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R E P O R T

of the Committee on External Economic Relations

on the proposal from the Commission to the Council for a decision concerning the conclusion of the Framework Agreement for cooperation between the European Economic Community and the Republic of Chile
(10077/1/90- C3-0047/91)

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A Series: Reports - B Series: Motions for Resolutions, Oral Questions - C Series: Documents received from other Institutions (e.g. Consultations)

***** = Consultation procedure requiring a single reading

****II** = Cooperation procedure (second reading) which requires the votes of a majority of the current Members of Parliament for rejection or amendment

****I** = Cooperation procedure (first reading)

******* = Parliamentary assent which requires the votes of a majority of the current Members of Parliament

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By letter of 25 January 1991 the Council consulted the European Parliament, pursuant to Article 235 of the EEC Treaty, on the Commission proposal to the Council for a decision on the conclusion of the Framework Agreement for cooperation between the European Economic Community and the Republic of Chile.

At the sitting of 18 February 1991 the President of Parliament announced that he had referred this proposal to the Committee on External Economic Relations as the Committee responsible and to the Committee on Budgets and the Committee on Development and Cooperation for their opinions.

At its meeting of 21 February 1990 the Committee on External Economic Relations had appointed Mr Titley rapporteur.

At its meetings of 2 April 1990, 28 January 1991 and 7 February 1991 it considered the draft report.

At the last meeting it adopted the draft legislative resolution unanimously.

The following took part in the vote: De Clercq, chairman, Cano Pinto, Stavrou and Moorhouse, vice-chairmen; Aglietta, Braun-Moser, Christensen I. (for Moretti), de Vries, Hindley, Lenz (for Estgen), Miranda de Lage, Peijs, Randzio-Plath, Rossetti, Sonneveld (for Lemmer), Spencer and Tsimas.

The opinion of the Committee on Development and Cooperation is attached to this report. The opinion of the Committee on Budgets will be published separately.

The report was tabled on 7 February 1991.

The deadline for tabling amendments will appear on the draft agenda for the part-session at which the report is to be considered.

A

DRAFT LEGISLATIVE RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission to the Council for a decision concerning the conclusion of the Framework Agreement for cooperation between the European Economic Community and the Republic of Chile

The European Parliament,

- having regard to Article 235 of the EEC Treaty,
 - having regard to the draft Framework cooperation agreement initialled by the Commission (COM(90) 560 final),
 - having been consulted by the Council pursuant to Article 235 of the EEC Treaty and to the procedure under Article 228 of the EEC Treaty (10077/1/90 - C3-0047/91),
 - having regard to the report of the Committee on External Economic Relations and the opinions of the Committee on Budgets and the Committee on Development and Cooperation (A3-0023/91),
1. Approves the conclusion and entry into force of the Framework cooperation agreement between the European Economic Community and Chile, in accordance with international public law and international practice;
 2. Instructs its President to forward this resolution to the Council and Commission, and to the governments of the Member States and of Chile.

B

EXPLANATORY STATEMENT

1. Economic and political situation in Chile

After sixteen years of military dictatorship, the new democratically-elected government of Chile entered in office on 12 March 1990, following the victory in the elections on 14 December 1989 of the 17-party coalition "Concertacion para la democracia", led by Patricio Aylwin.

The internal situation is characterized by a considerable tension between the present government and the forces supporting the past dictatorship of Augusto Pinochet, who retains the command-in-chief of the armed forces. At the centre of these tensions, the situation of human rights, and the responsibilities for the severe repression which took place during the 1973 coup d'Etat and the subsequent years of military dictatorship.

On April 24, President Aylwin created the "Comision por la Verdad y la Reconciliacion", in order to investigate breaches of human rights under the past government; however, the amnesty law adopted in 1978 by the past dictatorship, in order to impede prosecution for its breaches of human rights, has been recently upheld by the Supreme Court, while pressure for legal action against the authors of those crimes has been mounting, in particular following the finding of mass graves containing corpses of victims of repression.

