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Report

drawn up on behalf of the Committee on External Economic Relations

on the Recommendation from the Commission of the European Communities to the Council (Doc. 225/77) for a decision concerning the conclusion of a Financial Protocol between the European Economic Community and Turkey

Rapporteur: Mr J. W. SPICER

1.02

PE 59.989/fin.

English Edition

By letter of 11 July 1977 the President of the Council of the European Communities requested the European Parliament, pursuant to Article 238 of the EEC Treaty, to deliver an opinion on the Recommendation for a Council Decision concerning the conclusion of a Financial Protocol between the European Economic Community and Turkey.

By letter of 21 July 1977 the President of the European Parliament referred this document to the Committee on External Economic Relations as the Committee responsible, and to the Political Affairs Committee and the Committee on Budgets for their opinion.

On 20 September 1977 the Committee on External Economic Relations appointed Mr J. Spicer draftsman.

At its meetings of 27/28 September 1977 and 11 October 1977 the committee considered the report and adopted it unanimously at the latter meeting.

Present: Lord Castle, acting chairman; Mr Spicer, rapporteur; Mr van Aerssen, Lord Brimelow, Mr Corrie (deputizing for Mr Scott-Hopkins), Mr Cousté, Mr de Clercq, Mr Jensen, Mr E. Müller, Lord St Oswald and Mr Vandewiele.

The opinion of the Committee on Budgets 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 an explanatory statement.

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the recommendation from the Commission of the European Communities to the Council for a Decision concerning the conclusion of a Financial Protocol between the European Economic Community and Turkey.

The European Parliament,

- having regard to the recommendation from the Commission of the European Communities to the Council[1],
- having been consulted by the Council, pursuant to Article 238 of the Treaty establishing the EEC (Doc. 225/77),
- recalling its resolution of 11 February 1977 on the recommendations adopted by the EEC/Turkey Joint Parliamentary Committee in Nice on 28 April 1976 and in Ankara on 9 November 1976[2],
- having regard to the report of the Committee on External Economic Relations and the opinion of the Committee on Budgets (Doc.330/77),

1. Draws attention to the serious problems which beset the Turkish economy, in spite of the Turkish Government's determined and, in many respects successful, efforts to develop it;
2. Welcomes, therefore, the signing at Brussels on 12 May 1977 of a third Financial Protocol under the EEC/Turkey Association Agreement, as an important contribution to the creation of a better economic infrastructure and more efficient agriculture and industry in Turkey;
3. Recommends that the procedures necessary for the Financial Protocol to enter into force should be completed as soon as possible so that it can be fully implemented;
4. Calls again for the ratification of the Supplementary Protocol, in order to enable the release of the 47 mua outstanding under the Second Financial Protocol.

1 OJ No. C 169, 15.7.1977, p.2

2 O.J. No. C 57, 7.3.1977, p. 63.

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EXPLANATORY STATEMENT

1. The Second Financial Protocol to the EEC/Turkey Association Agreement expired in May 1976, and there can be no doubt that it made a valuable contribution to the development of Turkey. Statistics for the whole period since its expiry are not available, but throughout 1976 the Turkish economy continued to expand, though at a slightly slower rate. GNP grew by 7.2% at constant prices in 1976 (compared with 7.9% in 1975), a fall in the agricultural sector being largely compensated by an improved performance from industry, whose growth rate was up to 10% from 9.2% in the previous year. GDP grew by 8.1% and industrial production also increased. But inflation is estimated to have been between 16 and 19%. Moreover, in the present world economic climate, prospects for growth in Turkey in the current year cannot be good. Above all, the country's chronic balance of payments problem is now becoming acute. Already in 1976 there was an estimated deficit of $ 1,838 m (compared with $ 1,302 m in 1975). Exports at $ 1,960 m were 40% up on the previous year, but imports were 8.2% up at $ 5,128.6 m (largely because of a rise in imports of crude oil) and earnings from workers remittances fell by 25% from $ 1,312 m to $ 982 m. For 1977 the Ministry of Finance estimates a trade deficit of $ 3,300 m (but the deficit for the first six months alone was $ 2,097 m) and an overall balance of payments deficit of $ 1,260 m. The gross gold and foreign exchange reserves fell from $ 1,000 m at the beginning of 1977 to $ 596 m at the end of August. Evidence of the seriousness of the situation is apparent in Turkey's present inability to settle her foreign debts promptly, and in the stringent measures to reduce the budget deficit and increase the reserves which the government has taken in September and in the devaluation which occurred later in the same month.

2. It is against this background that the Third Financial Protocol which was signed on 12 May 1977 must be seen. Turkey is going through a period of successful industrialisation which is enabling her to increase her exports, but which is still very expensive in terms of foreign exchange for capital goods. She is making determined efforts to hold down imports, but these efforts are being frustrated to some extent by the rising volume and price of oil imports. Remittances from Turkish workers abroad have fallen sharply for obvious reasons, although there are now signs of a very slight recovery. Turkey needs all the help she can get.

