

# European Communities

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### Report

drawn up on behalf of the Committee on Development and Cooperation

on the ~~/~~Agreement between the European Economic Community and the Arab  
Republic of Egypt

Rapporteur: Mr M. DEWULF



By letter of 13 February 1973, the President of the European Parliament referred the Agreement between the European Economic Community and the Arab Republic of Egypt to the Committee on Relations with African States and Madagascar, as the committee responsible, and to the Political Affairs Committee and the Committee on External Economic Relations for their opinions.

On 23 January 1973, the Committee on Relations with African States and Madagascar appointed Mr Dewulf rapporteur.

At its meeting of 19 March 1973 the committee considered Mr Dewulf's draft report and unanimously adopted the following motion for a resolution together with explanatory statement.

The following were present: Mr Achenbach, chairman; Mr Dewulf, first deputy chairman and rapporteur; Mr Aigner, Mr Bersani, Mr Christensen (deputizing for Mr Cruise-O'Brien), Mr Colin, Mr Härzsdel, Mr Kollwelter, Mr McDonald (deputizing for Mr Gall), Mr Schuijt, Mr Seefeld, Mr Wohlfart.

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The Committee on Development and Cooperation hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on the Agreement between the European Economic Community and the Arab Republic of Egypt

The European Parliament,

- having regard to the Agreement between the European Economic Community and the Arab Republic of Egypt,
  - having regard to the report of its Committee on Development and Cooperation and the opinions of the Political Affairs Committee and the Committee on External Economic Relations, (Doc. 5/73).
1. Welcomes the fact that the appropriate committees of the European Parliament were informed of the essential content of the trade agreement with the Arab Republic of Egypt by the Council before the agreement was signed, considering that this agreement is based on Article 113 of the Treaty of Rome, which is a new departure;
  2. Underlines the great political importance of the agreement which has been reached, which adds an important link to the Community's overall policy in the Mediterranean area;
  3. Considers that the unilateral declaration by the Community concerning the application of the principle of non-discrimination does not fully compensate the corresponding unilateral declaration by the Arab Republic of Egypt;
  4. Agrees that a Joint Committee should be set up under the above Agreement and requests the European Commission to keep its appropriate committees informed of the discussions in the Commission on the administration of the Agreement and, where appropriate, on the principle of non-discrimination;
  5. Points out that more than half the population of Egypt is employed in agriculture, and that agricultural products are the principle export products of Egypt although barely a quarter of its exports to the EEC consist of such products;
  6. Considers in the light of the above that the Community's concessions in the field of agriculture are fairly meagre;
  7. Hopes that as the Community continues to develop its Mediterranean

policy, it will be in a position to make more concessions in the agricultural sector, which does not necessarily exclude measures to guarantee reasonable price levels for the relevant products on the Community market;

8. Requests the Commission, in the content of the admittedly limited possibilities of the Community in regard to agricultural products, to determine whether in future the Community might not be able to act rather more generously in the field of industrial products;
9. Expresses, in other respects, its complete approval of the content of the agreement in question;
10. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities, and also to the Egyptian people's assembly for information.

EXPLANATORY STATEMENT

1. Up to now the Council has only kept the European Parliament informed of the content of association agreements which the European Community intends to conclude with third countries. This takes place before these agreements are signed, so that in theory it is still possible for the Parliament to use its influence if it does not agree with some of the points in the agreements to be concluded. This procedure, also known in practice as the Luns procedure, constitutes a big step forward compared to the previous situation, in which the Parliament was informed of agreements only after they had been signed and was thus presented with a fait accompli.

The fact that the Council, and in particular its Acting President, Mr Westerterp, decided to inform the European Parliament on 13 November 1972 of the content of the agreement between the EEC and the Arab Republic of Egypt (ARE) constitutes a considerable improvement on the previous procedure. This is in fact not an association agreement concluded on the basis of Article 238 of the Treaty of Rome, but a trade agreement based on Article 113 of the Treaty<sup>1</sup>. Your Committee welcomes this broad interpretation of the Luns procedure.