On the economic side, the continuous growth enjoyed by the Chilean economy in recent years has somewhat slowed down in 1990 (GNP growth, on annual basis, for first quarter: + 4.4%; second quarter: + 0.8%. In comparison: 1986: + 5.3%; 1987: + 5.4%; 1988: + 7.1%; 1989: + 9.0%)¹⁾. Unemployment at mid-1990 stood at 6.5% (down from 7.0% one year before).

A restrictive monetary policy is implemented by the Central Bank, in order to bring down inflation which, for the 12 months until July 1990, was 24.6%. Recent increases in oil prices should have, however, rekindled inflation in the last months.

With regard to trade, the balance for the first half of 1990 shows a positive result (+ 915 million USD, slightly less than in 1989). These data seem to confirm the trends observed in the last years (1986: + 1,093 million USD; 1987: + 1,078; 1988: + 1,987).

The regional distribution of Chile's trade shows that exports were allocated as follows:

| | | | |
|----------|-------|-------------------------|-------|
| 1988: EC | 36.1% | in comparison, 1985: EC | 33.5% |
| USA | 19.7% | USA | 22.5% |
| Japan | 12.5% | Japan | 9.9% |
| Lat. Am. | 12.3% | Lat. Am. | 14.0% |

¹⁾ CEPAL, 1989, 1990.

while imports had the following pattern:

| | | | |
|----------|-------|-------------------------|-------|
| 1988: EC | 19.5% | in comparison, 1985: EC | 19.5% |
| USA | 19.7% | USA | 21.3% |
| Japan | 7.7% | Japan | 6.1% |
| Lat. Am. | 26.7% | Lat. Am. | 25.5% |

It appears therefore that the distribution of trade has shown considerable stability in the last years, with the EC confirming its importance as the main market for Chilean exports, and intra-latin american trade stagnating at a comparatively low level, especially as far as exports are concerned.

The composition of Chile's trade stresses the importance of copper in the export sector (1988: 48% of export receipts), while agricultural products (mainly wine and fresh fruits) and fisheries accounted for 15.6% of exports. On the import side, intermediate and capital goods account for most of the exchanges, and energy products average traditionally around 10% of imports.

Foreign direct investments in 1990 have shown a positive trend (+ 110% with respect to 1989, on a half-yearly basis). Foreign investments are stimulated by the debt-equity swap operations that began in 1985, and have concentrated mainly in the services and mining sectors.

The flow of foreign direct investments, and the positive trade balance, have meant that constraints from foreign debt servicing have become more manageable (1982: 71% of export receipts; 1989: 30.6%). Constraints, however, will increase sharply in 1991, considering the structure of Chile's debt and the conditions attached to the debt-equity swaps (in particular, some of the restrictions on capital transfers contained in debt conversion deals will be lifted, and the inflow of capital may not be sufficient for maintaining a sufficient level of investment). The total external debt outstanding (1989: 17.6 billion dollars) is extremely high with regard to GDP (around 90%; in comparison: Brasil, around 40%), and could cause severe constraints in the future. The Chilean debt has a very good ranking on the secondary debt market, and is currently negotiated at around 74% of its nominal value; this, of course, makes debt buy-back operations more expensive, and Chile finds, more in general, that its efforts for servicing its external debt are not adequately rewarded in debt rescheduling negotiations.

2. Social conditions in Chile

Chile's economic recovery following the 1982-83 crisis (1982: GDP per capita - 14.5%) has been accompanied by a sharp deterioration of salaries and living conditions for the poorer sections of the population. Minimum real wages, taking 1980 as a base year, were down by 31% in 1987 ²⁾ before starting an hesitant recovery. Unemployment in urban areas peaked at 20% in 1984 and decreased thereafter steadily to its present level.

