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COM (75)436

Vol. 1975/0167

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COMMISSION OF THE EUROPEAN COMMUNITIES

COM(75) 436 final

Brussels, 23 July 1975

COMMISSION COMMUNICATION TO THE COUNCIL

on the negotiation of a new Financial
Protocol with Greece

COM(75) 436 final

Introductory Memo

The purpose of this Commission communication is the adoption by the Council of negotiating directives for the conclusion of a Financial Protocol with Greece following the Community decision to reactivate the Association, which was communicated to the Greek Government in the autumn of 1974. Given this background, the communication is outside the study of Greece's official application for accession of 12 June, 1975 but is in line with the policy adopted since the fall of the dictatorship in Athens. In any event the Commission considers that the manner in which the Greek authorities plan to allocate the resources provided by aid from the Community or its Member States is entirely appropriate for the purpose of solving the problems linked with the implementation of the harmonization of agricultural policies as foreseen in the Athens Agreement. In the event of accession, as desired by Greece, before the financial protocol expires, the question might arise concerning any sums not used by the time of accession. However, that would be a technical problem which could doubtless be solved without serious difficulty in the negotiations.

Commission communication to the Council on the
negotiation of a new Financial Protocol with Greece

1. Immediately democracy was restored in Greece the Community indicated its willingness to reactivate the Association, which had been on ice since 1962. Accordingly it informed the Greek Government of its readiness to negotiate a new Financial Protocol, for financial cooperation was one of the sectors where the repercussions of the freezing of the Association had been most marked, with the decision by the Community to suspend application of the Financial Protocol in force at the time of the coup.

Acting on this approach by the Community, the Council of Association meeting of 2 December 1974 decided that the negotiations on financial cooperation should start at an early date. It is in preparation for these negotiations, which should begin as soon as possible, that the Commission is communicating its observations and suggestions to the Council.

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2. In preparation for these negotiations, Greece has submitted to the Community's request setting out clearly the total amount asked for, what the sums involved are to be used for and where they are to come from.

The total amount would be 400 million u.a., the figure officially stated at the Council of Association meeting of 28 April by the Head of the Greek Delegation; he was, moreover, only confirming the indications given at all levels, from the representatives of the relevant departments of the Administration right through to the Greek Government. The latter has in fact clearly expressed its position on this subject on a number of occasions, in particular via the Minister for Economic Coordination.

The 400 million u.a. would be granted for a period of five years. A sum of 250 million u.a. would come from EIB loans (with the maximum possible amount on special terms, 150 million u.a. being earmarked for agriculture) and 150 million u.a. would be in the form of grants and would be used to reorganize Greek agriculture by eliminating certain types of production or certain qualities or varieties of products which might cause disturbances on the Community market or which cannot be marketed under Community regulations (these are operations of a type not normally financed by the EIB) .

3. The Community must therefore assess this Greek request in the light of its agreement in principle, communicated to the Greek Government on 3 October 1974, to the conclusion: with Greece of a new Financial Protocol, and on the basis of Article 2(2)(c) of the Athens Agreement which lays down as an objective of financial aid "the making available to the Greek economy of resources which will assist it to develop at a higher rate".

To assess the Greek request, the Commission considers that a number of factors should be taken into account. There are economic factors, naturally, but also political factors, since the second Financial Protocol must clearly constitute an essential, if not fundamental, element in the normalization of relations

between Greece and the EEC. This is true whatever the direction to be followed and the objective to be attained in the next five years, which is the proposed (and indeed traditional) duration of the Financial Protocol.

4. Of the 250 million u.a. in the form of EIB loans, 150 million u.a. would be devoted to Greek agriculture, that is for soil improvement work (mainly irrigation projects). This is the first time that Greece has linked the Financial Protocol with agricultural policy. The aim of this aid would be to help diversify Greek production, in particular by developing crops which the Community is short of, one of the principal objectives being to make the agricultural systems complementary rather than competitive. In this context it must be admitted that Greece's needs are very great but that it is in the interests of both the Association and the Community that Greece should be successful in the measures it intends to take in this field.