2. The Community has already spent some years working out its policy on the Mediterranean area on the basis of overall, general guidelines. Any commercial policy has of course general political implications as well. In this context, following the conclusion of an agreement such as the one with Israel, the conclusion of an agreement with the ARE is undoubtedly of great political importance. It shows the Community's determination, in laying down its Mediterranean policy, not to exclude a priori any of the sea-bordering States in its efforts to achieve a greater political and economic balance in its relations with the Mediterranean countries.

3. The agreements concluded by the Community with Spain and Israel, contain a provision on non-discrimination to the effect that the trade regulations arising from these agreements must not lead to discrimination between the Member States, their nationals or their companies. The agreements concluded previously with Morocco and Tunisia make no mention of nationals or companies. Since in 1954 the Arab League decided to boycott any companies which traded with Israel, the ARE gave preference to the latter formula. The Community, for its part, cannot subscribe to the ARE position on this point and in its agreement with the ARE its intention was to include the principle of non-discrimination in terms similar to those used in the agreements with Spain and Israel.

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<sup>1</sup>The EEC/ARE agreement has not yet been published in the Official Journal at the time of drafting this report, and it is therefore impossible to know whether Article 113 is mentioned in so many words in the regulation authorizing conclusion of the Agreement.

Since both parties continued to maintain their own positions, the following solution was devised: in a unilateral declaration in the form of a letter the ARE declares that it will apply the provisions of the agreement on non-discrimination in so far as they do not lead to the abrogation of laws and regulations which continue to be necessary for the maintenance of its own security. The Community declares, also unilaterally in the form of a letter, that it has taken due note of the Egyptian declaration and expects the principles laid down in the agreement, and therefore also the articles on non-discrimination, to be applied in full.

Since this correspondence is not attached to the final act, in other words does not constitute part of the agreement, your Committee is not sure what its legal value in fact is. It is clear enough that both parties have maintained their own opinions and that the problem has therefore not been satisfactorily settled. Nor, in your committee's opinion, can the one declaration be said to compensate the other.

However, since this boycotting of companies has not led to too many difficulties, and in view of the importance of the agreement both to the ARE and to the Community, your Committee will not lay too much stress on this point.

4. Although agricultural products are Egypt's principal exports and 55% of the Egyptian population works in agriculture, the Community in fact imports a fairly small proportion of such products from Egypt. There can be no point in an agreement with a country such as Egypt, in your Committee's view unless the concessions which the Community is prepared to make take account of the interests of the majority of the Egyptian population. It is clear that these interests lie in the agricultural sector.

The Community naturally has obligations towards its own farming population, but their interests will be adequately protected if steps are taken to prevent imports of Egyptian agricultural products into the Community at too low a price, or at specific times of the year. There are means, and the Community has repeatedly applied them in trade agreements with Mediterranean countries, of achieving this. For instance, the exporting country can be asked to impose a tax on its exports to the EEC corresponding to the amount by which the Community has lowered its charges, and this tax can be included in the prices when foods are imported into the Community so that they are not below the prices of similar products from the Community. In such cases it is of course necessary to prevent importers from benefiting from the levy, instead of the producers.



It is also possible to allow certain products to be imported only at times when the Community for some reason (climatic, for instance), is not in a position to meet the demand for them.

Your committee believes that, taking into account the above considerations, the Community could have done more to meet the needs of the ARE, e.g. by extending the concessions for fresh onions by 15 days. It must be remembered that even in relative terms the advantages of such concessions to Egypt are greater than the drawbacks to the Community which, having regard to the level of its gross national income, must be considered better placed to support these drawbacks if it pursues an effective incomes policy.

