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Report

drawn up on behalf of the Committee on External Economic Relations

on economic and commercial relations between the European Community and  
Iran

Rapporteur: Mr E.A. KLEPSCH

PE 43.844/fin.

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By letter of 11 February 1975 the Committee on External Economic Relations requested authorization to draw up a report on economic and commercial relations between the European Community and Iran.

By letter of 10 March 1975 the President of the European Parliament authorized the committee to report on this question.

On 18 March 1975 the committee appointed Mr Klepsch rapporteur.

The committee considered the draft report at its meetings of 20 April and 18 May 1976 and unanimously adopted the motion for a resolution and explanatory statement at the latter meeting.

Present: Mr Kaspereit, chairman, Mr Schmidt, vice-chairman, Mr Klepsch, rapporteur, Mr Baas, Mr Bayerl, Lord Castle, Mr Dykes, Mr Glinne (deputizing for Mr Corterier), Mr E. Muller, Mr Nyborg, Mr Radoux, Mr Spicer and Mr Thornley.

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

MOTION FOR A RESOLUTION

on economic and commercial relations between the European Community and Iran  
The European Parliament,

- having regard to the report of the Committee on External Economic Relations, (Doc. 119/76),
- 1. Is astonished to find that since 30 November 1973 - the date on which the non-preferential agreement concluded between the two parties in 1963 definitively expired - no trade agreement has linked the European Community and the Empire of Iran;
- 2. Considers that this situation is contrary to the interests of both parties who, following the considerable increase in Iran's revenues, are continually strengthening their ties in the economic and financial sectors;
- 3. Emphasizes that the considerable development of these ties is evidence of the growing complementarity and interdependence of their economies;
- 4. Invites, therefore, the Community to open shortly, on the basis of the proposals contained in the Communication from the Commission to the Council on relations with Iran, negotiations with the Iranian authorities, with the aim of defining the framework and the content of the cooperation agreement to be entered into by the two parties;
- 5. Considers that an agreement of this kind should enable the problems which exist between Iran and the Community in the economic and commercial sectors to be resolved;
- 6. Urges the Community Member States to consult with each other and keep each other informed when negotiating and concluding bilateral cooperation agreements with Iran in the context of, and in accordance with, the Council Decision of 22 July 1974;
- 7. Requests the Council and the Commission to keep it regularly informed of the progress of negotiations between the Community and Iran;
- 8. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

EXPLANATORY STATEMENT

1. Since 30 November 1973 the European Community has no longer been linked by any commercial agreement with the Empire of Iran.

It was on that date that the non-preferential agreement signed in Brussels on 14 October 1963 between the two parties - and subsequently renewed several times - finally terminated, the Iranian delegation having indicated that it did not wish it to be further renewed.

2. At the same time, economic and commercial relations between the Member States and Iran were developing apace along with the large-scale industrial conversion and infrastructure effort undertaken by Iran following on the quadrupling of hydrocarbon prices since Autumn 1973, which should soon turn Iran into a major industrial power.

3. In these circumstances, the anachronism of the 1963 agreement was recognized by all parties. It consisted merely in the granting of certain tariff facilities by the Community for Iranian exports of woollen carpets, raisins, dried apricots and sturgeon roes.

4. It therefore only affected products which in 1974 made up a very small part of Iranian exports, whereas oil, which at the end of the Iranian IVth Plan in 1972-1973 accounted for 19.5% of the gross national product of the country, will probably represent, at the end of the Vth Plan in 1976, 48.7% of the resources of the country and provide at that date nearly half the income of the state, compared with less than one-fifth in 1972-73.

5. In parallel with this considerable growth in its income from hydrocarbons, which still constitute the priority item in the Vth Plan (oil processing, petrochemical industry) Iran undertook considerable efforts to develop its basic industry and make up the considerable leeway which existed in its infrastructures. It was able to do so thanks to the oil revenue surpluses, estimated for 1974-75 initially at 18-20 thousand million dollars and subsequently at over 20,000 million.

These figures had, however, to be revised downwards owing to the fall in oil sales and the two price-cuts for crude decided on by the Imperial Government in February.

