

SPAIN AND THE EUROPEAN COMMUNITY

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On the occasion of the official visit by Mr Roy Jenkins, President of the Commission of the European Communities, to Madrid on 27 and 28 April 1978, the present informatory memorandum assesses relations between Spain and the European Community.

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1. SPAIN'S REQUEST FOR MEMBERSHIP OF THE COMMUNITIES

On 17 February 1976 the Spanish Minister of Foreign Affairs, Mr de Areilza, visiting Brussels shortly after the throning of King Juan Carlos, informed Mr Ortolí, then President of the European Commission, and Sir Christopher Soames, Vice-President responsible for external relations, that Spain would be able to request accession to the Community once the gradual process of introducing democracy into the country was completed. These prospects could not come as a surprise to the Community which had for a long time refused any kind of institutional link with Spain on the grounds that its regime was not democratic.

It was on 28 July 1977, immediately after the June elections, that Mr Oreja Aguirre, the new Spanish Minister of Foreign Affairs, officially presented President Suarez's letters containing his country's request for accession to the President-in-Office of the Council, the Belgian Minister Mr Simonet. On the previous day the Spanish Minister had met with the Commission President, Mr Jenkins, and also with Messrs Natali and Haferkamp, Vice-Presidents responsible for questions covering enlargement and external relations, respectively. This request came two years after Greece's request (June 1975) and four months after Portugal's request (March 1977).¹

The Commission expressed satisfaction at Spain's desire and on 20 September the Council gave official acknowledgment of receipt. The Council then asked the Commission to draw up, in contact with Spain and member countries, its opinion prior to the opening of negotiations.

On 4 November, the Spanish Prime Minister, Mr Suarez, visited the Commission, following talks in the capitals of the various member countries. The President, Mr Jenkins, together with Mr Natali confirmed, on this occasion, the importance they attached to finding satisfactory solutions to the problems involved in integrating Spanish agriculture and industry.

During an official visit to Madrid from 13 to 15 February 1978 Vice-President Natali had talks, in an exceptionally good atmosphere, with King Juan Carlos and those in leading political posts, including Messrs Suarez, Oreja Aguirre and Calvo Sotelo, who had been appointed Minister in charge of Relations with the Community. On this occasion Mr Natali stressed the fact that since the Community and Spain had taken the political choice in favour of enlargement this should prompt the search for solutions to economic problems which could be created by accession.

Mr Calvo Sotelo then paid a visit to Brussels on 8 and 9 March 1978 in order to work out, with the Commission, practical aspects of cooperation for purposes of drawing up an opinion on the request for membership and, in particular, to supply the Commission with information.

This opinion is expected to be published in early 1979.

2. THE SPAIN-EEC TRADE AGREEMENT

Ever since 1962 Spain had asked the Community to start up negotiations with a view to an Association Agreement which could lead on to accession. On the basis of the preamble to the Treaty of Rome ('...resolved... to preserve and strengthen peace and liberty, and calling upon the other peoples of Europe who share their ideal to join in their efforts ...') the Community did not feel it could meet the requests of the Spanish government at the time. A new request was submitted by Spain in 1964 and exploratory talks were held from 1964 to 1966 with a view to negotiating an agreement of a strictly commercial nature. Actual negotiations started in September 1967 after the Community Council of Ministers had adopted initial negotiation guidelines in July. Negotiations were to be carried out by the European Commission in accordance with standard practice.

The negotiations were completed on 12 March 1970 after the Council had specified and extended its terms of reference during its session on 17 October 1969.

The Spain-EEC Trade Agreement, concluded on the basis of Article 113 of the Treaty of Rome, was signed on 29 June 1970 and came into force on 1 October that same year.² This preferential agreement

¹ Cf. Commission communication to the Council on 19 April 1978 giving overall considerations on the problems of enlargement.

² EEC OJ L 182 of 1970.

was aimed at phasing out the essential barriers to trade over an initial stage lasting at least 6 years whilst respecting GATT decisions. A second stage, the practicalities of which are not defined, would be subject to negotiations between both parties.

