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PROBLEMS OF ENLARGEMENT
Taking stock and proposals

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C O N T E N T S

Annex: Analysis by sector

In the following paper the Commission presents its reply to the Heads of State or Government who, at the European Council meeting held on 28 and 29 June, asked it to take stock of the problems connected with enlargement and to make appropriate proposals.

In doing this, the Commission has based itself on:

(i) the points made by the Heads of State or Government in reply to the letter sent to them by the President of the Commission;

(ii) information acquired since the start of the negotiations;

(iii) updated data or special studies carried out by it for this purpose.

The Commission has summarized its analysis of the problems and the guidelines it suggests in a short text in order to present to the Heads of State or Government only the main lines of its thinking and proposals. In the annex to this paper it presents more specific details summarizing the particular and technical data regarding the problems it is dealing with.

The Commission's approach has been based on the principle that the Community's political objective is to achieve enlargement within a reasonable period of time. In this connection it noted that the members of the European Council unanimously reiterated their political will to achieve that goal.

The aim of the proposals made by the Commission is to offer lines of conduct and negotiation enabling the obstacles which have hitherto delayed completion of the process of enlargement to be overcome on both sides.

I. <u>Preliminary considerations</u>

Two points must be made regarding (i) the present stage reached in the accession negotiations with Portugal and Spain and (ii) the context in which those negotiations should be seen.

So far progress has been made in the accession negotiations, which have been conducted with each of the applicant countries on the basis of its own merits, on a large number of chapters, some of which may be regarded as having been settled pending an overall agreement.

Further progress must still to be made with Spain, however, in crucial chapters of the negotiations, such as the customs union for industrial products, external relations and the ECSC, and substantive negotiations have yet to be started with the two applicants on the social affairs, fisheries and agriculture chapters. It has not yet been possible to assess Spain's and Portugal's concern regarding their budgetary situation during the post-accession transitional period; concrete negotiating results have not in fact been achieved on such essential aspects of the matter as the alignment of agricultural prices and aids. Finally, the questions raised by the participation of Portugal and Spain in the Community institutions must also be settled.

The negotiations have not uncovered any problems which had not previously been identified. The Commission's analysis of enlargement in both its "General considerations" and its "Opinions" and subsequent proposals is therefore, in the main, still relevant.

In the evaluation of the conditions and consequences of enlargement, however, two points - the importance of which has increased over the past few years - must be emphasized.

First of all, the economic environment of enlargement has seriously deteriorated. The Commission clearly stated, particularly in its "General Considerations" that "a return to sufficiently rapid and lasting growth is a major condition for resolving the serious economic policy problems which have to be overcome" and thus on it depends "the reciprocal capacity of the applicants and the Community to overcome the obstacles arising from restructuring and intensified competition"[1].

It has to be said that the continuing recession has prevented such an objective from being attained. The apparently realistio assumption of growth of the order of 3-4% has not materialized, making the problem of employment more acute, in both the Community, and Portugal and Spain, and making it even more difficult to deal with the problems of restructuring, particularly in those sectors where there is considerable spare production capacity and major oompetition problems at international level.

For the future, the prospect of an imminent and durable return to growth rates of the order of those previously envisaged remains unlikely.

The second point to be taken into account concerns the internal development of the present Community. Fundamental problems, accentuated by the impact of the reoession, currently exist even outside the context of enlargement, the prospect of which makes those problems appear even more acute, however. The problems inolude the painful restructuring whioh the Community has undertaken in a number of sectors in crisis. Coordination at Community level and, in particular, the introduction of joint disciplines have provided a framework for the adjustment process. Another problem concerns the new fields and resources the Community will have available to it in the future for its development. In this connection it must be stressed that the Community is today very close to the 1% VAT ceiling. Lastly, there are the difficulties, now felt more acutely than ever, regarding the institutions' decision-making procedures.

[1] Economic and seotoral aspects of enlargement, COM(78)200 final, para. 104.

II. General orientations

At the present stage of the negotiations the Commission feels that the following three general orientations must be confirmed so that the framework within which enlargement is to take place is assured:

(i) clarity of the terms of accession;
(ii) adoption of the acquis communautaire in full;
(iii) simultaneous accession of Portugal and Spain.

Clarity of the terms of accession is an objective which must be confirmed by the Community. The negotiations must lead to transparency of the terms for both Portugal's and Spain's accession, particularly with regard to the nature and content of the transitional period. This search for clarity prior to accession is one of the reasons for the European Council's request for a stocktaking exercise, and it is a point on which the Heads of State or Government have stressed their concern.

As the Commission has already stated in the "Fresco", this does not prevent the implementation of new policies involving, in certain cases, a differentiated application of Community measures and instruments in the applicant countries. Increased use of such flexibility might prove necessary throughout the transitional period.

In general, the Commission notes that possibilities for differentiation compatible with the Treaties already exist. Differentiation in the implementing measures can indeed make for sound management of the common policies.

In the "Fresco" the Commission also envisaged a transition in stages, respecting the principle of adoption of the acquis in full by the applicant countries. It foresaw a certain flexibility in the management of the transitional period, the total length of which would be fixed in the Treaty of Accession. This solution was not adopted in the agreements already reached in the context of the negotiations. It would now create problems as regards the balance to be established between the various chapters of the negotiations or within those chapters.

In view of the difficult budgetary and trade problems facing the Community and the applicant countries, the idea of considering adoption of only part of the acquis communautaire might seem an attractive solution. In practice, this option could, without settling the basic problem, the solution of which would merely be deferred, give rise to even greater new difficulties. If such an exception were to be made for either party this would obviously not be done without a trade-off. Gradually a process would be set in motion which, going beyond the principle that the problems of integration can be resolved progressively by introducing transitional measures, would considerably dilute the acquis as a whole. To this would be added the problem of the institutions' decision-making capacity with regard to policies which would no longer be common.

Simultaneous accession for Portugal and Spain would appear preferable, for both the Community and the applicant countries. Even if the acuteness of the problems and the progress made in the negotiations differ, this goal can be achieved.
The obstacles to the accession of both applicants can in fact be overcome within a reasonable period of time and the nature of the problems is, in any case, such as to require a common approach. Moreover, to delay accession would merely mean deferring a solution to the problems and hence making them even more intractable.

The Commission has already presented, in the context of the accession negotiations, proposals for dealing with the problems; such proposals, in accordance with the undertaking given by the Member States, must be adopted as soon as possible.

The additional proposals it is making in this report should make it possible to overcome the specific difficulties which are not being or cannot be dealt with in the traditional framework of negotiations.

III. Obstacles to enlargement – Proposals for overcoming them

The obstacles to enlargement stem not only from the specific difficulties involved in integrating Portugal and Spain into the existing Community but also from the issues mentioned by the Commission in the preliminary remarks above, notably the difficulties connected with the functioning of the Community.

The Commission's views on these two aspects are set out below.

A. Internal obstacles

(a) Own resources

For a number of years the Community has been living with a budget under which expenditure is dangerously near the own resources ceiling, despite more effective management of the common agricultural policy and the "favourable" trend of prices for agricultural products on the world market.

The strengthening of existing common policies and the development of new ones are essential for the cohesion of the Community. Even though many measures may not be reflected in the budget, it is impracticable to consider limiting, for financial reasons[1], those which might prove necessary.

The cost of enlargement to include Portugal and Spain will not place on the Community an intolerable financial burden and cannot be regarded as disproportionate to the political importance of enlargement. The size of the budget, in its present form, will increase by between 15% and 20%; the two new members will receive net transfers which, on the basis of a notional budget (Community of Twelve) for 1981, would have amounted to 850 – 1 400 million ECU, equivalent to between 4% and 6% of the budget of the enlarged Community.

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[1] In its reply to the mandate, the Commission stated (section 5) that it considered that Community activity cannot be developed if the Community budget is artificially limited by the present upper limit to its resources. It will take the necessary steps to overcome that constraint.

This burden, though limited, is nevertheless a real one and would result in the resources within the 1% VAT ceiling being used up. On the basis of the notional budget (Community of Twelve) for 1981, the VAT rate would have reached a level varying, according to the hypotheses used, between 0.964% and 1.044%.

Quite apart from enlargement, the maintenance of the present limits on own resources does not appear to be a practical possibility. Refusal to increase them would, for the operation of a 10 or 12-member Community, involve in practice a fundamental revision of present Community policies. For the CAP in particular the basic principles followed up to now would be called into question, not only for products of concern mainly to the new member countries but also for products of interest to the whole Community of Ten. It would also be necessary to abandon the ambition of implementing the new policies which the Community needs to strengthen its capacity, notably in the industrial and technological fields and to combat the aggravation of regional disparities. Thus the cost necessarily entailed in extending the acquis communautaire to the new Member States is not the only factor to be taken into account.

The Commission considers, therefore, that the Community must declare its readiness to increase own resources, a need which is already evident, even without enlargement. It will be putting forward proposals as speedily as possible on the basis of the consideration it is currently giving to this question.

(9) The decision-making process

The Commission has more than once stressed the difficulties which are already being caused by the deadlock in the decision-making process. Enlargement to a Community of Twelve will intensify this problem unless steps are taken to make the decision-making machinery more flexible.

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[1] See Annex - Budgetary matters.