At the end of the VIth Plan (1982-83), according to the forecasts of the Teheran authorities, the country should be producing 15 million tons of steel, whereas its present capacity is scarcely more than 1 million tons, coming mainly from the Ispahan steelworks which was commissioned in 1972. Iran estimates that in 15 years extensive inroads will have been made into its oil resources and that it will therefore have to find other long-term resources.

6. Considerable efforts have been made since the 1960's to modernize the infrastructures, which are, in many cases, inadequate: airports and principal ports are congested (ships often wait several weeks to discharge their cargoes at the ports of Bandar Shahpur and Bandar Bushire on the Persian Gulf: an ultra-modern port is to be built at Bandar-Abbas); the road network is unsuitable to traffic needs, the distribution sector is badly organized etc.

7. However, the oil revenue has not all been injected into the Iranian economy: this would have had the effect, having regard to the structural underdevelopment, of driving the country into a hyper-inflationary process, multiplying the bottlenecks and increasing the already considerable social and regional disparities.

8. In addition, the Imperial government decided to use a substantial part of these resources to contribute to the aid fund intended for the poorest countries affected by the rise in price of oil products, to help - on a bilateral basis - a number of Middle East States (Jordan, Syria, Egypt) and Africa (Zaire, Sudan, Senegal, Tunisia, Morocco) and particularly those bordering on the Indian Ocean (Pakistan, Bangladesh, Sri Lanka and India) as also nearby Afghanistan, and to furnish loans to the World Bank and the IMF.

9. The governments and public opinion of the Community countries have become increasingly aware of Iranian acquisitions of industrial holdings in the Western market, bearing witness to the desire of the Teheran authorities either to secure for themselves privileged access to advanced technology, or to establish a portfolio of shares that would safeguard the country against the risks of monetary erosion. For example, there are the holdings taken in the capital of Krupp Hüttenwerke, Bayer, the 10% holding in the capital of the Eurodif Company, which is building at Tricastin (France) a uranium enrichment plant based on the gaseous diffusion process. The Imperial government has also concluded loan agreements with certain countries of the Community: Great Britain for 1,200 million dollars, France (1,000 million dollars lent to the Commissariat à l'Energie Atomique), Italy, etc.

10. The year 1975, however, saw a sharp decline in Iran's balance-of-payments surplus (from 10,700 million dollars in 1974 to 2,700 million in 1975). According to the Iranian authorities this was due to a fall in sales of crude to industrialized countries (a reduction of 21.2% between December 1974 and December 1975, entailing a revenue decrease of some 4,000 million dollars), while the price of capital goods ordered by Iran rose considerably.

Consequently, the new budget for the Persian year 1355 (March 1976 - March 1977), totalling some 40,000 million dollars, provides for a deficit of 2,400 million dollars.

The difficulties which have arisen have prompted the Iranian Government to introduce a number of modifications and savings in its expenditure programme, without, however, jeopardizing the main targets of the development plan or projected investments in major Western undertakings.

11. The above developments are obviously far removed from the dried apricots and raisins mentioned in the 1963 agreement.

In fact, the Iran of 1976 no longer has anything in common with the industrially backward country of 1963 (the growth rate was 42% in 1974 and 17% in 1975). The European Community has played an increasing part in the rapidly developing trade of this country. It is now the leading supplier (44% of Iranian imports come from the Community) and its leading customer (23% of the oil exports and 33% of the non-oil exports of Iran go to the Community).

12. All the parties concerned readily agreed to the termination of the 1963 agreement and on the need to replace it by one more in line with the new situation, and, one might say, the shift in economic power in the world since 1973.

13. Exploratory talks between the Community authorities and an Iranian delegation began in January 1974. At that time, the members of the Iranian delegation expressed Iran's desire for the Nine to open their markets to some degree to Iranian exports of industrial products, in particular to those manufactured as a result of economic cooperation between undertakings in Iran and in the Community Member States. In general, they expressed Iran's interest in holding negotiations with the Community on commercial problems for which the Member States are no longer competent.

