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ECONOMIC AND SECTORAL ASPECTS

Commission analyses supplementing
its views on enlargement

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V. Special study on a national budget for 1978

V.1 FINANCIAL IMPLICATIONS OF ENLARGEMENT FOR THE GENERAL BUDGET OF THE EUROPEAN COMMUNITIES

V.1.1 BASIC HYPOTHESES

Examination of the financial implications of accession may begin with an analysis of the question: "What would be the Communities' expenditure and resources if the existing policies, instruments, aid measures, premiums, etc. were applied as such to the new Member States from 1978?" . This hypothesis implies that there would be no special aid. We shall suppose that the Three have made the necessary arrangements to fulfil the conditions required for the application of the present Community instruments. On principle, appropriations for commitment will be considered as being equal to appropriations for payment, which means that we can refer simply to "appropriations".

This memo gives very general and provisional initial estimates, based on macroeconomic indicators by sector. The figures arrived at should therefore be viewed with extreme caution. A more detailed analysis, in particular as regards the Guarantee Section of the EAGGF, could follow in four weeks' time.

V.2 EXPENDITURE

V.2.1 Guarantee Section of the EAGGF

In the absence of recent records of supplies by product, an initial estimate has been made on the basis of the ratios for production areas between the Three and the Nine (using 1974 figures for Spain and 1975 figures for Greece and Portugal, broken down by major product categories. These ratios have been applied to the 1978 budget figures, which do not take into account the "dual rate" or monetary compensatory amounts[1]. The estimates also disregard the implications of the planned readjustment of the agricultural policy with regard to the Mediterranean regions.

As regards the first two products it should be pointed out that Community aid is directly linked to production, though more so in the case of olive oil than in the case of tobacco. Substantial expenditure is to be anticipated for olive oil, tobacco and wine in particular.

[1] We assume that, at least in the initial period following accession, the green rate and the market rate for the Three will be equal, and that there will be no MCAs.

On the other hand, milk products, which account for 40% of the "guarantee" expenditure of the Nine, would play a major role only in Spain, where per capita milk consumption is very close to the Community average.

Expenditure of the Guarantee Section of the EAGGF for 1978

million EUA

	EUR-9	GREECE	SPAIN	PORTUGAL	The THREE	EUR-12
1. Expenditure (without "dual rate" and without MCAs)	6 960	400	600	100-150	1100-1150	8060 8110 (1)
2. For comparison: Expenditure for ITALY (estimate without "dual rate" and without MCAs)					1300	

(1) The following rule has been applied for rounding figures: EUR-9 figures have not been rounded (they reflect 1978 budget figures), whereas those for the Three and EUR-12 have been rounded very considerably.

Straightforward addition of the figures for the individual countries gives a total, for the Three, of 1 100 - 1 150 million EUA. Given the bases on which the calculation has been made and the expenditure for Italy,[1] this figure should be interpreted to mean that the overall cost for the Three, as regards the Guarantee Section, will probably be between 1 000 and 1 500 million EUA.

V.2.2 The Guidance Section of the EAGGF

Orders of magnitude for assistance from the Guidance Section of the EAGGF can be worked initially on the basis of the following hypotheses:

(a) application of the measures already in force within the Nine (the proposals for adjustments or new measures will be disregarded);

(b) ratio of new members to EUR-9 for indicators of the production potential;

(c) explicit account taken of the backwardness of agricultural structures in the applicant countries.

The "agricultural production potential" consists of a fairly constant component, utilized agricultural area, and a variable component, the farming population. In both cases, the ratio between the Three and the Nine is of the same order of magnitude, i.e., about 1 : 2. It is slightly higher, however, in the case of the farming population, and it is this latter indicator which will be considered first.

On its own the increase in the farming population following accession (+ 55.5%) will account for only part of the increase in requirements, for the structural situation in the applicant countries is far more worrying than in the present Member States: the salient features of agriculture in the applicant countries are very small farms, a difficult climate and/or poor land and a defective marketing system.

[1] The production structure in the Three as a whole bears a certain resemblance to that of Italy.

In order to take into account the additional requirements resulting from these structural shortcomings, the figures calculated on the basis of the farming population have all been increased by 50%[1]. These figures are given below.

Guidance Section of the EAGGF - basic indicators and expenditure for 1978

million EUA

	EUR-9	GREECE	SPAIN	PORTUGAL	The THREE	EUR-12
I. Indicators of requirements						
1. Utilized agricultural area(UAA) -	93.404	9.155	32.078	4.170	45.403	138.807
% of EUR-9	100	9.8	34.3	4.5	48.6	
2. Farming population						
million	8.8	1.2	2.8	0.9	4.9	13.7
% of EUR-9	100	13.1	32	10.4	55.5	
II. Financial requirements						
% of EUR-9	100	19	48	15	82	
million EUA	473	100	200-250	50-100	350-450	800-900

1 Appropriations for commitment in very round figures

Aggregate requirements for the Three as a whole therefore work out at 400 million EUA (250 million EUA without the fixed standard 50% increase).

V.2.3 Social Fund

The assistance that would be needed from the Social Fund may be estimated on the basis of indicators expressing the difficulties regarding unemployment compared with Italy and Ireland. Great caution is necessary here, however, given the different definitions of unemployment used in the national statistics and the fact that the role of under-employment is difficult to assess.

If benefit payments per unemployed and employed person were similar to those in Italy, the Fund would spend approximately 100 million EUA for the three new members. A level similar to that in Ireland would cost 300-550 million EUA.

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1 This method is the same as that adopted for the Commission's Opinion on Greece; it was also used on the accession of Denmark, Ireland and the United Kingdom, and again for the initial forecasts concerning Portugal.

