 of the Treaty establishing the EEC (Doc. 1-650/80),
 - having regard to the report of the Committee on External Economic Relations and the opinion of the Committee on Budgets (Doc. 1-683/80),
1. Approves the content of the agreement designed to grant Portugal financial aid prior to accession;
 2. Expresses its own agreement to the fact that the sum of 275 million EUA will be allocated to strengthening the Portuguese economy, in particular encouraging improvement of industrial structures and the modernization of agriculture and fisheries, but draws attention to the need to bear in mind when determining how these sums are to be used the need, in general terms, for a balanced development of the regions of that country;

3. Confirms the importance of measures to help small and medium-sized undertakings in Portugal, since they are vital to the Portuguese economy;
4. Draws the Commission's attention to the need to avoid any measures which might lead to the development of industrial sectors for whose products there is no long-term market outlet. Believes, on the other hand, that Portuguese measures must be concentrated in sectors which can contribute to the growth of trade in the enlarged Community and lead to balanced and constructive development;
5. Welcomes the fact that when considering the eligibility of projects, programmes or measures, the Community will take into consideration the mutual interests of both parties (Article 11(2)) and at the same time stresses that it is important for the Community to carry out effective and thorough controls on the actual use of contributions to ensure that they are employed in accordance with the spirit of the agreement and that they do not create, through increases in production in sensitive sectors, imbalances in trade within the Community;
6. Asks that the European Parliament and the Council be regularly informed of the implementation of the content of the agreement;
7. Instructs its President to forward this resolution and the report of its committee to the Council and Commission.

B.

EXPLANATORY STATEMENT

I. INTRODUCTION

Portugal, as we know, has submitted an application for membership of the Community and received a favourable response.

The case for the enlargement of the Community to include Portugal is based on political considerations. No one can fail to recognize the importance of this country's participation in the Community, and it must also be borne in mind that its membership could safeguard and strengthen democracy there.

There is no need to go into the political reasons for the Community's favourable response to Portugal's application for membership, for these are well-known. Nevertheless, it should be stressed in this connection that the 'political' process of enlargement must also succeed in economic terms, otherwise the political considerations and benefits may be jeopardized.

The Commission's present proposal is therefore of importance, as it is intended to help integrate this country into the economy of the Community. The economic problems currently facing the various sectors of the Portuguese economy must be carefully evaluated so that appropriate solutions can be found in each case. Attention should also be drawn to the fact that not only is it necessary to take appropriate economic measures, but it is also essential that these should be implemented in good time, that is, sufficiently in advance of accession. We know that it sometimes takes a fairly long time to achieve real results in transforming a country's economic structures. For these reasons the financial aid proposed by the Commission can and should be given to Portugal before accession as a matter of urgency.

II. THE PORTUGUESE ECONOMY¹

Between 1974 and 1976 there was a slow-down in economic activity accompanied by a substantial rise in unemployment, a marked increase in inflation and a widening of the foreign trade deficit.

1977 saw a sharp upturn in the economy, which was followed by a distinct downturn in 1978 due, among other things, to the fact that in the second half of 1977 and in 1978 the Portuguese authorities adopted a restrictive policy, particularly in the monetary field. Their aim was to reduce the balance of payments deficit and curb the very rapid rise in inflation.

Portugal's gross domestic product grew by 3% in 1978 compared with a 5.5% rise in 1977. The employment market was adversely affected by this, with the numbers of registered unemployed rising from around 7% in 1977 to about 8% in 1978. The increase in consumer prices was still fairly substantial in 1978 compared to the previous year at more than 22.5%. For the second year running price rises outstripped the growth in earnings in 1978.

In 1978 the balance of payments deficit stood at around \$ 780 million, an improvement over the target set by the Portuguese authorities (to reduce the deficit from \$ 1.5 million in 1977 to \$ 1.2 million in 1978).

III. SUBSTANCE OF THE AGREEMENT ON AID TO PORTUGAL PRIOR TO ACCESSION

The Portuguese economy is currently in the throes of a particularly serious crisis. Furthermore, its level of economic development is, generally speaking, lower than in the Community of the Nine. In preparing the economic measures to be funded by Community aid, therefore, account will have to be taken of Portugal's economic problems, which reflect this two-fold problem.

The measures taken will therefore have to be geared to the specific nature and level of development of the Portuguese economy and the associated problems that are part of the crisis facing the country, a crisis which has also affected the economies of the Member States of the Community. The Community aid proposed in this document can be summarized as follows.