5. This last observation applies still more to the industrial sector. The reductions allowed by the Community in this area, i.e. 45% reduction of the common customs tariff when the agreement takes effect, rising to 55% from 1 January 1974, do not compare favourably with the reductions granted to other Mediterranean countries. For Israel the reduction from 1 January 1974 will be 50% (after starting with a 30% cut when the agreement took effect), while Morocco and Tunis were given complete exemption from duty from the outset.

Considering that Egypt's gross national product is the lowest of all the Mediterranean countries, i.e. \$160 per head of population in 1969 against Morocco's \$190 (the second lowest gross national product) and Israel's \$1570 (the highest figure), your committee believes that the European Commission should see whether in future the Community might not act rather more generously here.

This would kill two birds with one stone. First of all, population pressures could be better absorbed in this way. The currently rather one-sided exports from the ARE would be diversified and unemployment countered. Secondly, it must be remembered that the Community - considering its agricultural policy - has an interest in making up for its limited concessions in the agricultural sector by greater concessions for industrial products. In this way the repercussions of the Community's Mediterranean policy could be better distributed between the Member States.

6. In other respects this agreement is welcomed by your committee, which considers that it could constitute a first step towards the expansion of trade between the two partners and could in this way be of considerable importance in improving the political climate in the Mediterranean area. Your committee hopes that the Community, when it lays down in more detail an overall approach to its Mediterranean policy, will take the above observations into account so that the significance of the agreement to the Egyptian population will become more apparent than it is at present.

## OPINION OF THE COMMITTEE ON EXTERNAL ECONOMIC RELATIONS

Rapporteur for the opinion: Mr BAAS

On 29 May 1970, the Committee on External Economic Relations instructed Mr Baas to study relations between the European Community and the Arab Republic of Egypt.

On 13 February 1973, the President of the European Parliament authorized the Committee for Relations with African States and Madagascar to report on the agreement concluded on 18 December 1969 between the European Economic Community and the Arab Republic of Egypt. The Committee on External Economic Relations and the Political Affairs Committee were asked for their opinions.

At its meeting of 19 December 1972, the Committee on External Economic Relations discussed and unanimously approved the draft opinion of the rapporteur for the opinion, Mr Baas.

The following were present: Mr de la Malène, chairman; Mr Baas, rapporteur; Mr Brégégère, Mr Dewulf, Mr Lange, Mr de Koning, Mr Meister, Mr Richarts, Mr Riedel and Mr Radoux.

### I. Introduction

1. In September 1969, the Arab Republic of Egypt (ARE) applied for the conclusion of a preferential agreement, which the Council decided to grant on 17 October 1969. In the past, various Mediterranean countries had applied to the Communities for an agreement governing their relations with the Community, and at its meeting referred to above the Council instructed the Commission of the European Community to open exploratory talks with the Lebanon, begin negotiations with Israel and resume negotiations with Spain.

The negotiations begun with the ARE in September 1970 according to the terms of reference given by the Council in July 1970 were practically already completed by October 1970, but because of the boycott problem, which will be dealt with later on, they could not be resumed until April 1972, and were finally concluded in October 1972. The treaty was signed on 18 December in Brussels.

## II. Substance of the agreement

2. This is a preferential trade agreement within the meaning of Article 113 of the Treaty of Rome. The treaty is valid for five years, with the possibility of opening new negotiations 18 months before that period expires with a view to concluding a new agreement on a broader basis.

For a detailed account of the agreement see Doc.....

For greater clarity, the main points of the agreement are recapitulated here:

3. Levies on imports of industrial products originating in the ARE will be reduced by 45 per cent from the date of entry into force of the Agreement, and by 55 per cent as from 1 January 1974. Exceptions to this rule include a number of products involved in the manufacture of cars, a range of petroleum products, cotton fabrics and certain varieties of wood (Annex I to the Agreement).

In the agricultural sector, the Community has granted certain concessions in respect of rice, onions and garlic, citrus fruits and a number of agricultural products of minor importance such as melons, peppers etc.