To appreciate these needs, suffice it to recall that the Greek public investment programmes provide for work involving 400,000 hectares at an estimated cost of approximately \$ 413 million between now and 1980 - at current prices of course. If the public participation in the irrigation work carried out by the private sector is added, the sum involved is considerably higher, perhaps amounting to some 800 million u.a., which the Greek budget will have to bear between now and 1980.

The Commission therefore considers that the use Greece intends to make of the bulk of EIB loans deserves to be encouraged by the Community. As regards the remaining 100 million u.a., which Greece plans to allocate mainly to infrastructure projects in sectors other than agriculture, no special comment is called for.

5. In evaluating the amount involved in this part of the Greek request the Commission considers that, in addition to the country's economic needs in the context of the harmonization of its agricultural policy with that of the Community, the following factors should be taken into consideration : the amount covered by the first Financial Protocol (\$ 125 million of loans from the EIB equivalent to 125 million u.a. at

that time, that is to say for the Community of Six) ; the rate of inflation since 1962 ; the enlargement of the Community, and also - a factor that the Greeks are bound to stress - the seven years during which the Association was on ice, thus depriving Greece of financial aid from the Community. It should be pointed out, moreover, that the Community offer for the second Financial Protocol, which was negotiated during 1967 but was unable to be concluded before the coup d'état, was 100 million u.a. in the form of EIB loans ; this amount was not accepted by Greece, however.

6. Moreover, in the framework of this negotiation, the EEC had proposed aid in the form of a grant of 20 million u.a. for restructuring Greek agriculture. This offer was not accepted by Greece either.

In relation to this it should be remembered that the restructuring of Greek agriculture, the conversion of certain lines of production, and the elimination of certain varieties are very closely bound up with the success of the harmonization effort and constitute the essential technical basis for its success.

One of the main stumbling blocks in the negotiations on the harmonization of agricultural policies conducted during the period 1962-1967 was Greece's position on its share in the benefits of the financing of the common agricultural policy and its participation in the bodies administering the CAP, particularly the EAGGF. Aware of the need for success in the coming negotiations and the fact that maintaining their position on this question, where the political implications are very delicate, would produce the same results as in 1967, the Greek authorities now intend to deal with the economic problems they are confronted with in this field in the pragmatic way suggested by the EEC in 1967, that is to say by recourse to financial aid from the Community aimed at helping the financing of an agricultural guidance fund.

This is why they are asking for 150 million u.a., an amount of financing which corresponds to their own assessment of their agricultural requirements with a view to harmonization with the Community.

7. Since this objective would help considerably on the technical level towards solving the difficulties encountered in the past between Greece and the Community in the agricultural sector - which both sides fear may recur in the future - and would also prevent political and institutional disputes, it must, in the Commission's opinion be shared by the Community.

8. It is now necessary to consider the amount anticipated for Greece from an economic as well as political point of view.

The situation of Greek agriculture is below the average for the various regions of the Community (productivity being approximately one third and land area per farm less than a quarter of the Community average). It should also be pointed out that Greece's economic situation means that it cannot devote the same efforts as the Communities' countries to improving its agricultural structures (per capita GDP is approximately 75 % of the average GDP for the Community). On the basis of the foregoing Greece may be put on a par with the Community regions in which the greatest efforts need to be made as regards structures.

Politically, even if the negotiations relating to the financial protocol lie within the process of Association, it should not be forgotten that the Association agreement expressly opens up the prospect of accession which Greece moreover officially requested on 12 June last.

These factors justify significant aid, without actually reaching as much as the amount requested by Greece, which seems excessive and which ought to be brought down to 120 million u.a. for the five years which the protocol is to cover.

9. With regard to the Greek request for direct access to the EIB resources, a request which consists of obtaining, in addition to the 250 million u.a. requested in other respects, free and undetermined access to loans from the EIB, under conditions accorded until now to the Member States alone, the Commission considers that such facilities can be granted only to Member States of the Community since they alone are bound by the obligations which access to the Bank's resources entail (in particular participation in the capital).