3. The total sum to be made available under this Protocol during a period expiring on 31 October 1981 is 310 mua, of which 90 mua is in the form of loans from the European Investment Bank, granted from its own resources, and the remaining 220 mua is in the form of loans on special terms granted by the Bank acting on instructions from the Community. Turkey expressed disappointment with this sum, but it must be borne in mind that the resources which the Community has available for financial aid to Mediterranean countries have to be divided equitably between a number of countries within the framework of the overall Mediterranean policy. While the share allocated to Turkey may seem small in relation to that country's needs, it represents nearly a third of the total aid of about 1,000 mua to be provided by the Community to countries in the Eastern Mediterranean region (Turkey, Greece, Cyprus, Egypt, Syria, Jordan, Lebanon, Israel and Yugoslavia).

4. Under the terms of the Protocol, capital projects are eligible for financing if they help to increase the productivity of the Turkish economy and, in particular, aim to provide Turkey with a better economic infrastructure, higher agricultural output, and modern, efficiently-run undertakings in the industrial and service sectors whether they are publicly or privately managed; further the realisation of the objectives of the Association Agreement; and are part of the Turkish Development Plan in force. Special consideration is to be given to projects which could serve to improve Turkey's balance of payments.

5. The rate of interest on loans granted by the Bank from its own resources is to be that applied by the Bank at the time of signature of each loan contract. These loans, amounting to 90 mua, are to be used primarily to finance projects showing a normal return. The loans on special terms (220 mua) are to be granted to the Turkish state for forty years, with postponement of amortisation of ten years and at an interest rate of 2.5% per annum. These loans are primarily to finance indirect or long-term return projects.

6. The Protocol also provides inter alia that the loans may be used to cover expenditure on imports or the domestic expenditure required for carrying out approved capital projects, including expenditure on planning, technical assistance and the services of consulting engineers. Aid from the Bank for the execution of projects may, with the agreement of Turkey, take the form of co-financing. Undertakings whose risk capital comes wholly or partly from Community countries are to have access to the finance provided for in the Protocol on the same conditions as undertakings with Turkish capital, and Community and Turkish undertakings may participate on equal terms for the award of contracts. Turkey is to make available to debtors and guarantors the foreign currency necessary for the payment of interest etc. and the repayment of capital.

7. It seems to your Committee that the Protocol is designed to help meet Turkey's greatest needs, and at the same time to give her the maximum freedom to chose the particular projects. The financial terms are very favourable to Turkey, but the Community has opportunities to export goods and services and is given, as far as possible, reasonable guarantees of payment. The Committee therefore warmly welcome the conclusion of the Protocol.

8. The Protocol is to enter into force on the first day of the second month after its ratification by the contracting parties. It is therefore most important that the necessary procedures should be completed without delay, so that Turkey can begin to benefit as soon as possible from the money to be made available and so that transition from the Second Financial Protocol to the new Protocol may be accomplished with the minimum of interruption of the supply of funds.

9. In this connection attention must again be drawn to the fact that 47 mua are still outstanding under the Second Financial Protocol. This is the sum provided for in the Supplementary Protocol on the occasion of the enlargement of the Community. As Mr KLEPSCH explained in a report which was adopted by the Committee on External Economic Relations in January of this year[1], it has still not been possible to distribute this money, as one Member State and Turkey have still not ratified the Supplementary Protocol. The Member State concerned is the United Kingdom. It is clearly desirable that these procedures should be completed without further delay.

[1] Doc. 548/6. See para 21.

OPINION OF THE COMMITTEE ON BUDGETS

on the third financial protocol between the EEC and Turkey

Draftsman : Mr F. HANSEN

On 21 September 1977 the Committee on Budgets appointed Mr F. Hansen draftsman.

It considered the draft opinion at its meeting of 4 October 1977 and adopted it unanimously.

Present: Mr Lange, chairman; Mr F. Hansen, rapporteur; Mr Amadei (deputizing for Mrs Dahlerup), Lord Bessborough, Lord Bruce of Donington, Mr Meintz, Mr H. W. Müller, Mr Santer (deputizing for Mr Caro), Mr Schreiber, Mr Shaw, Mr Spinelli, Mr Vanvelthoven, Mr Würtz and Mr Yeats.

1. The document referred to the Committee on Budgets for an opinion is the Third Financial Protocol between the EEC and Turkey.

2. This protocol was signed on 12 May 1977 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 protocol.

FINANCIAL AID FROM THE COMMUNITY TO TURKEY

3. The First Financial Protocol signed between the Community and Turkey in 1963, which entered into force in 1965, enabled 175 million u.a. of loans at subsidized rates of interest to be granted to Turkey.

The Second Financial Protocol, which entered into force in 1973, enabled the Community to grant a further 195 million u.a. in subsidized loans and 25 million u.a. in ordinary loans.

