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# Report

drawn up on behalf of the Committee on External Economic Relations

on economic and trade relations between the European Community and Portugal

Rapporteur: M. Alfons BAYERL

PE 48.277/fin./rev.

English Edition

By letter of 14 December 1976 the chairman of the Committee on External Economic Relations requested authorization to draw up a report on economic and trade relations between the European Community and Portugal.

Authorization was given by the President of the European Parliament in his letter of 17 December 1976. The Committee on Agriculture and the Committee on Budgets were asked for their opinions.

On 18 January 1977 the Committee on External Economic Relations appointed Mr BAYERL rapporteur.

It considered the draft report at its meetings of 15 February, 15 March and 21 June 1977 and unanimously adopted the motion for a resolution and the explanatory statement.

Present: Mr Martinelli, acting chairman; Mr Price, acting rapporteur; Mr Amadei, Mr Baas, Mr Bersani, Lord Castle, Mr De Clercq, Mr Didier, Mr Galluzzi, Mr L'Estrange, Mr Maigaard, Mr Feit (deputizing for Mr Emile Muller), Mr Radoux, Mr Spicer and Mr Vandewiele.

On 14 September 1977 the report was referred back to the Committee on External Economic Relations under Rule 26(2).

The Committee reconsidered the report on 14 September and after making certain amendments unanimously adopted the amended Motion for a Resolution.

Present: Mr Kaspereit, Chairman, Mr Scott-Hopkins and Mr Martinelli, Vice-Chairmen, Mr Van Aerssen, Mr Bersani, Lord Brimelow, Mr Cousté, Mr Fuchs (deputizing for Mr Schwörer), Mr Mitchell, (deputizing for Lord Castle), Mr Price, Mr Radoux, Mr Ripamonti (deputizing for Mr Granelli), Mr Schyns (deputizing for Mr De Koning), Mr Spicer, Mr Vandewiele, Mr Verhaegen ( deputizing for Mr Kunz) and Mr Waltmans.

The opinions for the Committee on Agriculture and the Committee on Budgets are attached.

C O N T E N T S

A

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 economic and trade relations between the European Community and Portugal

The European Parliament,

1. Welcomes the signing of the Additional Protocol and the Financial Protocol which took place on 20 September 1976;

2. Approves the Additional Protocol and the Financial Protocol and hopes that they will be applied by the Member States at the earliest opportunity;

3. Notes with satisfaction that customs duties on imports into the Community of industrial products originating in Portugal were finally abolished on 1 July 1976 instead of 1 July 1977, the date proposed under the Agreement and emphasizes that this measure will help to increase Portugal's industrial exports to the EEC, thereby contributing to the development of Portuguese industry and the improvement of its balance of payments;

4. Considers that the provisions of the Agreement for tariff reductions by the Community on certain agricultural products and preserved fish, the increased quotas for certain wines, and other measures to increase Portugal's agricultural exports to the EEC are vitally important to the achievement of balanced trade relations between the EEC and Portugal, since any increase in Portuguese exports is likely to be led by certain agricultural products;

5. Is aware of the serious economic situation in Portugal and of the need to redress its trade balance, and supports therefore the tariff measures taken to this end by the Portuguese Government, while also requesting the Joint Committee responsible for administering the Agreement to invoke in good time, when such need arises, the right granted to Portugal under the Agreement to introduce effective protective measures;

6. Notes with satisfaction the fundamental difference between the new Agreement and that of 1972 as regards means of cooperation in the field of social security and labour, and financial, industrial and technological cooperation;

7. Requests the Joint Committee to adopt all the necessary measures for administrative cooperation in the social security and labour sectors, to ensure that Portuguese migrant workers in the EEC enjoy equal treatment with national workers;

8. Notes with satisfaction the signing of the Financial Protocol and stresses that this Protocol includes provision for cooperation aimed at speeding up Portugal's economic and social development and strengthening existing ties to the benefit of both parties;

9. Requests the Joint Committee and the appropriate bodies in the Member States to ensure that the financial, industrial and technological cooperation provided for under the Agreement is geared towards restructuring Portuguese industry;

10. Emphasizes the advantages for both parties of strengthening and extending their economic, trade and cooperation relations;

11. Affirms that the establishment of the economic conditions necessary for Portugal to attain full membership of the EEC is the joint responsibility of both parties.

12. Welcomes the response already made by the Community and its Member States to appeals from Portugal for financial aid, and urges the continuation of a positive and coordinated response.

13. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

B

EXPLANATORY STATEMENT

## I. THE ECONOMIC SITUATION OF PORTUGAL

Portugal has a population of 9,588,000. 31.1% of the total labour force is employed in agriculture although that sector contributes only 13 - 14% of the GNP;

Migration from the land was substantial in the period 1961 to 1972 when approximately 960,000 people left farming and, rather than move to the towns, preferred to emigrate, particularly to France.

Portugal is basically a farm-based Mediterranean country, in which 31.1% of the workforce is employed in agriculture, 33.6% in industry, and 29.4% in services[1].

As early as 1974, rising wage costs in particular had caused some labour-shedding in industry. But at the same time service employment rose rapidly and migration from the land slowed. Thus, year on year, the decline in total employment in 1974 remained limited (0.8%), in line with previous years. In 1975, the legislation in force and official intervention in numerous sectors limited the number of redundancies. Even so, employment in industry continued to fall at the same rate, while the number of persons employed in services fell significantly (-3.1%). All told, employment fell by nearly 3%.

As regards wages, the introduction in June 1974 of a minimum wage of 3,300 escudos per month acted as a sharp spur to wages, given that a large proportion of Portuguese workers were affected by this measure.

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1 Perspectives No. 1375, 20.2.1975

The rise in the wholesale price index, which had been moderate in 1970-1973, accelerated sharply in 1974, slowed down in 1975, then quickened again at the beginning of 1976.

The steep rise recorded in 1974 was probably due to the surge in raw material prices in 1973-74. In 1975, a number of factors combined to slow down the rise in prices. This was true of imported raw materials, prices of which showed little increase, and wages, which advanced less rapidly than in 1974.

The average rise in wholesale prices was thus reduced from 29% in 1974 to 13% in 1975[1].