The Commission has already indicated in the General Considerations the means by which decision-making could be made more flexible:

(i) greater use by the Council of the scope available to it under Article 155 of the EEC Treaty for devolving executive powers in the Commission;

(ii) a more systematic use of the vote by qualified majority, as provided for in the Treaties;

(iii) extension of majority voting in certain cases where the Treaties at present require unanimity (for example, in areas covered by Article 100). The separation made by the Treaty authors between qualified-majority matters and unanimity matters is not logical in all cases. Furthermore, the changes that have taken place in certain sectors of Community activity justify the unanimity requirement being replaced now by one of a qualified majority.
Any adjustment of the institutional aspects of the Treaties must take into account that major event, the direct election of Parliament. This has made it only natural that the European Parliament's opinions should be assigned a specific role in the attempt to introduce flexibility in decision-making, without the present balance between the institutions being upset.

The Commission therefore proposes that the Council should adopt a text by qualified majority if it is in accordance with the proposal from the Commission and the opinion of Parliament.

The Commission considers that the solutions outlined above should be regarded as adjustments to the Treaty, which enlargement too has made necessary and which could also be brought about through the procedure provided for in Article 237 of the EEC Treaty.

As regards itself, the Commission will initiate a process of reflection paying particular attention to its make-up and the conditions under which it operates, including the use of languages.

B. Obstacles thrown up by the negotiations

Many of the difficulties involved in enlargement are those which are "traditional" in such a process. They arise from the fears engendered in the Member States by the prospect of change in an established situation, the increased openness of their markets to external competitors and the concomitant adjustments in terms of specialization. However, the difficulties tend to obscure the structural advantages of economic integration (increased size of markets, improved conditions of competition, and so on).

The establishment of appropriate transitional measures assuages the fears by ensuring gradualness in the insertion of the economies concerned. In the accession negotiations, most of the difficulties have already been resolved - or will be - by this procedure, which has itself now become traditional.

However, the Community is also going to be faced with intensified sectoral difficulties, arising in certain cases from the similarity between the Community's own problems and specialization trends in the applicant countries. The difficulties relate mainly to Mediterranean agricultural products, fisheries, textiles and iron and steel[1]. This list does not include free movement of workers from the applicant countries within the enlarged Community. A transitional solution to this question may be found in the negotiations, as at the time of the last enlargement.

The sectoral difficulties have two main characteristic features:

(a) they may relate to surpluses - whether existing or potential - in production capacity, the important point being that the phenomenon is not a passing one:

the consumption of certain products cannot be increased beyond certain limits in present circumstances;

changes in structure in international trade and industrial adjustments are forcing a new distribution of labour worldwide;

the Community has entered into international undertakings granting certain facilities, under various headings, to non-member countries; for both economic and political reasons, there can be no question of withdrawing such facilities without inviting countermeasures.

(b) the difficulties mainly affect the Community's less-favoured regions (the Mediterranean regions) or those in the throes of crisis (regions processing declining industries and, in the case of fisheries, the coastal regions).

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[1] See Annex for specific developments.

The Community is already making a comprehensive effort to reduce surplus production capacity. Enlargement of the Community must not jeopardize its efforts or the results achieved.

Particular stress must be laid on this aspect with regard to agriculture, given the significant increase in the Community's self-sufficiency rates which enlargement will entail in the olive oil, fruit and vegetables and wine sectors. In addition, there is a potential for still greater development of these lines of production linked to an increase in productivity and an extension of irrigated areas.

The above remarks may also apply to other fields, e.g. the industrial sector.

The Commission considers that cooperation between the Community and the applicant countries must be stepped up as soon as possible, especially as it is not in the interests of the enlarged Community that the applicant countries should specialize still further in sensitive sectors.

The Commission considers, therefore, that in some of the fields with the characteristics described above the applicant countries should agree to apply before accession disciplines similar or even identical to those being implemented in the Community.

Consequently, it proposes that discussions be initiated with the applicant countries, parallel to the negotiations and geared to their specific circumstances, with a view to concluding as rapidly as possible a pre-accession undertaking.

For the applicant countries the undertaking would mean applying forms of discipline in jointly defined areas aimed at meeting the objectives of cohesion within the enlarged Community.

The Community, for its part, would set a target date for bringing the accession negotiations with Spain and Portugal to a successful conclusion.

Greater financial and budgetary assistance would be provided, firstly, to help the applicant countries fulfil their undertakings and, secondly, to speed up the process of adjusting and diversifying their economies.

The applicant countries would also be informed and consulted on future options wherever a 12-member viewpoint was already necessary.

At the same time, the Community should concentrate its internal efforts in four key directions in order to prepare itself economically for enlargement and to ensure that enlargement will be a success by removing certain real obstacles to the negotiations' favourable outcome:

(a) aid to less-favoured or crisis-hit regions must be stepped up. The Commission would refer in this connection to its recent proposals to amend the European Regional Development Fund Regulation and concerning the non-quota section of the Fund;

(b) on the basis of proposals which the Commission will shortly be sending to the Council, the Community must establish integrated programmes for the Mediterranean region;

(c) in agriculture, the Commission has put proposals before the Member States aimed at improving the operation of the common agricultural policy in the fruit and vegetable and olive oil sectors. The Commission reaffirms its proposals and urges the need for them to be adopted rapidly.

The Commission also stresses the fact that economic rationalization entails fair conditions of competition being respected throughout the Community.[1]

(d) With regard to fisheries, the Community should round out the acquis communautaire as soon as possible, so that it will have a clear basis for negotiating the accession of the two applicant countries in this sector.

With regard to the Mediterranean non-member countries with which the Community maintains preferential relations and which will be particularly affected by enlargement, the Commission has already presented an initial communication setting out the main components of a Community Mediterranean policy. It will amplify its proposals in a further communication.

[1] See Annex, paragraphs 20 and 27.

Conclusions

As the Heads of State or Government have clearly confirmed the political purpose of enlargement, the Commission considers that a concerted effort must now be made to find the means of achieving enlargement.

It has set out above its analyses and proposals. It awaits from the Heads of State or Government a clear response on the principal choices which, in its view, are the key to the conclusion of the negotiations and the satisfactory functioning of the future Community of Twelve.

ANNEX

ANALYSIS BY SECTOR

I. AGRICULTURE

1. The accession of Spain will increase the utilized agricultural area of the present Community by 30%, the agricultural labour force by 25% and the number of holdings by 32%, while the addition of 37 million Spanish consumers will increase the number of consumers in the Community by 14%. For comparison, the accession of Portugal will enlarge the utilized agricultural area by only 4%, the agricultural labour force by 12.8% and the number of consumers by 3.6%.

The contribution of agriculture to gross domestic product is 9% in Spain and 14.5% in Portugal, compared with 3.9% in the present Community.

2. In terms of output, Spanish membership will put up production of vegetables by 25%, of fresh fruit by 48% and of olive oil by 59%; production of whole milk will go up by only 6% and that of cereals by 14.5%. The Community cattle herd will be enlarged by only 6%. The percentage increases consequent upon the accession of Portugal are extremely low.

3. The above figures show that the impact on the self-sufficiency rate of the Community varies considerably from product to product.

Simply by adding the production figures, the rate of self-sufficiency of the Community in Mediterranean products (wine, fruit and vegetables, olive oil) will go up, but in the case of a number of livestock and crop products it will go down.

As far as the latter are concerned, the fact that the two applicant countries will open their markets and adopt the principle of Community preference should have a favourable effect on the regions growing these products in the present Community.

In the case of Mediterranean products, the Community's self-sufficiency rate will reach 100% or more but without causing particularly heavy surpluses, with one or two exceptions. However, the mere addition of present production figures neglects the impact of the common agricultural policy on producers in the applicant countries in terms of both productivity and increases in the area under cultivation.

4. The Community therefore faces two basic issues:

- controlling production capacity in the sectors where surpluses are likely to be created or increased;
- rechannelling production towards sectors where the Community deficit with outside countries is likely to widen.

5. The problem of production capacity mainly arises in connection with Spain, one of the major factors being the extension of irrigation.

Forecasts in this area tend to offer a wide range of results; however, it is reasonable to assume that by 1990 the enlarged Community will have at least 1.2 million hectares of new, irrigated land under cultivation, one third of this in Spain and two thirds in the Community of Ten.

6. This said, the real issue is less the existence of this irrigated land than the uses to which the land is put. The seriousness of the problem is indicated by the fact that the sectors most concerned (mainly vegetables, followed by fruit) seem to be those where the equilibrium between supply and demand, taking imports into account, is becoming increasingly unstable.

The Commission has taken account of these difficulties in its proposals on the "acquis communautaire". Any dilution of the proposals as they now stand and any further delay in adopting them will have serious implications both in the present Community and in the Community after enlargement.

The solution which should be aimed at is, unquestionably, one in which producers farming irrigated land would be encouraged to grow fodder and protein crops. This, of course, raises the problem of their living standards.

7. There is no single, comprehensive solution to the problem of controlling agricultural surpluses. Economic, social and regional constraints need to be taken into consideration and these in turn are intimately linked to the problem of rechannelling production.

A. Olive oil

8. With the accession of Greece, the Community's deficit in olive oil has diminished sharply as the level of self-sufficiency has risen from an average of between 86% and 96% in the Community of the Nine to 95% in the Community of the Ten. Production is shared by three Member States with Italy producing 70%, Greece producing 29.6% and France producing 0.4%.

