COMMISSION OF THE EUROPEAN COMMUNITIES

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Brussels, 28 February 1991

Additional financial aid for countries in the Middle East and the Mediterranean affected by the Gulf war

Communication from the Commission to the Council

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1. Introduction

The Gulf war has had a severe impact on the economies of the countries as a whole in the Mediterranean and Middle East area. Many of these countries have fragile economies; most have structural balance-of-payments deficits and are heavily indebted.

To a greater or lesser extent these economies are experiencing sharp falls in revenue (tourism, exports, investment, remittances from expatriate workers and so on) and increased costs (budgetary expenditure relating to returning migrant workers, increased insurance costs, reconstruction).

In the context of an international campaign launched as long ago as August 1990, the Community and its Member States have provided financial aid totalling ECU 1 500 million to the "front-line" states. This support for their balances of payments is in addition to the increased finances provided by the New Mediterranean Policy - which will be implemented from late 1991.

However, two of the economies severely affected by the conflict have only very limited access to the budgetary resources of the New Mediterranean Policy and have not been included in the exceptional measures so far adopted. The economies in question are those of Israel and the Occupied Territories.

On 4 February the Council adopted the principle that financial aid should be granted both to Israel and to the Occupied Territories, combining Community budgetary resources with bilateral aid from the Member States.

2. Assessment of the needs

The Commission has evaluated the financial impact of the Gulf War on both economies. The Commission based its assessment on the available objective data, independent evaluations carried out by non-Community countries or organizations and the requests received from the parties concerned.

Where Israel is concerned, the main financial implications of the Gulf War were calculated for a limited period of four months from the outbreak of hostilities (mid-January), excluding any military expenditure and working on the assumption that, since this is a developed economy, it would soon recover from these effects once the war was over.

In this connection, the main financial effects of the war on the Israeli economy are production losses caused by the disruption of normal activity in urban areas (chiefly in the first two weeks), loss of revenue from tourism, the additional costs of civil defence and reconstruction, loss of earnings from the export of goods and services and losses in various other fields such as transport and foreign investment.

These losses amount to an estimated total of USD 3 - 3.5 billion (ECU 2.2 - 2.5 billion.

In the case of the Occupied Territories, the main financial losses concerned are the earnings lost by individuals affected by the curfew and banned from working in Israel (chiefly during the first 30 days), the loss of remittances from Palestinian workers in the Gulf states, the loss of official financial transfers from the Gulf states, the reduction in exports to Jordan and the Gulf states, and losses in various other fields such as transport.

The loss of individual earnings was calculated for a four-month period on the assumption that the restrictions would be lifted at the end of that period, while the other factors were estimated for the whole of 1991 so as to take account of the difficulty which the Occupied Territories will experience in staging an economic recovery. The total is USD 700-800 million (ECU 500-580 million).

The cumulated total financial losses for both economies is thus put at USD 3.7 - 4.3 billion, or ECU 2.7 - 3.13 billion.

3. Action by the Community and the Member States

Israel and the Occupied Territories, unlike the front-line states, are not receiving international aid. Moreover, the traditional sources of financial aid to Israel are very different from those of the aid to the Occupied Territories.

Consequently, Community aid proper must take account of the undertakings already made, or being made, to Israel and to the Occupied Territories respectively.

In this connection, the Commission wishes to point out Germany's undertaking to provide Israel with DM 1 500 million of aid (including DM 250 of economic aid) and the requests made by the Israeli government for special assistance from the United States - by far the most important traditional donor of aid to Israel. The Commission also wishes to point out that there has been a marked slow-down in official aid flows from the Gulf States to the Occupied Territories.

In view of the foregoing and, in particular, the bilateral aid from the Member States, the Commission considers that the proportion of the financial aid to be charged to the Community budget should be less than 10% of the estimated total financial losses. Accordingly, the Commission proposes that the Council decide to grant exceptional financial aid totalling ECU 250 million to be divided between Israel and the Occupied Territories.

In a separate Communication the Commission has proposed a revision of the financial perspective (SEC(91)338 final), so as to include the above ECU 250 million. It also proposes the attached draft Council Regulation on financial aid to Israel and the Occupied Territories.

Annex 1

PROPOSAL FOR A COUNCIL REGULATION ON FINANCIAL AID TO ISRAEL AND THE OCCUPIED TERRITORIES

Annex 1

EXPLANATORY MEMORANDUM

1. On 4 February 1991 the Council agreed on two schemes to provide financial aid to Israel and the Occupied Territories, which are suffering in different degrees the adverse effects of hostilities in the Gulf.