As regards the components of this trend, however, wholesale prices of agricultural products moved very differently from those of industrial products. Wholesale prices of farm goods rose by approximately 30% in 1974 and 1975. This was due partly to the rise in farmers' production costs, but also to the authorities' desire to maintain farm incomes at a more acceptable level.

Furthermore, the increase in the resident population, due to repatriation from the former colonies, generated additional demand for food products. This came on top of a demand which had already undergone extensive changes as a result of the large-scale process of income redistribution begun in 1974. Supply, on the other hand, was unable to adjust to meet these new circumstances. Most firms used up stocks built up in 1974. But for some sectors, especially perishable goods, the rise in prices was phenomenal in 1974 and 1975.

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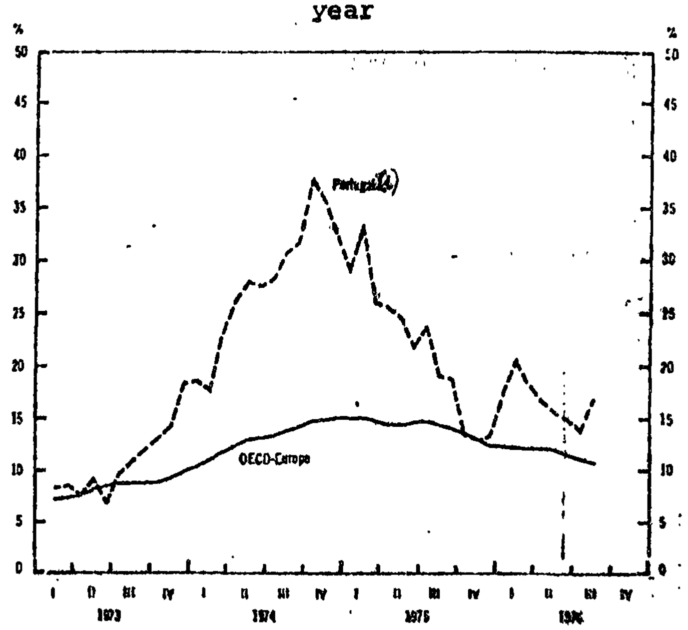
1 OECD Economic Surveys - 'Portugal', November 1976

Table 1 - Consumer prices

Percentage change from corresponding period of previous year




Sources: National Statistics Institute, Monthly Bulletin of Statistics; OECD, Main Economic Indicators

As regards foreign trade, merchandise imports in volume terms fell by about 27% in 1975 after rising by roughly 11% in 1974[2]. Their growth in 1974 was essentially due to the heavy demand for consumer goods caused in part by a redistribution of incomes that served to increase considerably the purchasing power of wage earners, especially those in the lower income group. The difficulties faced by the Portuguese productive system in trying to satisfy this demand led to massive recourse to imported consumer goods. The downturn in 1975 was especially marked in the case of capital goods. The weakness of productive investment was responsible for the fall in imports of these goods.

The downturn in other major import categories was attributable to the domestic recession, and stock liquidation by enterprises. Another cause of the downturn of imports in 1975 was the introduction of an import surcharge which affected about 40% of all imported products and was designed to curb imports of non-essential items.

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[1] Lisbon, excluding rent

[2] OECD economic surveys - 'Portugal', November 1976

The European Community is by far Portugal's largest customer and supplier and approximately 45% of its foreign trade is with the Community,

Portugal's balance of trade with the EEC is heavily in deficit. In 1975 this deficit was considerably reduced particularly as a result of the domestic recession and the introduction of the import surcharge.

Table 2

IMPORTS TO PORTUGAL FROM THE COMMUNITY

(thousand u.a.)

| Year | Europe of the Nine | Europe of the Six | Germany | France | Italy | Netherlands | Belgium/ Lux. | United Kingdom | Ireland | Denmark |
|---|---|---|---|---|---|---|---|---|---|---|
| 1974 | 1,656,886 | 1,276,046 | 522,463 | 309,527 | 209,174 | 120,796 | 114,086 | 347,695 | 6,154 | 26,991 |
| 1975 | 1,150,501 | 862,672 | 314,407 | 260,420 | 130,859 | 85,298 | 71,688 | 263,998 | 1,727 | 22,104 |
| 1976 (6 months) | 711,539 | 540,707 | 197,067 | 165,851 | 77,399 | 56,003 | 44,387 | 154,186 | 5,709 | 10,937 |

EXPORTS FROM PORTUGAL TO THE COMMUNITY

(thousand u.a.)

| Year | Europe of the Nine | Europe of the Six | Germany | France | Italy | Netherlands | Belgium/ Lux. | United Kingdom | Ireland | Denmark |
|---|---|---|---|---|---|---|---|---|---|---|
| 1974 | 911,064 | 421,037 | 149,952 | 119,102 | 64,798 | 45,599 | 51,586 | 416,384 | 11,519 | 52,160 |
| 1975 | 801,745 | 427,960 | 169,901 | 114,616 | 54,740 | 38,871 | 49,832 | 323,098 | 10,118 | 40,569 |
| 1976 (6 months) | 424,975 | 250,596 | 90,413 | 72,358 | 30,789 | 30,621 | 26,415 | 143,913 | 5,945 | 24,521 |

As regards the balance of payments, the current account, which was in surplus from 1966 to 1973, showed a deficit of 823 million dollars in 1974, with a trade deficit more than twice as large as in 1973. In 1975, the current deficit was of the same order as in 1974. These deficits, to which must be added net outflows of non-monetary capital in 1975, were financed by heavier official borrowing from abroad and by a substantial drawing on the foreign exchange reserves.

In the first half of 1976 the trade deficit was slightly higher than in the first half of 1975 (860 million dollars in the first half of 1976 against 827 million dollars in the first half of 1975).

Table 3 - Balance of Payments
Portugal - Rest of the World
(million dollars)

| | 1973 | 1974 | 1975 |
|---|---|---|---|
| Exports (fob) | 1855 | 2288 | 1937 |
| Imports (fob) | 2763 | 4277 | 3541 |
| Trade balance | -908 | -1989 | -1605 |
| Current balance | 349 | 823 | - 734 |
| Change in reserves | +328 | - 569 | - 687 |

Source: Bank of Portugal

Portugal trades actively with the United Kingdom, Ireland and Denmark. This carried particular weight in the development of its relations with the EEC countries, particularly after the enlargement of the Community.