The following estimates are based on the assumption that payments per unemployed person would be
in Portugal: close to the amounts paid in Ireland (230 - 260 EUA)
in Spain : close to the amounts paid in Italy (160 - 200 EUA)

Basic data for estimating assistance from the Social Fund

	Population 1975		Unemployment rate end 1976 %	Approx. no. of unemployed end 1976 1 000	Per Capita GDP 1975 EUA	Assistance from Social Fund			
	total million	working million				% of Fund allocated in 1973-77	in terms of 1978 appropriations million EUA[1]	1978 per capita employed EUA	1978 per capita unemployed EUA
	1	2	3	4	5	6	7	8	9
Italy	55.8	19.5	6	1200 000	2 300	21.5	122	6	100
Ireland	3.1	1.13	10	110 000	1 900	5.6	32	28	290
Greece	9.0	3.3	3	100 000	1 750				
Spain	35.5	12.8	5	500 000 - 600 000	2 200				
Portugal	8.8	3.4	14-15	400 000 - 500 000	1 300				

[1] Total appropriations of the 1978 Social Fund: 569.5 million EUA.

This gives the following results:

Portugal: 90 - 130 million EUA
Spain : 80 - 120 million EUA

The expenditure for Greece has been estimated - again taking in account the working population - at 20 - 50 million EUA

Expenditure under the Social Fund for 1978 in million EUA

EUR-9	GREECE	SPAIN	PORTUGAL	THE THREE	EUR-12 rounded up
570[1]	20-50	80 - 120	90 - 130	190 - 300	750 - 900

V.2. 4. Regional Fund

The three applicant countries' share of the Fund should correspond to the share of the GDP of their development regions (whole of Greece, whole of Portugal, West and South-West Spain in the total GDP of the development regions in EUR-12.

Expenditure under the Regional Fund for 1978 in million EUA.

	EUR-9	Greece	Spain	Portugal	The Three	EUR-12
1. Share of the development regions' GDP in % EUR-12 = 100	58	10.5	19	12.5	42.0	100
2. Expenditure 1978	581	105	190	125	420	1000

An additional 400 - 450 million EUA would therefore be required for the three applicant countries.

V.2.5. Other expenditure

The other general budget expenditure in respect of the applicant countries - except the fixed reimbursement of 10% of own resources - must be estimated on the basis of the population ratio.

Other general budget expenditure for 1978 - all institutions
(excluding reimbursement of 10% of own resources) in million EUA

	EUR-9	Greece	Spain	Portugal	The Three	EUR-12
1. 1975 population						
- million	258	9.0	35.5	8.8	53	311
- as % of EUR-9	100	3.4	13.7	3.4	20.5	
2. Other expenditure						
(a) EUR-9	1382					
(b) Other - allocation on the basis of 1. in very round figures		50	200	50	300	1600-1700

Overall expenditure on research, industry, energy, transport, development cooperation, staff and operation would therefore amount to about 300 million EUA for the Three.

V.2.6. Total expenditure

The estimates for the major items are added together in the following table. The results are given in very round figures.

Recapitulation of 1978 expenditure in million EUA

	EUR-9	Greece	Spain	Portugal	The Three (very round figures)	EUR-12
1. Guarantee Section of the EAGGF	8666[1]	400	600	100-150	1100-1150 or in rounder figures 1000-1500	9.700-10.200
2. Guidance Section of the EAGGF	473	100	200-250	50-100	350-450	800 - 900
3. Social Fund	570	20-50	80-120	90-130	190-300	750-900
4. Regional Fund	581	105	190	125	420	1.000
5. Other items excluding fixed 10% reimbursement	1382	50	200	50	300	1.600-1.700
6. Total excluding 10% reimbursement	11672	rounded to 700	rounded to 1250-1350	rounded to 400 - 560	2300-2900	14.300 +/- 400
7. 10% reimbursement	690	20	60	10	rounded to 100	800
8. TOTAL (very round figures)	12362	700-750	1300-1400	400 - 600	2 400-3 000	rounded to 15000

[1] Including incidence of dual rate and MCAs.

Given a very approximate figure for the reimbursement of 10% of own resources and the particularly large margin of uncertainty as to expenditure under the Guarantee Section of the EAGGF, the total financial implications of accession by the Three may be estimated, with all the reservations indicated, at 2 400 - 3 000 million ~~EUA~~ — or 2 700 million EUA as a hypothetical average.

The application of the population ratio alone to the Nine's 1978 budget would have given the same total of 2 500 million EUA, but a different breakdown among the applicant countries (Greece and Portugal: 420 million EUA, Spain: 1 700 million EUA).

V.3 RESOURCES

As in section II (Expenditure), resources have been estimated on the assumption that the new Member States would be fully integrated in 1978.

Pursuant to the Decision of 21 April 1970 establishing own resources, as soon as they become fully integrated Member States Greece, Spain and Portugal will have to contribute to the financing of the Community budget by paying in all revenue from customs duties, agricultural levies and sugar contributions, and also a maximum of 1% of the uniform basis of assessment for VAT. If the sixth VAT Directive were not applied, VAT payments to own resources would be replaced by financial contributions based on GNP.

Owing to the lack of basic statistics required for a detailed analysis, in particular in the cases of Spain and Portugal, the assessments made are approximate and merely indicate an order of magnitude.

V.3.1. Customs duties

In the sphere of customs duties, full integration in 1978 would essentially involve the application of the CCT to non-member countries and the abolition of duties on imports from the Community.

The lack of basic data already referred to is particularly marked in the case of Spanish and Portuguese customs duties; no figures are available for total customs revenue[1], geographical distribution (mainly EEC, other countries) or distribution by major product categories, or the average incidence of the national tariff.

Consequently, the customs duties to be paid in by these two countries have been estimated on the basis of:

i. the trend of imports from other countries (source: OECD) in the light of the Commission departments' economic hypotheses;

ii. the hypothetical overall average incidence of the customs tariff.

For Greece, however, fairly detailed figures are available for 1974 and 1975, which means that a more substantiated assessment can be given.

V.3.2. Agricultural levies

The figures for estimating resources in the form of agricultural levies (cereals and rice, sugar, olive oil, milk products, pigmeat, beef and veal, eggs and poultrymeat) and sugar contributions have been taken from various sources (FAO, OECD, etc.). The three countries are major importers of feed grain, mainly maize.