9. The annual production of olive oil in Spain is on average 463.000 t, i.e. almost 60% of the production of the Community of the Ten. The level of self-sufficiency in Spain is close to 135%. The accession of Spain alone will have the effect, if consumption remains the same, of increasing the level of self-sufficiency in the Community of the Eleven to about 109%, a figure that will not be altered greatly by the accession of Portugal. The latter produces a volume corresponding to only about 6% the 10-member EEC's production and, according to the information available, supply and demand there are more or less in balance.

It should be added that in both Portugal and Spain special arrangements have been introduced guaranteeing outlets for nationally-produced olive oil. The adoption of the "acquis communautaire" will entail the abolition of these arrangements and consequently favour the consumption of less expensive competing vegetable oils imported into the Community at a zero rate of duty or at relatively low rates and without quantitative restrictions.

10. On the basis of the existing Community legislation this situation would have three consequences:

- a surplus estimated at 230 000 t, i.e. a level of self-sufficiency of 122%, would emerge in the Community of the Twelve, not as a result of increased production but the replacement by the consumer of olive oil by competing, and cheaper, substitutes:

- in view of the provisions governing the common organization of the market in olive oil relating to production and marketing aids, there would be an increase in budget costs linked with the rise in production of around 800 million ECU, costing in all 1 645 million ECU in the Community of the Twelve compared with 845 million ECU in the Community of the Ten;

- the Community olive oil market might be lost to the main exporting non-member countries for whom such access is of crucial importance. Those countries are Tunisia (52.000t = Ø 75-80), Morocco (11.000t = Ø 75-80) and Turkey.

11. A comprehensive and compulsory reduction in production capacity does appear feasible for a number of reasons. For one thing, the regions concerned are among the poorest in the Community. But in addition to this economic consideration, ecological and social factors prevent recourse to alternatives to olive-growing, an activity which will contribute to the incomes of nearly three million farmers in the twelve-country Community. A reduction in production capacity would also be extremely costly without providing any guarantee that the number of holdings would in fact be appreciably diminished. The Commission has, however, stated that, when this is practicable, it will provide incentives for conversion.

It should be noted in this connection that under the plan adopted in October 1981 Spain has already undertaken to reduce considerably the areas under olive-trees.

12. The Commission has therefore proposed measures[1], confirmed in Part I of this document, on the level of demand for olive oil together with a long transitional period for Spain and Portugal and arrangements with non-member countries which supply other vegetable oils, postponing until a later date the question of introducing a non-discriminatory consumption tax on vegetable oils.

13. For the non-member countries which now provide part of the Community's supplementary olive oil supplies (15% of the production of the Community of the Ten) the opportunities for redirecting their exports to other markets are very limited, especially in the case of Tunisia, which sends 78% of its olive oil exports, i.e. almost 50% of its agricultural exports, to the Community.

The problem is a particularly sensitive one, therefore, which the Community will have to resolve when implementing its new overall policy for the Mediterranean. It should be borne in mind in this connection that the Heads of State or of Government have made it clear that enlargement should not weaken the existing links between the Community and its Mediterranean partners.

B. Fruit and vegetables

14. Most of the production of fresh fruit and vegetables in the present Community is concentrated in three Member States/regions. These are Italy, the Mediterranean areas of France, and Greece, the latter still in a transitional period after accession and already exerting competitive pressure on the first two countries mentioned. In terms of products subject to price fixing and intervention, the three countries/regions account respectively for 40%, 21.6% and 9.9% of fresh fruit production and 40.1%, 24.4% and 6.3% of fresh vegetable production.

Production of citrus fruit is concentrated in Italy, which accounted for 99% before the accession of Greece, the remainder being met by France.

[1] COM(80)55 of 23 March 1980 and COM(81)610 final of 15 October 1981.

15. At present, trade between Spain and Portugal and the Community is governed by the provisiens relating to non-Community countries as part of the common organization of the market in fruit and vegetables. The 1970 trade agreement between the Community and Spain granted the latter a number of tariff reductions averaging around 50%; the products concerned are those of major importance to the Spanish economy. Similarly, Portugal benefits from tariff concessions for a number of agricultural export products under the 1972 trade agreement. The protocol added in 1976 and the complementary protocol of 1979 made further reductions in the concessions already existing.

Protection of the Community market in the case of a number of sensitive fruit and vegetable products is provided by national import restrictions allowed under the Regulation establishing the common organization of the market in fruit and vegetables.

16. The accession of Portugal will not have a substantial impact on the Community's self-sufficiency rates in citrus fruit and other fresh fruit and vegetables because of the small size of Portugal's production relative to that of the present Community and the fact that it only has exportable surpluses in tomatoes, almonds and onions.

Since, however, Portuguese prices are lower than those in the Community it is likely that production there will tend to increase, though the effect will probably be modest in comparison with the total value of Community output.

17. The accession of Spain will have quite different repercussions on the Community's rate of self-sufficiency. Spanish production is heavily in surplus in citrus fruit (235%) and to a lesser extent in other fruit and vegetables (percentages between 120% and 100%[1]).

Spain has 2.8 million hectares of land under irrigation so that Spanish accession will increase the irrigated area in the Mediterranean regions of the Community by 80%.

[1] Peaches 105%, apricots 108%, tomatoes 110%, pears 101%, potatoes 102%, grapes 103%, cherries 100%, apples 103%, green beans 109%, peas 107%, onions 120% (75-77).

18. Without taking account of the effect which being in the Community will have on Spain, the Community's self-sufficiency rate for citrus fruit will increase considerably after enlargement, to 89%. Full self-sufficiency will be almost reached or exceeded in the case of all other fresh fruit and vegetables[1]. Generally speaking, more than 80% on average of Spain's fresh fruit and vegetable exports go to the Community.

Spain also has definite potential to expand its output by improving yields and increasing irrigation. The rise in price levels and the introduction of support systems, which do not currently exist for fruit and vegetables, could have the effect of mobilizing this production potential.

It should also be pointed out that the products which will come under the greatest competitive pressure because of enlargement are also these mainly grown in the least-favoured areas of the present Community.

19. The Community will have to try to achieve two objectives:

- to ensure over the medium term that supply and demand are more or less in balance and that production is spread evenly over the marketing year so that the interplay of market forces provides producers with a fair income;

- to introduce suitable measures to help the regions affected in adapting to the new competitive situation.

20. In this connection, it must be stressed that a policy of market equilibrium at a time of very sluggish demand, with the maintenance of imports from non-member Mediterranean countries, will prove impracticable unless an attempt is made to influence not only the type of products grown on new land won through irrigation but also the conditions of competition between Community producers that go against the rational siting of crops.

[1] Peaches 105%, apricots 102%, tomatoes 99%, pears 101%, potatoes 100%, grapes 100%, cherries 99%, apples 99%, green beans 99%, peas 100%, onions 98%.

C. Wine

21. In the wine sector the accession of Spain and Portugal is to be viewed in the context of problems which relate not only to the level of supply but also to the conditions in which demand can express itself.

22. Portugal produces an average of 11 million hectolitres of wine a year. Production is in surplus (the degree of self-sufficiency is 122%), but will account for only 5% of total production in a Community of Twelve.

23. In Spain the area under vines is about 1.7 million hectares, 95% of which is used for the production of wine grapes. In recent years Spanish wine production has averaged 36 million hectolitres against 158 million hectolitres in the Community of Ten, i.e. 24% of Community production. This is equal to 50% of Italian production and 55% of French production, although in both those countries the area planted is much less than in Spain.

Generally speaking, the Community of Twelve should be just about self-sufficient. There is a risk, however, that the Community's surplus of white wine will increase. Spain has a structural surplus of white wine which hitherto has been dealt with mainly by the practice of mixing red and white wines.

24. In the Community, control of wine production is based on

- a planting policy which regulates new plantings and gives priority to improving quality over increasing yields and enriching poor vintages;

- a market policy.

25. Preventive distillation measures were adopted as part of the May 1982 "price package". They should help to improve the balance on the table wine market in the future. But the fundamental problem consists in applying the regulations already adopted in an enlarged Community, by means of proper Community control with effective Community sanctions.

26. In accordance with the objectives set when the "acquis" was last reviewed, the prohibition of irrigation and watering everywhere in the Community, except in exceptional cases, has still to be formalized. Similarly, it has still to be ensured that enrichment by the addition of sugar, in the regions where it is still authorized, will be performed using grape must.

Spain has very strict regulations in respect of both planting and irrigation. Sugaring is also prohibited.

27. The major efforts made up to now in controlling production and the wine market will not be enough unless progress is made on the consumption side. In some Member States, for example, the level of consumer excise duties is such as to seem sometimes to favour competing beverages.

It is neither reasonable nor fair to require the southern regions of the Community to curb their output of products such as wine unless, simultaneously, provision is made for Community action to encourage the sale of such products both on the Community and the export market.

II. FISHERIES

28. An initial difficulty resides in the fact that the "acquis communautaire", whose adoption is the basis and objective of the accession negotiations, is not yet fully defined and could be modified substantially in the short term, particularly as regards the exploitation of Community resources.

29. Spanish access to Community resources, particularly in the Bay of Biscay, is without doubt the most difficult problem to be dealt with in negotiations in this sector. Spain is requesting equality of access and exploitation in Community fishing grounds and considers that its fishing rights should be based on the situation at 31 December 1976, before the exclusive fishing zone was extended to 200 miles.