## II. RELATIONS BETWEEN THE EEC AND PORTUGAL

The enlargement of the Community to include the United Kingdom, Ireland and Denmark made it necessary for Portugal to review its relations with the Community.

Portugal could not remain cut off from the enlarged Community, since the new members of the EEC, especially the United Kingdom, had particularly important trade links with it.

On 28 May 1970, the Portuguese Government sent a Memorandum to the Community based on the principles laid down in point 14 of the final communiqué of the Conference of Heads of State or Government of the European Community in the Hague in December 1969, which offered those EFTA countries which were not acceding to the Community, negotiations for closer relations with the enlarged European Community. Negotiations between Portugal and the European Community opened in December 1971 and were concluded in July 1972. During these negotiations Portugal pursued three main objectives:

- to maintain its strong position on the Danish and British markets (which accounted for more than 25% of Portugal's total exports);
- to obtain access to the markets of the enlarged European Community for its agricultural products;
- to maintain protection for its industry.

The Agreement was signed in Brussels on 22 July 1972 and entered into force on 1 January 1973.

This agreement was one of a series of bilateral agreements with the member countries of EFTA not acceding to the European Community.

The features which distinguish the EEC-Portugal Agreement from other agreements with EFTA countries are the inclusion of a chapter on agriculture and the fixing of an extended timetable for the dismantling of tariffs to provide Portuguese industry with a longer period of adjustment.

The agreement also includes a future development clause.

Portugal attaches particular importance to this clause, which allows it to develop even closer relations with the Community.

On 27 June 1974, at a meeting of the Joint Committee responsible for the management of the 1972 agreement, the Portuguese delegation said that its government was looking for a strengthening of cooperation links with the Community going beyond the 1972 Agreement, on the basis of the future developments clause in Article 35 of the Agreement between the Community and Portugal of 22 July 1972.

In June 1975 the Commission presented to the Council a series of proposals designed not only to improve and extend free trade between the EEC and Portugal but also to grant immediate financial aid.

This aid was to help the Portuguese Government to overcome the economic crisis without awaiting the conclusion of a financial protocol which could not be implemented without long delays. On 7 October 1975 the Community granted Portugal special emergency aid of 180 million u.a. (150 million in the form of EIB loans and 30 million as interest reductions to be paid by the Community budget).

The Council then authorized the Commission to open negotiations with Portugal to improve and extend the 1972 Agreement. Talks opened on 13 February and were concluded on 9 June 1976.

On 20 September 1976 the following documents were signed:

- an Additional Protocol to the EEC-Portugal Agreement of 1972, including new trade provisions on cooperation in industry, technology, finance and labour;
- a Financial Protocol on financial aid to reinforce and consolidate the emergency aid already granted to Portugal;
- an Interim Agreement on the advance application of the trade provisions of the Additional Protocol.

The first two documents will have to be ratified by national parliaments; for this reason an Interim Agreement was concluded so that the new provisions on access to the Community market for certain Portuguese products could be brought into force immediately.

The Additional Protocol includes provisions on trade and cooperation and social measures.

The trade provisions of the Additional Protocol cover the following two sectors:

(a) Industry

- for industrial products subject to the general arrangements for tariff dismantling, the final abolition of customs duties on imports to the Community was brought forward from 1 December 1977, the date stipulated in the 1972 Agreement, to 1 July 1976.

This provision has already been applied in advance. For sensitive products, for which the 1972 agreement makes special provision, the protocol lays down individual improvements.

(b) Agriculture

- The Community will reduce tariffs for certain agricultural and fishery products in addition to the concessions already granted under the 1972 Agreement.

The Community will increase the volume of the tariff quotas for wines and the rate of tariff reductions for port, madeira, and Setubal muscatel.

Finally, the trade provisions of the Agreement modify some of the provisions of the 1972 Agreement on imports, to allow Portugal to give greater protection to some of its weakest industries.

The Additional Protocol contains further provisions on the following points:

(c) Cooperation

- Cooperation will be introduced in the industrial, technical and financial sectors. This cooperation will be designed to accelerate the economic and social development of Portugal.

(d) Labour and social provisions

- There will be no discrimination against Portuguese workers in the Community as regards working conditions, earnings, medical care etc.

The contents of the Financial Protocol are as follows:

- amount: 200 m u.a. in the form of EIB loans granted from own resources, 150 of which have reduced interest rates of 3% per annum (charge to the Community budget: 30 m u.a.);

- duration: 5 years, from the date of entry into force of the Protocol and in any case not earlier than 1 January 1978 (the special emergency aid of 180 m u.a. granted in October 1975 was designed to cover the years 1976 and 1977);

- objectives: the financing of investment projects which help to increase productivity and diversify the Portuguese economy, encouraging in particular the industrialization of the country and the modernization of farming. The loans with reduced interest rates are reserved for the financing of small and medium-scale undertakings, for improving economic infrastructures, developing farming and for the industrial processing of agricultural and fishery products.

CONCLUSIONS

Economically, the present situation in Portugal is extremely difficult, but it must be viewed objectively. In recent years, Portugal has suffered the consequences of the increase in world raw material and energy prices and the results of the world-wide recession. In addition to these difficulties, which it shares with many other countries, Portugal has special problems resulting from a prolonged period of change in its social and economic structures. These circumstances have had serious effects on economic activity.

Present imbalances in the country's economy require action to keep the rate of inflation under control, restore financial balance in the public and private sectors and especially to keep the balance of payments deficit within acceptable limits.

Among the measures which are essential if stability is to be achieved are a temporary reduction in private consumption in real terms, except for the lowest income groups, and a brake on the volume of public consumption to allow reserves to be redirected towards investment.

Some action will have to be taken to alleviate the unemployment problem (particularly selective state action) and there will have to be an adequate flow of funds for consumers, for refugees from overseas and other particularly needy social groups.

The Portuguese government is committed to bringing the balance of payments and the rate of exchange under control to attain the immediate objective of stabilizing the economy, while at the same time guaranteeing suitable conditions for a return to expansion.

The short-and-medium-term problems involved in stabilizing the Portuguese economy demonstrate Portugal's need for economic, financial and cooperation aid in the more problematic sectors of its economy so that government measures may achieve the results required to place the country's economy once more on a healthy footing.