A Joint Committee was set up in order to ensure that the agreement was duly implemented. Either party could withdraw from this Committee with a six month period of notice. It did not cover the coal and steel sector which came under the ECSC Treaty.

Under the terms of the Agreement Spain undertook to phase out its import duty on Community products over a period running from 1 October 1970 to 1 January 1977. On this final date duty would be reduced to the following percentage of its original level:

- (i) 60% for specific agricultural produce, ore, wood, raw cork, textile fibres etc. which in 1968 accounted for 4% of Community exports to Spain and were subject to customs duty of 8.2% on average;
- (ii) 25% for a large number of industrial products and specific agricultural produce (22% of Community exports, subject to an average duty rate of 17.7%);
- (iii) 25% for 'sensitive' products such as plastics, automobiles, machines and electrical appliances (34.5% of Community exports, average rate of 28.5%).

For the most sensitive products, such as paper pulp, paper and card, there was no provision for reduction.

Special formulas had, moreover, been worked out for dairy produce. Spain thereby undertook to buy at least 30% of its butter imports from the Community as from 1 January 1976.

The Community for its part undertook to phase out quota restrictions and to gradually reduce its customs duty on Spanish industrial goods as from 1 October 1970. Duty was to be reduced by:

- (i) 60% for virtually all industrial products on 1 January 1973;
- (ii) 40% for a dozen industrial products, including leather shoes and specific textiles on 1 January 1977.

In addition, for the agricultural sector, tariff concessions were granted for citrus fruits (40% under certain conditions), unrefined olive oil and the following wines: Sherry, Malaga (50%), Jumilla, Priorato, Rioja and Valdepenas (30%), in the framework of quotas. A number of types of fish, meat and fruit and vegetables also benefited from reductions ranging from 25 to 100%, but generally at a level of 50% of their original duty level.

In the agricultural sector two-thirds of Spanish exports to the Community were covered by preferences. For the remaining produce the agreement was intentionally unbalanced in Spain's favour so that its young industry, protected by higher tariffs, would gain easier access to the Community market.

It will be seen, in fact, that as far as the industrial sector is concerned, the Agreement brought about an average reduction of 55% of the Community's average customs duty rate of 8%, and a reduction of only 25% of the Spanish average rate of 25%;

3. MODIFICATION OF THE TRADE AGREEMENT

Shortly after the Agreement came into force the Spanish authorities and the Community focused their attention on the repercussions that the accession of new Member States to the Community would have — in particular the accession of the United Kingdom.

The United Kingdom was in fact the main export market for Spanish agricultural produce, which was, in many cases, not covered by the Agreement. The United Kingdom tariff was going to be raised to bring it into line with that of its new partners. It was very quickly seen that Spain could not agree to a simple technical extension of the Agreement to cover the new member countries and that Spain wished, on the contrary, to proceed to fundamental modification of the Agreement to make allowance for all the implications of enlargement.

Negotiations aimed at a new Agreement within the framework of the Community's Mediterranean policy were thus held from July to October 1973 and in November 1974, after a Protocol providing for temporary non-application of the 1970 Agreement to the new Member States had been signed on 29

January 1973. These negotiations resulted in deadlock, with the Community proposing free trade for industrial goods together with new concessions in the agricultural sector, whilst Spain wished to have a link between free trade in the industrial and agricultural sectors. A compromise was beginning to come to light at the start of 1975 but negotiations were broken off by the Community who wished to use this as a means of protesting against violation of human rights in Spain.

After King Juan Carlos I came to the throne on 27 November 1975 contacts were taken up again. Mr de Areilza, the new Spanish Minister of Foreign Affairs, paid an official visit to the Commission on 17 February 1976. Mr Calvo Sotelo, Minister of Trade, followed him on 27 April with a view to examining ways and means of adapting the Agreement to the enlarged Community.

Since the Spanish Government had made it known since the start of 1976 that it wished to view its relations with the Community on the basis of rapid accession to the EEC, it soon became apparent that it was pointless attempting to fulfil the aim of free trade through modification of the Agreement. The Commission submitted a proposal to the Council to the effect that it would be better to negotiate an additional Protocol to the 1970 Trade Agreement, to be valid up to the end of 1981. In addition to providing for extension of the provisions of the Agreement to cover the United Kingdom, Denmark and Ireland, the Protocol should also allow for mutual, limited reduction in customs duty, further concessions in the agricultural sector in Spain's favour and also provide for a system covering trade in the coal and steel sector.

