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DOCUMENT 411/77

## Report

drawn up on behalf of the Committee on External Economic Relations

on the draft regulation of the Council of the European Communities

(Doc. 293/77) concluding the ~~Financial~~ Protocol and the Additional Protocol to the Agreement establishing an association between the European Economic Community and the Republic of Cyprus

Rapporteur: Mr C. PRICE



By letter of 26 September 1977 the President of the Council of the European Communities consulted the European Parliament, pursuant to Article 238 of the EEC Treaty, on the draft regulation of the Council concluding the Financial Protocol and the Additional Protocol to the Agreement establishing an association between the European Economic Community and the Republic of Cyprus.

The President of the European Parliament referred this draft regulation to the Committee on External Economic Relations as the committee responsible and to the Committee on Agriculture, the Committee on Budgets and the Political Affairs Committee for their opinions.

On 20 September 1977 the Committee on External Economic Relations appointed Mr Price rapporteur.

It considered this draft regulation at its meeting of 23 November.

At the same meeting the committee unanimously adopted the motion for a resolution and the explanatory statement.

Present: Mr SCOTT-HOPKINS, acting chairman, Mr PRICE, rapporteur; Mr BAAS, Mr BAYERL, Lord CASTLE, Mr COUSTE, Mr DE CLERCQ, Mr GALLUZZI, Lord ST OSWALD, Mr SANDRI and Mr SPICER.

The opinions of the Committee on Agriculture, the Committee on Budgets and the Political Affairs Committee are attached.

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

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the draft regulation of the Council of the European Communities concluding the Financial Protocol and the Additional Protocol to the Agreement establishing an association between the European Economic Community and the Republic of Cyprus.

The European Parliament,

- having been consulted by the Council pursuant to Article 238 of the EEC Treaty, (Doc. 293/77),
  - having regard to the report of the Committee on External Economic Relations and the opinions of the Committee on Agriculture, the Committee on Budgets and the Political Affairs Committee (Doc. 411/77),
1. Welcomes the completion of negotiations on an Additional Protocol and a Financial Protocol to the Agreement establishing an association between the European Economic Community and the Republic of Cyprus ;
  2. Welcomes the signing of the Additional Protocol in Brussels on 15 September 1977 ;
  3. Recommends that the procedures necessary for the Agreement to enter into force should be completed as soon as possible so that it can be fully implemented ;
  4. Urges the Council and the Commission to expedite agreement on short-term trading arrangements between Cyprus and the Community so that they may continue after 1 January 1978 within a proper legal framework ;
  5. Is of the opinion that, in order to obtain better results from the association, particularly as regards increasing trade between the two parties, obstacles to the development of trade arising from the rules of origin as at present interpreted and applied by the Community should be removed as far as possible ;

6. Believes that there is an urgent necessity in Cyprus for economic infrastructures and industrial projects which will tend to reunify the island ; and that resources could be made available under the Financial Protocol to pursue this objective ;
7. Further believes that this Agreement offers possibilities to improve the economic position of Cyprus as a whole and could form an important element in the initiatives which are being prepared by the two communities, by Foreign Ministers of the EEC countries, and on a wider international scale to achieve a final settlement in Cyprus.

EXPLANATORY STATEMENTI. THE ASSOCIATION TREATY, THE ADDITIONAL PROTOCOL AND THE FINANCIAL PROTOCOL

The Community is linked with the Republic of Cyprus by an Association Agreement signed on 19 December 1972 pursuant to Article 238 of the Treaty<sup>1</sup>. This Agreement came into force on 1 June 1973.

The Association Agreement differs from the Community's agreements with other Mediterranean countries such as Egypt, Lebanon and Israel in that they are based on Article 113 of the Treaty and are essentially concerned with trade.

The EEC-Cyprus Agreement has wider objectives. It provides for the setting up of a permanent association between the two parties with the final objective of a customs union to be implemented in two stages. The first stage began on 1 June 1973 and should have ended on 30 June 1977. The Additional Protocol now before Parliament provides that the first stage of the Agreement shall be extended until 31 December 1979. The Additional Protocol further provides for negotiations during the twelve months preceding the expiry of the first stage with a view to defining the content of the second stage in accordance with the provisions of the Association Agreement.

On 22 June 1977 negotiations between the European Economic Community and Cyprus were completed with the conclusion of an Additional Protocol to the EEC-Cyprus Association Agreement and a Financial Protocol.