[1] The figures published by the OECD and in certain national publications are not accompanied by any explanation and cannot be used.

The hypotheses concerning the levy and contribution rates correspond to those adopted for drawing up the 1978 budget.

V.3.3. VAT

With regard to the basis of assessment for VAT, a method of assessment similar to that used before 1977 for the Nine has been adopted. This method involves using national accounting data (source: OECD). It should be pointed out that VAT is not charged by the three countries at present.

Two figures are of importance as regards VAT resources:

(a) the proceeds from the maximum rate of 1% applied to the applicant countries, which, with the other own resources, constitute these countries' capacity to contribute to the Community budget;

(b) the VAT rate that would be applicable if full integration took place in 1978.

It transpires that the financing of the additional expenditure resulting from enlargement, i.e., a hypothetical average of 2 700 million EUA, would increase the VAT rate for the Twelve from 0.64% to 0.77%, the applicant countries contributing approximately 700 million EUA in the form of VAT.

Recapitulation of resources in million EUA[1]

	EUR-9	Greece	Spain	Portugal	The Three	EUR-12
1. Customs duties	4 833[2]	100 +/- 20	350 +/-50	30 +/-10	480 +/- 80	
2. Levies and sugar contributions	2 063	100 +/- 20	275 +/-50	75 +/-15	450 +/- 85	
3. VAT						
(a) 1%	8 290	170	610	110	890	
(b) EUR-9 rate for 1978: 0.6429%	5 330	-	-	-	-	
(c) "Enlarged" EUR-12 rate: 0.77%	6 380	130	470	85	685	
Other revenue	136					
5. TOTAL (1 to 4)						
(a) 1% VAT	15 322	370	1 235	215	1 820	rounded to 17 000
(b) EUR-9 rate for 1978: 0.6429% VAT	12 362	-	-	-	-	-
(c) EUR-12 rate: 0.77% VAT	13 400	330	1 100	190	1 620	rounded to 15 000

1 The three applicant countries' national currencies have been converted at a recent rate - that recorded on 2 January 1978. At the 2 January 1977 rate used for the 1978 budget and the EUR-9 column, the total for the Three would be 2 300 instead of 1 820, i.e. about 25% more.

2 It should be pointed out that if the Three were to become full members in 1978, the Nine would suffer a major loss of customs revenue. It may be expected, however, that accession will actually take place after duties have progressively been abolished through the application of the various association agreements. This process has caused minimal annual losses for the Nine and this will continue to be the case, account being taken of the compensation resulting from the expansion of trade between the Three and the Nine (an aspect to be examined in greater detail).

V.4. RECAPITULATION

On the basis of these estimates (which, it must again be stressed, are theoretical and very approximate), what would be the net financial implications of the accession of the three applicant countries in the final analysis?

Let us recall the basic hypotheses:

i. full integration of the three applicant countries as early as 1978;

ii. the new Member States will have made the necessary arrangements to fulfil the conditions required for the application of the present Community instruments;

iii. no special aid.

On this basis, the table below shows, for all the applicant countries, a new borrowing requirement of the order of 1 000 million EUA which the Nine will have to meet for the Three.

Net financial implications in million EUA

	EUR-9	Greece	Spain	Portugal	The Three	EUR-12
1. Expenditure	12 362	700 - 750	1 300 - 1 400	400 - 600	2 700 - +/- 300	15 000
2. Resources (VAT 0.77%) in very round figures	13 400	330	1 100	200	approx. 1 600	15 000
3. Balance (2) - (1)	+ 1 000	approx. - 400	approx. - 200/300	-200/400	approx. - 1 000	0

In relative terms, the deficit would be large for Greece and Portugal, and moderate for Spain.

FINANCIAL IMPLICATIONS OF ENLARGEMENT FOR THE ECSC OPERATING BUDGET

Budgetary revenue

According to the best data at present available, in 1978 production of the key taxable products could be around the levels indicated below:

million t

Product	Community of Nine	Greece	Spain	Portugal	Total for the Twelve
Brown coal briquettes	4	0.1	-	-	4.1
Coal	240	-	10.5	0.2	250.7
Crude steel	133	1.1	11.1	0.5	145.7

On the basis of the above figures, the resources from levies should be increased as follows:

million EUA

Product	Community of Nine	Greece	Spain	Portugal	Total for the Twelve
Levies for 1978	100	0.6	7.4	0.3	108.3

i.e. an increase of about 5.5% for the entire budget, which would take it up to 160 million EUA (round figure) instead of 152 million EUA.

Budgetary expenditure

It may be anticipated that the effect of such an increase in resources on the forecasts for the main items of budgetary expenditure (research, readaptation and interest-relief grants) would be roughly proportional to the present volume of those items, thus involving a 5% or 6% increase in the present figures:

million EUA

Category of budgetary requirements	Present forecasts	5 - 6% rise	Total
1. Administrative expenditure	5	-	5
2. Readaptation aid	60	3	63
3. Research aid	41	2.5	43.5
4. Aid in the form of interest - relief grants	40	2.5	42.5
5. Aid for coking coal and metallurgical coke	6	-	6
	152	8	160

The breakdown of the additional resources by country cannot be estimated, for it is an established fact that ECSC budgetary aid is allocated according to an analysis of real requirements rather than on a "fair return" basis. In the sphere of research, for example, the policy set out in the Treaty of Paris stipulates that the results should be placed at the disposal of any interested party within the Community, but contractors are selected chiefly on the basis of the technical efficiency criterion.

As from accession, it would also be necessary to consider the possible requirements of the new member countries in drawing up the Community aid programme (cheap loans from own resources) for the financing of low-cost housing in the coal and steel sector.

Contribution to the reserves

The three applicant countries' contribution to ECSC reserves should be in the region of:

million EUA

	Community of Nine (31.12.77)	Greece	Spain	Portugal
ECSC reserves	357	3	35	1.5

These figures have been calculated on the basis of each country's production of ECSC products in relation to the present nine Member States' production, account also being taken of the foreseeable increase in the reserves between now and the date of definitive accession.