The Commission therefore considers that it is not possible to meet the Greek request on this point.

10. On the question of interest rate subsidies, Greece has made its request specific. If Protocol no. 19 annexed to the Athens Agreement is taken as a precedent, two-thirds of the loans to be granted by the EIB should qualify for interest rate subsidies. On the basis of the amount requested by Greece this operation would involve a cost of approximately 33 to 41 million u.a. (assuming, as in 1962, an interest rate subsidy of 3 %, amortization over 15 to 20 years and a grace period of 3 years as average terms). In 1967 the Community had proposed interest rate subsidies on a quarter of the amount offered. This would reduce the above "cost bracket", again on the basis of the amount requested by Greece and of an interest rate subsidy of 3 %, by approximately 12.5 to 15.5 million u.a. Although no details have been given here, it seems clear that Greece does not expect the cost of the interest rate subsidies to be deducted from the amounts which, if its request is met, will be borne by the Member States.

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11. In conclusion, the Commission would like to stress the importance of the negotiations on agricultural harmonization and the Financial Protocol which are to be opened with Greece very soon, two questions which, as appears from what has preceded, are intimately linked together. It is important the negotiations be carefully prepared and approached with an open-minded and realistic attitude in view of what is at stake. That is why the Commission considers that it must suggest the retention of the Greek plan for the allotment of the funds granted in the framework of the financial protocol in as much as the request is a judicious one in terms of its objectives from both the technical/economic and political/institutional angles.

12. As regards the amounts, the Commission suggests :

- for EIB loans, a level of between 200 and 250 million u.a. depending on the percentage of the sum which would qualify for an interest rate subsidy, the rate of that subsidy and depending upon whether or not that subsidy is appropriated from the overall sum agreed upon ;

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- for the grants amongst which special loans would possibly be included (taking into account the factors mentioned above in point 8) an amount of 120 million u.a. for the 5 years which the protocol is to cover,

Accordingly the Commission proposes that the Council adopt the recommendation for a decision annexed to this communication.

The opinion of the European Investment Bank should of course be sought before any final decision is taken in connection with the drawing up of the Financial Protocol.

Recommendation for a Decision of the Council and of the
Representatives of the Governments of the Member States
meeting in Council on the negotiation of a New Financial
Protocol to the Agreement establishing an Association
between the European Economic Community and Greece

THE COUNCIL OF THE EUROPEAN COMMUNITIES AND THE REPRESENTATIVES OF THE
GOVERNMENTS OF THE MEMBER STATES MEETING IN COUNCIL,

Having regard to the Treaty establishing the European Economic Community;

Having regard to the recommendation from the Commission;

Whereas the opening of negotiations for the conclusion of a new Financial
Protocol to the Agreement establishing an Association between the European
Economic Community and Greece should be authorized;

HAVE DECIDED AS FOLLOWS:

Sole Article

The Commission is hereby authorized, on behalf of the European Economic Community
and its Member States, to open negotiations with Greece within the Council of
Association for the conclusion of a Financial Protocol to make resources available
to the Greek economy in order to facilitate its accelerated development.

The Commission shall conduct these negotiations in consultation with the
Representatives of the Member States and on the basis of the Directives
annexed hereto.

ANNEX

1. The Commission shall, on behalf of the European Economic Community and its Member States, open negotiations with Greece within the Council of Association for the conclusion of a Financial Protocol to make resources available to the Greek economy in order to facilitate its accelerated development.
2. The Financial Protocol shall establish the projects to be financed, and the various forms, general terms and details of the financial aid to be granted to that country with reference to the objectives of the Athens Agreement.
3. The financial assistance would on the one hand take the form of EIB loans, a great part of which could be devoted to infrastructure projects (especially in agriculture) and supplemented with interest rate subsidies, and, on the other hand, of grants to be earmarked for the reorganization of Greek agriculture, in particular with a view to making Greek and Community production more complementary.