



EUROPE INFORMATION

91/88

THE EUROPEAN COMMUNITY AND THE YEMEN ARAB REPUBLIC

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March 1988

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THE EUROPEAN COMMUNITY AND THE YEMEN ARAB REPUBLIC (YAR)

Introduction

A key feature of the European Community's relations with the Yemen Arab Republic (North Yemen) is the 1984 Cooperation Agreement between them, for it covers the whole range of commercial economic and development activities. The 5-year Agreement was the outcome of a policy, initiated by the Community in 1980, of strengthening its relations with the countries of the Arabian Peninsula by putting them on a formal basis.

The fact that the Yemen Arab Republic should have been the first to respond to the EC's offer to conclude cooperation agreements with interested countries was not altogether surprising, given its economic needs as a least developed country (LLDC) and its foreign policy aims, based on a policy of non-alignment. The Community, in seeking to develop its links with the young Republic, has put the emphasis on development aid. With its Member States the EC ranks second only to OPEC among donor countries and institutions, ahead of both the United States and Japan. The 1984 Agreement provides an attractive framework for cooperation in the field of energy, technology transfers, industrial cooperation and private investments.

For a number of reasons, the more important of which are mentioned below, the Yemen Arab Republic has been unable so far to take full advantage of the trade and economic provisions of the 1984 Agreement. Even so, the basis for a more rapid growth in these two areas exists. The Community is YAR's main trading partner as regards imports: in 1985 it accounted for more than 30 % of the country's total imports.

Since the discovery of oil, some four years ago, North Yemen's economy has undergone considerable change, a process likely to be accelerated now that it has joined the ranks of the oil exporting developing countries, albeit in a very small way at present.

The Yemen Arab Republic - a bird's eye view

September 1962 saw the end of a theocratic monarchy but it was not before 1971, after a 7-year civil war, that the Yemen Arab Republic was able to engage in the task of building a modern, secular state.

North Yemen has a population of some 8 million (mid-1985) and an area of 195,000 sq. km. (roughly two-thirds of Italy). It has a per capita Gross National Product of \$550 (1985). This was higher than that of most LLDCs, because of substantial external sources of income, notably remittances from the more than one million Yemenis working in Saudi Arabia and other Gulf States and considerable foreign aid from a variety of sources. With the event of the crisis which struck oil production in the Gulf the number of these expatriate workers has now been reduced to some 600,000, thus strongly contributing to a fall in the external income.

The Yemen Arab Republic is the only country in the Arabic Peninsula with a relatively large agricultural sector. Some 65% of the working population is engaged in agriculture, usually at the subsistence level. The main agricultural products are cereals (sorghum, wheat, barley, maize and millett), fruit and grapes, coffee and a plant, qat, whose leaves are widely used throughout the region as a mild stimulant.

The Yemen Arab Republic being a predominantly rural country has a relatively small urban population: Sana'a, the capital, has a population of only 300,000.

The fall in oil prices resulted in the return of large numbers of workers from the Middle East. Some experts believe that income from oil exports will make up for the loss of workers' remittances and the expected decline in foreign aid, especially if North Yemen should lose its LLDC status. But this will take time. The first oil exports took place only in the closing months of 1987, and much of the oil income will be needed at first to help pay for the heavy initial investments.

Even so, it is clear that North Yemen's status as an oil producing country will accelerate the process of change initiated in the 1970s. Government fears for the country's fragile traditional economy in fact led to the oil fields being developed, with the help of foreign oil companies. The third 5-year plan (1987-1991) could well be different, therefore, from the Second (1982-1986), which gave priority to agricultural development.

The 1984 Cooperation Agreement

The origins of the agreement date back to 5 February 1980, when the EC Council of Ministers declared that "the conclusion of cooperation agreements with all the Gulf States that wanted such agreements was an objective of particular interest to the Community." The European Commission was asked to "sound out opinion as required." The Government in Sana'a at once expressed its interest in negotiating a cooperation agreement and on March 18 the Council "agreed to include that country in its soundings".

The Commission held exploratory talks with the Yemeni authorities in 1981 and 1983. The latter reaffirmed their interest in a cooperation agreement in a Note Verbale dated 1 March 1983, and on 23 November the Commission proposed to the Council to adopt negotiating directives. Negotiations began in May 1984 and were completed that same month. The Agreement, concluded for five years initially but with a provision for automatic renewal every two years, was signed in Brussels on 9 October 1984. It came into effect on 1 February 1985.