The texts of the two draft protocols and related documents were the subject on 29 June 1977 of an exchange of letters between the Heads of Delegation who notified their agreement ad referendum with their content.

The Additional Protocol was signed on 15 September 1977 in Brussels.

The main points of the two protocols are as follows:

- the Additional Protocol is mainly concerned with trade between the two parties; it provides for the extension of the first stage of the Association Agreement from 30 June 1977 until 31 December 1979 and specifies the means to be employed to this end. It further provides for negotiations

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<sup>1</sup> OJ No. L 133, 21.5.1973, p.1

on the start of the second stage twelve months before the expiry of the first stage.

The Additional Protocol also sets out a certain number of supplementary concessions granted to Cyprus concerning industrial and processed agricultural products.

The 70% tariff reduction on industrial goods enjoyed by Cyprus is raised to 100% and for processed agricultural products Cyprus is granted total exemption from the fixed component of the charges imposed on imports into the Community. Furthermore, provision is made for tariff facilities and tariff quota adjustments for certain products originating in Cyprus.

As far as most agricultural products are concerned, the present tariff arrangements for imports into Ireland and the United Kingdom are to be continued and negotiations will be held to define the agricultural aspect of the Additional Protocol by 1 January 1978. Wine products and autumn potatoes are the subject of separate negotiations.

As from 1 July 1978 customs duties on Cyprus imports of Community products will be reduced by 35%, with certain exceptions. Until such times as the Additional Protocol enters into force, the two parties decided in an exchange of letters to continue existing trade arrangements by applying autonomous measures from 1 July 1977 until the entry into force of the said Protocol but not beyond 31 December 1977.

In the short term a serious situation has now arisen in that the Council has not yet given a mandate to the Commission to negotiate further interim arrangements beyond 31 December 1977 for trade between Cyprus and the Community. Potatoes, for example, represent 30% of all exports to the Community. The 1978 crop has already been planted ; however, there is as yet no agreement about arrangements during 1978. Clearly, another short term interim agreement must be entered into ; this is an unsatisfactory way of carrying on economic relations between the Community and a country in association with it, but from a realistic point of view until a political settlement has been reached, probably the only way in which economic relations could be kept on a legal basis. It is therefore crucial that a new short term agreement can be made at the earliest possible moment.

It should finally be pointed out that the Additional Protocol contains a new chapter of particular importance concerning cooperation between the Community and Cyprus. The aim of cooperation will be to develop the island by supplementing its own efforts in that direction and to consolidate existing economic links between the two parties.

- the Financial Protocol specifies how the Community will help, within the context of financial and technical cooperation, to fund projects to further

the economic and social development of the island. This protocol provides for an aggregate 30m EUA which may be spent over a period of 5 years from the entry into force of the protocol.

This figure is broken down as follows :

- 20 m EUA in the form of EIB loans granted from its own resources on the terms set out in its statute ;
- 4m EUA in the form of loans on special terms ;
- 6m EUA in the form of non-repayable aid designed particularly to cover interest-rate subsidies for the EIB loans. Provision is also made for contributions to risk capital formation.

## II. THE CYPRUS ECONOMY

The Republic of Cyprus is an island of 3,572 square miles with a population of approximately 639 thousand.

The island's active population in 1974 was divided as follows :

### ECONOMICALLY ACTIVE POPULATION

|  | 1974    |
|--|---------|
| Agriculture, forestry, hunting and fishing | 93,000  |
| Mining and quarrying                       | 3,000   |
| Manufacturing                              | 38,300  |
| Construction                               | 28,100  |
| Electricity, gas etc.                      | 1,900   |
| Commerce                                   | 22,800  |
| Transport, storage and communications      | 11,600  |
| Services                                   | 42,800  |
| Other activities                           | 39,000  |
| TOTAL                                      | 281,300 |

The economy on the island has traditionally been based on agriculture, (potatoes, citrus fruits, wine products and fresh grapes), tourism and the manufacturing industry.

In percentage terms in 1972 agriculture employed 35% of the active population and accounted for 49% of exports. This economy was seriously disrupted by the events of 1974 when Turkish armed forces occupied approximately 40% of the island after an attempt by the Greek junta to overthrow the government of the Republic of Cyprus.

Since 1974 there have been no published economic statistics for the northern part of the island which is administered by the representatives of the Turkish Cypriot Community. However, it has been recognized that the dispute about the ownership of agricultural, industrial and commercial property (which will probably persist until the political settlement takes place) has inhibited the economic development of the North.

