

INFORMATION

EXTERNAL RELATIONS

RELATIONS BETWEEN THE EUROPEAN COMMUNITY AND PORTUGAL

133/76

On the occasion of the signature of a finance protocol and an additional protocol to the 1972 Agreement between the EEC and Portugal, we thought it opportune to send you an information note on the Community and Portugal.

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THE EUROPEAN COMMUNITY AND PORTUGAL

After the events which occurred in Portugal in April 1974, the Lisbon Government turned its thoughts towards a strengthening of its links with the European Community. It asked the Community for a new relationship, to be set up through a reconsideration of the trade clauses in the 1972 agreement, and the use of the evolution clause to introduce cooperation in industry, technology and finance and in relation to manpower and social security.

The Community welcomed the Portuguese requests and was anxious to follow Portugal's political development, which opened the door to a democratic régime and might thus enable closer relations with the Community to be developed.

In practice the new relations which had developed by October 1975, led to the Community giving emergency financial aid to Portugal. Four months earlier, in June 1975, they had borne fruit in the conclusion of negotiations for an additional protocol to the 1972 agreement, and for a finance protocol.

1. DEVELOPMENT OF RELATIONS BETWEEN THE COMMUNITY AND PORTUGAL

When the United Kingdom announced in 1961 that it intended to request admission to the European Community, it was economically obvious that Portugal, in view of its trade relations with the EFTA countries and more especially with the U.K., would not be able to stay wholly outside an enlarged EEC.

The renewed British candidature in 1967, and the steps taken by the other EFTA countries, led the Portuguese Government to send an aide-mémoire to the EEC Commission, under date of 5 February 1969. In this it emphasised "its desire to participate from the outset in any negotiation aimed at an arrangement regarding trade and technological and scientific cooperation".

On 28 May 1970, the Portuguese Government sent a memorandum to the responsible organs of the Community on the lines defined by paragraph 14 of the final communiqué of the conference of heads of State and government of

the European Community, held at the Hague in December 1969. This enabled EFTA countries which were not candidates for adhesion to the European Community, to open discussions regarding their position vis-à-vis the Community.

The negotiations between Portugal and the Community were opened in December 1971, and completed in July 1972.

In these negotiations the three essential objectives of Portugal were :

- to maintain the advantages she had acquired in the danish and british markets, which absorbed more than 25% of Portugal's total exports ;
- to obtain for its agricultural produce access also to the markets of the enlarged European Community ; and
- to maintain protection for portuguese industry.

2. THE COMMUNITY-PORTUGAL AGREEMENT

An agreement was signed in Brussels on 22 July 1972 ⁽¹⁾ and came into force on 1st January 1973. It was one of the bilateral agreements signed with the non-candidate EFTA countries.

Its aim and general provisions were in principle the same as for the other EFTA countries -- the progressive setting up of a free trade area for industrial products between 1st January 1973 and 1st July 1977.

It differed from the other EFTA agreements, partly by the inclusion of the section on agriculture and partly, also, in relation to industrial products, by giving Portugal and portuguese industry a longer interval for adaptation to the removal of tariffs.

The Agreement also contains an "evolution clause". Portugal attached great importance to this, since it looked to the possibility of extending

(1) Official Journal No L 301 of 31.12.1972

the scope of the agreement. If the economic interest of the two partners should necessitate the extension into other fields of the relations set up by the agreement, either Portugal or the Community may submit to the other a reasoned request to this effect.

Arrangements for agriculture

Because of the importance of agricultural produce as a source of portuguese exports, and the preferential terms the country had obtained under EFTA on the british and danish markets, the Community-Portugal agreement makes provision for preferential duties, more especially for tomato concentrates, preserved sardines and certain wines and fresh fruit and vegetables.

For preserved sardines the effect is to reduce the import duties into the Community by 40%, subject to the observance of agreed price minima.

The duties on tomato concentrates imported into the Community were reduced by 30% in counterpart for the guarantees offered. The latter consist partly of limitations to be applied by Portugal to her exports of this product, and partly of certain price minima to be observed by the suppliers. For 1976 the undertaking to limit the exports specifies a maximum of 90,000 tonnes.