After the Council had issued its directives relating to modification of the Agreement in the light of Community expansion in April 1977, negotiations were taken up again in May. An exchange of letters between the two parties shows on 25 July that the provisions of the agreement between the three new Member States and Spain were implemented autonomously on 1 July — the date on which the transitional period fixed for the United Kingdom, Denmark and Ireland expired. Only a number of agricultural products imported by the United Kingdom would continue to be subjected to the old import system up to 31 December 1977 — the end of the transitional period for these products.

In December 1977 the Council adopted negotiation directives covering adaptation and extension of the Agreement. Negotiations started up again on 8 February 1978.

The Community felt that the imbalance in industrial benefits instituted by the Agreement should be reviewed in the light of developments in Spanish industry since the end of the 1960s. Spain, for its part, showed a willingness to grant concessions as far as its customs tariffs on industrial goods were concerned, but only if it were granted sufficient concessions for agricultural produce in return. This was firstly to make allowance for concessions granted by the Community to other non-Community, Mediterranean countries and secondly, to offset the losses that Spain feared it would suffer on the British market.

Contact groups were set up to look into the problems involved in management of the Agreement and to further specify the directions that both delegations should take.

4. A NUMBER OF SECTORAL PROBLEMS

(a) Fishing

Following the extension of fishing-zone limits for Community Member States off the Atlantic coast, further to concerted action, the Commission received authorization to start negotiations with non-Community countries relating to access to fishing resources and the requisite management measures, in particular as far as the conservation of certain species was concerned.

Whilst awaiting the conclusion of framework agreements the Community has taken autonomous measures on a temporary basis. Hence, whilst the negotiations started with Spain in 1976 are continuing, Council regulations have set up a licence system, to which ships flying the Spanish flag have been subject since April 1977. In 1978 the monthly quota of hake allocated to Spanish fishermen was thus fixed at some 3 000 tonnes — a considerable reduction compared with 1977. This reduction, warranted by the need to safeguard halieutic resources, is equal to that imposed on Community fishermen.

(b) *Textiles and footwear*

At the end of 1977 the Community concluded some twenty five-year agreements with non-Community countries, in the framework of the International Arrangement on Trade in Textiles. These were aimed at guaranteeing and introducing discipline into textile exports to the Community from countries whose production capacity seemed to be threatened in the short term by competition from large-scale supplier countries. The situation is obviously more complex in the case of countries with links with the Community in the form of preferential agreements.

The Commission and Spain exchanged lists of products (fourteen on both sides) which they felt to be in a particularly sensitive position. Discussions continued with a view to reaching an arrangement whereby both parties would adopt a convergent approach aimed at preventing recourse to spot measures, whilst retaining their autonomy as far as individual commercial policy was concerned.

It should be noted that the Community has likewise just decided to set up an *a priori* Community monitoring scheme for all supplier countries, covering imports of footwear, whilst awaiting the introduction of a more flexible system on 1 October next which will obviate the need for a licence prior to import.

(c) *Steel*

A traditional importer of Community steel products, Spain has also rapidly become the second largest supplier of steel to the Community, after Japan. On both sides, trade in steel, which is relatively well-balanced, amounts to some one million tonnes. With a view to preserving this balance under the present crisis conditions, each partner has taken autonomous measures. The Commission, acting on the basis of the ECSC Treaty, has notably subjected Spanish galvanized sheet steel, heavy plate and sections to temporary anti-dumping duty. Measures of this kind have likewise been taken in trade with a large number of other countries.

In application of the Council decision of 19 December 1977, the Commission started negotiations with Spain on 24 January 1978, with a view to reaching an agreement which maintains traditional trade circuits and ensures, in particular, that Spanish exporters observe the minimum prices fixed by the Commission for Community producers, although making allowance for a certain scope for penetration. These negotiations resulted in an Agreement which was initialled on 24 April.

