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Report

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drawn up on behalf of the Committee on External Economic Affairs

on the ~~second~~ Financial Protocol between the European Economic Community  
and Greece (Doc. 8/77)

Rapporteur: Mr P. DE CLERCQ

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English Edition



By letter of 9 March 1977 the President of the Council of the European Communities requested the European Parliament pursuant to Article 238 of the EEC Treaty, to deliver an opinion on the documents relating to the Second Financial Protocol between the European Economic Community and Greece.

By letter of 22 March 1977, the President of the European Parliament referred these documents to the Committee on External Economic Relations as the committee responsible and to the Political Affairs Committee and the Committee on Budgets for their opinions.

On 26 April 1977 the Committee on External Economic Relations appointed Mr De Clercq rapporteur.

It considered the documents at its meetings of 26 April and 24 May 1977. At the latter meeting the committee unanimously adopted the motion for a resolution and the explanatory statement.

Present: Mr Scott-Hopkins, acting chairman; Mr Schmidt, vice-chairman, Mr De Clercq, rapporteur; Mr Amadei, Lord Brimelow, Mr Corriq, Mr Galluzzi, Mr Mitchell (deputizing for Mr Thornley), Mr Noé (deputizing for Mr De Koning), Mr Price, Mr Spicer.

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

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

MOTION FOR A RESOLUTION

on the second Financial Protocol between the European Economic Community and Greece

The European Parliament,

- having regard to the importance of the second Financial Protocol (Doc. 8/77) as a technical instrument for restructuring the Greek economy with a view to its integration into European economic structures when Greece joins the EEC,
  - having regard to the report of the Committee on External Economic Relations and the opinions of the Political Affairs Committee and the Committee on Budgets (Doc. 130/77),
1. Welcomes the signing of the second Financial Protocol between the EEC and Greece on 28 February 1977 in Brussels;
  2. Emphasizes the supreme importance of the second Financial Protocol for the restructuring of the Greek economy and hopes therefore, that the protocol will be implemented rapidly;
  3. Welcomes the opportunity for Greece to examine with the European Investment Bank the procedures relating to financing, as soon as the Protocol is signed;
  4. Hopes that full use will be made of the opportunity to examine the procedures relating to financing so that financial cooperation may be established immediately after the entry into force of the Financial Protocol;
  5. Welcomes the efforts made by the Greek Government to restructure the country's economy and is convinced that the second Financial Protocol will be of supreme importance in helping the Greek Government in this task.

EXPLANATORY STATEMENTI. Financial aid from the EEC to Greece

Protocol No. 19, annexed to the association agreement between the European Economic Community and Greece, lays down the conditions and procedures governing Community financing for capital projects which help to increase the productivity of the Greek economy. This Protocol, known as the Financial Protocol, is designed to promote the accelerated development of the Greek economy in order to facilitate the achievement of the objectives of the Association Agreement. In this connection, since the signing of the Association Agreement, the Community has granted Greece an initial Financial Protocol of \$125 million.

The Community designated the European Investment Bank as the body responsible for granting the proposed loans.

The provision of finance under the first Financial Protocol began in 1963 but effectively ceased from 1967 until the end of 1974. In 1974 it was decided to reactivate the financing procedures provided for by the first Financial Protocol, the object being to use up the entire \$ 125 million. By the end of 1975 the total funds under the first Financial Protocol had been disbursed. From then onwards a second Financial Protocol was essential to enable Greece to adjust its agricultural and industrial structures to facilitate integration in the EEC.

On 28 February 1977, the second Financial Protocol was signed in Brussels. This agreement is designed to improve agricultural structures by means of new loans from the European Investment Bank. EEC aid would thus help to facilitate the harmonization of agricultural policies, which at present, is the Association's main objective. More specifically, the proposed finance would enable agricultural production to be directed towards the aim of making the EEC and Greek agricultures complementary rather than competitive.

At the same time the funds provided under the second Financial Protocol would also be used to improve industrial infrastructures in Greece.

The contents of the second Financial Protocol may be summarized as follows:

(a) The overall sum is 280 million EUA allocated as follows:

i. 225 million EUA will be allocated in the form of loans from the EIB granted from its own resources on normal market terms. This sum will be used to finance loans which further the realization of the objectives of the Association Agreement, help to increase productivity and to diversify the Greek economy and promote in particular the improvement of the economic infrastructure of the country and the modernization of its agriculture, while at the same time furthering the complementarity of Greek agriculture with that of the Community.