As from the date when the agreement came into force, Portugal has had the benefit of Community tariff quotas for the wines of Porto, Madeira and Setubal. Within the limit of quotas fixed annually, the rates of reduction in duties vary between 30% and 60% of those charged under the EEC external tariff.

Provisions on the industrial side

For industrial goods imported into Portugal from the Community, customs franchise is to be reached either in 1977 or in 1980. For a certain number of products, however, the timetable for the duty reductions is extended to 1st January 1985.

In addition, the agreement authorises Portugal to set up new import duties of customs for the purpose of facilitating the creation of new industries.

Some of the portuguese exports to the Community market are subject to ceilings which will disappear in 1980.

The general timetable for the removal of the EEC duties is as follows :

	<u>Duty reduction</u>
1st April 1973	20%
1st January 1974	20% = 40%
1st January 1975	20% = 60%
1st January 1976	20% = 80%
1st January 1977	20% = 100% i.e. total customs franchise

Administration of the agreement

The agreement provides for an EEC-Portugal joint Committee which in fact held its first meeting in Brussels on 9 February 1973. Steps were taken to promote smooth operation of the agreement by executive measures regarding the rules of origin and customs cooperation.

At various subsequent meetings of the joint Committee, the portuguese delegation drew the attention of the Community to the insufficiency of the concession for wine; to the rules on the import of sardines by which Portugal is required to conform to a minimum price at the stage of import into the Community; and to the arrangements for tomato concentrates.

3. TOWARDS NEW LINKS BETWEEN THE COMMUNITY AND PORTUGAL

On 26 June 1974, the Prime Minister of Portugal, M. Adolino de Palma Carlos, and his Foreign Affairs Minister M. Soares, had a talk with M. Ortoli, President of the EEC Commission and the Vice-President, Sir Christopher Soames. The portuguese ministers stressed their country's desire to extend its relations with the European Community beyond the point defined in the existing free trade agreement.

On 23 and 24 October 1974, Herr Wellenstein, Director-General for External Relations in the EEC Commission, had talks with M. Soares, the portuguese Minister for Foreign Affairs, M. Vilar, the Economic Affairs Minister, M. Costa Martins, the Labour Minister and M. Lourenço, President of the inter-ministerial Committee for external cooperation.

Talks regarding Portugal's future relations with the Community were held in Brussels on 15 November 1974 between the portuguese minister M. Vilar on one side and Commission President Ortoli, assisted by Vice-President Soames and Commissioners Spinelli and Cheysson on the other.

On the invitation of the Portuguese Government, Sir Christopher Soames, the Commissioner concerned with external relations, spent 12 and 13 February 1975 in Lisbon. He had talks, inter alios, with the portuguese ministers for Foreign Affairs (M. Soares) and Economic Affairs (M. Emilio Rui Vilar).

On this occasion a thorough study was made of the means by which the agreement between Portugal and the EEC could be improved in its operation and extended into fields not hitherto covered.

On 23 May 1975, Commission President F.X. Ortoli and Vice-President Sir Christopher Soames received M. Silva Lopez, portuguese Minister for External Trade and Major Melo Antunès, Minister for Foreign Affairs.

At Lisbon, on 1 to 3 June 1975 the relations between the Community and Portugal were examined with a view to extended cooperation by Mr. Garrett Fitzgerald, Irish Minister for Foreign Affairs and President in Office of the EEC Council of Ministers.

On 18 July 1975 M. Rumor, President in Office of the Community Council of Ministers, had a meeting with M. Antunès. The portuguese Foreign Affairs Minister asked for the meeting at ministerial level, scheduled for 22 July, to be deferred on account of a new government being in course of formation in Portugal.

On 28 February 1976 the portuguese Foreign Minister M. Melo Antunès, paid a visit to M. Ortoli and Sir Christopher Soames, President and Vice-President of the European Commission.