Annex II to the Agreement lists the three categories of products for which the customs duties payable on their importation into the ARE are reduced. A 30 per cent reduction will be granted for all three categories when the Agreement enters into force. Duties payable on products in the first category will be further reduced on 1 January 1974 and 1 January 1975 to 40 per cent and 50 per cent respectively. The reduction for the second category will also become 40 per cent on 1 January 1974, whereas the reduction for the third category will remain 30 per cent.

4. The Agreement contains the usual trade agreement provisions for setting up and operating customs unions and free trade areas as well as agreements aiming at regional economic integration, for prohibition of discrimination by Member States, their citizens or limited companies, the rules of origin, dumping, arrangements for payment, consolidation of quantitative restrictions, safeguard measures in connection with the need to promote industrialization in the ARE, setting up a joint committee, etc.

5. A special problem has arisen in connection with the provisions prohibiting discrimination. The Agreement with Spain and Israel contains a provision stipulating that the trading practices adopted by the parties to the Agreement must not lead to discrimination between the Member States, their citizens or companies. The last two categories are not mentioned in the Agreements concluded with Morocco and Tunisia. The ARE expressed a preference for the latter formula, in connection with the boycott, proclaimed in 1953 by the Arab League, of firms trading with Israel. The Community was unable to satisfy the ARE on this point.

6. The following solution to the problem was found at the time: a unilateral declaration by the ARE in the form of a letter, answered by the Community in the same form and manner. In these declarations each party maintains its own point of view, i.e. the ARE states that it will respect the non-discrimination provisions so long as they do not result in the abrogation of laws and regulations essential to the protection of its safety. The Community, on the other hand, declares that it has taken note of the Egyptian declaration and that it expects the Agreement and therefore also the articles concerning non-discrimination to be fully respected. The details are recorded in letters exchanged between the leaders of the delegation but not appended to the final act. In addition, the Community reserves the right to take appropriate steps in the event of serious and persisting differences of opinion within the Joint Committee. The Community feels that this fully compensates the unilateral declaration of the ARE.

### III. Assessment of the Agreement

7. Article 1 of the Agreement states that its purpose is to increase trade between the EEC and the ARE, thereby contributing to the development of international trade. According to the Preamble, the Agreement should make it possible to eliminate many of the barriers currently obstructing trade between the two parties. Accordingly, the Agreement should be assessed in the light of the above considerations.

Trade with the Community is particularly important to the ARE. In 1969, the Community was its principal supplier, accounting for 27 per cent of all Egypt's imports. Between 1967 and 1970, the ARE exported 152 million dollars' worth of goods to the Community, which thus became Egypt's second best customer. ARE exports consisted of about 79 per cent industrial and approximately 21 per cent agricultural products. They were as follows, in order of importance:

<u>Product</u>	<u>Amount</u> ( <u>\$ m.</u> )	<u>% of total imports</u> <u>into the Community</u> <u>from Egypt</u>
crude petroleum	58	38
raw cotton	42.4	27.8
cotton yarns and cotton textiles	11.7	7.6
fresh onions	8.4	5.5
rice	4.1	2.6

8. In assessing the above list, it should not be forgotten that agriculture is Egypt's principal means of existence. A large part of the population (55 per cent as opposed to 34 per cent in Spain and 12 per cent in Israel) is employed in the agricultural sector. Agricultural products are Egypt's main item of export.

Exports of cotton, Egypt's biggest export product, rose between 1969/70 and 1971/72 from 129.6m Egyptian pounds (££) to ££174.9m. As a result of higher local consumption and a fall in the world price, the revenue from rice exports between 1970/71 and 1971/72 was practically halved (££24.5m. as against ££52.5m.) Exports of semitropical and similar fruit rose from ££5.9m. in 1970/71 to ££9.4m. in 1971/72. Groundnut exports also increased during the same period, from ££1.9m. to 2.4. Onion exports on the other hand fell from ££6.3m. in 1969/70 to ££4.7m. in 1971/72.