In the Commission's view the extension to 200 miles and the difficulties of access to which it gave rise also for the Community fleet have set up a new balance in Community waters which it would be politically difficult to overturn.

30. In addition to the problem of access, various features of the fisheries sector in Spain indicate that integration will be difficult. Four points in particular are important.

(a) Spain is a major producer and consumer: in the Community of Twelve about one quarter of fishermen will be Spanish and Spanish catches will account for one third of the total in terms of value and one quarter in terms of quantity. The Spanish fishing fleet has a tonnage equal to 70% of that of the Community of Nine's fishing fleet. Despite the size of the fleet and the extent of catches, however, Spain has an overall deficit of fishery products.

(b) Fishing is largely concentrated in regions with political, economic or social problems, i.e. the north-west coast of Spain.

(c) There is an imbalance between the size of the fleet (17 000 vessels and 110 000 fishermen) and the fishing zones open to it, resulting mainly from the extension of the exclusive fishing zones to 200 miles.

Because of the unfavourable stock situation in Community waters, this imbalance is comparable to that affecting the Community, although it is more marked; Spain's entry to the Community will therefore greatly aggravate this problem and make it necessary to introduce costly major restructuring measures.

(d) Spain has concluded numerous fishing agreements, subject to payment, with non-Community countries in order to make up for the shortfall in natural resources and these have to be taken over by the Community; this operation could be difficult because of the number and nature of the fishing agreements concluded with non-Community countries, which provide substantial employment for part of the Spanish fleet.

31. The enlargement of the Community to include Portugal, on the other hand, will not greatly affect the sector. It will be necessary, however, to pay attention to the structural problems linked with adjusting catch capacity to available resources. The processing industries will also have to be diversified and modernized.

III. INDUSTRY

32. When considering the consequences of enlargement in this sector, it is worth taking a look at the background first. The 1970 trade agreement between the Community and Spain gave Spain the benefit of considerable tariff concessions in the industrial field on the basis of an already low tariff. Similarly, under the 1972 trade agreement between the Community and Portugal, ECSC products and nearly all EEC products originating in Portugal have been imported into the Community duty-free since 1 July 1976. Moreover, arrangements have been signed with both Spain and Portugal for trade in textiles and with Spain for iron and steel products.

33. Overall, therefore, the main impact of accession has already been felt on the Community side. This is not so, however, on the side of the applicant countries. Spain, in particular, will have to dismantle highly protectionist customs and tax systems and adapt its aid system to Community standards. Spain's undertaking to introduce VAT when it becomes a member of the Community is a big initial step forward. Portugal will have to abolish its customs duties for a further set of products as well as its non-tariff trade barriers.

34. Spain's industrial productivity (GDP per person in employment) is currently about 40% less than that of the Community. The difference is even greater in the case of Portugal. At the same time, however, wages per head are much lower than in the Community despite their recent growth.

It is nonetheless difficult to draw final conclusions about the competitiveness of the applicant countries on the basis of this general information. The situation can vary considerably from one branch of industry to another depending on the specialization of the applicant country. Moreover, it should be borne in mind that exchange policy and variations in inflation control can have a considerable influence on competitiveness.

The decline in productive investment over the last few years poses a major problem and appears to be much more marked than in most of the Community Member States.

The improvement of productivity is indispensable to the economic development of the applicant countries and, by the fillip it will give to the market, will be favourable to the exports of the present Member States, but it will have to be accompanied by a major effort to restructure and diversify. Such an effort will require an injection of capital and funds provided by saving, which the applicant countries will not be able to draw on without a corresponding reduction in the purchasing power of households. Future developments in investment and foreign financing will be very important in this respect.

35. The most sensitive industrial problem is without any doubt that of controlling the development of sectors suffering from structural overcapacity, both in the present Community and in the rest of the world. These are primarily sectors where the potential demand is not strong enough for the supply or where the competitive situation in relation to newly industrialized countries is unfavourable, so that production capacities need to be adjusted, a necessity which is accentuated by the Community's strict external obligations with regard to free trade. The Community of Ten has introduced policies, both internal and external, to cope with these difficulties.

36. The Commission's more specific comments on iron and steel and textiles are given below. In the medium term it is in the interests of both the Community and the applicant countries to adjust production where there is structural overcapacity and where competition from third countries is on the increase.

(a) Iron and steel

37. Steel production in Portugal reached 659 000 tonnes in 1980, 0.5% of the steel produced by the Community of Ten in the same year. There has been a marked increase in production in recent years: with 100 as the basis in 1973-74, production reached 155.8 in 1980. However, Portugal's external trade balance in steel is well into the red and is likely to remain so in the future, even when the new installations provided for in the steel development plan start operating in 1986.

38. Spanish steel production reached 12.6 million tonnes in 1980, 9.8% of the steel produced by the Community of Ten in the same year, as opposed to an average of about 8.5% over the preceding six years. With 100 as the basis in 1973-74, the level of production was 112.5 in 1980 as against 84 for the Community of Ten.

From 1974 to the end of 1980 Spanish production capacity increased from 13.5 million tonnes to 16.5 million tonnes. The rate of utilization of capacity was 75% in 1980-81.

39. The Spanish iron and steel industry, like the Community's, has been hit by the consequences of the recession. There has been a marked decline in the domestic market from 11.7 million tonnes in 1974 to 8.7 million tonnes in 1980 (- 26%). Over this period industrialists in the sector turned to exports, which increased from one million tonnes in 1974 to nearly 6 million tonnes in 1980. In 1980 exports accounted for about 45% of steel production as against 9% in 1974. This trend can be seen very clearly in the specialization index[1] of Spanish exports. This index was well below one in the sixties (0.29 in 1968), which is a poor performance, but reached 1.01 in 1973 and 1.73 in 1980. This figure is much higher than in the Community (1.01 on average) with the exception of Belgium. Steel has therefore become a major export speciality for Spain, along with footwear and agricultural exports. Exports of ECSC products to the Community are currently limited to 780 000 tonnes for 1982, in accordance with the steel arrangement concluded in 1978, which has been extended since then. A comparison of this figure and Spain's exports to the rest of the world underlines the potential which accession will give Spain to extend its trade to the Community.

40. These export figures and the relative growth of production run counter to the pattern of Community production, which, apart from the years 1978 and 1979, has continued to decline. Nevertheless, they mask a general weakness in this sector, which the Spanish authorities have undertaken to modernize with a view to making it more competitive.

In 1979 the Spanish Government prepared an industrial plan of action for steel whereby competitiveness and production were to be increased by 1985. This plan has never been finally adopted.

[1](Spanish exports/OECD exports) / (total Spanish exports/total OECD exports).

41. In 1981, however, under its overall industrial restructuring plan of 5 June 1981, the Spanish Government adopted measures to bring about modernization and improved productivity in the integrated steel industry. Financial and other aid is to be provided. It will be granted in exchange for strict commitments as to volume of production, closure of non-profitable plants and coordination of production plans.

The arrangements do not seem to be very different from those in the Community.

42. On the other hand, no particular plan has been adopted for the non-integrated steel industry.

In the ordinary steels sector the provisions of 5 June 1981 on general industrial restructuring apply. Tax relief and financial benefits are granted in exchange for a conversion plan.

In the special steels sector a start has been made on restructuring under the auspices of a public limited company (sociedad anonima) set up by the Spanish public authorities, which is to receive large subsidies. Moreover, in the context of the negotiations on the "External Relations" chapter, Spain has requested that the quantitative restrictions on special steels be maintained after accession for a longer period than that allowed for general tariff dismantling.

43. With a view to accession the Commission has applied itself particularly to evaluating the consequences of the measures adopted by the Spanish authorities. It notes that there is nothing in those currently being implemented to indicate that Spain has decided to reduce its overall production capacity, although the Spanish authorities did give verbal assurances that overall capacities would not be increased.

44. The Spanish authorities' desire to restructure the Spanish iron and steel sector and make undertakings competitive again tallies with the Community's. It would, however, be inconsistent with its future status of Member State if Spain were to embark on a policy which clashed with Community policy.

The Community has already made its position quite clear to the Spanish authorities at the negotiations, pointing out that provisions might be included in the accession instruments to make compensating adjustments as regards steel production levels and supplies from the Spanish steel industry.

(b) Textiles

45. With a view to ensuring the orderly restructuring of its textiles sector, the Community took an active part in setting up the Multifibre Arrangement. In the case of preferential third countries it negotiated voluntary restraint agreements bilaterally. Relations with Spain and Portugal fit into the latter framework. Furthermore, within the Community the Commission has introduced strict rules for the grant of State aids to this sector.

46. A look at specialization in external trade shows the extreme importance of textiles and clothing in Portugal's exports as the index for these sectors is 3.84 and 8.80 respectively for 1980 as against 3.86 and 6.09 in 1973. Hence, Portuguese textiles and clothing exports accounted for about 30% of manufactures exported in 1979. In the same year the Community absorbed 65% of these exports, almost half going to the United Kingdom and the rest divided mainly between France and Germany. Up until now the strength of the Portuguese textiles industry has lain primarily in the low cost of labour rather than in a search for quality and innovation.

47. Some Member States have expressed the fear that certain branches of their own textile industry will be jeopardized if the principle of freedom of movement for industrial products is applied to Portuguese textiles immediately upon accession.

As a result of the negotiations at the September 1982 negotiating session and those at ministerial level, a system was set up to the satisfaction of both parties whereby this sector is to be integrated into the Community progressively.