¹ The figures given in this section are taken from 'Economic Studies OECD 1 - Portugal - July 1979'.

The principal and avowed aim is to facilitate the smooth integration of Portugal's economy into that of the Community following its accession.

A total of 265 million EUA is to be made available from 1 January 1981 until the date on which the Treaty on Portugal's accession enters into force. This total is broken down as follows :

(a) 150 million EUA in the form of EIB loans granted from its own resources:

(b) 125 million EUA in the form of non-refundable aid.

An interest rate rebate of 3% per annum is to be granted in respect of up to 125 million EUA of the loans under (a), the cost to the Community being limited to a maximum of 25 million EUA. The 150 million EUA provided for in (a) must be used to finance investment projects which will help to increase productivity and strengthen the Portuguese economy. In particular, these projects should encourage the improvement of the country's industrial structures, the modernization of its agricultural and fisheries sectors, and the development of its infrastructures, one of the aims being to promote regional development in Portugal (Article 3).

Of the 125 million EUA referred to under (b), 25 million EUA is intended to finance the interest rate subsidies on the loans granted by the Bank from its own resources, while the remaining 100 million EUA is earmarked for the total or partial financing of the restructuring, modernization and development of small and medium-sized undertakings, the improvement of the production and marketing structures in the agricultural and fisheries sectors, the creation of infrastructures designed to bring about balanced regional development, and the establishment of a national vocational training policy (Article 5).

The Community is responsible for ensuring that its financial aid is being expended in accordance with the agreed allocations and to the best economic advantage (Article 12).

The practical impact of the aid can be evaluated in the joint committee referred to in Article 32 of the Agreement between the European Economic Community and the Portuguese Republic (Article 19).

IV. CONCLUSIONS

It is worth mentioning that the Community, aware of the need to provide aid for the economy of Portugal prior to its accession, has already taken certain measures.

In particular, there is the Commission proposal to the Council (Doc. 1-392/79) concerning special aid for small and medium-sized industrial enterprises in Portugal. The European Parliament has already approved this Commission initiative.

Subsequently it was decided by common accord that financial assistance should be granted for other sectors of Portugal's economy as well as small and medium-sized firms, and this has led to the proposal for aid currently under consideration. The earlier initiative is therefore included in the aid arrangements on which Parliament is now asked to deliver an opinion.

Consequently, due account has been taken in this report of the observations of the Committee on External Economic Relations in connection with the aid for small and medium-sized undertakings.

There is a greater need for Community aid to be directed towards sectors of the Portuguese economy which have a good chance of finding outlets for their products on the Community market. The funds must be used to strengthen the country's economic structure so that it can be integrated as far as possible into the Community economy. It is recommended that the aid should be used in such a way as to ensure the balanced development of the regions of Portugal, as this is one of the factors which will enable it to adjust to the demands of the Community economy. When Portugal accedes and has to accept the commercial commitments already entered into by the Community, it is essential that none of its regions should be underdeveloped in comparison with the Community average. This must be avoided, as the commitments entered into by the Community with non-member countries are currently based on the needs of the Community as it exists at present, and do not therefore take account of the problems of particularly backward regions, whose agricultural products often compete directly with those of non-member countries.

Consequently, the Commission's proposal should be approved as a whole, subject to the views expressed in the opinion of the Committee on Budgets.

¹ See report drawn up on behalf of the Committee on External Economic Relations - Rapporteur: Mr R. FILIPPI (Doc. 1-706/79).

OPINION OF THE COMMITTEE ON BUDGETS

Letter from the chairman of the committee to Sir Frederick CATHERWOOD,
chairman of the Committee on External Economic Relations

Luxembourg, 12 December 1980

Subject: Proposal from the Commission to the Council concerning negotiations on the conclusion of an agreement in the form of an exchange of letters between the European Economic Community and the Portuguese Republic concerning the implementation of aid to Portugal prior to accession

Dear Mr Chairman,

The Committee on Budgets took note of the above document submitted by the Commission at its meeting of 9, 10, and 11 December 1980.

It has no reservations to formulate on the procedure proposed by the Commission.

Yours sincerely,

Erwin Lange

Present: Mr Lange, Chairman; Mr Notenboom and Mr Spinelli, Vice-Chairmen; Mr Barbi, Mr Brok (deputizing for Mr Ryan), Mr Del Duca (deputizing for Mr Aigner), Mr Forth, Mr Fröh (deputizing for Mr Schön), Mr Gouthier, Mrs Hoff, Mr Newton Dunn, Mr Orlandi and Mr Pfennig.