9. This shows that Egypt could still export a great deal more agricultural products. The currently prevailing situation in which Egypt sends 38 per cent of its total exports to the Community in the form of crude oil bears no relation to the importance of this product to the Egyptian economy. Exports of petroleum products in 1971/72 amounted in fact to ££28.5m.

In this Agreement, the Community has tried to do justice to both the Egyptian interests and the interests of the Community's agricultural population. The solution found consists as far as rice is concerned in reducing the charges by 25% for a maximum annual quantity of 31,000 tons. The ARE, however, must undertake to levy a special tax on its rice exports to the Community equal to the amount by which the charges are reduced. In the event of imports into the Community, this tax would be passed on, thereby safeguarding Community production and prices. This arrangement is similar to that reached for olive oil in the Agreement with Morocco and Tunisia. The importance of this arrangement should not be underestimated since the major part of Egypt's agricultural population is involved in the rice production. Initially the Community did not intend to grant any concessions at all for this product, but finally it gave in to Egypt's argument that both psychologically and politically it would be impossible to conclude an agreement in which no concessions were granted for rice.

10. For fresh onions and garlic, the Community agreed to a 50% reduction of customs duties, from 1 February to 30 April for fresh onions and from 1 February to 30 May for garlic. This concession affected 30% of the value of exports of fresh onions and 15% of the value of exports of garlic. Egypt had requested a 15-day extension of the concession period for fresh onions. The Community has not yet acceded to this request, although the Council has asked the European Commission to study the question at a later date.

As regards citrus fruits, Egypt will benefit from concessions similar to those granted to Spain and Israel. As long as the price of Egyptian citrus fruits on the Community market does not fall below a minimum offer price (which is equal to the reference price for the period in question plus the effect of the common customs tariff on the reference price and a flat-rate sum of 1.20 u.a. per 100 kg) the common customs tariff is reduced by 40%.

Tariff concessions ranging from 25% to 50% are also granted for a number of other products (grapefruit, mangoes, certain varieties of peppers, watermelons and certain frozen or tinned fruits). In all, the tariff concessions granted by the Community affect more than 50% of the agricultural products exported from the ARE to the EEC which are subject to customs duties or levies.

11. In the industrial sector, c.c.t. duties will be reduced by 45% when the Agreement enters into force. On 1 January 1974, there will be a further reduction to 55%. To give an idea of how this reduction compares with those granted by the Community under its Agreements with Israel, Morocco and Tunisia, it should be noted that as from 1 January 1974 Israel will be entitled to a 50% reduction (having started with a 30% reduction when the Agreement entered into force), while Moroccan and Tunisian goods were exempted from all duties when the Agreement entered into force.

12. In the light of these facts, your committee feels that the Community has not been as generous as it might have been. It must be remembered that Egypt's gross national product is the lowest of all the Mediterranean countries: \$160 per head in 1969 as opposed to \$190 in Morocco (the lowest but one) and \$1570 in Israel (the highest). The average growth of the GNP in the ARE between 1960 and 1969 was 1.2%, the lowest of all the Mediterranean countries (Spain 6.5%, Israel 3.4%).

In addition, the tariff reduction is lower for certain aluminium products and cars (35% to 41%), or is granted only for a certain quota, e.g. 2,500 tons per year for cotton fabrics and 200,000 tons for refined petroleum products. No concessions have been made at all for a number of sensitive products such as plywood, veneered wood, and cotton yarn.

Finally, Egypt has been granted concessions on 45% of the industrial products on which customs duties are levied when they are exported to the Community. If we include the products imported free of duty, we find that about 90% of industrial exports from Egypt to the Community are exempt from duties or benefit from tariff reductions.

13. As is customary, the Community asked for certain reciprocal concessions, naturally taking full account of the economic situation of Egypt and its development requirements. With regard to the latter, it should be noted that certain provisions are aimed at meeting the country's need for industrialization and its budgetary requirements. For a detailed account of the concessions granted by Egypt see the text of the Treaty. It is sufficient to note that the concessions relate mainly to machinery and appliances, electrical equipment, inorganic and organic chemical products, tallow and vegetable oils. In all, concessions are made in respect of 20% of the exports subject to customs duties; taking into account duty-free importation, the final total works out at 55%.