Of the sum of 225 million EUA, 150 million EUA will be allocated as a priority to economic infrastructure or agricultural development projects and to the financing of industrial projects for small and medium-sized undertakings, which will receive an interest rate subsidy of 3% per annum granted from the own resources of the Community budget.

ii. 45 million EUA consist of non-returnable aid granted from budgetary resources. In addition to financing the above projects, this aid is intended for technical cooperation projects, study projects and direct measures aimed at modernizing agriculture.

iii. 10 million EUA, granted from budgetary resources, will be available for special loans aimed at modernizing agriculture. These loans will be granted for a period of 30 years with 8 years deferment of amortization and an annual interest rate of 2.5%.

(b) The Financial Protocol enters into force on the first day of the month following the date on which the parties notify each other that the ratification procedures have been completed.

(c) The Community has agreed that the procedures relating to the financing projects should begin as soon as the Protocol has been signed so that financial cooperation may be established immediately after its entry into force, but has nevertheless stated that no decision on financing may be taken before the entry into force of the actual Protocol.

## II. CONCLUSIONS

The signing of the second Financial Protocol is an event of the utmost importance for relations between the EEC and Greece.

With the prospect of Greece joining the EEC, the Greek economy must, in view of its present overall situation, be restructured to enable Greece to fit as easily as possible into the Community framework. The Financial Protocol is a vitally important technical means of achieving this purpose. The funds available under the Financial Protocol will therefore be spent on transforming agricultural and industrial structures to bring the Greek economy into line with that of the Community Member States. Community financial aid, in conjunction with the effort of the Greek Government, should therefore enable the Greek economy to develop and, draw closer to the Community economy as soon as possible.

Under these circumstances we welcome the signing of the second Financial Protocol and hope that the ratification procedures incumbent on the parliaments of the various Member States will be completed as soon as possible. It is pointed out that the second Financial Protocol can become operative only after ratification. All the parliamentary bodies of the Member States are therefore urged to appreciate the importance of early ratification and it is hoped that this will be completed as soon as possible.

Opinion of the Political Affairs Committee

Letter from the chairman of the Political Affairs Committee to Mr Gabriel KASPEREIT, chairman of the Committee on External Economic Relations

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Rome, 29 March 1977

Dear Mr Kaspereit,

At its meeting of 29 March 1977 in Rome the Political Affairs Committee considered the texts of the Second Financial Protocol between the European Economic Community and Greece, (Doc. 8/77), which was signed in Brussels on 28 February 1977, with a view to formulating an opinion for your committee.

The members of the Political Affairs Committee welcomed the fact that the second financial instrument designed to ensure full implementation of the provisions of the Association between the European Economic Community and Greece had at last been introduced. It was felt that Greece's accession to the Community would be best assured through the realization of the Association's objectives, especially the rationalization of the Greek economy and the development of its industrial production.

The Political Affairs Committee accordingly endorsed the conclusion of the agreement in question and hopes that it will be ratified by the national parliaments at the earliest opportunity.

Yours sincerely,

(sgd.) Lucien RADOUX  
Vice-Chairman

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Present: Mr RADOUX, vice-chairman and acting chairman; Mr JOHNSTON, vice-chairman; Mr TERRENOIRE, draftsman; Mr AMADEI, Mr BERKHOUWER, Lord BRIMELOW, Mr GRANELLI, Mr JAHN, Sir Peter KIRK, Mr MITCHELL, Mr PATIJN, Mr PRESCOTT, Lord REAY and Mr ZAGARI.

OPINION OF THE COMMITTEE ON BUDGETS

Draftsman: Mr Ripamonti

On 30 March 1977 the Committee on Budgets appointed Mr Ripamonti draftsman.

At its meeting of 27 April 1977 the Committee considered the draft opinion and adopted it unanimously.

Present: Mr Lange, chairman; Mr Ripamonti, draftsman; Mr Albertini, Lord Bruce of Donington, Mr Caro, Mr Früh, Mr Hamilton, Mr Maigaard, Mr Notenboom, Mr Radoux, Mr Schreiber, Mr Spinelli, and Mr Yeats.

1. The document referred to the Committee on Budgets for an opinion is a financial protocol between the EEC and Greece.

2. This protocol was signed on 28 February 1977 and, pursuant to Article 238 of the Treaty which deals with association agreements, Parliament is required to deliver its opinion before the Council can formally conclude the Protocol.

#### COOPERATION AGREEMENTS

3. Since the entry into force of the association agreement concluded by the Community with Greece, a First Financial Protocol enabled the Community to contribute between 1963 and 1967 to Greek economic development with a view to facilitating the attainment of the objectives set out in the association agreement.