The Agreement is similar to the cooperation agreements concluded by the EC and Latin American countries. Like them it is a "framework" agreement, which sets out the objectives to be pursued by the two sides. The Preamble expresses their determination "to consolidate and deepen" their existing relations and the need, consequently, "for as extensive a cooperation as possible" over the "whole range of commercial, economic and development activities."

Under Article 1 the EC and North Yemen extend each other most favoured nation (MFN) treatment as regards not only customs duties but also direct or indirect taxes and other internal charges.

The Agreement's objective, through commercial, economic and development cooperation, with a view to raising living standards by faster economic growth in the Yemen Arab Republic. The two sides undertake to increase their trade with each other "to the highest possible level", and to recommend trade promotion measures to this end.

Within the framework of economic cooperation the Community undertakes to help the Yemen Arab Republic develop its agriculture, agro-industries, fisheries and tourism, and, given the role of education in economic development, North Yemen's human resources, especially through vocational training. Other areas of cooperation - i.e. of Community help - include energy and science and technology. Finally, the Yemeni authorities will try to improve the investment climate, in order to facilitate the flow of private capital, the necessary complement to official aid.

Given YAR's LLDC status, these Agreement's provisions for development cooperation are especially important. The Community recognizes that the Yemen Arab Republic is a developing country. It expresses its readiness to continue and develop its financial and technical cooperation with Sana'a, within the framework of its aid to Asian and Latin American developing countries. At the same time the Community will seek to coordinate Community aid with that extended by individual Member States.

The 1984 Agreement also provides for a Joint Cooperation Committee, on which both sides are represented. The Committee's main task is to examine and promote various cooperation activities and make recommendations. The Committee normally should meet once a year.

Trade Relations

The following Tables shows the level of trade between the EC and the Yemen Arab Republic in recent years:

<u>EEC Trade with the Yemen Arab Republic, 1983-87</u>						
(in million ECU)(*)						
	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1986</u>	<u>1987</u>
					(six months)	
EC Imports	13.2	17.6	27.5	11.3	6.0	3.2
EC Exports	555.6	639.0	776.2	452.6	270.6	170.5
Balance	542.4	621.4	748.7	441.3	264.6	167.3

Source : Eurostat.

Two facts stand out sharply:

- (1) the very big imbalance in EC/North Yemen trade and
- (2) the sudden, large fall in both exports and imports in 1986, from the very high levels reached the previous year.

(*) The ECU is the European Unit of Account. It is a "basket" unit based on a certain quantity of each Community currency. In 1986, 1 ECU was equivalent to US\$ 0.98.

Yemen's main exports to the EC consist of hides and skins (up to 80% of the total), coffee and cotton. The low level of these exports reflects the small quantities that are available for overseas markets. Until the discovery of oil, North Yemen's most important natural resource was salt, a commodity more suited to regional trade. However, crude oil could eventually provide an addition to the country's exports to the Community.

As one would expect, the Community's exports consist of a wide range of manufactured goods, including machinery and transport equipment, steel products and pharmaceuticals. But the EC also exports large quantities of agricultural products, notably dairy products, sugar and animal feed.

The sharp drop in trade between EC and North Yemen in 1986 and 1987 may only be temporary, due in part at least to a drop in income from abroad.

North Yemen's major trading partners in the EC include Britain, Germany, France and the Netherlands. Italy is important as both exporter and importer.

Commercial Cooperation

The first meeting of the Joint Cooperation Committee identified a number of areas with potential for commercial cooperation. They included tourism, and in this context the Community financed a study on the prospects for developing North Yemen's tourist potential, which it sent to the General Tourism Corporation.

Development Aid

Development aid is a major element in the European Community's relations with the Yemen Arab Republic. A European Commission team first visited the country in 1977 to study its development problems, at the invitation of its prime minister. This visit soon resulted in Community support for the agricultural research centre at Taiz. In spite of the its budgetary problems the amount of Community aid has not been significantly affected.

In its development activities the Community as such has frequently joined forces with individual Member States to co-finance specific projects. Together they are second only to the OPEC countries as a source of development aid for North Yemen. This aid takes a number of forms and includes financial and technical aid, stabilization of export earnings, and food and emergency aid.