ECSC financial activity

The three applicant countries' firms in the ECSC industries would have the same right as those of the Nine to request the Community for the loans provided for in Articles 54 and 56 of the Treaty. This could result in a 5-10% rise in the annual level of financial activity (741 million EUA in loans in 1977).

CHAPTER B

Industry - Energy

VI. PORTUGAL

VI.1. PORTUGAL'S INDUSTRIAL STRUCTURE

The data already covered by the analysis of the Macroeconomics Group will not be referred to in this paper.

VI.1.1. INDUSTRY'S CONTRIBUTION TO GDP (energy, extraction, manufacturing and construction)

The sectoral trend of GDP from 1964 to 1977 at 1963 prices is set out in Table 14. This table shows the following annual rate of growth from 1964 to 1974 :

- mining and quarying	8.4 %
- manufacturing industry	8.8 %
- energy	10.4 %
- construction	11.0 %

The overall average rate of increase in GDP (primary, secondary and tertiary sectors) was 6.8 % over the same period.

VI.1.2. HIGHLY INDUSTRIALIZED AREAS

From the viewpoint of the regional location of industry, Portugal can be divided grosso modo into two areas : a coastal area extending from Braga to Setùbal, where the greater part of the country's industrial activity is concentrated, and an interior area, where agriculture is predominant. The first area can be divided into three regions, which account for approximately 95 % of industrial production, 90 % of GDP and 80 % of employment. These figures give an idea of the present development relationship between this area and the remainder of the country, which is practically abandoned (see Tables 15 and 16). A slightly more detailed analysis shows that in the abovementioned coastal area, the Lisbon and Setùbal region is fairly well balanced as far as the various sectors of production are concerned, although there is a predominance of heavy industry. In the north, production is less diversified and is mainly accounted for by the textile, timber and furniture industries, though chemicals and machinery do have some importance. The wool industry is concentrated in the Leiria/Marinha Grande region, while mining and quarrying is concentrated in the Tràs-os-Montes region (see Table 18).

VI.1.3. PAID EMPLOYMENT AND UNEMPLOYMENT

In 1975 the industrial sector as a whole in Portugal employed 11.5 % of the total population, 33.3 % of the occupied civilian labour force and 40.4 % of wage and salary earners ; for the Community, the corresponding figures are 16.3 %, 41.7 % and 46.1 % respectively.

The various branches of industry accounted for the following percentages of the total population :

- Mining and quarrying	0.1 %	(compared with 0.5 %	in the EEC)
- Manufacturing industry	8.3 %	(" 12.1 %	")
- Energy	0.2 %	(" 0.3 %	")
- Construction	2.8 %	(" 3.2 %	")

The same branches account for the following percentages of the civilian labour force in industry :

- Mining and quarrying	1.0 %	(compared with 3.0 %	in the EEC)
- Manufacturing industry	72.6 %	(" 74.6 %	")
- Energy	1.8 %	(" 1.8 %	")
- Construction	24.6 %	(" 20.0 %	")

As regards wage and salary earners the same comparison gives :

- Mining and quarrying	1.1 %	(compared with 3.3 % in the EEC)
- Manufacturing industry	71.8 %	(" 76.0 % ")
- Energy	1.7 %	(" 2.3 % ")
- Construction	25.5 %	(" 18.3 % ")

OECD sources also show that in Portuguese industry as a whole wage and salary earners accounted for 93 % of the civilian labour force, the figures for the various branches being as follows :

- Mining and quarrying	100 %
- Manufacturing industry	91.9 %
- Electricity	89.5 %
- Construction	96.3 %

According to figures put forward by the Studies and Organization Office of the Ministry of Labour, there were approximately 500 000 workers unemployed in 1976, compared with some 400 000 in 1975 and 180 000 in 1974. The 1976 figure corresponds to approximately 15 % of the working population. A recent survey concludes that the unemployment rate is close to 7.5 %[1].

VI.1.4 SIZE OF INDUSTRIAL UNITS

Apart from certain modern sectors (cement, iron and steel, oil refining), the characteristic feature of productive industry is still great fragmentation into numerous small and medium-sized firms.

The abovementioned modern sectors and the petrochemicals and fertilizer industries are nationalized. The public sector occupies a very important place in industry ; 13 % of employment, 20 % of added value and over 50 % of industrial investment come under the State. It is mainly medium and large undertakings employing a large amount of capital that are under State control.

[1] This survey does not count young people seeking their first job or persons living in a household where the head of household has an income.

Following the concentration effort between 1964 and 1972 (reducing the number of firms from 76 000 to approximately 42 000), the proportion of firms with less than 50 workers is now 84 % ; it is thought that there are only about 78 firms with over 1 000 people employed (0.3 %).

At a sectoral level, it is found that :

(i) 75 % of the small firms with from 5 to 10 workers are concentrated in the traditional sectors (foodstuffs, textiles, clothing, footwear and cork). The footwear, timber, furniture, printing, leather and metal products sectors have relatively few medium-sized and large firms. Outside the modern chemicals, iron and steel and petrochemicals sectors, large firms with more than 500 workers are also found in traditional sectors such as textiles and clothing.

(ii) The capital/labour ratio is generally lower in Portugal than in the industrialized countries. The traditional industries, apart from certain textile subsectors, generally work with a large labour force. The capital-intensive industries are found in the sectors producing tomato concentrate, beverages (with the exception of wine), paper pulp, cardboard and newsprint, cement, chemicals, iron and steel, non-ferrous metals and certain metal and machinery products.

This analysis must not make us lose sight of the importance in Portugal's industrial structure of artisanal activity. This covers a vast range of products and must occupy a large number of workers. The lack of data, concerning both employment and the contribution to GDP, makes it impossible to assess its real importance in Portugal's economy.