This First Financial Protocol, suspended between 1967 and 1974, was revived in 1975, and so it was possible to give Greece all the aid provided for.

4. A Second Financial Protocol between the Community and Greece was signed on 28 February 1977 with a view to enabling the former to 'participate in measures designed to promote, by efforts additional to those made by Greece itself, the accelerated development of the Greek economy and the complementarity of Greek agriculture with that of the Community'.

#### 'MEDITERRANEAN POLICY' AND ITS FINANCIAL IMPLICATIONS

5. The Financial Protocol with Greece follows other protocols, almost identical in form, already concluded with the countries of the Maghreb and the Mashreq, Malta and Portugal; and it precedes agreements of a similar type (at least so far as the financial aspect is concerned) that are to be negotiated and concluded with the other 'Mediterranean' countries.

6. In adopting its 'global Mediterranean approach', the Council was anxious to draw up an overall picture of the external financial commitments into which it would thus be entering. Jointly with the EIB, it therefore drew up in the spring of 1976 the following table:

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

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

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

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

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

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

8. But the strictly financial implications of this series of agreements should also be assessed in the light of the trade concessions accorded to the various countries, because the various tariff reductions granted by the Community will lead to a fall in its budgetary resources, while for the countries concerned they will represent a considerable contribution to the development of their exports and the balancing of their external accounts. It is surprising, therefore, to find that neither the Council nor the Commission has made any estimate of this loss of revenue and hence of the additional cost to the Community - which it should be possible to quantify - of the benefits granted to the countries concerned. At least, if such estimates have been made, Parliament is not aware of them.

9. In view of this, it is clearly impossible to assess the real financial implications of the Mediterranean agreements, for lack of information on the real amount of the assistance offered, including the effect of tariff reduction. Failure to perform this calculation leaves a gap which could, in a sense, be seen as a grave dereliction of financial responsibility by both the Council and the Commission.

THE FINANCIAL PROTOCOLS

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

- EIB loans: granted from the Bank's own resources and on the usual conditions applied by it;<sup>1</sup>
- budgetary aids in the form of
  - special loans from the Community for a period of 30 years at an interest rate of 2.5%, with an eight-year interest-free period.
  - non-repayable grants from the Community to subsidize the servicing of the EIB debts and to finance technical cooperation activities.

11. The total amount of this aid is 280m e.u.a broken down as follows:

EIB	225
Special loans	10
Outright grants:	
- non-repayable grants	15
- interest subsidies	30
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<u>TOTAL</u>	<u>280</u>
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It should be noted that the above amounts are denominated in the European unit of account, which is to replace the budgetary unit of account from 1 January 1978.

12. This amount of 280m e.u.a. is to be spread, as in the case of Malta, the Maghreb, the Mashreq and Portugal, over a period commencing with the entry into force of the Protocol and ending on 31 October 1981. The full amount will therefore have been transferred by 31 October 1981, whatever the date of entry into force of the agreements.

<sup>1</sup> Loans from the Bank are usually granted for 10 years at the market interest rate (less 2% subsidy financed with assistance from budgetary appropriations for outright grants). The interest rate may vary according to the currency used and is fixed by the EIB Board of Governors. For instance, a 10-year loan in \$ US granted on the terms applicable on 22.3.1977 would carry an interest rate of  $9\frac{1}{8}\%$

## THE BUDGETIZATION OF THE AIDS

13. In delivering its opinion on the cooperation agreement with Malta, the first of the series of Mediterranean agreements, Parliament had asked that the special loans and the outright grants should be financed, not from the national budgets but from the Community budget<sup>1</sup>; the request was repeated in the opinion on the agreement with the Maghreb and Mashreq countries and Portugal. Parliament even considered that the question of budgetization should be settled before the agreements could come into force<sup>2</sup>.

14. Following an inter-institutional dialogue on certain budgetary questions and the negotiations with the Council in connection with the vote on the 1977 budget, a token entry was reserved in the budget for cooperation aid.

15. It would thus seem that Parliament has won its point and that these aids can be effectively budgetized (that is, in actual figures) for the 1978 financial year. The Committee on Budgets' ad hoc Working Party is continuing its examination of this question to ensure a successful outcome.

16. It might, however, be useful to recommend the committee responsible to include in its draft resolution a paragraph similar to that contained in Parliament's opinion on the agreements with the Maghreb countries<sup>2</sup>.