14. The Commission delegation emphasized from the beginning that it was politically and legally impossible for the Community to expand the sphere of preferential agreements beyond the Mediterranean and ACP countries.

Following meetings between Sir Christopher Soames and Mr Ansari, the Minister for Economic Affairs of Iran, the exploratory talks were continued between the two parties in 1974.

15. In March 1974, the Commission informed the Council of the progress made in the first exchange of views with the Iranian delegation. The objectives pursued by the latter were as follows: the removal of all discrimination against Iranian products as compared with the products of other third countries.

In the opinion of Iran, one of the beneficiary countries, the Community's generalized preferences system, while allowing duty-free entry to its exports of industrial products, contained many serious gaps because of the ceilings and tariff quotas involved.

Iran therefore asked for free access for all products manufactured in that country within the framework of joint ventures between Iranian and Community undertakings. Further, Iran also wished to see tariff barriers removed for refined petroleum products.

16. These first meetings took place at a time when the Member States, attracted by the considerable growth in Iran's oil income and having to contend with the heavy drain on foreign currency following the increase in price of petroleum products, were establishing bilateral contacts on economic and commercial problems with the Teheran authorities.

17. It soon became necessary to have these negotiations placed in a Community context. In September 1974 the Danish delegation asked that the Community authorities should hold an exchange of views on relations between the EEC and Iran. Shortly afterwards, the Permanent Representatives Committee tackled this subject.

18. The Council discussed the state of relations between the Community and Iran for the first time on 12 November 1974. It emphasized the political and economic importance to the Community of these relations and stated its willingness to consider the type of agreement best suited to furthering commercial and economic relations on a new basis.

19. The uncertainty about the nature of the agreement continued throughout 1975, although the attitudes of the individual delegations changed as the meetings proceeded. However, whereas several delegations accepted the principle of a preferential offer for part of the agreement to be concluded, the Commission stated its opposition to the extension of preferences outside the zones already established.

20. Faced with these differences of opinion, the Council and the Commission agreed in February 1975 to undertake further exploratory meetings with the Iranian delegation to determine the most suitable form of agreement to be concluded. In order to establish the requisite formula, Sir Christopher Soames conferred with Iranian officials in Teheran in May 1975. It emerged from these meetings that Iran was seeking a preferential type of agreement, whereas the Commission still favoured an overall cooperation agreement of a new type which would cover all economic sectors.

21. The meetings which resumed in July between the Commission and an Iranian delegation revealed that the difference between the two parties still remained, with Iran continuing to insist on the preferential formula. Faced with this 'doctrinal' difference, the Commission adopted a more pragmatic approach and asked the Iranian negotiators to specify the sectors in which they wished to benefit from Community preferences, while Iran demonstrated its impatience at the length of these 'exploratory' talks with the Commission and stated its intention to address itself directly to the governments of the Member States.

22. Following further meetings between the Commission and the Iranian Foreign Minister, Mr Abbasalli Khalatbari, in Brussels in October 1975, it was found that the differences still persisted even though the Commission was coming to accept the idea of 'special' links with Iran. It was agreed that the technical problems to be solved would be examined at 'exploratory talks' to be held in Teheran from 27 to 29 October so as to define the particular sectors where difficulties still existed and to consider pragmatic ways of solving them.

23. In January 1976 Mr Gundelach met Mr Ansari, the Iranian Minister for Economic and Financial Affairs.

On 10 March 1976 the Commission forwarded to the Council a Communication finally recommending the opening of negotiations with Iran for the conclusion of an overall commercial and economic cooperation agreement.

The aim of the agreement would be to establish active and extensive cooperation between Iran and the Community, reflecting the close historical and economic ties between the two parties, the complementary and inter-dependent nature of their economies, and their resolve to develop mutual trade.

As regards trade cooperation, each side would grant the other the status of most-favoured nation. Solutions to the tariff problems would be sought using trade policy measures appropriate to the spirit of the new relationship between Iran and the Community.