On the invitation of the Portuguese Government, M. François-Xavier Ortoli, President of the EEC Commission, paid a visit to Lisbon on 5 to 7 March 1976. The desire for closer links between Portugal and the Community, and the latter's support for the growth of portuguese democracy were again brought into evidence.

The meeting of the EEC-Portugal joint Committee on 27 June 1974, was held in the context of the change of government in Lisbon, and was primarily concerned with developing the relations between Portugal and the Community. The portuguese delegates were anxious to go beyond the existing commercial agreement, and expressed the hope that the Community would be in a position to provide the portuguese economy at an early date with the aid needed to enable the country to play its full part in a democratic Europe.

The Community delegation expressed its pleasure at the possibility of cooperation resulting from the political changes in progress. The European Community would endeavour to fall in with the wishes of Portugal in those sectors in which Portugal might desire the inception or development of the cooperation established by the agreements signed in 1972.

On 16 October 1974, the European Parliament discussed the possibility of action to help Portugal regain her place among the democratic nations of Europe.

Sir Christopher Soames, Vice-President of the Commission, emphasised the necessity for an agreement on the scope and content of future relations between Portugal and the Community.

At the beginning of July 1974, the Community Council of Ministers considered the development of the political position in Portugal. A second exchange of views took place on 12 November 1974 in advance of the meeting of the EEC-Portugal joint Committee to be held in Lisbon.

When the joint Committee met on 25 and 26 November, the Community delegation agreed that the joint Committee be assigned to continue the examination of these requests as a whole. In principle, its attitude was favourable to the opening of negotiations with Portugal. The opening of suitable negotiations was recommended to the contracting parties by the EEC-Portugal joint Committee at its meeting on 28 May 1975.

On 11 June 1975, the EEC Commission proposed to the member States that the opening of negotiations be authorised with a view to strengthening the free trade agreement of 1972. It expressed the view that the European Community has "a natural interest in giving full support to Portugal's effort to strengthen her democratic system and enhance economic and social progress". It considered that "european support to portuguese democracy should be demonstrated in spectacular fashion".

Thus it was that, in the prospect of a pluralist democracy and with a view to helping the new Lisbon régime to get the better of the economic crisis, the EEC Council of Ministers gave its agreement of principle on 24 June 1975 to financial aid being given to Portugal by the Community and its member States.

On 17 July 1975, the European Council confirmed the statement of the European Community's willingness to open discussion on closer economic and financial cooperation with Portugal. It also called attention to the fact that the European Community, in conformity with its political and historic tradition, could give its support only to a democratic system of pluralist character.

Before the European Parliament on 24 September 1975, Mr. Thomson, Commissioner responsible for regional policy, made it clear that financial aid is not only "an internal affair for Portugal, but also an internal affair for Europe as such. The survival and enlargement of a free society in western Europe will be influenced by events in Portugal and by the type of aid the Community gives".

4. BEYOND THE EXISTING AGREEMENT

The portuguese requests related to extension of the cooperation and improvement of the commercial arrangements established under the existing agreement. On the agricultural side, in particular, additional concessions were desired for wines and tomato concentrates. On the industrial side a slower rate of tariff removal was desired and increased possibilities for protective action.

Portugal, it was stated, desired to "set up arrangements for industrial cooperation supplemented by an indispensable financial cooperation. Lisbon also hoped to improve the social security rights of migrant workers of portuguese origin, and to obtain assurances regarding the number of such workers in the EEC countries.

On 7 October 1975 the Council of Ministers held a meeting in Luxembourg with a portuguese delegation. On this occasion Portugal was offered immediate emergency aid.

The European Investment Bank made available to Portugal credits amounting to 150 million units of account. A rebate of interest amounting to 3% (30 million u.a.) was also given. The cost of the interest subsidy and the total guarantee of principal and interest were chargeable to the Community budget.

The Community and Portugal were to cooperate in a joint committee on the preparation of specific cooperation projects for submission to the European Investment Bank. The joint Committee held its first meeting in Brussels on 9 January 1976 and a mission from the Bank visited Lisbon on 12 to 21 January 1976. The first contracts were signed in the spring of the same year.