The EEC-Portugal Agreement signed on 20 September 1976 will certainly contribute to solving the short-term problems since it will encourage exports, thus aiding the industrial development of the country and helping to reduce its balance of payments deficit.

One of the most important tasks of the near future is solving the balance of payments problem.

Up to the beginning of the 1970's Portuguese exports represented approximately 50% of imports but tourist earnings and in particular money sent home by migrant workers kept the balance of payments regularly in surplus.

The potential for tourist development remains one possibility which could have important practical results. Further measures should be introduced to attract deposits by migrant workers in addition to those already taken. But in view of the general prospects for migrant workers in Europe this category of earnings is not likely to increase very rapidly. The drying up of supplies of cheap raw materials from the overseas territories until recently linked with Portugal will increase the difficulties of restoring the balance of payments and relaunching the country's economy.

The growth of foreign trade is therefore of prime importance in solving the balance of payments problem. Exports will have to be increased and imports kept at a reasonable level. In this respect agricultural exports will play a vital role. The EEC-Portugal agreement providing for special tariff reductions on certain agricultural and fishery products and preserved products will thus help the growth of foreign trade and improve the balance of payments.

Growth in exports of non-agricultural products will depend not only on the growth of world trade but also on diversification. Thus the financial aid granted by the Community under the financial protocol will be a useful instrument for increasing productivity and diversifying the Portuguese economy by encouraging industrialization.

OPINION OF THE COMMITTEE ON AGRICULTURE

Draftsman: Mr M. CIFARELLI

On 20/21 January 1977 the Committee on Agriculture appointed Mr CIFARELLI draftsman.

It considered the draft opinion at its meeting of 26/27 April 1977 and adopted it unanimously.

Present: Mr Houdet, chairman and deputizing for the draftsman; Mr Laban, vice-chairman; Mr Albertini, Lord Brimelow (deputizing for Mr Frankie Hansen), Mrs Dunwoody, Mr Früh, Mr Guerlin, Mr Ove Hansen, Mr Hoffmann, Mr Hughes, Mr Hunault, Mr Klinker, Mr de Koning, Mr Pisoni, Lord St. Oswald (deputizing for Mr Scott-Hopkins).

## I. Links between the EEC and Portugal

1. The recent signing of the Additional Protocol to the EEC-Portugal agreement of 1972, and of the Financial Protocol, which provides for Community loans totalling 200 million u.a. over five years, but more especially Portugal's recent application for accession and the consequent prospects for this accession in the not-too-distant future place current relations between the Community and Portugal in a completely new light.

2. Hitherto trade relations with Portugal had been governed only by the 1972 Agreement, which entered into force on 1 January 1973, as one of a series of agreements between the Community and the non-applicant EFTA countries[1].

This Agreement also includes, in Article 35, a future developments clause, whereby if one of the contracting parties considers that it would be useful in the common interest of both parties to develop the relations established by the agreement by extending them to fields not covered thereby, it must submit a reasoned request to the other contracting party. The Additional and Financial Protocols, signed on 20 September 1976, were concluded on the basis of this clause and, when ratified, will constitute an integral part of the 1972 Agreement.

An Interim Agreement, already in force, brought the trade provisions of the Additional Protocol into force immediately, anticipating the entry into force of the Protocol[2].

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[1] Regulation No. 2844/72,19.12.1972 - OJ No. L301, 31.12.1972

[2] Regulation No. 2338/76, 20.9.1976, OJ No. L266, 29.9.1976

II. The content of the Agreements in the agricultural sector

3. The most important concessions of the 1972 Agreement and the Additional Protocol are in the agricultural sector. This is by reason of the Preponderant role which farm products play in Portugese exports, particularly to Denmark and the United Kingdom, under the preferential arrangements set up under EFTA.

The following are the main concessions for agricultural products in the 1972 Agreement:

| | Rate of reduction in CCT |
|---|---|
| - mullet, dace, sole, oysters, clams or cockles (provided that the reference price is observed) | 100% |
| - new potatoes (1.1/28.2 | 33% |
| - tomatoes (1.1/28.2 | 50% |
| - sweet peppers | 30% |
| - leguminous vegetables | 50% |
| - figs, fresh or dried | 30% |
| - frest grapes (1.1/31.3) | 50% |
| - nuts | 50% |
| - strawberries (1.10/28.2) | 15% |
| - locust beans | 50% |
| - preserved crustaceans | 50% |
| - preserved sardines (provided a minimum price is observed) | 40% |
| - preserved olives | 50% |
| - prepared or preserved tomatoes: (for a quantity of 70,000 tonnes of which: 50,000 to the three Member States and 20,000 to the six original - provided a minimum price is observed)[1] | 30% |
| - wines: Port (20,00 hl in bottles) | 60% |
| (285,000 hl in casks) | 50% |
| Madeira (15,000 hl) | 30% |
| Setubal Muscatel (3,000 hl) | 30% |

[1] Quantities were later increased to 90,000 tonnes, of which 62,000 towards the three and 28,000 towards the original six.

4. With the Interim Agreement which has already entered into force, the following amendments or additional concessions relative to the 1972 Agreements have been introduced:

| | Rate of reduction in CCT |
|---|---|
| - preserved caviar and herring | 100% |
| - preserved bonito and mackerel | 50% |
| - preserved crustaceans and molluscs | 100% |
| - cucumbers and sweet peppers preserved in vinegar | 50% |
| - cauliflowers preserved in vinegar | 30% |
| - sweet peppers preserved otherwise than by vinegar | 30% |
| - wines: Port (35,000 hl in bottles) | 60% |
| (280,00 in casks) | 50% |
| Madeira (1,500 hl in bottles) | 60% |
| (14,500 hl in casks) | 50% |
| Setubal Muscatel (1,000 hl in bottles) | 60% |
| (2,000 hl in casks) | 50% |

## III. Portugese exports to the EEC

5. As can be seen from the table in Annex 1, Portugal's main exports to the Community in agriculture are as follows (1974):

| | |
|---|---|
| - preserved sardines | 15,184 t |
| - preserved tomatoes | 45,915 t |
| - wines | 59,914 t |
| - resiniferous timber | 79,979 t |
| - cork | 48,286 t |

6. In general the Portugese balance of payments has been marked by heavy deficits, increasing from 933.4 million dollars in 1972 to 1,211.1 in 1973 and 2,338.6in 1974.