The present government therefore insists on the need to repay the "social debt" contracted by the dictatorship, in order to benefit the 5 million Chileans (40% of the population) living under the poverty line, who have

²⁾ ECLA - Economic and social progress in Latin America.

not reaped any benefits from economic recovery, and whose living conditions have considerably worsened during the period in examination. More spending on health, housing and education, is therefore foreseen, financed through a tax reform recently adopted by Congress.

Minimum wages were increased in April, following negotiations between unions and employers (minimum monthly wage from 1 July: the equivalent of approximately 87 USD), but the agreement on changes to the draconian labour code imposed by the military has not yet been reached. The Confederation of Chilean Industry and Commerce wants to retain freedom to hire and fire, and restrictions on strikes, while the Central Unica de Trabajadores, the main trade union, is pushing for greater job protection and industry-wide collective bargaining, which is currently illegal.

EC/Chile relations

1) Trade

Traditionally, links between the EC Member States and Chile, have been very strong.

In 1970, the EC 12 accounted for 57% of Chilean exports (1988: 36%), and around 30% of Chile's imports (1988: 19.5%). Chile has therefore progressively diversified its trade, reducing its high dependence from the EC market (for exports) and from the US market (for imports).

The last years have shown the following results:

EC/Chile trade (mio ECU)

| | <u>1987</u> | <u>1988</u> | <u>1989</u> |
|---------|-------------|-------------|-------------|
| Exports | 823 | 851 | 1,207 |
| Imports | 1,443 | 2,187 | 2,752 |
| | ----- | ----- | ----- |
| Balance | - 620 | - 1,336 | - 1,545 |

The main items in Chile's exports towards the EC are copper in various forms (52.3%) ³⁾, fish and meat meal (9.1%), apples and pears (4.8%), wood paste (3.8%); frozen fish (3.1%), grapes (3%).

Chile's main imports from the EC are automobiles (4%), automobile components (3.8%), aerospace (2%).

Chile benefits from the Community's GSP; the impact of the system however should not be overestimated, as it accounted approximately for 15% of Chile's exports to the EC ⁴⁾. The rate of utilization of the GSP preferences was around 60%.

³⁾ 1988.

⁴⁾ 1987.

2) Cooperation

Following the 1973 coup d'Etat, cooperation between the EC and Chile has been reduced to a minimum, consisting mainly of food aid, administered through NGOs, and particularly ecclesiastical organizations.

The European Parliament has strongly supported these actions which led to the creation of a specific budget line (art. 992 - Community aid to NGOs operating in Chile: 5,000,000 ECU in 1990).

Contacts between Community institutions and representatives of the Chilean political and social forces grew more intense, as prospects for democratization improved; Mr Aylwin, then presidential candidate for "Concertacion para la Democracia", expressed his interest on 20 September 1989, during his visit to the Commission, for concluding a cooperation agreement between the EC and Chile. On 8 and 9 December 1989, the European Council in Strasbourg confirmed its intention "to contribute to the economic and social development of a democratic Chile, in particular in the framework of a future cooperation agreement".

On 16 July, the Council adopted guidelines for the negotiations, which were concluded on 26 October 1990, the agreement was signed on 18 December 1990.

3) Main elements of the agreement

The agreement corresponds to the wish, by both parties, to create a framework which will support the development of both democratic conditions and economic progress. The agreement therefore, in comparison to the other agreements undertaken by the EC in this region, contains a series of new elements:

- a) cooperation in the environment and in the scientific and technological sector is defined more closely, by describing more in detail the objectives and instruments of these actions,
- b) cooperation in the social sector is introduced in order to improve quality of life and living standards of the poorer sections of the population, and a series of instruments (support for programmes aimed at improving professional training, social services, health conditions, etc.) are defined,
- c) public administration is also considered a crucial sector for cooperation, while information and communication are introduced within the scope of the agreement,
- d) a specific article concerns regional integration, which will enable to support actions implemented in cooperation with third countries of the same region, while the strengthening of regional institutions is set out as an objective,
- e) a democratic clause, puts democratic principles and respect of human rights at the basis of EC/Chile relations.