VI.1.5. MINERAL RESOURCES AND MINING

Portugal is relatively rich in metal-bearing deposits but poor in organic ores. The importance of mining and quarrying in GDP and employment employment is fairly low, as was seen in sections 1.1. (Tables 14 and 18) and 1.3.

Over 80% of the country's energy requirements are covered mports. Portugal's only domestic energy sources are water, coal and uranium oxide. The reserves of coal (estimated at 17 million t), fuels of low calorific value (25 million t) and lignite (25 million t) play a very small role in the country's supplies; the petroleum exploration work carried out on the mainland and in Portuguese territorial waters have not yet led to any positive results.

As far as other mineral products are concerned, reference should be made to the large-scale reserves of pyrites and of iron ore. The reserves of wolfram are also important from the economic viewpoint and make Portugal one of the main wolfram exporters. Nor should the scale of Portugal's tungsten resources, which were estimated in 1977 at 24 000 t of metal, be forgotten. In the event of accession, these resources would increase current Community production by around 300%, greatly reducing the Community's dependence on the outside world. The exploitation of these mineral riches in Portugal is generally little developed except in the case of pyrites (Tables 19 and 20).

VI.1.6. STRUCTURE OF INDUSTRY

Portugal's industrial structure is still dominated by certain traditional sectors (such as foodstuffs, textiles, clothing, footwear, etc.). These account for 52% of employment and 60% of total exports. From Table 21 it can be seen, for example, that the foodstuffs sector has since 1964 accounted for a fairly large proportion of employment and of gross value of production and gross added value. The same phenomenon can be seen in textiles and clothing.

VI.1.7. SHARE OF INDUSTRIAL EXPORTS AND IMPORTS IN TOTAL EXPORTS AND IMPORTS

Of the three applicants, Portugal has the economy that is the most open to external trade. In 1975 the value of total exports represented 13% of GDP (Greece 11%, Spain 8%) and the value of total imports represented 26% of GDP (Greece 25%, Spain 16%).

At present, approximately 43% of total imports are covered by total exports (Greece 42%, Spain 50%). In 1976 the trade deficit represented 16% of GDP (Greece 15%, Spain 2%). In 1974 imports of foodstuffs and beverages represented approximately 17% of total imports compared with 11% in 1970.

The following points can be made with regard to Portugal's trade balance in 1975:

(i) In 1975 imports of industrial products (Sections 3, 5, 6, 7, 8 and 9 of the CST) represented 69% of total imports. In trade with the Community the corresponding figure was 89.8%.

(ii) Industrial goods exported by Portugal accounted for 72.9% of total exports to the world and 72.1% of total exports to the Community.

VI.1.8. PRODUCTS ACCOUNTING FOR THE LARGEST SHARE OF EXPORTS AND IMPORTS

Like that of the other Mediterranean countries, Portugal's trade deficit is structural. The instability of the earnings side of the trade balance is mainly the result of the structure of exports, for these consist of a limited range of products. Mention could be made of processed foodstuffs, which account for approximately 30%, timber and cork products, which account for between 7% and 10%, and paper pulp for 7%. This small number of traditional sectors therefore provides over 60% of the country's exports. These traditional products are generally characterized by a low added value compared with the "young" sectors of industry.

The new exports that have made a marked contribution to the increase in exports include tomato concentrate, chemicals, paper pulp and paper, non-metallic mineral products, metals and metal products, machine tools, transport equipment and electrical and electronic equipment. These account for 31% of total exports.

The structure of imports of manufactured products stayed relatively constant over the period 1972-73. The categories of products accounting for the largest share of imports of manufactured products are machine tools (21%), transport equipment (18%), electrical equipment (9%) and iron and steel (7%). These four products accounted for 55% of total imports of manufactured goods. In 1974 the Portuguese economy began to feel the considerable weight of oil imports (1976: 13.2 million t) and consumer goods.

VII. SPAIN

VII.1. SPAIN'S INDUSTRIAL STRUCTURE

The data already covered by the analysis of the Macro-economics Group will not be referred to in this paper.

VII.1.1. INDUSTRY'S CONTRIBUTION TO GDP (energy, extraction, manufacturing and construction)

The memo on Spain drawn up by the Macroeconomics Group supplies data on GDP, the overall level of industry, and the increase in gross industrial production between 1973 and 1976.

There are no data on the trend of GDP over the past ten years as there are for Portugal.

The following table, however, gives some of the annual rates of growth in industry:

Annual rates of growth in industry
(Percentage increase on preceding year)

	1970	1971	1972	1973	1974	1975	1976
Industrial production index[1]	10.6	4.0	17.1	15.0	9.3	- 6.5	6.2
Gross industrial product at constant prices[2]	6.7	3.9	12.0	10.4	6.2	- 2.1	2.1
Gross industrial product at current prices[2]	12.6	10.8	19.3	22.4	23.3	11.8	17.7
Total employment	2.1	0.8	3.3	2.9	1.8	1.1	- 0.8
Total wage earners	1.7	- 0.3	4.9	3.5	0.4	- 4.7	- 5.2

SOURCE: [1]INE Servicio Sindical de Estadística
[2]Estimates based on official and trade union sources.

In 1976, the gross industrial product was made up as follows:

Mining and quarrying	3.02%
Manufacturing	70.81%
Energy	5.31%
Construction	20.86%

Source: Ministry of Industry, "La Industria Espanola en 1976".

VII.1.2. HIGHLY INDUSTRIALIZED AREAS

Of Spain's 50 provinces, five - Barcelona, Madrid, Valencia, Vizcaya (Bilbao) and Oviedo (Asturias) - may be considered the most industrialized. In 1974, they produced about 50% of Spain's industrial GDP (Barcelona and Madrid alone accounted for nearly a third). Annual *per capita* income for these provinces is about 30% higher than the national average (see Tables 22, 23 and 24).

The essential feature would seem to be the different concentration of economic activities from one province to another. Average *per capita* income in 1973 in the different provinces varied from 68% to 140% of the national average. In only 14 provinces was it as high as the national average.