As far as the territory under the administration of the Government of the Republic is concerned efforts to regenerate the economy have met with considerable success. In the first eleven months of 1976, exports rose from £61 million to £132 million. Employment has been steadily rising, a new industrial structure has been set up and there is already a lack of skilled labour in a number of industries<sup>1</sup>.

Agriculture has also benefited from the rise in prices on the European agricultural market of some products which the island produces, in particular potatoes.

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See the Times of 18 February 1977, page IX : 'BUSINESS RECOVERY COMES AS SURPRISE'

The slump in the tourist trade after the events of 1974 was at one time partially compensated by the arrival of foreigners who took refuge on the island to escape the crisis in the neighbouring countries of the Middle East. This influx has now diminished and the tourist trade is steadily improving.

The South has owed its success to an economic emergency action plan introduced initially for the period 1975-1976. The aim of this plan was to resolve as far as possible the basic problems which had been created for the island's economy following the Turkish occupation of the northern part.

The principal objectives of the plan were :

- to provide for the assistance and temporary shelter of refugees ;
- to create the greatest possible number of new jobs ;
- to increase production as far as possible and replace the economic structures lost after the events of 1974 ;
- to stimulate investment ;
- to utilize and economize in the best way the revenue from foreign trade ;
- to ensure a fairer distribution of economic resources and provide an acceptable minimum standard of living for all citizens.

The South is putting the finishing touches to a second emergency plan (1977-1978) pursuing the same aims as the first plan.

In developing the island's economy the association with the Community has certainly made an important contribution to the economic successes mentioned above.

The volume of trade between the Community and Cyprus from 1972-1976 can be judged from the following tables:

TRADE BETWEEN CYPRUS AND THE EEC<sup>1</sup>

(A) IMPORTS FROM: (Cyprus £ thousands CIF)

|                      | 1972           | 1973           | 1974           | 1975           | 1976           |
|----------------------|----------------|----------------|----------------|----------------|----------------|
| Belgium              | 2,603          | 3,823          | 2,776          | 1,290          | 2,603          |
| Denmark              | 1,476          | 2,238          | 1,657          | 1,416          | 1,344          |
| France               | 6,821          | 10,344         | 9,716          | 7,887          | 9,712          |
| Germany              | 9,087          | 14,048         | 13,674         | 7,421          | 12,457         |
| Ireland              | 317            | 182            | 573            | 1,294          | 1,296          |
| Italy                | 9,662          | 12,392         | 11,509         | 7,325          | 16,427         |
| Luxembourg           | 199            | 274            | 335            | 201            | 172            |
| Netherlands          | 3,806          | 4,350          | 3,775          | 3,155          | 5,756          |
| United Kingdom       | 33,915         | 39,251         | 30,652         | 22,453         | 35,080         |
| <b>TOTAL</b>         | <b>67,886</b>  | <b>86,902</b>  | <b>74,667</b>  | <b>52,442</b>  | <b>84,847</b>  |
| <b>TOTAL IMPORTS</b> | <b>121,480</b> | <b>157,442</b> | <b>148,028</b> | <b>113,709</b> | <b>177,763</b> |
| <b>EEC %</b>         | <b>55.88%</b>  | <b>55.19%</b>  | <b>50.44%</b>  | <b>46.11%</b>  | <b>47.73%</b>  |

(B) EXPORTS FROM CYPRUS TO: (Cyprus £ thousands FOB)

|                | 1972          | 1973          | 1974          | 1975          | 1976          |
|----------------|---------------|---------------|---------------|---------------|---------------|
| Belgium        | 260           | 878           | 170           | 282           | 649           |
| Denmark        | 515           | 423           | 573           | 427           | 550           |
| France         | 1,233         | 1,159         | 384           | 456           | 389           |
| Germany        | 3,129         | 4,351         | 3,106         | 858           | 537           |
| Ireland        | 309           | 593           | 443           | 131           | 459           |
| Italy          | 1,252         | 1,250         | 820           | 905           | 979           |
| Luxembourg     | -             | -             | -             | -             | -             |
| Netherlands    | 1,114         | 2,556         | 1,047         | 1,296         | 1,685         |
| United Kingdom | 19,158        | 20,668        | 18,718        | 17,708        | 28,589        |
| <b>TOTAL</b>   | <b>26,970</b> | <b>31,878</b> | <b>25,261</b> | <b>22,063</b> | <b>33,837</b> |
| <b>EXPORTS</b> | <b>44,681</b> | <b>51,316</b> | <b>46,848</b> | <b>49,033</b> | <b>85,291</b> |
| <b>EEC %</b>   | <b>60.36%</b> | <b>62.12%</b> | <b>53.92%</b> | <b>45.00%</b> | <b>39.67%</b> |

The figures in these tables show that imports from the Community over the period under consideration have slowly increased in value whilst in percentage terms imports from the Community have dropped in proportion to total imports.