The agreement contains furthermore the usual articles concerning economic, industrial and trade cooperation (including the MFN treatment), and the institution of a joint committee.

Furthermore, in a declaration annexed to the treaty, the EC undertakes to "examine, within the joint committee, the possibility to define more precisely the conditions which would allow" Chile to take maximum advantage from the GSP. An exchange of letters between the two parties will also stress the possibility of starting negotiations for a fisheries agreement, as soon as Chile will have adopted the fisheries bill now under discussion in Congress.

3. The EP's position

In its resolution of 16 May 1990 on Chile ⁵⁾ the EP had urged the Commission "to submit to the Council as soon as possible the guidelines for negotiating an advanced cooperation agreement with Chile, a so-called "third generation agreement" and to draw up a short and medium-term programme to help the new democratic government to remedy the severe social deficit in Chile, particularly in the sectors of education, public health, housing and technological development". At the same time, it had urged the Council "to put forward proposals for Latin American governments to have access to European Investment Bank loans".

A more general approach to EC/Latin America relations in the economic field had been defined by the EP in its resolution of 23 January 1987 ⁶⁾; it stressed in particular (par. 1) "the vital necessity for most of the countries of Latin America to be able to maintain and increase in future years a high level of exports, so that the ratio of debt to exports can gradually be reduced and imports can be kept at a level that is compatible with the development of their economies and does not lead to their political and social destabilization"; it had pointed out, to this end, (par. 2) "the desirability for the countries of Latin America to be able increasingly to diversify their flow of goods, thereby strengthening both regional economic integration and trade with the Community"; to this effect, a multilateral liberalization of trade, on a reciprocal basis, in the context of the GATT Uruguay Round would be (par. 5) "the most effective means of achieving ... a fresh long-term boost to the economies of Latin American countries"; furthermore, it considered (par. 6) "that there is an urgent need for a substantial reform of the common agricultural policy, which is largely responsible for the growing problems encountered by the developing countries in producing and exporting basic agricultural products".

On institutional aspects, the EP considered (par. 37) that "relations with Latin America should be placed on an institutional footing by means of permanent consultation at political level", and urged the Commission "to consider, as a matter of urgency, the possibility of drawing up a wider and more coordinated political and economic agreement between the Community and Latin America making it possible to take more initiatives in the social, political and economic fields than under the present agreements, and based in certain respects on the Lomé Convention".

⁵⁾ O.J. n. C 149, 18.6.1990.

⁶⁾ O.J. n. C 46, 23.2.1987.

The EP urged (par. 42) "once again the Board of Governors of the European Investment Bank to authorize, within the meaning of Article 18 of the Bank's statute, the financing of projects in Latin America."

4. Conclusions

The agreement on which Parliament is now consulted embodies an effort by the Community to make a contribution toward political and economic stabilization in Chile.

It provides a framework within which cooperation can be developed, in particular in "new" sectors such as social policies, public administration, information and culture.

It should however be considered that the Community still lacks an instrument for a general policy towards Latin America, which should be based on a clear financial commitment, possibly with the involvement of the EIB; this approach would, in particular, encourage regional integration within Latin America, and stimulate the implementation of multilateral projects.

The conclusion of a global agreement becomes more urgent as the birth of a free-trade area, comprising both North and South America, becomes a clear possibility for the future years, and multilateral liberalization within GATT, in particular in the agricultural sector, seems to have encountered serious obstacles.

The Commission's approach, based on the conclusion of "third generation" agreements, and on the reinforcement of "cooperation with developing countries in Asia and Latin America" (2.9 billion ECU over 5 years, starting from 1991) does not seem to be an adequate answer to the problems of Latin American countries and to the high degree of priority which the EP attaches to relations with this region.