For the European Community the figures are as follows:

| | 1973 | 1974 | |
|---|---|---|---|
| - exports from Portugal | 905.2 | 1,109.5 | (million dollars) |
| - imports | 1,379.7 | 2,020.0 | |
| - deficit | - 474.5 | - 910.5 | |

The following are the figures for the main countries (in million dollars):

| | 1973 | 1974 |
|---|---|---|
| Germany: | | |
| Imports from Portugal | 140.0 | 183.9 |
| Exports | 443.4 | 626.5 |
| United Kingdom: | | |
| Imports from Portugal | 442.5 | 524.2 |
| Exports | 349.7 | 430.6 |
| France: | | |
| Imports from Portugal | 96.0 | 136.4 |
| Exports | 213.3 | 355.7 |
| Italy: | | |
| Imports from Portugal | 59.2 | 74.6 |
| Exports | 160.1 | 248.3 |

7. The main agricultural products imported by Portugal from other countries are cereals and flour (149.0 million dollars in 1973 and 311.5 in 1974) and maize (84.6 and 150.6).

## IV. The agricultural situation in Portugal

8. Portugal, with an area of 92,000 $km^2$, has a population of 9 million, 28% of whom are employed in agriculture. The usable agricultural area is 4.9 million hectares; the share of agriculture in the gross domestic product is 14%, and represents 14.6% of all exports.

The main agricultural products are as follows[1]:

| 1974 | Surface sown 000 ha | Yield kg/ha | Production 000 t |
|---|---|---|---|
| Wheat | 461.6 | 1,156 | 533.6 |
| Maize | 359.8 | 1,350 | 485.5 |
| Rye | 209.8 | 681 | 142.8 |
| Rice | 33.0 | 3,927 | 129.5 |
| Oats | 170.6 | 581 | 99.1 |
| Barley | 93.5 | 797 | 74.5 |
| Beans and peas | 383.4 | - | 80.9 |
| Potatoes | 111.7 | 9,972 | 1,114.5 |

[1] These and other figures taken from 'Anuário Estatístico 1974'. page 157.

| | | |
|---|---|---|
| Wine | 13,872.5 | thousand hl |
| Olive oil | 525.6 | " " |
| Tomatoes | 701,000 t | |

9. Up-to-date figures on the structures of Portugese agriculture are not available. In 1968, of a total of 817,011 farms, 18,376 were without land, 155,427 had land of less than half a hectare, 503,725 between 0.5 and 5 hectares, 130,422 from 5 to 50, 6,533 from 50 to 200, 2,044 from 200 to 1,000, and 463 more than 1,000.

There are also great regional differences, with small farms, just able to survive economically, in the north and centre, and vast estates under-farmed in the south. Only agricultural reform and redistribution of land in the south could make further arable land available to farming.

The high rate of emigration (in 1974, 580,000 Portugese were working abroad) and the serious farm-food, deficit caused by the need to import the principal products, are the result of this structural inadequacy and of the fact that 1.1% of landowners possess more than 50% of the land, which is often under-farmed.

Action to improve structures will require a considerable financial effort, larger farms, and a decentralized processing industry for agricultural products to enable young people to remain on the land, a restructuring of production, the abandonment of certain marginal products, earlier retirment of older farmers, etc. All this will require, in the years pending Portugal's accession, enormous efforts to which the Community must make a major contribution.

## V. The problem of tomato products

10. Tomato products, particularly tomato concentrates, are the most sensitive of Portugal's exports to the Community.

World production of fresh tomatoes has rised sharply in recent years, rising from 15 million tonnes in 1955/56 to more than 36 million tonnes in 1975. Approximately half the annual production comes from Mediterranean countries, in particular in southern Europe (Greece, Yugoslavia, Italy, Spain and Portugal); the largest producer is still Italy with approximately 3.5 million tonnes.

Production of fresh tomatoes in the Community in 1975 was as follows (in thousands of tonnes)[1]:

| | |
|---|---|
| - Italy | 3,512 |
| - France | 639 |
| - The Netherlands | 347 |
| - Belgium | 134 |
| - United Kingdom | 120 |
| - Germany | 32 |
| - Ireland | 26 |
| - Denmark | 20 |
| | 4,830 |

The result of this production explosion has been a notable increase in world production of tomato products, particularly tomato concentrates, which in 1973 exceeded 2.3 million tonnes, almost double the already high figure for 1971; for peeled tomatoes, total production is estimated at 1.16 million tonnes, an increase of approximately 25% over 1971. In addition to the Mediterranean countries, some Eastern countries such as Bulgaria, Poland and Romania have arrived on the scene.

11. Over a period of 20 years, Portugal's production of tomato products has risen from around 6,000 tonnes to 144,000 tonnes in 1974, almost all tomato concentrates. Other producer countries have experienced similar growth.

In 1974 Portugal exported almost 46,000 tonnes of preserved tomatoes to the Community, for the most part to the United Kingdom (35,645 t), with Germany a long way behind (3,657 t). It is interesting to note that Italy's share in the Community market, which in 1962 had reached 62% of total EEC imports, fell in 1974 to 45% to the benefit of other Mediterranean countries, in particular Greece and Portugal.

[1] Source: The agricultural situation in the Community - 1976 -, p. 295

12. The problems of Community production are well known; the existence of large stocks, particularly of peeled tomatoes. In 1976 it was estimated that 200,000 tonnes of peeled tomatoes and 60,000 tonnes of tomato concentrates were unsold, although these stocks were subsequently greatly reduced. In the same year 124,500 tonnes of fresh tomatoes had to be withdrawn in Italy by the intervention agencies, and smaller quantities (8,520 t) in Holland.

The Commission was therefore forced to adopt various measures to cope with the crises in tomato products: an increase in exports to third countries, by increasing export refunds; strengthening Community protection against low-priced imports from the Mediterranean countries, particularly through the establishment of a minimum price for imports of these products from Greece, which previously was able to market its products without restriction; an increase in intra-Community trade, particularly through the introduction of compensatory amounts on trade between the original Six and the three new Member States, thus in effect subsidizing exports from the former to the latter[1].