An interesting parameter for the purpose of studying the degree of development of a province is the percentage of the working population in industry and in agriculture (see Table 25).

VII.1.3. PAID EMPLOYMENT AND UNEMPLOYMENT

In 1975 industry as a whole occupied 13.8% of the total population, 38.5% of the occupied civilian labour force, and 46.1% of wage and salary earners. In the Community the percentages are respectively: 16.3%, 41.7% and 46.1%.

The various branches of industry employ:

(i) as a percentage of the total population:

mining and quarrying .... 0.3% (EEC figure: 0.5%)
manufacturing .... 9.6% (EEC figure: 12.1%)
energy .... 0.2% (EEC figure: 0.3%)
construction .... 3.6% (EEC figure: 3.2%);

(ii) as a percentage of the civilian labour force in industry:

mining and quarrying .... 2.2% (EEC figure: 3.0%)
manufacturing .... 69.9% (EEC figure: 74.6%)
energy .... 1.8% (EEC figure: 2.1%)
construction .... 26.2% (EEC figure: 20.0%);

(iii) as a percentage of wage and salary earners:

mining and quarrying .... 2.2% (EEC figure: 3.3%)
manufacturing .... 70.6% (EEC figure: 76.0%)
energy .... 2.0% (EEC figure: 2.3%)
construction .... 25.8% (EEC figure: 18.3%).

The study of Spain by DG II gives a more detailed breakdown of employment by branches.

Employment represented 3.2% of the labour force in 1974, and rose to 5.4% in 1977.

VII.1.4. SIZE OF INDUSTRIAL UNITS

In 1975 the situation was as follows:

Number of employees per establishment	0 - 5	6 - 500	over 500
Share of each class in the total	71.8%	28.0%	0.2
Share of total industrial labour force	15.0%	66.0%	19%

Artisanal activity, which may well play quite a large role, is not taken into account in this study.

We cannot assess its true importance in Spain's economy, for we lack data both on the level of employment in this branch and on its contribution to GDP.

VII.1.5. MINERAL RESOURCES AND MINING

The Spanish subsoil contains a variety of raw materials that are efficiently exploited (iron, copper, lead, zinc, mercury and magnesite ores). There are also large deposits of phosphates and considerable reserves of uranium. These two products have enabled the fertilizers industry to expand rapidly and have made it possible to carry out a nuclear energy development programme.

However, there are relatively few energy resources. Coal reserves are assessed at some 453 million tonnes, and production is 10.5 million tonnes; reserves of fuels of low calorific value amount to about 1 190 million tonnes. These reserves are not sufficient for the country's needs. Oil fields are sparse, and supply a bare 8% of the country's demand.

The following remarks concerning the impact of Spain's reserves on those of the EEC arise from a preliminary study (see Tables 26 and 27).

Copper:	No change, although Spain's reserves might transpire to be greater than Ireland's.
Zinc:	Significant increase (some 30%).
Tungsten:	Spanish reserves of some 15 000 tonnes of metal, combined with those of Portugal (24 500 t) would represent a considerable increase (some 300%).
Sulphur:	Considerable increase (about 30%), reserves of about 20 000 000 t/element.
Mercury:	Considerable increase (about 500%); Spain possesses about 30% of world reserves, and the ore is of very high quality.

VII.1.6. STRUCTURE OF INDUSTRY

Spanish production is fairly well diversified. And so, although building and construction represented 20.9% of gross industrial production in 1976, and the transport equipment industry 10.9% (i.e., together, more than one-third), the following sectors also made an important contribution:

	% of gross industrial production
Basic metals	8.04%
Footwear and clothing	7.12%
Food	7.3%
Chemical products	5.57%
Paper and printing	4.32%
Non-metallic mineral products	4.07%
Metal products	3.88%
Machinery and electrical equipment	3.42%
Wood, cork and furniture	3.26%
Textiles	2.90%

VII.1.7. SHARE OF INDUSTRIAL EXPORTS AND IMPORTS IN TOTAL EXPORTS AND IMPORTS

The characteristics of Spain's total foreign trade are recorded in the following table:

COMERCIO EXTERIOR DE ESPAÑA

	1969	1970	1971	1972	1973	1974	1975	1976
IMPORTACIONES (CIF):								
Millones de dólares	4.233	4.747	4.963	6.601	9.533	15.418	16.211	17.453
Miles de toneladas métricas. . . .	47.788	53.734	59.230	66.774	72.309	77.742	75.622	85.255
Precio por tonelada, en dólares. .	88	88	84	99	132	198	214	205
EXPORTACIONES (FOB):								
Millones de dólares	1.900	2.387	2.938	3.690	5.129	7.078	7.695	8.730
Miles de toneladas métricas. . . .	16.376	17.850	17.753	19.229	19.897	21.288	20.590	26.426
Precio por tonelada, en dólares. .	116	134	165	192	258	332	374	330
DEFICIT (millones de dólares) . . .	2.333	2.360	2.025	2.911	4.405	8.340	8.516	8.723
COEFICIENTE DE COBERTURA (%). . .	44,9	50,3	59,2	56,0	53,9	45,9	47,5	50,0
Variación con respecto al año precedente (%):								
IMPORTACION:								
Valor.	20,2	12,1	4,5	33,0	44,4	61,7	5,1	7,7
Cantidad	6,5	12,4	10,2	12,7	8,3	7,5	— 2,7	12,7
EXPORTACION:								
Valor.	19,6	25,6	23,1	25,6	39,0	38,0	8,7	13,4
Cantidad	6,7	9,0	— 0,5	8,3	3,5	7,0	— 3,3	28,3
DEFICIT (valor).	20,7	1,2	— 14,2	43,7	51,3	89,3	2,1	2,4
Evolución de los precios:								
Importación (1953 = 100)	103,7	111,3	118,4	120,1	139,1	242,5	259,1	290,2 (1)
Exportación (1953 = 100)	111,1	119,1	123,6	131,8	155,0	208,6	207,1	214,1 (1)
Terms of Trade (1953 = 100) . . .	107,1	107,0	104,4	109,7	111,4	86,0	79,9	73,8 (1)
Participación en el comercio mundial:								
Importaciones en % del total de importaciones mundiales. . . .	1,66	1,61	1,51	1,71	1,80	1,97	2,04	1,98
Exportaciones en % del total de exportaciones mundiales. . . .	0,78	0,85	0,91	0,99	0,99	0,91	0,94	0,97

(1) Enero-Junio.
Fuente: Dirección General de Aduanas y elaboración propia.