OPINION

of the Committee on Development and Cooperation

Letter from the chairman of the committee to Mr DE CLERCQ, chairman of the Committee on External Economic Relations

Brussels, 1 February 1991

Subject: Proposal for a Council decision concerning the conclusion of the Framework Agreement for cooperation between the European Economic Community and the Republic of Chile (COM(90) 560 final)

Dear Mr De Clercq,

At its meeting of 30 January 1991, the Committee on Development and Cooperation considered the above proposal and adopted the following opinion in letter form.

The Committee on Development and Cooperation welcomes the conclusion of this Cooperation Agreement with Chile which sets the objectives for trade and economic cooperation and defines the means of achieving them.

It should be remembered that the European Parliament has played a leading role in encouraging the process of democratization in Chile through practical measures such as creating budget lines, sending a number of Members to be present at the plebiscite of 5 October 1988, maintaining constant contact with Chilean NGOs and tabling many urgent resolutions which have had a favourable effect on public opinion.

The Committee on Development and Cooperation is satisfied with the general content of the Agreement, and in particular the inclusion of the democracy clause of Article 1, and hopes that thus the re-establishment of democracy in the country may be accompanied by a similar development in business.

It is clear that since the establishment of a democratically elected civilian government on 14 May 1990, Chile is embarking on a new phase of institutional development which will mean maintaining a high rate of economic growth and greater social justice. The Committee on Development and Cooperation is still concerned, however, that this process of institutional democratization has not solved the problem of political prisoners imprisoned by the dictatorship, under the laws of the dictatorship, for having fought against the dictatorship.

The Committee on Development and Cooperation welcomes the inclusion of a whole article on environmental cooperation. It considers, however, that, to be really useful, this must be a permanent concern in all sectors of cooperation, stressing in particular that the development the Agreement seeks to support must be conceived as sustainable development (cf. Brundtland report). To this end, the committee considers that, just as the first article states the democratic basis of cooperation, so a second article should be included in all agreements of this type setting out this other guiding principle.

In the case of Chile, this economic growth must spring from an increase in the flow of foreign capital, particularly in the agro-industrial sectors, mining, forestry and transport, in particular, through small and medium-sized undertakings and joint ventures, as provided for in the Agreement.

It should be remembered that this investment which the Commission must endeavour to promote is very attractive, given the conditions now prevailing in Chile: stability, the possibility of access to markets in the rest of Latin America and the Pacific and plentiful human resources.

The Committee on Development and Cooperation believes that the role of Europe is fundamental to the Chilean economy, since 37% of Chilean exports go to the EEC. It is important, therefore, that the terms of Annex II of the Agreement (GSP) are implemented in such a way that the EEC abolishes or reduces quantitative and tariff restrictions, especially when considering that 90% of Chilean exports are made up of copper, fruit, cellulose and fish meal. A system must be established which includes Chilean manufactured goods in the EEC's GSP and ensures that these benefit from advantages under the GATT.

The Committee on Development and Cooperation draws attention to the importance this Agreement could have in easing the difficulties to be faced by the Chilean economy in the 90s because of its foreign debt. The repayment commitments with international financial institutions, governments and commercial banks will continue to increase over the present decade, and half Chile's medium-term debt, excluding its debt with the IMF, matures between 1991 and 1995, which implies an abnormally high concentration of debts due over a very short period.

The Committee on Development and Cooperation calls on the Commission to submit a periodical assessment of the outcome of this Agreement with Chile.

It calls on the Committee on External Economic Relations to:

- take into account the opinion of the Committee on Development and Cooperation when drafting its report and to approve the Agreement.

Yours sincerely,

(sgd) Henri SABY

The following were present for the vote: Saby, chairman; Arbeloa Muru (for Rubert de Ventós), Ernst de la Graete (for Melandri), Gröner (for Morris), Junker (for Simons), McGowan, Mendes Bota, Napoletano, Pery, Pons Grau, van Putten, Schmidbauer, Sandbaek (for Ewing), Tindemans and Verhagen.