<sup>1</sup> Figures supplied by the permanent delegation of the Republic of Cyprus to the European Economic Community

The proportion of exports going to the Community decreased over the period 1972-1976. A large proportion of Cyprus's exports to the Community went to the United Kingdom because of the system of preferences which this country used to accord to Commonwealth countries.

The trend in percentage terms of exports and imports between Cyprus and the EEC compared with trade between Cyprus and the rest of the world is in fact disappointing. The probable reason for this is that Cyprus has not been able to take full advantage of the 70% tariff reductions which the Community granted on manufactured industrial products coming from Cyprus. A reduction of 70% may seem considerable but in fact it has not brought real advantages because the strict rule of origin which the Community has applied to products coming from Cyprus has not allowed the country's young economy to benefit fully from the concessions offered by the Community.

### III. CONCLUSIONS

The arguments put forward at the negotiations in 1972 for greater access of Cyprus agricultural products to Community markets are as valid today as they were then, except that there are now more urgent reasons for a more generous approach in view of

- (a) The serious economic problems with which Cyprus is confronted ;
- (b) The expected abolition of Commonwealth preference on Cyprus agricultural exports to the U.K. as from the 1st January 1978 ;
- (c) The widening of the trade deficit of Cyprus with EEC since 1973. Thus in the period 1973-1976 EEC exports to Cyprus amounted to C£ 298 m and imports from Cyprus to only C£ 111 m.

Consequently Cyprus had a trade deficit of C£ 188m during the period 1973-1976.

The links of association between the Community and Cyprus must be seen within the context of the policy which the Community has drawn up and introduced with all the countries of the Mediterranean basin. Given the geographical position of the island and in consideration of the political as well as economic interests which the countries of the Community have in this important region of the Mediterranean, the association between the Community and Cyprus takes on a particular significance.

The events of 1974 which widened the separation between the two communities on the island require the European Economic Communities to act to safeguard the interest of the Cypriot people as a whole, and to

contribute to the maintenance and consolidation of peace in this important region of the Eastern Mediterranean.

The foregoing considerations argue for approval of the decision taken by the responsible institutions of the Community so that the facilities provided for in the Association Agreement and also the financial assistance specified in the Financial Protocol can work to the advantage of the entire economy of the island taken as a whole.

More specifically, the Community's financial assistance ought to help to create economic infrastructures capable of bringing about a new and indispensable integration of the island's economy. At the present time, as a consequence of the events of 1974, the Cypriot economy is divided into two parts and this certainly does not help to ease tension and restore peace between the two communities. This aid under the Financial Protocol which is directed to unifying the island's economy could be an essential element among those forces which are working towards a final settlement in Cyprus.

OPINION OF THE COMMITTEE ON AGRICULTURE

Letter from the chairman of the committee to Mr KASPEREIT, chairman of the Committee on External Economic Relations

(Luxembourg, 4 October 1977)

Dear Mr Chairman,

At its meeting of 29/30 September 1977<sup>1</sup>, the Committee on Agriculture considered the Communication from the Commission to the Council concerning the negotiations between the European Economic Community and the Republic of Cyprus for the conclusion of an Additional Protocol and a Financial Protocol (COM(77) 367 final).

The Protocols agreed ad referendum with the Republic of Cyprus have several objectives:

- to extend the first stage of the Agreement until 31 December 1979 so as to allow the Contracting Parties more time to prepare for the transition to the second stage of the Agreement which provides for the setting up of a customs union between the European Economic Community and the Republic of Cyprus;
- to establish economic cooperation with the Republic of Cyprus;
- to channel financial aid from the Community to Cyprus through the Financial Protocol which makes available to the Republic of Cyprus 30 m EUA (including 6 m EUA in the form of grants). This financial aid is intended to promote the industrialization of the Republic of Cyprus and the modernization of its agriculture.