Economic cooperation would favour balanced industrial development, joint ventures, investment, technical cooperation and technology. All available means would be used to ensure the free exchange of the fruits of this cooperation between the two parties. Cooperation should centre on sectors

where the two economies complement each other, and the priority aim of the agreement would be to identify sectors where cooperation would be profitable, the cooperation itself evolving and expanding as relations between the EEC and Iran developed.

The Commission's recommendations must now be examined by the Council. Official negotiations could begin as soon as it has taken a decision.

24. What type of agreement should be chosen?

In the opinion of your rapporteur, the approach proposed by the Commission largely meets the requirements of Iran and of the Community.

Iran's economic and political importance, already mentioned in this report, makes her an essential partner for the Community, though she has certain problems not shared with other countries in the region.

In view of this, we feel that relations between the Community and Iran should be considered on the basis of a fresh, individual approach, which must of course be compatible with the Community's international commitments.

25. In principle, Iran would like the Community to grant preferential treatment to its export products.

This has already been granted, to a large extent, by means of generalized preferences. However, due to the autonomous nature of Community preferences and for various technical and political reasons, the Iranian authorities are not satisfied with this solution. They would prefer relations with the Community to be of a conventional nature, with preferential concessions, either as part of a preferential agreement like the 'Mediterranean agreements.'

For political and legal reasons this does not at present seem admissible.

Faced with these contradictions, it is therefore difficult to find a suitable solution to the problem of relations with Iran.

26. In these circumstances it is to be hoped that the solution proposed by the Commission of the European Communities, which attempts to formulate a practical approach to the problems, may eventually satisfy both parties.

This solution combines 'commercial cooperation', based on cooperation agreements such as that between the Community and India, and 'economic cooperation', based on the agreement which the Community is soon to conclude with Canada.

This would take account of possible future developments in Iranian exports, and of the likely increase in economic cooperation between the two parties, having particular regard to Iran's potential in the energy and raw material sectors, which are of great importance to the Community.

27. We therefore feel that an economic and trade cooperation agreement would be the most satisfactory solution for both parties, given that economic cooperation at Community level would complement bilateral cooperation between Iran and Member States in individual sectors. However, to give this bilateral cooperation at least a minimum of coherence, the Member States should consult each other and keep each other informed of the contents of their agreements, using the 'consultation procedure for cooperation agreements between Member States and third countries', established by the Council Decision of 22 July 1974.

28. The main purpose of the Community-Iran agreement should be to establish the greatest possible degree of cooperation between companies in the Community and Iran in the exploitation of Iran's natural resources and the marketing of the end product. Iran's shares in several large Community companies should facilitate this trend.

29. Such cooperation should, in our opinion, extend not merely to the advanced technology industry, but also to the agricultural sector. Iran is a major importer of agricultural products (cereals, milk, sugar, meat) of which the Community has large surpluses. Why not suggest long-term supply contracts in this sector, with guaranteed prices?

We feel that relations between the two parties could be greatly extended in this sector. This prospect should be welcomed by those countries and regions of the Community in which agriculture still plays a predominant role and which, rightly or wrongly, often feel that they suffer most as a result of agreements between the Community and third countries (Mediterranean and ACP countries).

30. As regards the supply of hydrocarbons, Iran should undertake not to discriminate against the Community nor to hinder the export of its hydrocarbons to the Nine.

31. One difficulty is, however, caused by Iran's desire to obtain Community outlets for its petroleum and petrochemical products, etc., this being a sector in which Community production is greater than the requirements of the Nine.

It will be remembered that one Member State had proposed that Iranian petroleum products produced by joint ventures with Community undertakings should be duty-free. This proposal met with various objections from other Community delegations.

The problem would be difficult to solve in view of the non-preferential nature of the agreement to be concluded. On the other hand, it is impossible to envisage any form of cooperation with Iran that does not provide outlets for its petroleum products, which will represent a growing percentage of its exports in coming years.

It therefore seems to us that, in this particular sector, and in the interests of both parties, an exception, limited as to the nature of the products and the size of the outlets, should be made as regards the non-preferential nature of the agreement, despite the legal and political difficulties this will undoubtedly involve.