48. The Commission has pointed out on several occasions that it considered that the integration of the Spanish textile industry would not pose the Community a major problem.

49. The amount of textiles imported from Spain reached 392 million ECU in 1981 (10% of total Spanish exports), about 30% of which were "MFA" products, accounting for 4.2% of Community imports of this category of products. The main importing countries in the Community are France (32%) and Benelux (23%). Germany, the United Kingdom and Italy import 16%, 14% and 11% respectively. Compared with imports from Portugal they seem to be more evenly distributed.

50. As part of the industrial restructuring plan the Spanish Government has made a start on the textiles sector, which accounts for 9% of GDP and 12% of employment in the industrial sector, although the level of technology is low. It aims to improve productivity and quality, stimulate investment and research, and reduce the number of jobs. Tax relief and subsidies are provided for this.

51. In the framework of the negotiations a tendency has arisen in the Council to request the setting up vis-à-vis Spain of a system similar to that established for Portugal. For its part, Spain has asked to maintain after accession a large number of quantitative restrictions for cotton products.

IV. BUDGETARY MATTERS

52. It is not possible at the present stage of the accession negotiations with Spain and Portugal to estimate the budgetary effects of their accession during the transitional period following accession because it is not known what transitional measures will be adopted with regard to the acquis communautaire in the agricultural chapter.

53. The Commission therefore examined the hypothesis of Spanish and Portuguese accession without taking into account the effect of the transitional measures which will be adopted in the context of the negotiations. It holds the view, which the applicant countries have accepted, that when the applicant countries accede to the Community they should pay all the own resources which they owe pursuant to the Council Decision of 21 April 1970.

Account was not taken of the budgetary consequences of the specific measures taken in favour of the United Kingdom.

With the exception of olive oil, for which the price ratio is taken to be 2 to 1 in relation to other vegetable oils, the stimulating effects on the agricultural production of the applicant countries as a result of the adoption of the acquis communautaire were not included. Estimates relating to the EAGGF Guidance Section, which are calculated objectively on the basis of the Fund's criteria, were increased across the board by 50% to take account of the special structural weaknesses of the two applicant countries. Estimates for the other Funds were established on the basis of the most comparable situations in the Community.

54. According to a budget drawn up for Twelve for the year 1981, accession by Spain and Portugal would have involved an increase in budgetary expenditure of between 2 800 million ECU and 3 800 million ECU - depending on the hypotheses selected - an increase in the budget of between 15% and 20%.

The margin of uncertainty can be attributed mainly to the difficulty of estimating these countries' capacity to absorb funds for structural purposes and certain gaps in the basic data required for evaluating EAGGF guarantee operations.

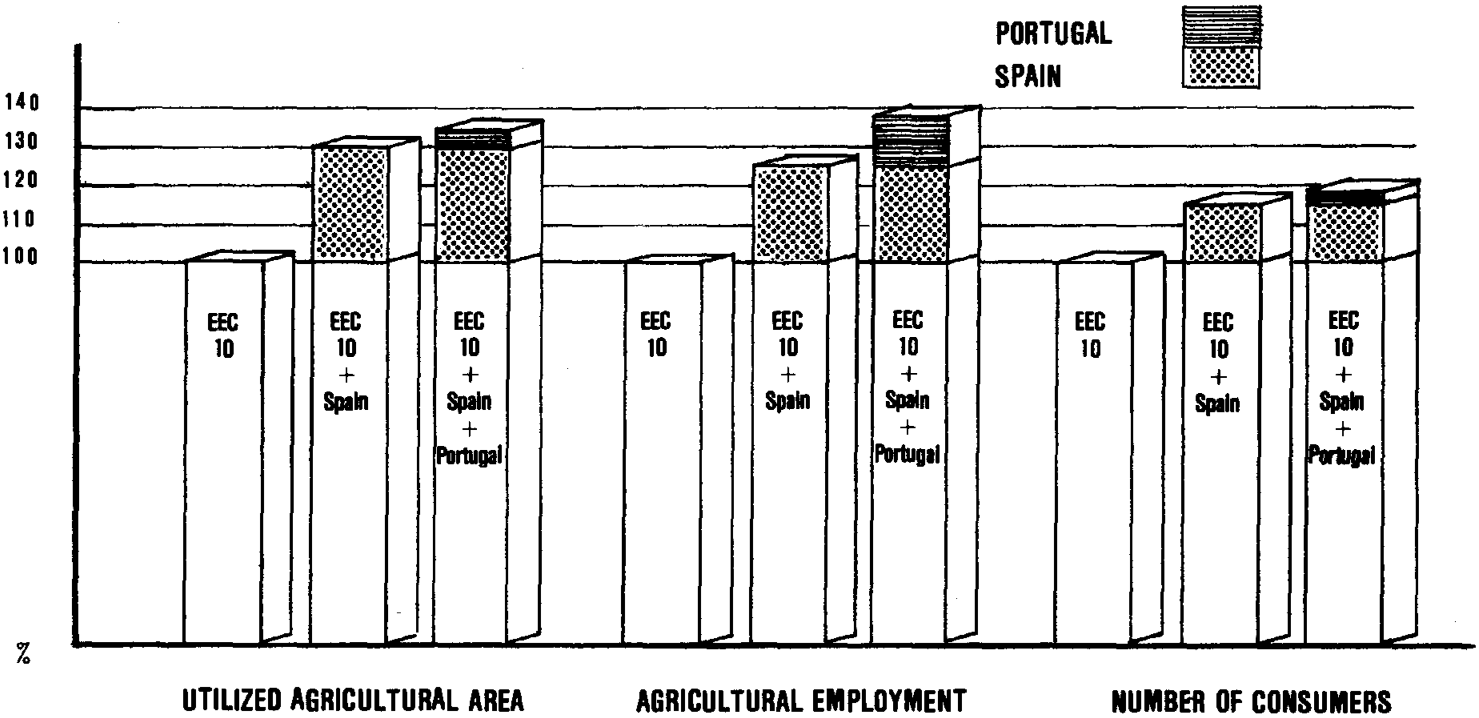
Application of Community policies in respect of the two applicant countries suggests a surplus in favour of Spain and Portugal of between 850 and 1 400 million ECU.

The financing of this surplus would have involved an increase in the VAT rate of between 0.09 and 0.14 points.

When evaluating these results it is necessary to bear in mind that the rate of utilization of the VAT point in 1982 will be around 0.9%.

55. The structure of expenditure, and hence the cause of the surplus is quite different in Spain and Portugal. While in Spain expenditure under the EAGGF Guarantee Section will account for about 50% of total expenditure in its favour, the figure for Portugal is only 20% of total expenditure because of the weakness of Portugal's agriculture. This specific feature of Portugal can also be seen on the side of resources. Given the level of its agricultural imports, levies will account for almost 50% of the resources paid by Portugal into the Community budget, as opposed to less than 25% for Spain and about 10% in the present Community.

As regards the transitional period, therefore, when all the information required for making a clear assessment of the problem is available, the Community will have to ensure that Spain, and more particularly Portugal, do not find themselves in the position of net contributors.