   In the case of Israel, economic activity in general is suffering. In the Occupied Territories, the arrival of repatriated workers and a significant reduction in remittances from the Gulf states simply aggravate an already seriously deteriorated economic situation.

2. The costs involved - up to ECU 250 million - will be borne by the Community budget (1991). Before the relevant appropriations can be entered in the 1991 budget by means of a supplementary and amending budget, the ceiling for heading No 4 ("Other policies") in the financial perspective for 1991 must be raised. The Commission will put forward the necessary proposals in due course. This action should help alleviate the adverse effects of the Gulf war on the populations of Israel and the Occupied Territories.

3. It is intended that these finances be used to provide Israel with financial aid in the form of a loan to support the country's balance of payments. Where the Occupied Territories are concerned, financial aid is to take the form of a grant, which should help to improve economic and social conditions there and to integrate Palestinians repatriated from Kuwait (by providing jobs, housing, hospitals, etc.).

4. Arrangements should be made to enable this financial aid to be used in ways suited to the specific problems of Israel and the Occupied Territories. In the case of Israel, the operation will be carried out before the end of 1991; in the case of the Occupied Territories, institutional constraints may require implementation over a three-year period.

PROPOSAL FOR A COUNCIL REGULATION
on financial aid to Israel and the Occupied Territories

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 235 thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament,

Whereas the Community has decided to mount an operation to give financial aid to Israel and the territories on the West Bank of the River Jordan and the Gaza Strip occupied by Israel (referred to as the "Occupied Territories") in order to help alleviate the adverse consequences of the war in the Gulf;

Whereas the Community must have the means to undertake the said operation;

Whereas the amount of Community financial resources needed to carry out this operation in 1991 has to be estimated and whereas the definitive amounts are adopted by the budgetary authority within the financial perspective covering the period 1988 to 1992 annexed to the Interinstitutional Agreement of 29 June 1988[1];

Whereas the breakdown of funds as between Israel and the Occupied Territories will have to be based on an analysis of the socio-economic effects of the war, the sections of the population affected and their standard of living;

Whereas the economic and financial capacity of Israel and of the Occupied Territories is such that financial aid to Israel should take the form of loans and for the Occupied Territories could take the form of grants;

Whereas the undertaking of this operation is such as to contribute to the achievement of Community objectives;

Whereas the Treaty does not provide, for the adoption of this Regulation, for powers other than those of Article 235,

HAS ADOPTED THIS REGULATION:

1 OJ No L 185, 15.7.1988, p.33.

Article 1

The Community shall provide financial aid for Israel and the Occupied Territories.

Article 2

The amount necessary for the implementation of the operation referred to in Article 1 is estimated at ECU 250 million - principally in the form of loans to Israel, the rest in the form of grants to the Occupied Territories -to be committed under the 1991 budget.

Article 3

The aid to Israel shall be earmarked in particular to cover import costs, while the aid to the Occupied Territories shall be earmarked to cover the cost of alleviating the socio-economic problems (health, education, housing and so on) faced by the population as a result of the Gulf war. It shall be provided in instalments.

The general guidelines governing this aid and its breakdown as between Israel and the Occupied Territories shall be adopted in accordance with the procedure laid down in Article 5.

Article 4

The Commission shall ensure that the funds are used in accordance with the aims of ths Regulation by the beneficiaries, which shall be required to provide a programme specifying the use to be made of the funds, and afterwards a report on the actual use made thereof.

Article 5

1. The Commission shall be assisted by a Committee composed of representatives of the Member States and chaired by a representative of the Commission.

2. The representative of the Commission shall submit to the Committee a draft of the measures to be taken. The Committee shall deliver its opinion on the draft within a time limit which the Chairman may lay down according to the urgency of the matter. The opinion shall be delivered by the majority laid down in Article 148(2) of the Treaty in the case of decisions which the Council is required to adopt on a proposal from the Commission. The votes of the representatives of the Member States within the Committee shall be weighted in the manner set out in that Article. The Chairman shall not vote.

3. The Commission shall adopt measures which shall apply immediately. However, if these measures are not in accordance with the opinion of the Committee, they shall be communicated by the Commission to the Council forthwith.

   In that event, the Commission shall defer application of the measures which it has decided for a period of two months from the date of communication.

   The Council, acting by a qualified majority, may take a different decision within the time limit referred to in the previous subparagraph.

Article 6

The Commission shall present to the European Parliament and the Council an initial report on the implementation of the aid operation carried out under this Regulation by 30 June 1992. A final report shall also be presented as soon as the operation is completed.

Article 7

This Regulation shall enter into force on the third day following that of its publication in the Official Journal of the European Communities.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 1991

For the Council
The President

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