- Financial and Technical Aid

Agricultural development must be a priority in a country whose food imports account for over 20% of its total imports, even though two-thirds of its working population is engaged in agriculture. Not surprisingly, therefore, the EC has committed ECU 11 million to the two phases of a project involving seed production nation wide and another ECU 2.4 million in technical and financial support for the Taiz Agricultural Centre. The second phase of the seeds project is being co-financed with Italy.

Rural development is another priority area. The EC has already co-financed a project in the Al-Badya area with the Netherlands (to which it contributed ECU 2.7 million). It is providing ECU 7.5 million of the ECU 11 million needed for the Al Mahwit Road Rehabilitation and Maintenance Scheme. This is part of a much larger regional rural development project, to which the Federal Republic of Germany is also contributing.

The EEC gave ECU 2.55 million in 1983 to help improve building methods, for domestic houses to give protection from earthquakes. The houses were built in the traditional form and were financed on the basis of the "self-help" policy followed in repairing the damage caused by the Dhamar earthquake in 1982. The project was co-financed with the Netherlands and later, the United States.

Economic Cooperation

Interest in the projected conference on investment possibilities in the Yemen Arab Republic, is likely to be stimulated by the economic developments that have resulted from the discovery and exploitation of the country's oil resources.

Energy cooperation was launched in 1987 with the approval of a project to provide assistance to the National Energy Planning Project. Yemeni personnel will be trained both in the EC and in North Yemen itself.

Cooperation outside the framework of the Agreement

Although the Agreement provides a wide framework for cooperation between the parties, it was not intended to restrict this cooperation in any wider sense. In this context the Community implemented the following

- Emergency Aid

Following the 1982 Dhamar earthquake the EC gave emergency aid for a total of ECU 1 million.

- Food Aid

The Community gave food aid to North Yemen between 1974 and 1981 (except for 1980). It took the form of cereals, butteroil and skimmed milk powder. It was later replaced with additional technical and financial aid. The EC agreed in 1987 to provide 10,000 tonnes of cereals, 600 tonnes of skimmed milk powder and 200 tonnes of butteroil directly to North Yemen to meet an immediate shortfall. The Community is also providing aid indirectly through the World Food Programme and other organizations.

- Stabilization of export earnings

The Yemen Arab Republic was among the first to benefit from the schemes set up by the EC to compensate against a shortfall in export earnings those LLDCs that are not signatories of the Lomé Convention. It received ECU 380,000 in 1987 to off-set the shortfall in the income from its coffee exports to the Community.

Conclusions

Since its 1980 offer to conclude a cooperation agreement with all interested Gulf States the EC has shown a readiness to establish closer relations with the Yemen Arab Republic.

As the government in Sana'a tried to develop the country's economy it sought to associate the EC, alongside other donors, in its efforts. Its swift response to the Community's 1980 offer was prompted no doubt by political as well as economic considerations; a desire to diversify its international interests and to establish a contractual relationship with its main supplier. The brevity of the negotiations themselves suggest the agreement presented few problems for the Government.

The Joint Cooperation Committee held its first meeting in Sana'a in March 1985, a mere five weeks after the Cooperation Agreement had come into force. The Yemeni delegation expressed the hope that the EC would help YAR get through a critical period for its economy from 1985 to 1988. It noted that the situation as far as oil was concerned was far from clear; in any case, it would be some time before its effects filtered down into the country.

The first meeting identified several areas of cooperation. They were not confined to development but included trade, industrial cooperation, energy, mineral exploitation, tourism and banking. Progress has turned out to be slower than expected, however, and the Joint Cooperation Committee, which normally should have met in 1986, will hold its second meeting in March 1988.

The discovery and exploitation of the country's oil resources clearly added to its work load, even though the task was entrusted to experienced foreign companies. Yemen's emergence as an oil exporting country should give a boost to its economic growth, not least of all by strengthening the Government's financial base.

During the second meeting of the Joint Cooperation Committee the EC will be looking to the Yemeni delegation for clear indications of how the 12-nation Community can help the Yemen Arab Republic expand and modernize its economy. The Cooperation Agreement covers a wide range of activities, creating a useful framework for Community-YAR relations.

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ISSN : EN 1013

Catalogue no.: CC-AN-88-002-EN-C