The Additional Protocol which covers commercial cooperation between the Contracting Parties lays down that, with effect from 1 July 1977, the Community will grant exemption from customs duty for exports of industrial products originating in Cyprus with the exception of some products obtained from the processing of agricultural products (pasta products, fine bakers' wares, vermouth, spirituous beverages ...). In return, from 1 July 1978 the Republic of Cyprus will grant the Community a general reduction in customs duties of 35%; this being reduced to 20% for products included on list A and to an average of 16.5% for those on list B.

In the agricultural sector, the Republic of Cyprus will continue to enjoy until 31 December 1977 the status quo on the British and Irish markets for those products which would otherwise be affected by the expiry on that date of the transitional period of accession for those two countries. (This provision mainly concerns horticultural produce).

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<sup>1</sup> Members present: Mr Bourdelles, Acting Chairman, Messrs Albertini, Andersen, Dewulf, Frankie Hansen, Howell, Hughes, Klinker, Kofoed, de Koning, Lemp, Ney, Pucci.

Finally, in an exchange of letters to be published simultaneously with the Additional Protocol, the Community undertakes to make every effort - in the spirit of its policy of an overall approach to the Mediterranean - to ensure that negotiations on the agricultural aspect can take place in time to enable any provisions resulting from those negotiations to enter into force on 1 January 1978.

The Committee on Agriculture approves the content of the Additional Protocol and the Financial Protocol concluded between the European Economic Community and the Republic of Cyprus since the Community, subject to certain adjustments in respect of a number of sensitive products, is opening its frontiers to agricultural products originating in Cyprus and thereby increasing the impact of the financial aid it is granting to modernize Cypriot agriculture.

Nevertheless, in the light of the applications for accession submitted by Greece, Portugal and Spain, the Committee on Agriculture feels that future agreements concluded within the framework of the Community's Mediterranean policy should be negotiated with the utmost care so as not to jeopardize further the Mediterranean products produced in the Community of the Nine.

Yours sincerely,

(sgd) Roger Houdet

OPINION OF COMMITTEE ON BUDGETS FOR THE COMMITTEE  
ON EXTERNAL ECONOMIC RELATIONS. Draftsman: Mr BANGEMANN

1. The document referred to the Committee on Budgets for an opinion deals with the conclusion of both an additional protocol to the existing agreement between the Community and the Republic of Cyprus, and a financial protocol.
2. The protocols were signed on 15 September 1977 and, pursuant to Article 238, which deals with association agreements, Parliament is required to deliver its opinion before the Council can formally conclude them.

FINANCIAL AID FROM THE COMMUNITY TO CYPRUS

3. The Community already has links with Cyprus through the association agreement of 19 December 1972 which is basically a trade agreement aimed at progressively liberalizing all trade between Cyprus and the Nine. As political events since 1973 have interrupted the process, the purpose of these two protocols is to extend to Cyprus tariff and financial concessions like those recently granted to all the Mediterranean countries.
4. The additional protocol extends the trade arrangements that represent the first phase laid down in the 1972 association agreement and grants Cyprus additional concessions for industrial and agricultural products. It also makes provision for genuine cooperation between the Community and Cyprus as a means of contributing to the development of Cyprus.
5. The financial protocol suggests ways in which the Community can take part, through such cooperation, in the financing of projects that will contribute to the economic and social development of Cyprus. It is discussed in greater detail in paragraphs 11 to 13.

THE 'MEDITERRANEAN POLICY' AND ITS FINANCIAL IMPACT

6. The Financial Protocol with Cyprus is the last<sup>1</sup> of a series of thirteen commercial and financial agreements of the same type concluded between the Community and the Mediterranean countries.
7. In adopting its 'overall Mediterranean approach' in 1975, 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:

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<sup>1</sup>Excluding Yugoslavia

OVERALL FINANCIAL IMPACT OF THE MEDITERRANEAN POLICY<sup>1</sup>

|                      | EIB loans    | Other loans and outright grants |
|----------------------|--------------|---------------------------------|
| Portugal             | 350          | 60                              |
| Maghreb <sup>2</sup> | 167          | 172                             |
| Mashreq <sup>3</sup> | 145          | 125                             |
| Malta                | 16           | 10                              |
| Lebanon              | 20           | 10                              |
| Israel               | 30           | -                               |
| Greece               | 225          | 55                              |
| Turkey               | 90           | 220                             |
| Cyprus               | 20           | 10                              |
| Yugoslavia           | 50           | -                               |
| <b>TOTAL</b>         | <b>1,113</b> | <b>662</b>                      |

<sup>1</sup> in EUA million for periods of 3 to 5 years

<sup>2</sup> Algeria, Tunisia, Morocco

<sup>3</sup> Egypt, Syria, Jordan

8. 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.