PORTUGAL
SPAIN
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130
120
110
100
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EEC 10
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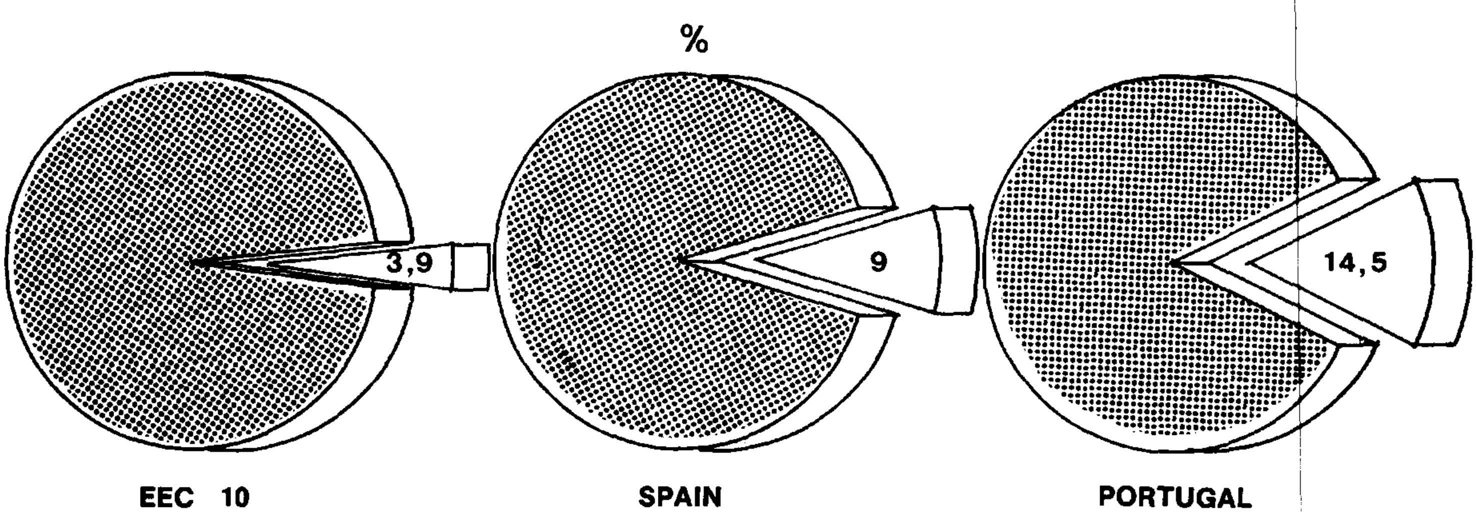
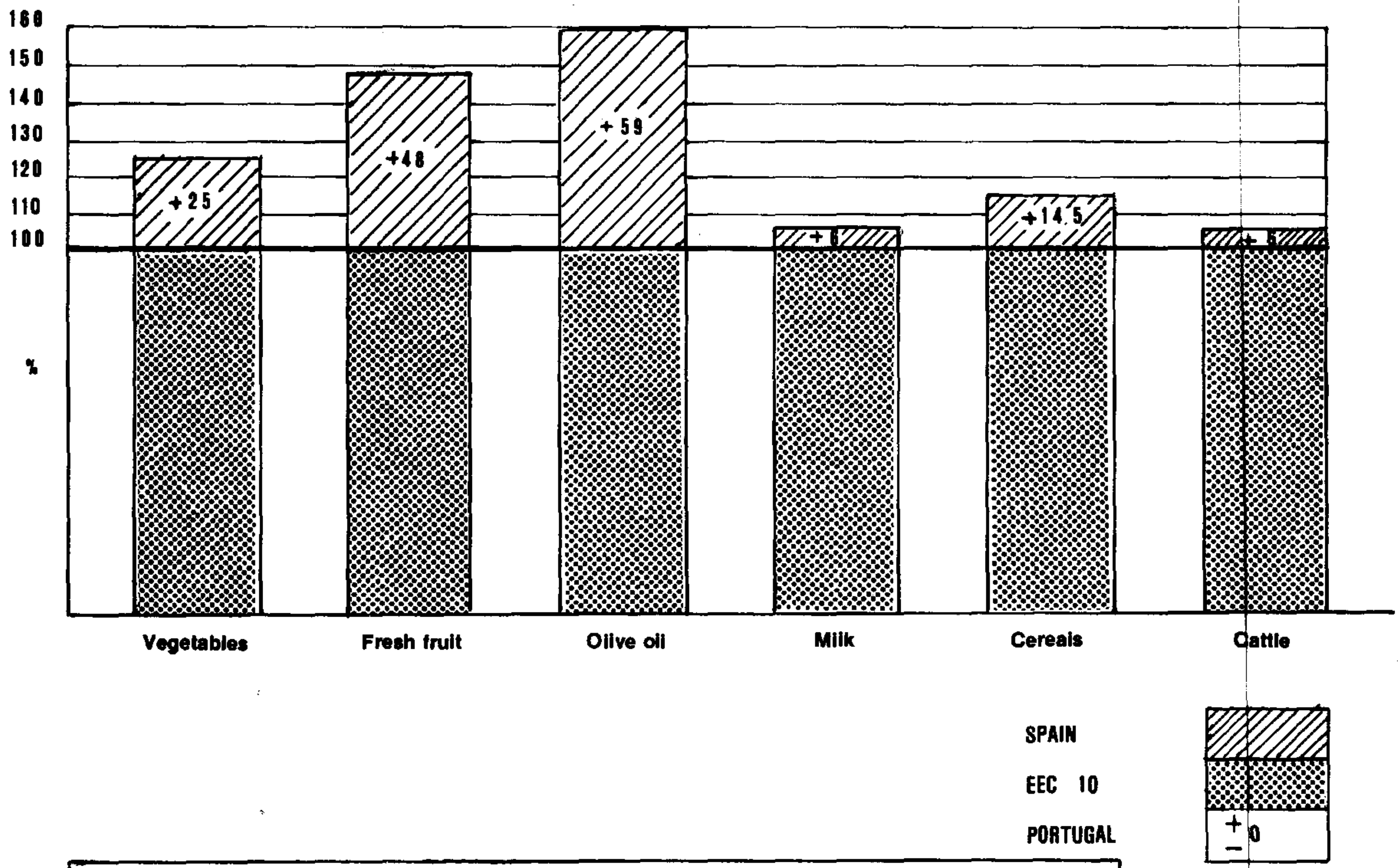
UTILIZED AGRICULTURAL AREA
AGRICULTURAL EMPLOYMENT
NUMBER OF CONSUMERS



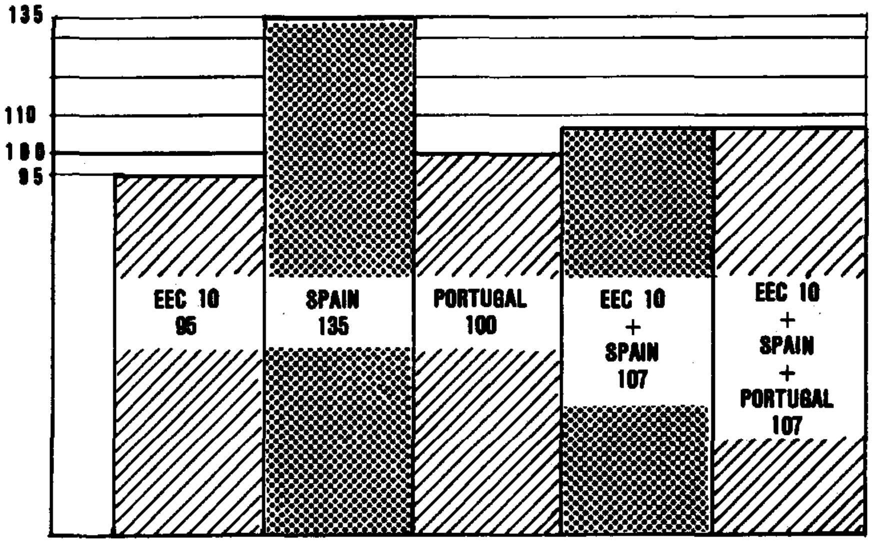
SHARE OF AGRICULTURE IN G.D.P.

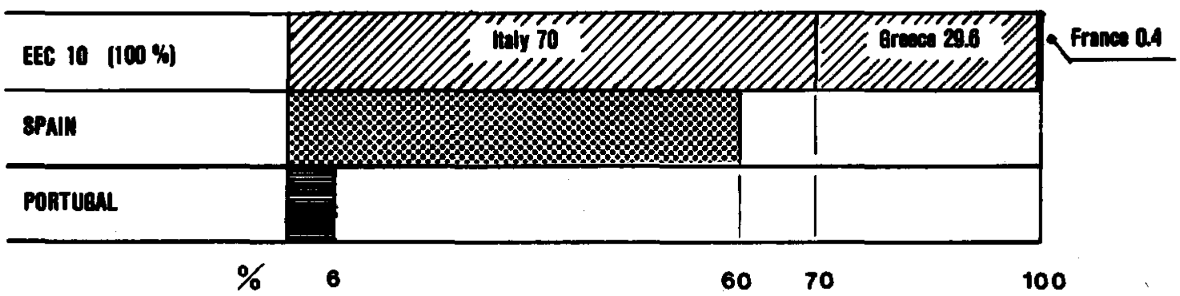


Accession of Spain: increase in production (EEC: 100 %)