Industrial products played an important part in trade in 1975, representing about 75% of exports and about 73% of imports.

The percentage of industrial products in trade with the Community is even higher: 87% of imports and 65% of exports.

VII.1.8. PRODUCTS ACCOUNTING FOR THE LARGEST SHARE OF EXPORTS AND IMPORTS

Imports by industry

Products of three sectors account for 87.5% of industrial products imported:

1. Iron and steel and shipbuilding:	37.3% of total imports of industrial products
2. Energy:	34.5% of total imports of industrial products
3. Chemicals:	15.7% of total imports of industrial products.

Imports of oil represent 23.4% of total imports of industrial products. If Spain were not importing oil, or if it could import it at 1973 prices, the rate of cover of imports by exports would be, respectively, 70.5% or 63.6%, instead of the present 50%.

An analysis of products imported shows the importance of:

	% of total imports of industrial products
1. Oil:	23.4%
2. Plant and machinery:	19.4%
3. Iron and steel products:	5%
4. Basic organic chemicals:	4.6%
5. Rubber and plastic products: man-made fibres:	3.5%
Total:	55.9%

Exports by industry

The figures for the various industries are as follows:

	% of total exports of industrial products
Iron and steel and shipbuilding:	47%
Chemicals:	13.3%
Furs, leather and footwear:	9.7%

Food products:	8.4%
Textiles:	5.7%
Total:	84.1%

The 13 products most representative of exports are, in descending order:

	% of total exports of industrial products
Plant and machinery:	14.4%
Iron and steel products:	7.8%
Footwear:	7.0%
Ships:	6.3%
Metal products:	5.4%
Cars:	4.1%
Petroleum:	3.7%
Preserved fish:	3.2%
Tyres:	2.7%
Preserved vegetables:	2.8%
Basic organic chemicals:	2.4%
Books:	2.3%
Various metals:	2.2%
Total:	64.3%

VIII. GREECE

VIII.1. GREECE'S INDUSTRIAL STRUCTURE

The data already covered by the analysis of the Macroeconomics Group will not be referred to in this paper.

VIII.1.1. INDUSTRY'S CONTRIBUTION TO GDP (energy, extraction, manufacturing and construction)

The share of industry as a whole in GDP, the breakdown of GDP by branch of activity and the increase of production in the manufacturing industries between 1962 and 1976 are given in the country-by-country study prepared by the macroeconomics group.

It may be added that production in manufacturing between 1962 and 1976 showed an average annual growth rate of the order of 9.1% from 1962 to 1966, 10.2% from 1967 to 1971 and 7.5% over the last five years.

The pattern of the production indices for mining, manufacturing and electricity and gas was as follows between 1969 and 1975:

	1969	1970	1971	1972	1973	1974	1975
Mining	84.4	100.0	113.8	118.1	133.3	135.9	132.6
Manufacturing	90.2	100.0	109.8	126.9	147.0	144.0	150.5
Electricity/gas	95.9	100.0	119.0	133.8	150.5	152.5	162.4

VIII.1.2. HIGHLY INDUSTRIALIZED AREAS

Development in Greece is planned on the basis of an S-shaped axis linking the four largest Greek towns: Athens, Patras, Salonika and Volos. The department of Attica (including the islands), where most of the industry is concentrated, comprises 15.5% of total Greek territory, 39.3% of the population and accounts for 54% of GDP (see Table 28); more specifically, the Athens area comprises 3% of the territory, contains 32% of the population and accounts for 47% of GDP.

VIII.1.3. PAID EMPLOYMENT AND UNEMPLOYMENT

In 1975 industry as a whole occupied 10% of the total population, 26.3% of the occupied civilian working population and 45.3% of wage and salary earners; for the Community, these percentages are 16.3%, 41.7% and 46.1% respectively.

In relation to the total population, the various branches of industry account for the following percentages:

mining and quarrying	0.2%	(as against 0.5% in the EEC)
manufacturing industries	6.0%	(" " 12.1% " " ")
energy	0.3%	(" " 0.3% " " ")
construction	2.7%	(" " 3.2% " " ")

In relation to the civilian working population in industry the percentages are:

mining and quarrying	2.3%	(as against 3% in the EEC)
manufacturing industries	60.0%	(" " 74.6% " " ")
energy	2.8%	(" " 2.1% " " ")
construction	26.7%	(" " 20% " " ")

The same comparison gives the following percentages for wage and salary earners:

mining and quarrying	3.1%	(as against 3.3% in the EEC)
manufacturing industries	60.5%	(" " 76.0% " " ")
energy	3.9%	(" " 2.3% " " ")
construction	32.5%	(" " 18.3% " " ")

The number of unemployed (registered) in 1976 was approximately 32 500, or roughly 1.5% of the non-agricultural labour force. The figure is distinctly higher than for 1973 (21 000) but below the figures for the sixties. It seems very likely that the number of registered unemployed is well below the real unemployment figure, which was probably close to 4% in 1976.

VIII.1.4. SIZE OF INDUSTRIAL UNITS

The following table gives a breakdown of industrial firms by size according to the number of employees (1973):

Number of employees per establishment	0 - 9	10 - 29	30 or over	TOTAL
Number of establishments	113 473	5 656	2 222	121 357
Share of each class in the total	93.5%	4.7%	1.8%	100%

This table shows that there is a large number of small firms. Two points should be raised in this connection:

(i) over a long period (1961-75) there has been no significant improvement in the structure of industry;

(ii) there is still little vertical integration of production.