13. To sum up, the question of tomato products will be one of the most thorny problems in the accession negotiations. Even though in the overall political and trade context it may appear a minor problem, it should not be forgotten that the incomes of several thousand Community farmers, and of those working in the processing industries, are at stake, and any solution must reconcile the various interests and in particular ensure that the situation is not neglected and allowed to deteriorate, with the damaging results that would entail for all concerned.

[1] For the problems of tomato products, see inter alia the report by Mr Liogier, Doc. 224/76.

VI. Preserved sardines

14. A similar problem to that of tomato products arises for preserved sardines[1]. In 1974 production was 31,400 tonnes in France and 4,900 tonnes in Italy. Imports from both countries to the Nine were 43,509 tonnes; exports were 2,993 tonnes, and the Community's degree of self-sufficiency was therefore approximately 47%. Imports from Portugal were around 15,184 tonnes, of which about 6,000 went to Germany and approximately 3,000 to the United Kingdom.

The arrangements in force with Portugal are those laid down in the 1972 Agreement: reduction of the CCT by 40%, subject to the observance of a minimum price applied from 1 February 1973 and subsequently extended. This system has operated up to now without major problems and should be extended also to the Maghreb countries and all other third countries.

15. In spite of the protection afforded by the minimum price system, the French preserved sardine industry has been in difficulties because of competition from lower-priced products from other Mediterranean countries, and has therefore asked for a sizeable increase in the minimum prices applied to Portugal. Taking into account the number of fishermen and of workers in related canning industries etc., the Commission calculates that approximately 100,000 workers in the Community depend directly or indirectly on production in this sector.

Problems in this sector, too, should therefore be followed closely during negotiations on Portugal's accession, to prevent the damaging effects which might occur and the dangers for employment levels in the Community.

VII. Wine

16. For olive oil there should be no special problems since Portugese production is very limited (around 53,000 tonnes in 1974, 54,000 in 1975 and 44,000 in 1976, of which less than 10% is exported). For wine, however, difficulties could arise if totally free circulation of this product were introduced.

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[1] For problems in this sector, see Kofoed report, Doc. 529/76.

17. Wine production in Portugal was 11,322,000 hl in 1973, 14,085,000 in 1974 and 9,158,000 in 1975. Exports during the same period to all countries were respectively 2,090,000 1,850,000 and 2 million hl.

As regards the Community of Nine, imports of Portugese wine were as follows[1]:

| 1970/71 | 1971/72 | 1972/73 | 1973/74 | 1974/75 |
|---|---|---|---|---|
| hl594,668 | 600,548 | 770,102 | 691,126 | 521,264 |

Per capita consumption in Portugal is approximately 96 litres per annum.

18. Although the situation in this sector, taking Portugal alone, does not for the time being appear alarming, major problems could arise in the future through the interaction of various concomitant factors: the accession of Greece, Portugal and possibly Spain would increase the Community's self-sufficiency rate in wine to 116%, with a surplus of 40 million hl, which would be difficult to dispose of in third countries; wine production in the three new countries would probably increase considerably, partly as a result of structural reforms; the Maghreb countries (Algerian wine), Turkey, etc. would have their products completely barred from the Community. Current tension between Community countries ('wine war' between France and Italy) could be aggravated etc.

## VIII Comments and Conclusions

19. From these brief notes (the Committee on Agriculture will have to pay closer attention to all these matters when considering the application for accession), a first series of conclusions can be drawn on arrangements with Portugal in agriculture, which can be summed up in the following three points:

(a) There are problems for certain sensitive products, such as tomato concentrates, preserved sardines, some fruit and vegetables (table grapes) and wine;

[1] Source: COM(77) 22 final, Table 16 - See also Annex 1

(b) However, these problems could be resolved fairly easily provided they were dealt with decisively during the accession negotations and not left pending until the situation improved, as happened in some cases (New Zealand butter, fisheries, etc.) during the preceding negotations on the enlargement from six to nine members, and in particular if they are considered not in isolation but in an overall context, taking into account all the political, commercial and economic implications of future accession;

(c) The most serious difficulties in agriculture, however, arise from structural differences: generous financial aid from the Community will therefore be necessary to bring Portugese agriculture up to a level comparable with that of the Community.

20. These three observations, still in the domain of agriculture, call for the certain comments, which follow logically, or are closely related;

- The strengthening of economic relations with Portugal, and even more so, accession, will have marked effects on the agriculture of the other Mediterranean countries within or outside the Community, especially for some products, and these will have to be borne in mind;

- To thrust a country with an agricultural structure as weak as Portugal's is at present into a system of unrestricted competition and freedom of trade would be to risk upsetting its weakest sectors, such as cereals and livestock, and do more harm than good;

- On the other hand, the lower production costs in some sensitive sectors could do a great deal of damage to similar Community products, whose costs, in view of the different standards of living and other economic factors, are markedly higher;

- Some of the machinery of the common agricultural policy, in particular the use of present price levels to support farmers' incomes, will probably have to be altered to take account of the requirements of Portugese agriculture and of the other countries applying for accession;

- A measure of production planning, taking account of the special features of various regions, should be introduced to secure the best guarantees of quality and the best use of the land.

21. To conclude these initial considerations, the extension of the Community's economic relations with Portugal will be neither easy nor rapid. Great efforts will be needed on both sides, and if the Community wishes to obtain political advantages from Portugese accession it will have to accept the costs, in the form of direct investment and a major financial contribution to strengthen weak agricultural structures. If such efforts are not made, it will be difficult to welcome Portugal as a new full member of the Community in 1985.