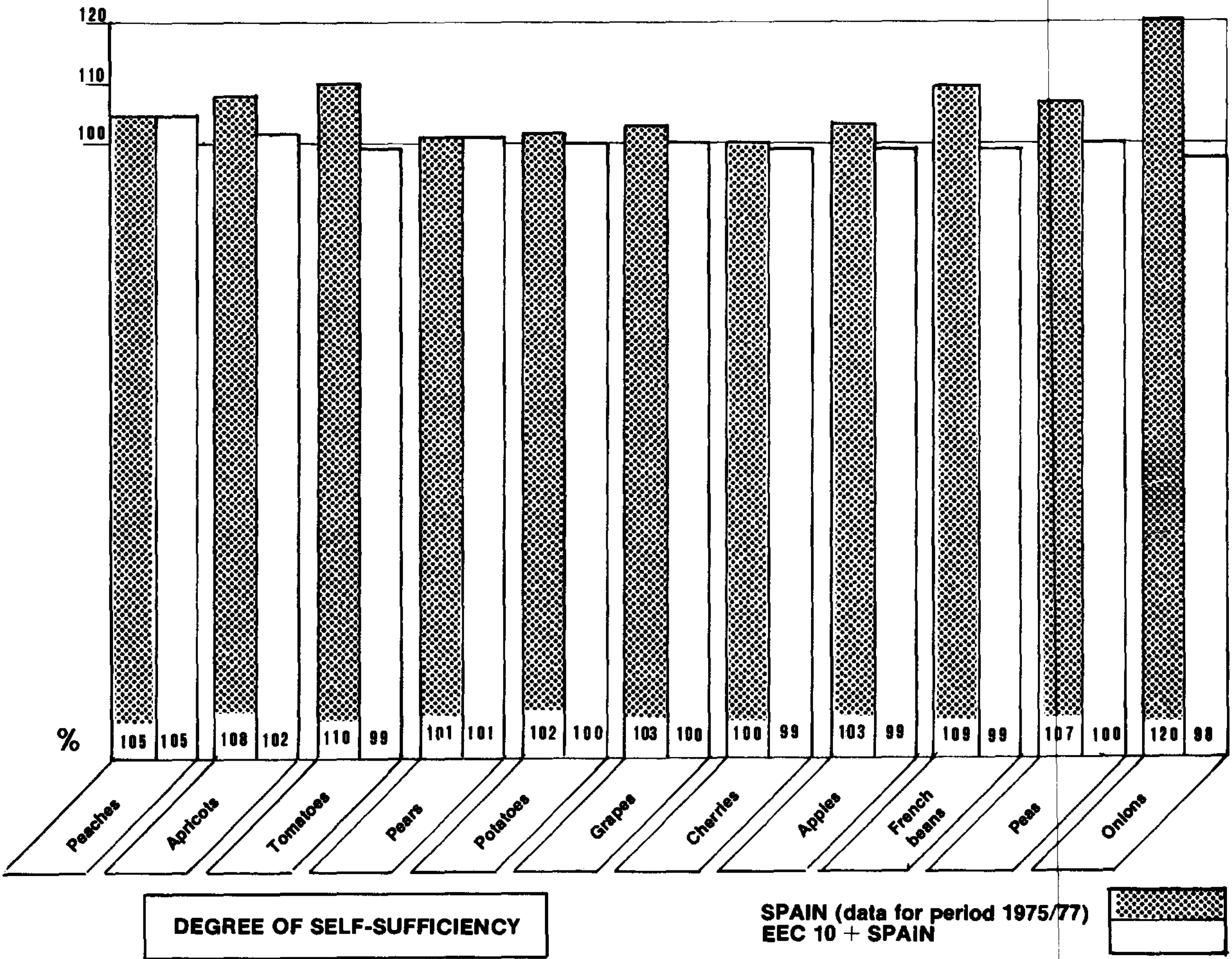
OLIVE OIL

Degree of self-sufficiency (%)

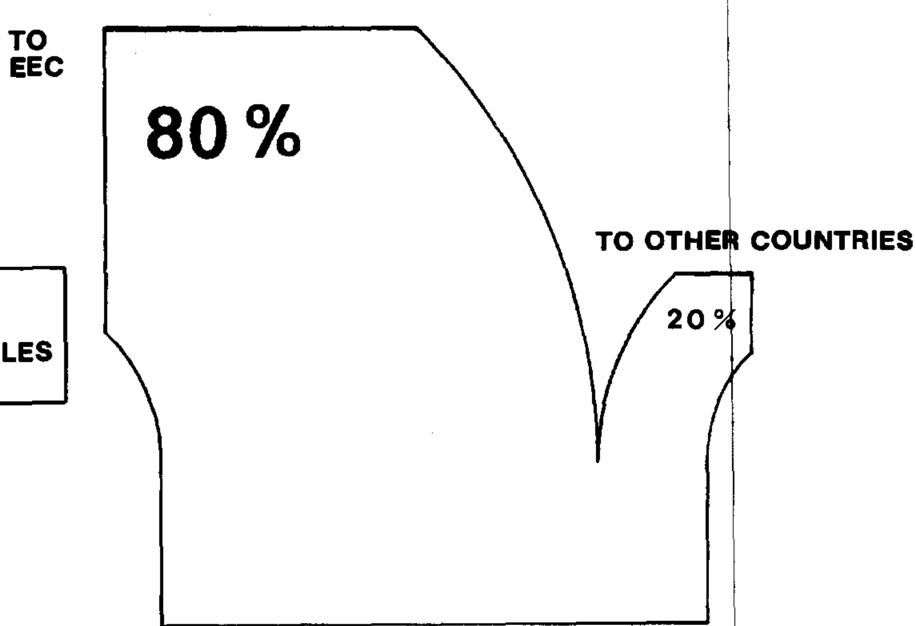




OLIVE OIL: Respective production shares(as % of EEC production)

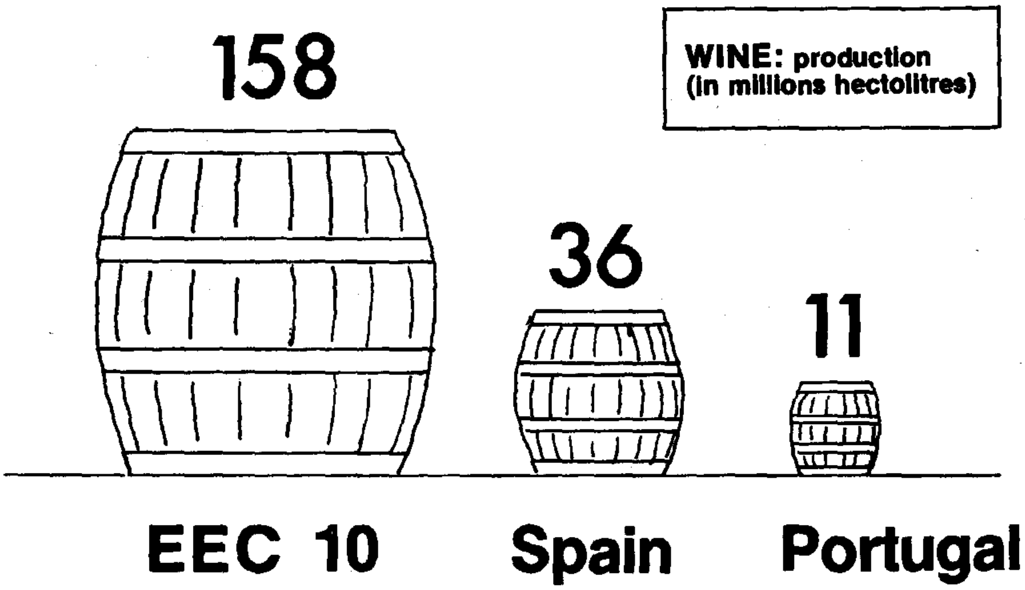


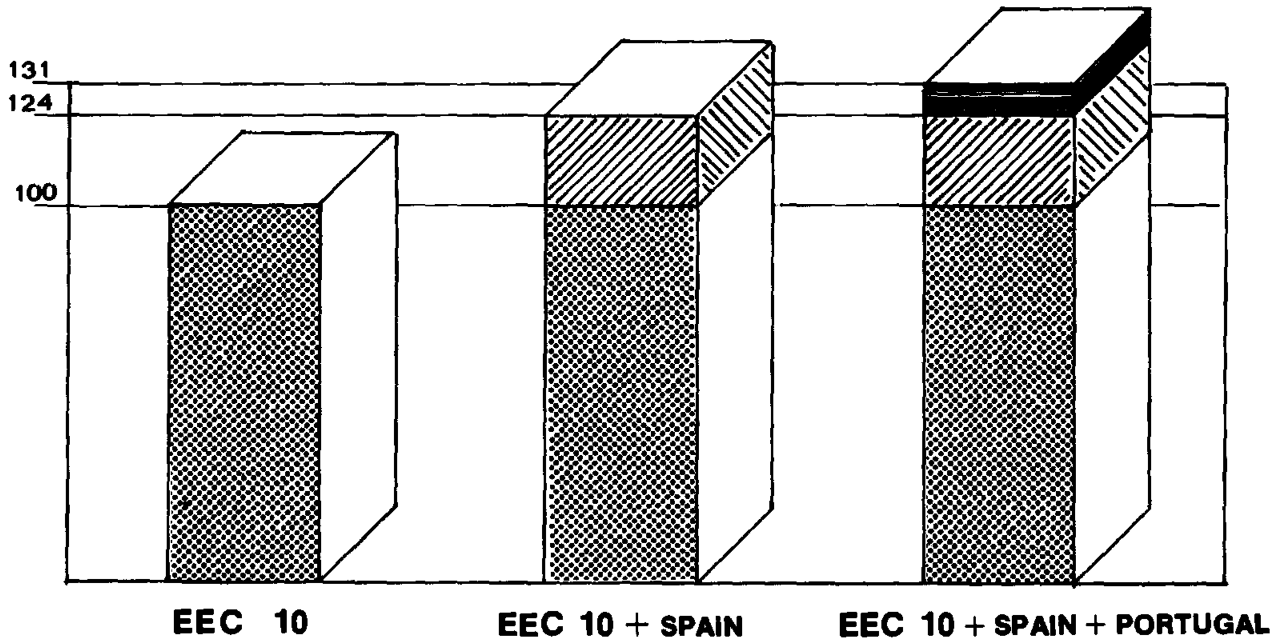
DEGREE OF SELF-SUFFICIENCY



SPANISH EXPORTS OF FRESH FRUIT AND VEGETABLES

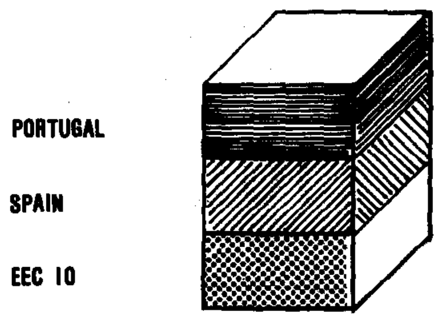
WINE: production
(in millions hectolitres)