The bilateral aid provided for Portugal by the member States of the Community is to be coordinated.

On 20 January 1976 the EEC Council of Ministers authorised the Commission, under the evolution clause of the free trade agreement signed on 22 July 1972, to open negotiations with Portugal for the development and extension of the agreement in question.

These negotiations began on 13 February and completed on 9 June 1976. The two delegations recorded their agreement on an additional protocol to the 1972 agreement and to a finance protocol.

The additional protocol contains sections dealing with trade, cooperation and manpower.

On the trade side the Community gave certain tariff concessions to facilitate portuguese exports, particularly of textiles, paper and wine.

The Community also agreed to accelerate the removal of tariff duties on its imports of industrial goods from Portugal, the date for the final elimination of the duties being advanced to 1st July 1976 (instead of 1st July 1977).

Portugal was authorised to restore certain customs duties up to a limit of 20% for the purpose of providing increased protection to its more vulnerable industries. The duties will be finally eliminated on 1st January 1985.

Cooperation between the Community and Portugal will be industrial, technical, technological and financial. It will contribute to Portugal's economic and social development.

In regard to manpower portuguese workers will be subject to conditions similar to those applying to workers from the member countries of the Community in regard to working conditions, wages and social security.

The finance protocol provides for amounts up to 200 million u.a. in the form of loans by the European Investment Bank from its own resources. A 3% rebate of interest will be given in respect of 150 million u.a., the Community liability in respect of this being 30 million u.a.

This protocol is valid for five years, and will come into force not later than 1st January 1978. The years 1976 and 1977 are covered by the emergency aid of 180 million u.a. made available in October 1975.

The aim of the finance protocol is to provide funds for investment projects aimed to diversify and increase the productivity of the portuguese economy and promote, in particular, industrialisation and the modernisation of agriculture.

The loans in respect of which the rebate of interest is given are restricted to the financing of small and medium firms, to economic infrastructure projects, the development of agriculture and the processing of agriculture and fisheries products.

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As Sir Christopher Soames told the European Parliament on 16 October 1974 : "it is important to the EEC that another european country with which we already possess solid links, should have accepted the principles contained in the european charter of human rights, acceding to the democratic freedoms on which our Community rests."

THE PORTUGUESE ECONOMY

Portugal has a population of 9,588,000. In 1973 the total GNP ⁽¹⁾ amounted to 8,600 million Eur. ⁽²⁾ The GNP per head was 896 Eur.

The portuguese economy is marked by a definite recession trend. In 1975 industrial production decreased by 15% compared with 1974.

The 1974 rate of inflation was about 25%. During the first half of 1975 it was only 15%.

Portugal is essentially an agricultural country of the mediterranean type. The processing industries, however, have for some years shown real

(1) National Accounts Annual, 1961-62, issued by OECD (Organisation for Economic Cooperation and Development).

(2) Eur (European Community's unit of account) = \$ 1.00 in 1971 and \$ 1.25 in June 1976.

progress affecting, for example, the food and drink industries, textiles, clothing and footwear.

31.1% of the manpower is engaged in agriculture
33.6% work in industry and
29.4% are in the service trades.

The European Community is a long way the biggest of Portugal's trade partners, both as a supplier and as a customer. In 1974 it accounted for :

43.6% of Portugal's imports and
48.2% of her exports.

Corresponding proportions for 1975 are, respectively, 40.2% and 50.2%.

TRADE BETWEEN PORTUGAL AND THE EUROPEAN COMMUNITY

Development of the trade :

Portuguese exports (million \$)

Year	To the Community
1973	892
1974	1,086
1975	970

Portuguese imports (million \$)

Year	From the Community
1973	1,370
1974	1,937
1975	1,535

Source : (SOEC, Monthly Bulletin, Special number 1958-75)

Portugal's trade deficit (million \$)

Year	With the Community
1973	- 478
1974	- 851
1975	- 565

"External relations" Information notes

Copies of the following information notes are still available and can be obtained on request from the following address :

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Commission of the European Communities,
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