In 1973 the additional Protocol to the Second Financial Protocol provided for the allocation of a further 47 million u.a. in loans to take account of the accession of the three new Member States; however, this protocol has not yet entered into force as it has not been ratified by the Turkish Government.

4. Thus before signature of the Third Financial Protocol, an analysis of which is attached, the Commission has already granted Turkey, in the period from 1965 to 1977, loans totalling some 400 million u.a.

THE 'MEDITERRANEAN POLICY' AND ITS FINANCIAL IMPACT

5. The Financial Protocol with Turkey is one of a series of thirteen commercial and financial agreements of the same type concluded between the Community and the Mediterranean countries.

6. In adopting its 'overall Mediterranean approach', the Council was anxious to draw up 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 IMPACT OF THE MEDITERRANEAN POLICY[1]

	EIB loans	Other loans and outright grants
Portugal	350	60
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 EUA million for periods of 3 to 5 years

[2]Algeria, Tunisia, Morocco

[3]Egypt, Syria, Jordan

7. The financial content of the Mediterranean policy is thus considerable and the budgetary authority should therefore carefully assess this new expenditure item for consistency with the aims pursued and in the light of earlier policy towards other associated countries.

8. But the strictly financial 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 its budgetary resources. It is surprising, therefore, to find that neither the Council nor the Commission has made any estimate of the loss of revenue thus agreed to.

9. In view of this, it is clearly impossible to assess the real financial implications of the Mediterranean agreements with any accuracy, and Parliament must needs insist that the Commission draw up an overall statement of the loss of revenue occasioned by the trade concessions accorded within the framework of the Mediterranean policy.

THE FINANCIAL PROTOCOL

10. This protocol is based on the model already examined by the Committee on Budgets when it was consulted on those concluded with Malta, the Maghreb, the Mashreq, Portugal and Greece. The main provisions of this protocol are contained in its Article 2, which lays down the overall amount of financial aid and its distribution under two distinct headings:

- EIB loans: granted from the Bank's own resources and on the usual conditions applied by it[1] .... 90 m EUA

- budgetary aids in the form of special loans from the Community for a period of 40 years and at an interest rate of 2.5%, with a 10-year interest-free period .... 220 m EUA

11. The total amount of this aid is therefore .... 310 m EUA

It should be noted that the above amounts 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 310 m EUA is to be spread over a period commencing with the entry into force of the Protocol and ending on 31 October 1981. The full amount will therefore have been transferred by 31 October 1981, whatever the date of entry into force of the agreements.

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 outright grants should be financed, not from the national budgets but from the Community budget[2]; the request was repeated in the opinion on the agreement with the Maghreb and Mashreq coutries, Portugal and Greece. Parliament even considered that the question of budgetization

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[1] Loans from the Bank are usually granted for 10 years at the market interest rate (less 2% subsidy financed with assistance from budgetary appropriations for outright grants). The interest rate may vary according to the currency used and is fixed by the EIB Board of Governors. For instance, a 10-year loan in \$ US granted on the terms applicable on 22.3.1977 would carry an interest rate of $9^1/_8$ %

[2] Paragraph 6 of Parliament's resolution (OJ C 100/9, 3.5.1976) reads: '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'.

should be settled before the agreements could come into force[1].

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.

15. The draft budget for 1978 incorporates 13 budget headings relating to the agreements and featuring commitment and payment appropriations.

16. Full budgetization of the financial aid to third countries therefore seems to be assured. There remains, however, the problem of classifying such expenditure, and this is currently the subject of disagreement between Parliament, the Commission[2] and the Council. Parliament, originally with the Commission's[3] support, regards this expenditure as non-compulsory, whilst the Council - and now the Commission, too - have classified it as compulsory. This disagreement will have to be resolved under the budgetary procedure for adopting the 1978 budget.

CONSULTATION OF PARLIAMENT ON 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[4] had laid down as early as April 1976 the total amount of the loans and grants for the Mediterranean countries; in the following

[1] Paragraph 11 of Parliament's resolution (OJ C 259/16, 4.11.1976) reads: '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'.

[2] See an exchange of letters between Commissioner Tugendhat and the chairman of the Committee on Budgets (PE 49.817)

[3] See volume 4 of the Preliminary Draft Budget for 1977

[4] 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.

months the Council determined the amount for each of the countries or groups of countries[1].

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 decision 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 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.

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[1] 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.

24. It appears that only the financial protocols are not implemented in advance - though, in fact, clauses of the type described in point 12 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 welcomes the conclusion of the third agreement on financial cooperation with Turkey as extending the scope of cooperation between the Community and countries of the Mediterranean area. Within its terms of reference, the Committee on Budgets:

1. takes note of the overall financial amount fixed by the cooperation agreements already concluded by the Community with Turkey;

2. 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;

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 drawing up its motion for a resolution.

If the work programme of the committee responsible does not allow it to consider these conclusions in good time, the Committee on Budgets will instruct its rapporteur to present in plenary sitting the necessary amendments to the motion for a resolution drawn up by the Committee on External Economic Relations.