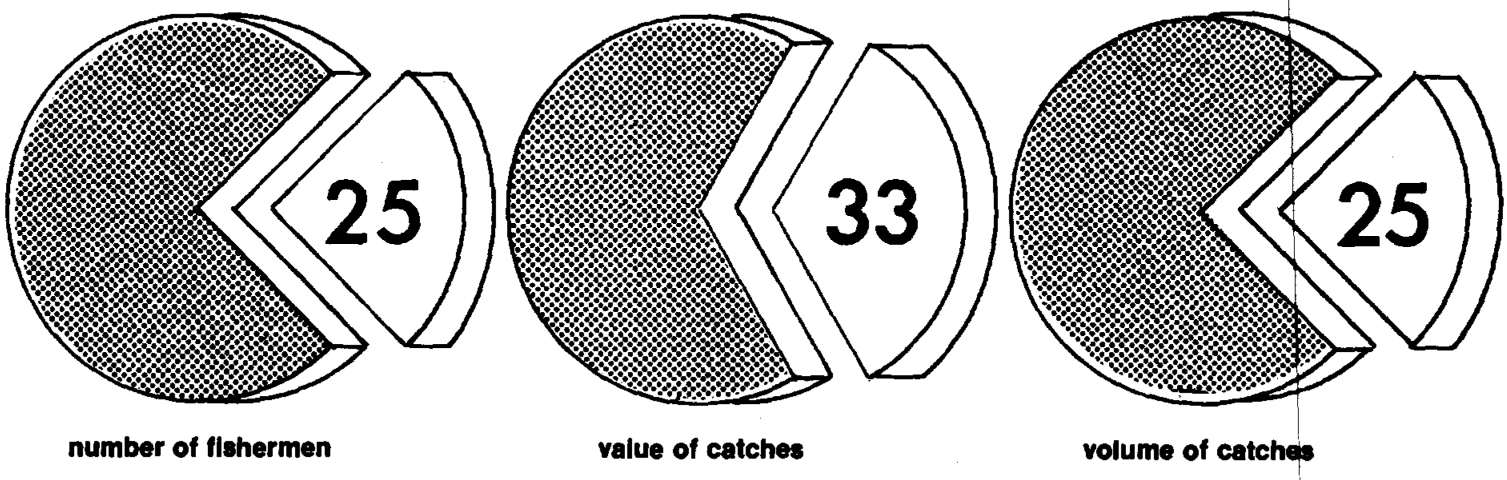




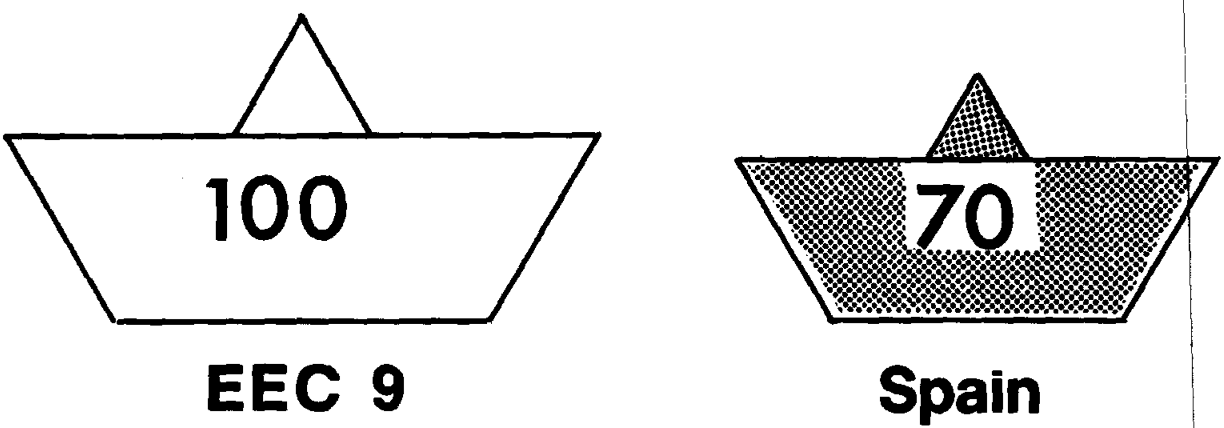
WINE: production in %

(EEC: 100 %)

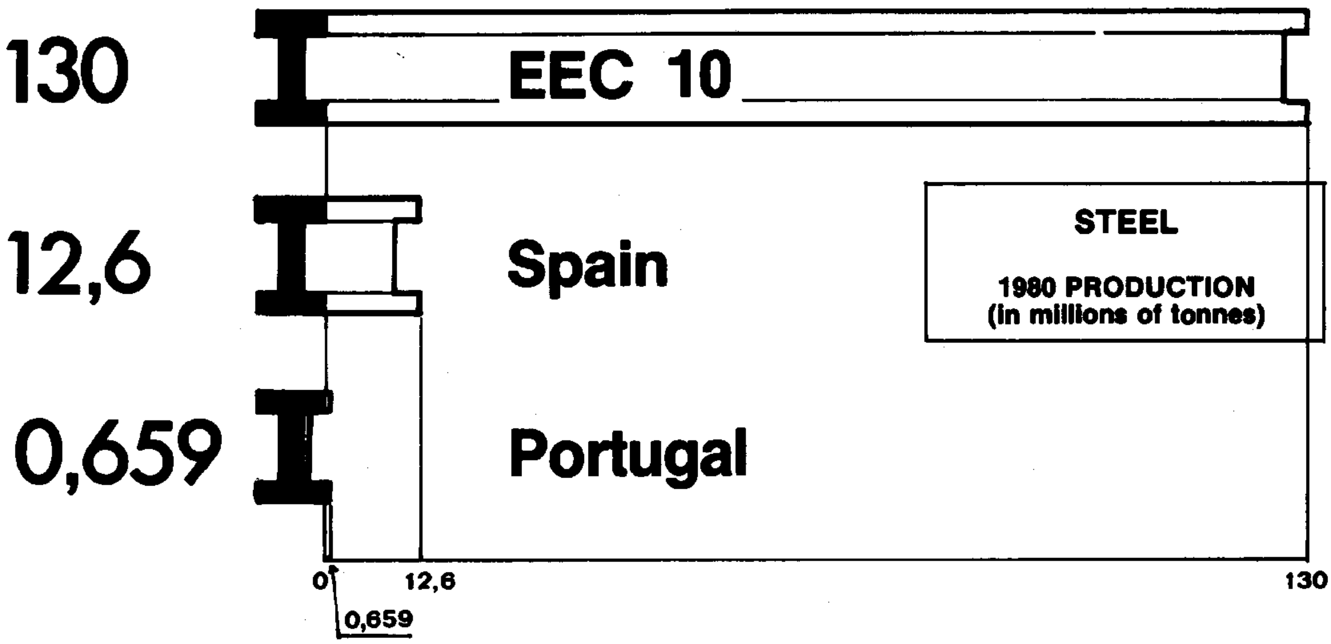


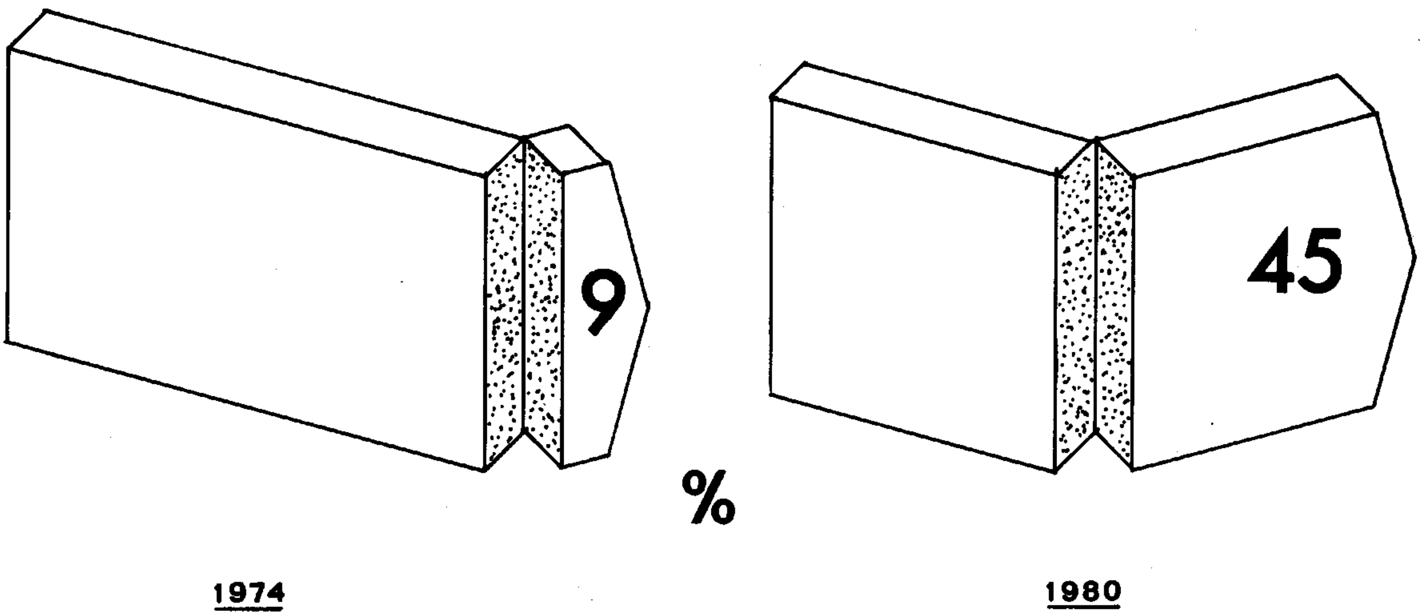


FISHERIES: Spain's share in an EEC of 12



FISHING FLEETS: respective tonnages





SPAIN: Steel production exported

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