ANNEX

Economic profile of Spain and trade with the Community

Spain has a population of almost 36 million for a territory of 505 000 km², i.e. a population density of just above 70 inhabitants per square kilometre. The population figure is expected to exceed 39 million in 1985. Out of a working population of 13 341 900 in 1976, 27% were women.

The percentage of active population involved in agriculture fell from 40% in 1960 to 23% in 1975, with industry now providing 38% of jobs and the services 39%.

The percentage of gross domestic product made up by agriculture dropped from 24 to 12% over the period 1960 to 1975. Ranking second after France, in Western Europe, in terms of available agricultural land, Spain has a deficit in beef and dairy products. It is one of the world's top producers of citrus fruits, wine and olive oil.

Spain ranks tenth among the industrial powers of the world. By way of illustration of its growth rate from 1960 to 1975 let us mention but a few figures: steel production has risen from 1.9 million tonnes to 11.1 million tonnes, car production has increased from 39 600 to 696 000, cement production has increased from 5.2 million tonnes to 23.9 million tonnes and finally, electricity from 16 600 kWh to 82 400 kWh. Spanish industry is marked by the

contrasting co-existence of modern undertakings controlled by the State or large financial holdings and a large number of small businesses with a lack of capital and resources for research and technology.

The gross national product was slightly above 100 000 million dollars in 1976 with the per capita income (USD 2 865) roughly equivalent to that of Ireland. This was following an economic growth rate of on average 5.9% per annum from 1965 to 1975, compared with a Community growth rate of 3.5%. After the oil crisis, growth did not exceed 1% in 1975 or 1976, but was on the uptake again in 1977 in a climate which was, however, marked by persisting unemployment, a balance-of-payments deficit and an inflation rate of some 25% (December 1976 to December 1977) which the Government would like to reduce to some 16% in 1979.

The breakdown of Spain's trade with the rest of the world on a per sector basis was as follows in 1976:

| | <i>(per cent):</i> | |
|----------------------------------|--------------------|---------|
| | Imports | Exports |
| Foodstuffs, drink, tobacco | 10.1 | 20.4 |
| Energy, lubricants | 29.2 | 3.7 |
| Raw materials | 14.3 | 5.2 |
| Chemical products | 9.2 | 6.0 |
| Machines and transport equipment | 20.5 | 24.6 |
| Other manufactured goods | 16.8 | 40.1 |

Source: EEC Statistics Office.
Monthly external trade bulletin special issue 1958-76.

The Community is by far Spain's largest customer and supplier. Its proportion of Spanish exports has remained stable, accounting for 47.8% in 1973 and 46.4% in 1976, whilst the proportion of imports fell from 42.9% in 1973 to 33.1% in 1976 as a result of the increased price of oil products.

Trade between Spain and the Community

| | <i>(USD million)</i> | | |
|--------------------------|----------------------|-----------------|---------------|
| | Spanish imports | Spanish exports | Trade deficit |
| 1973 | 4 112 | 2 463 | 1 649 |
| 1974 | 5 548 | 3 360 | 2 188 |
| 1975 | 5 461 | 3 432 | 2 029 |
| 1976 | 5 785 | 4 048 | 1 737 |
| 1977, first 3 quaters | 4 610 | 3 347 | 1 263 |

Sources: EEC Statistics Office. Monthly external trade bulletin February 1978 and special issue 1958-76.

Even without taking into account the tourist income originating from the nine EEC countries and transfers sent to Spain by Spanish emigrants in the Community, trade between Spain and the Community, whilst still showing a deficit, is more balanced than its trade with the rest of the world. From 1973 to 1976 Spain's overall imports were only half covered by exports, in value terms.

The situation improved, however, in 1977, with the trade deficit brought down from USD 8.7 to 7.6 thousand million overall, by virtue of a sharp increase in exports (+ 17.5%) accompanied by a stagnation in the level of imports (+ 1.6%, i.e. roughly -8% in real terms). As for the deficit in the current balance of payments — this has been reduced from USD 4.3 to 2.5 thousand million