9. 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 seem to have made any estimate of the loss of revenue thus agreed to.

10. 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

11. This protocol is based on the models already examined by the Committee on Budgets when it was consulted on those concluded with Malta, the Maghreb, the Mashreq, Portugal and Greece and Turkey. 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<sup>1</sup>..... 20 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 ..... 4 m EUA
  - non-reimbursable aid as a 2% interest rebate on EIB loans .. 6 m EUA
12. The total amount of this aid is therefore ..... 30 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.

13. This amount of 30 m EUA is to be spread over a period of 5 years from the entry into force of the Protocol.

THE BUDGETIZATION OF THE AIDS

14. 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<sup>2</sup>; the request was repeated in the opinion on the agreement with the Maghreb and Mashreq countries, Portugal and Greece. Parliament even considered that the question

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<sup>1</sup>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<sup>1</sup>/<sub>8</sub> %.

<sup>2</sup>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'.

of budgetization should be settled before the agreements could come into force<sup>1</sup>.

15. 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.

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

17. Full budgetization of the financial aid to third countries is therefore assured. There remains, however, the problem of classifying such expenditure, and this is currently the subject of disagreement between Parliament, the Commission<sup>2</sup> and the Council. Parliament, originally with the Commission's<sup>3</sup> 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

18. 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.

19. 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<sup>4</sup> had laid down as early as April 1976 the total amount of the loans and grants for the Mediterranean countries;

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<sup>1</sup> 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'.

<sup>2</sup> See an exchange of letters between Commissioner Tugendhat and the chairman of the Committee on Budgets (PE 49.817)

<sup>3</sup> See volume 4 of the Preliminary Draft Budget for 1977

<sup>4</sup> 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.

in the following months the Council determined the amount for each of the countries or groups of countries<sup>1</sup>.

20. 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'.

21. 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.

22. 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

23. 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.

24. 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<sup>2</sup>.

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<sup>1</sup> 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.

<sup>2</sup> The cooperation agreement signed with Malta on 23 April 1976 has still not been ratified.

25. 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.

26. 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 consider the legitimacy of the ratification procedure for cooperation agreements.

#### CONCLUSIONS

27. The Committee on Budgets welcomes the conclusion of the two protocols with the Republic of Cyprus 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 Cyprus;
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;

28. 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.

OPINION OF THE POLITICAL AFFAIRS COMMITTEE

Letter from the chairman of the committee to Mr KASPEREIT, chairman of the Committee on External Economic Relations.

Luxembourg, 22 November 1977

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Dear Mr Kaspereit,

At its meeting of 22 November 1977, the Political Affairs Committee held an exchange of views on the communication from the Commission to the Council concerning the negotiations completed on 22 June 1977 between the European Economic Community and the Republic of Cyprus, for the conclusion of an Additional Protocol and a Financial Protocol.

The Political Affairs Committee unanimously welcomes the fact that the Association Agreement between the Community and Cyprus, signed on 19 December 1972, has been supplemented in this way and that the first stage has been extended until 31 December 1979.

It notes with satisfaction that the Community's global approach policy has not been abandoned in these negotiations in spite of the political situation in Cyprus, which is a particular cause of concern.

In this regard it calls upon the Community authorities and the Foreign Ministers meeting in political cooperation to combine their efforts so as to achieve a speedy settlement of the Cyprus problem, which still poses a considerable threat to peace in this area.

In addition, it considers that the Community, in its relations with Cyprus, should take into consideration the fragility of that country's economy, so as to prevent a serious deterioration in the economy from jeopardizing the recovery of Cyprus after a negotiated solution to the conflict has been reached.

Yours sincerely,

(sgd.) Alfred BERTRAND

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Present: Mr A. Bertrand, chairman;  
Mr Radoux and Mr Johnston, vice-chairmen;  
Mr Terrenoire, draftsman;

Mr Amadei, Lord Brimelow, Mr Durieux, Mr de la Malène, Mr Jahn, Mr Mitchell, Mr Nyborg (deputizing for Mr Lenihan), Mr Rippon, Lord Reay, Mr Scelba, Mr Schuijt, Mr Seefeld and Mr Sieglerschmidt.