Exports to the EEC of some major agricultural products (1)

| 1974 | Preserved sardines | | Preserved tomatoes | | Wine | | Resiniferous Timber | | Cork | |
|---|---|---|---|---|---|---|---|---|---|---|
| | t | '000 escudos | t | '000 escudos | t | '000 escudos | t | '000 escudos | t | '000 escudos |
| Germany | 5988.0 | 221,679 | 3.657.0 | 45,425 | 7053.9 | 207,738 | 30277.1 | 403.954 | 10,959.5 | 433.298 |
| Belgium/Lux. | 2107.6 | 77,303 | 553.5 | 7,807 | 4438.9 | 172.853 | 501.0 | 7,496 | 1,602.3 | 59,044 |
| France | 1954.8 | 56,876 | 469.6 | 8,249 | 16229.5 | 613,234 | 16252.0 | 209,896 | 11,298.5 | 481,520 |
| Netherlands | 211.6 | 6,661 | 322.6 | 6,230 | 3433.1 | 110,677 | 14439.3 | 204,970 | 4,096.4 | 61,935 |
| Italy | 1502.3 | 43,502 | 3,308.4 | 42,033 | 3936.8 | 156,686 | 7405.1 | 91,858 | 8,649.3 | 255,764 |
| Denmark | 426.8 | 13,514 | 1,959.2 | 35,645 | 8109.3 | 153,455 | 1237.5 | 18,212 | 843.5 | 24,833 |
| United Kingdom | 2992.9 | 82,845 | 35,645.0 | 797,769 | 15989.9 | 539,304 | 9857.2 | 144,216 | 10,399.2 | 313,793 |
| Ireland | - | - | 464.0 | 4,937 | 722.9 | 28,063 | 10.0 | 157 | 438.1 | 8,680 |
| TOTAL: | 15,184.0 | 502,380 | 45,915.3 | 948,095 | 59,914.3 | 1,982.010 | 79,979.2 | 1,080,759 | 48,286.8 | 1,638,867 |

(1) Source: Anuário Estatistico 1974, page 264

OPINION

of the Committee on Budgets

On 30 March 1977 the Commitee on Budgets appointed Mr RIPAMONTI draftsman.

At the same meeting it considered the attached draft opinion and adopted it unanimously.

Present: Mr Aigner, acting chairman; Mr Ripamonti, draftsman; Mr Van Aerssen, Mr Albertini, Lord Bessborough, Lord Bruce of Donington, Mr Caillavet, Mr Dalyell, Mr F. Hansen, Mr Klinker (deputizing for Mr Früh), Mr Kofoed, Mr Mascagni, Mr Van der Mei (deputizing for Mr Martens), Mr Schreiber, Mr Shaw, Mr Spinelli and Mr Würtz.

1. The documents referred to the Committee on Budgets for an opinion are an additional protocol and a financial protocol between the EEC and Portugal.

2. These agreements were signed on 20 September 1976 and, pursuant to Article 238 of the Treaty which deals with association agreements, Parliament is required to deliver its opinion before the Council can formally conclude the agreements. It should be noted, however, that the trade provisions of the additional protocol came into operation in advance, on 1 November 1976, in virtue of an interim agreement also signed on 20 September 1976.

THE PROTOCOLS

3. Since 1 June 1973 Portugal has had links with the Community through a trade agreement which was one of a series of agreements with the EFTA countries not applying for membership of the Community. This agreement included a future developments clause to allow commercial and economic links between the Community and Portugal to be strengthened. This clause provided the basis for the negotiations opened in February 1976, which led to the conclusion of these protocols.

4. In the meantime, the Community had on 7 October 1975 granted Portugal emergency financial aid to help it through its acute economic crisis. The aid covered a two-year period and totalled 180 m u.a., 150 million of which took the form of EIB loans, another 30 million being granted as aid through the budget to subsidize the interest rates on the Bank's loans. This money should run out by the end of 1977 and the aid under the new financial protocol would then take over.

5. The additional protocol (to the 1972 EEC-Portugal Agreement) contains new trade provisions and provisions for cooperation in the industrial, technological, financial and labour fields. Only the financial protocol will be considered in this opinion, but first it must be placed in the context of the overall 'Mediterranean policy'.

'MEDITERRANEAN POLICY' AND ITS FINANCIAL IMPLICATIONS

6. The agreements with Portugal follow other agreements, almost identical in form, already concluded with the countries of the Maghreb, the Mashreq and Malta; subsequently agreements of a similar type (at least so far as the financial aspect is concerned) are to be negotiated and concluded with the other 'Mediterranean' countries.

7. In embarking on its 'global Mediterranean policy', the Council, naturally enough, wished to obtain an overall picture of the external financial commitments into which it would thus be entering. Jointly with the EIB it therefore drew up in the spring of 1976 the following table:

OVERALL FINANCIAL IMPLICATIONS OF THE MEDITERRANEAN POLICY[1]

| | | | EIB Loans | | Other loans and gifts |
|---|---|---|---|---|---|
| Portugal | Emergency aid | 150 | 350 | 30 | 60 |
| | Financial Protocol | 200 | | 30 | |
| Maghreb[2] | | | 167 | | 172 |
| Mashreq[3] | | | 145 | | 125 |
| Malta | | | 16 | | 10 |
| Lebanon | | | 20 | | 10 |
| Israel | | | 30 | | - |
| Greece | | | 225 | | 55 |
| Turkey | | | 90 | | 220 |
| Cyprus | | | 20 | | 10 |
| Yugoslavia | | | 50 | | - |
| TOTAL | | | 1,113 | | 662 |

[1] in MEUA for periods of 3 to 5 years

[2] Algeria, Tunisia, Morocco

[3] Egypt, Syria, Jordan

8. The financial content of the Mediterranean policy as a whole is considerable and the budgetary authority's attention should therefore be drawn to this new expenditure item.

9. But the strictly budgetary implications of this series of agreements should also be assessed in the light of the trade concessions accorded to the various countries, because the various tariff reductions granted by the Community will lead to a fall in budgetary resources. It is surprising, therefore, to find that no estimate of this loss of revenue seems to have been made by the Commission or the Council, at least in so far as Parliament is aware.

10. In view of this, it is impossible to assess the real financial implications of the Mediterranean agreements, and this gap in information could be seen as a grave dereliction of financial responsibility by both the Council and the Commission.

THE FINANCIAL PROTOCOL

11. This protocol is identical in every way to the model already examined by the Committee on Budgets when it was consulted on the Malta, Maghreb and Mashreq agreements. The main provisions of this protocol are contained in Article 22 which lays down the overall amount of financial aid and its distribution under two distinct headings.