Since the ARE is granting concessions for products which the country does not yet manufacture itself, a special safeguard clause gives Egypt the possibility of taking protective measures which might prove necessary in connection with its growing industry. If concessions are withdrawn they should be replaced by others in order to preserve the balance of the Agreement.

To meet Egypt's budgetary requirements the country is empowered to levy charges having an effect equivalent to that of customs duties, in view of the importance of the latter to its revenue income.

Trade with Egypt is hampered by a lack of foreign currency reserves even more than by quantitative restrictions: if the Egyptian authorities will not or cannot release foreign exchange for a certain transaction, the latter

cannot go through. Your committee therefore stresses the importance of proper application of Article 11(2) of the Agreement, which stipulates among other things that the ARE will release the foreign exchange (in cases where such an allocation of foreign exchange is required pursuant to Egyptian provisions) needed for a good development of Egyptian trade with the Community.

#### IV. CONCLUSIONS

14. Your committee considers it politically important that there is now an agreement with the ARE as well. This adds a further facet to the Community's overall policy in the Mediterranean area, on which the Council of Ministers of the Communities recently decided.

The committee feels, too, that the concessions granted by the Community should be looked upon as a first step, and that the Joint Committee that is to meet once a year, and keep the proper implementation of the agreement under review, should make recommendations if it considers that the agreement that has been reached is not making an appreciable contribution to development of trade between the Community and Egypt. The committee considers in particular that the concessions made by the Community in the industrial sphere might have been more generous, certainly when they are compared with those agreed with Tunisia and Morocco. As to agricultural products, the committee would have liked to see the Community going further towards meeting Egyptian wishes on concessions for certain products, or for a certain period. So long as the major part of the Egyptian population is engaged in agriculture, only development in this sector will allow economic progress to be made.

15. Finally, the Committee wishes to point out that it finds the settlement reached in the matter of non-discrimination unsatisfactory in the extreme. The solution arrived at means that each party holds to its own standpoint; and the fact that the exchange of letters has not been attached to the Agreement robs it of any legal force. The significance of the reservation made by the Community (see sec. 6) escapes the Committee, which fears that the Community, by finding satisfaction in the arrangement that has now been arrived at has in fact abandoned its principles on this point. This would only be acceptable if one could be quite sure that a precedent was not being created; even allowing for the fact that Egypt has in fact never, or hardly ever, applied the boycott clause - when this affected her own trade interests - and that the ARE might have declined to conclude the agreement had there been non-acceptance on the part of the Community, the formula adopted is still difficult to accept.

The reply<sup>1</sup> from the European Commission on 9 November 1972 to the written question from Mr van der Stoel is again hardly satisfactory. On the subject of the exchange of letters, it said that, following the completion of nego-

<sup>1</sup>See OJ C 124, 29.11.1972, p.1



tiations, it could assure the honourable Member that the statements in the form of letters to which he was referring in no way derogated from the substantive provisions, but were intended solely as a gloss on these provisions, so that the agreement could be brought into effect as satisfactorily as possible in accordance with the principles it incorporated.

One wonders why, in this case, provisions on non-discrimination that are quite routine in agreements between the Community and Mediterranean countries should need a gloss, and what real purpose (other than political) is served by comments that in fact explain nothing.

Finally, it must be noted that if the new agreement is to come into force on 1 January next, it will need to be adapted to the new situation that will by then have come about through the enlargement of the Community<sup>1</sup>. The committee would urge the European Commission to make a start on the necessary adaptation as rapidly as possible, so that the ARE and Community may speedily derive the political and commercial benefits of the agreement that has now been reached.

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<sup>1</sup>This will, moreover, be necessary if the ARE and Libya arrive at closer co-operation.