## CONSULTATION OF PARLIAMENT ON THE FINANCIAL IMPLICATIONS OF THE COOPERATION AGREEMENTS

17. The present procedure for the consultation of Parliament on the financial implications of these agreements is unsatisfactory, to the extent that the consultation occurs after the signature of the agreements, and hence after the amount of aid has been definitely fixed.

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<sup>1</sup> Paragraph 6 of Parliament's resolution (OJ C 100/9, 3.5.1976) reads: 'Considers that the appropriations to finance special loans and non-refundable aid to the Republic of Malta must be specifically mentioned in an appropriate entry in the Community budget after their adoption by the budgetary authority under the general procedure for authorizing expenditure; reserves the right, should the Council object to their entry, to take recourse to the conciliation procedure'.

<sup>2</sup> Paragraph 11 of Parliament's resolution (OJ C 259/16, 4.11.1976) reads: 'Calls for the conciliation procedure with the Council to be opened in respect of the budgetization of aid and special loans for the three Maghreb countries before the cooperation agreements are brought into effect'.

18. It appears that both the overall amount of the aids envisaged for the Mediterranean cooperation programme and the amounts earmarked for each State concerned are in fact fixed before the negotiations have even begun. The Council, in cooperation with the EIB<sup>1</sup> had laid down as early as April 1976 the total amount of the loans and grants for the Mediterranean countries; in the following months the Council determined the amount for each of the countries or groups of countries<sup>2</sup>.

19. The Council, however, was of the opinion that 'it has been the Community's unchanging view that these offers cannot be subject to any substantial negotiation; they already take into account the requests and needs of the partner countries within the limits of the Community's financial capacities'.

20. Obviously, then, Parliament should be consulted on the financial implications at the time when decision on these are actually taken, that is before the beginning of negotiations. Only if undertaken at this stage, can the consultation procedure have any real meaning, because then Parliament is still able to influence - if necessary through legislative consultation - the amount of the aid to be determined.

21. Need it be further emphasized that consultation at the appropriate time would considerably ease the approval - in the voting of the budget - of the appropriations needed for financial cooperation? Is it not obvious that, in its absence, Parliament might be forced to use its right of amendment on these appropriations, thus creating a delicate political situation?

#### RATIFICATION OF COMMUNITY COOPERATION AGREEMENTS

22. Cooperation agreements are concluded in pursuance of Article 238 of the Treaty which stipulates that:

'These agreements shall be concluded by the Council, acting unanimously after consulting the Assembly'.

In contrast to the provisions of Articles 236 and 237, here there is no formal requirement of ratification by the States and it may be questioned whether it is legally necessary.

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<sup>1</sup>It would even seem that the amount of budgetary aid was determined by reference to the amount of EIB loans - the latter having been decided independently by the Board of Governors of the Bank.

<sup>2</sup>It is impossible to quote exact references for the decisions mentioned, in view of the indeterminacy of the Council's decision-making process and the secrecy surrounding its deliberations.

23. The ratification requirement in any event is deprived of much of its importance by the fact that some provisions of the agreements - particularly the tariff concessions - are normally put into effect prior to the completion of the ratification procedures - which are usually complex and lengthy<sup>1</sup>.

24. It appears that only the financial protocols are not implemented in advance - though, in fact, clauses of the type described in point 12 above can circumvent any delays resulting from late ratification. Given that the aids stipulated in the agreements are authorized not under national budgets but under the Community's budget, there seems to be no particular need for ratification of the protocols.

25. This is why, and particularly in view of the new situation arising from the budgetization of cooperation aid, it would perhaps be advisable for Parliament to instruct its appropriate committee to consider the legitimacy of the ratification procedure for cooperation agreements.

#### CONCLUSIONS

26. The Committee on Budgets welcomes the conclusion of agreements with Greece as extending the scope of cooperation between the Community and countries of the Mediterranean area. Within its terms of reference, the Committee on Budgets:

1. takes note of the overall financial amount fixed by the cooperation agreements already concluded by the Community with Greece;
2. considers it essential to achieve effective budgetization, by the 1978 financial year, of the appropriations relating to cooperation agreements, and requests that provision be made for possible consultation on this matter before such agreements come into effect;
3. considers that consultation of Parliament on the financial implications of these agreements - in particular on the budgetized loans and aids - should take place before operative decisions are taken by the Council, that is, in most cases, before the opening of negotiations.

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<sup>1</sup>The cooperation agreement signed with Malta on 23 April 1976 has still not been ratified.

27. In pursuance of Rule 44 (3) of the Rules of Procedure, the Committee on Budgets requests the Committee on External Economic Relations, as the committee responsible, to take account of the above conclusions in drawing up its motion for a resolution.

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