The total amount of this aid is 230 m u.a., broken down as follows:

- EIB loans: 200 m u.a. granted from the Bank's own resources and on the usual conditions applied by it;
- budgetary aids: 30 m u.a. in the form of
  - special loans from the Community for a period of 40 years at an interest rate of 1%
  - non-repayable grants from the Community to subsidize the servicing of the EIB debts and to finance technical cooperation activities.

It should be noted that these aids are denominated in the European unit of account, which is to replace the budgetary unit of account from 1 January 1978.

12. This amount of 230 m u.a. is to be spread, as in the case of Malta, the Maghreb and the Mashreq, over a period of 5 years.

THE BUDGETIZATION OF THE AIDS

13. In delivering its opinion on the cooperation agreement with Malta, the first of the series of Mediterranean agreements, Parliament had asked that the special loans and the grants should be financed, not from the national budgets, but from the Community budget[1]; the request was repeated in the opinion on the agreement with the Maghreb countries. Parliament, in fact, considered that the question of budgetization should be settled before the agreements could come into force[2].

14. Following an inter-institutional dialogue on certain budgetary questions and the negotiations with the Council in connection with the vote on the 1977 budget, a token entry was reserved in the budget for cooperation aid.

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[1] See paragraph 6 of Parliament's resolution (OJ C 100/9, 3.5.1976): 'Considers that the appropriations to finance special loans and non-refundable aid to the Republic of Malta must be specifically mentioned in an appropriate entry in the Community budget after their adoption by the budgetary authority under the general procedure for authorizing expenditure; reserves the right, should the Council object to their entry, to take recourse to the conciliation procedure'.

[2] See paragraph 11 of Parliament's resolution (OJ C 259/16, 4.11.1976): 'Calls for the conciliation procedure with the Council to be opened in respect of the budgetization of aid and special loans for the three Maghreb countries before the cooperation Agreements are brought into effect.

15. It would seem, therefore, that Parliament has won its point and that these aids can be effectively budgetized (that is, in actual figures) for the 1978 financial year. The Committee on Budgets Ad hoc Working Party is continuing its examination of this question to ensure a successful outcome.

16. It might, however, be useful to recommend the committee responsible to include in its draft resolution a paragraph similar to that contained in Parliament's opinion on the agreements with the Maghreb countries[1].

CONSULTATION OF PARLIAMENT OF THE FINANCIAL IMPLICATIONS OF THE COOPERATION AGREEMENTS

17. The present procedure for the consultation of Parliament on the financial implications of these agreements is unsatisfactory, to the extent that the consultation occurs after the signature of the agreements, and hence after the amount of aid has been definitely fixed.

18. It appears that both the overall amount of the aids envisaged for the Mediterranean cooperation programme and the amounts earmarked for each State concerned are in fact fixed before the negotiations have even begun. The Council, in cooperation with the EIB[1] - had laid down as early as April 1976 the total amount of the loans and grants for the Mediterranean countries; in the following months it determined the amount for each of the countries or groups of countries[2].

19. The Council, however, was of the opinion that 'it has been the Community's unchanging view that these offers cannot be subject to any substantial negotiation; they already take into account the requests and needs of the partner countries within the limits of the Community's financial capacities'.

20. Obviously, then, Parliament should be consulted on the financial implications at the time when decisions on these are actually taken, that is before the beginning of negotiations. Only if undertaken at this stage, can the consultation procedure have any real meaning, because then Parliament is still able to influence - if necessary through legislative consultation - the amount of the aid to be determined.

21. Need it be further emphasized that consultation at the appropriate time would considerably ease the approval - in the voting of the budget - of the appropriations needed for financial cooperation? Is it not obvious that, in its absence, Parliament might be forced to use its right of amendment on these appropriations, thus creating a delicate

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1 It would even seem that the amount of budgetary aid was determined by reference to the amount of EIB loans - the latter having been decided independently by the Board of Governors of the Bank.

2 It is impossible to quote exact references for the decisions mentioned, in view of the indeterminacy of the Council's decision-making process and the secrecy surrounding its deliberations.

political situation?

RATIFICATION OF COMMUNITY COOPERATION AGREEMENTS

22. Cooperation agreements are concluded in pursuance of Article 238 of the Treaty which stipulates that:

> 'These agreements shall be concluded by the Council, acting unanimously after consulting the Assembly'.

In contrast to the provisions of Articles 236 and 237, here there is no formal requirement of ratification by the States and it may be questioned whether it is legally necessary.

23. The ratification requirement in any event is deprived of much of its importance by the fact that some provisions of the agreements - particularly the tariff concessions - are normally put into effect prior to the completion of the ratification procedures - which are usually complex and lengthy.[1]

24. It appears that only the financial protocols are not implemented in advance - though, in fact, clauses of the type described in point 112 above can circumvent any delays resulting from late ratification. Given that the aids stipulated in the agreements are authorized not under national budgets but under the Community's budget, there seems to be no particular need for ratification of the protocols.

25. This is why, and particularly in view of the new situation arising from the budgetization of cooperation aid, it would perhaps be advisable for Parliament to instruct its appropriate committee to consider the legitimacy of the ratification procedure for cooperation agreements.

CONCLUSIONS

26. The Committee on Budgets has drawn the following conclusions from its study of the protocols signed with Portugal:

1. It requests the Commission and the Council to make reliable estimates of the budgetary costs entailed in the tariff concessions contained in the cooperation agreements and to communicate them to Parliament;
2. Subject to this reservation, it takes note of the overall financial amount fixed by the financial protocol already concluded by the Community with Portugal;

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[1] The cooperation agreement signed with Malta on 23 April 1976 has still not been ratified.

3. It considers it essential to achieve effective budgetization, by the 1978 financial year, of the appropriations relating to cooperation agreements, and requests that provision be made for possible consultation on this matter before such agreements come into effect;

4. It considers that consultation of Parliament on the financial implications of these agreements - in particular on the budgetized loans and aids - should take place before operative decisions are taken by the Council, that is, in most cases, before the opening of negotiations;

5. It asks that the question of the legitimacy, under Community law, of the requirement of the ratification by the Member States of cooperation agreements, and particularly of the financial protocols attached to them, should be referred to the Legal Affairs Committee.

27. In pursuance of Rule 44 (3) of the Rules of Procedure, the Committee on Budgets requests the Committee on External Economic Relations, as the committee responsible, to take account of the above conclusions in its report and the motion for a resolution.