The size and influence of artisanal activity - as in the case of Spain and Portugal - cannot be assessed because there are no data on either the level of employment or its contribution to GDP.

VIII.1.5. MINERAL RESOURCES AND MINING

Greece has considerable resources of certain minerals (see Table 31).

Minerals (production in '000 t)

	1971	1972	1973	1974	1975	1976
Lignite	10 884	11 316	13 116	13 932	17 907	22 241
Iron ore (43% metal content)	1 164	1 380	1 848	2 004	2 206	1 976
Bauxite	2 832	2 436	2 736	2 808	2 849	2 557
Magnesite (crude)	899	917	...	...	1 251	1 429

* provisional

(Source: National Statistical Service, Monthly Statistical Bulletin)

Oil production is nil at present and coal production is negligible, whereas the proven reserves of lignite amount to 150 million tonnes, plus an additional estimated 750 million tonnes.

An initial analysis reveals the following points regarding the impact of Greece's reserves in relation to those of the EEC:

Bauxite : very significant increase: Greece's proven reserves of 750 million tonnes multiply the Community's reserves (40.4 million t) by 20;

Magnesite : Greece's reserves, of the order of 5 million tonnes (metal), compared with the Community's 500 000 tonnes, will mean a very large increase (+ 1 000%).

VIII.1.6. STRUCTURE OF INDUSTRY

Structurally, the industry of this country is still dominated by certain traditional sectors. Foodstuffs, textiles and clothing alone accounted for 44% of GDP from manufacturing industries in 1976. Tables 29 and 30 show that other industries nevertheless make quite a considerable contribution to the formation of GDP. The following deserve mention:

Chemicals .... 14% of GDP
Metal manufactured products and electrical machinery .... 12% " "
Non-metallic mineral products .... 6.5% " "
Transport equipment .... 5.5% " "
Wood - cork - furniture .... 5.5% " "

VIII.1.7 SHARE OF INDUSTRIAL EXPORTS AND IMPORTS IN TOTAL EXPORTS AND IMPORTS

The value of exports in 1975 was 11% of GDP and that of imports 25%.

The rate of cover of imports by exports in 1976 was a little over 40%, compared with 34% in 1972.

The following points should be noted in connection with the country's balance of trade in 1976:

(i) imports of industrial products accounted for approximately 83% of total imports. Expressed as a percentage of imports from the Community, they accounted for 89.4%;

(ii) exports of industrial products accounted for 59% of total world exports and 58% of exports to the Community.

Table 32 gives an idea of the ever growing importance of exports of manufactured goods compared with total exports between 1965 and 1976.

VIII.1.8 PRODUCTS ACCOUNTING FOR THE LARGEST SHARE OF EXPORTS AND IMPORTS

In 1975 two sectors alone provided approximately 98% of total imports and took approximately 70% of industrial imports. They are:

Energy products	22.2%	of	total	imports	and	26.7%	of	industrial imports
Machinery and transport . equipment	35.7%	"	"	"	"	43.1%	"	" "

Imports of crude oil amount to 19.2% of total imports and 23.3% of industrial imports. The other most important products under this heading are plant and machinery, organic chemicals, pharmaceutical products, plastic products and cars.

Exports are concentrated mainly in the following sectors:

Textiles and clothing	10.0%	of	total	exports	and	16.8%	of	industrial exports
Petroleum products	10.9%	"	"	"	"	18.3%	"	" "
Iron and steel products	5.2%	"	"	"	"	8.9%	"	" "
Cement	4.2%	"	"	"	"	7.1%	"	" "
Aluminium	3.6%	"	"	"	"	6.1%	"	" "
Footwear	2.3%	"	"	"	"	4.0%	"	" "

VIII.1.9. MERCHANT FLEET

Greece is one of the most important maritime countries in the world. Its fleet, which is operated on a very competitive basis, has developed rapidly in recent years, total tonnage being 25 million grt in 1976. The fleet is of the same order of magnitude as that of the United Kingdom, which has by far the largest fleet in the present Community. In addition, a great deal of Greek-owned tonnage sails under various flags of convenience.

Greece's merchant navy is of the utmost importance to the country in view of the jobs it creates and its contribution to the balance of payments. Seamen make up some 4% of the civilian working population (corresponding figure for the Community: 0.30%). In 1974 actual exports of maritime transport services accounted for 21% of total current external revenue, or almost 4.5% of GNP.

The fleet under the flags of the present Member States plus Greece would represent nearly 30% of world tonnage (21% for the Community of Nine). The accession of Greece would therefore significantly increase the maritime weight of the Community and consequently the role that the Community is beginning to play in world maritime affairs. It is important to make sure that the present Community and Greece itself take full advantage in the maritime field of Greek accession.

IX. THE ENERGY SITUATION

IX.1. THE ENERGY SITUATION IN THE THREE APPLICANT COUNTRIES

1. On the energy market, the three applicant countries have the same type of problems as those encountered in the present Community. Their accession will slightly increase the Community's energy supply dependence. The applicant countries' dependence on imports for their supplies, which varies between 78% and 88% according to the country, is similar to that of the most dependent Community countries.

Energy imports	Community of Nine	Community of Twelve
1976	560 million toe	635 million toe
1985	615 million toe	700 million toe

The applicant countries' *per capita* energy consumption is less than half the average Community level. The ratio between energy consumption and GDP levels is used as an indicator for measuring the energy performance of a country; the average ratio for the Community of Nine in 1974 was 1 toe per 1 000 EUA of GDP, while for Greece it was 0.9 toe per 1 000 u.a., 0.8 toe per 1 000 u.a. for Spain and 0.7 toe per 1 000 u.a. for Portugal.

In the applicant countries, the demand for energy has grown at a very rapid rate, most of this increase being based on oil.

2. Being in a situation of dependence that is more disturbing than the overall situation in the present Community, the applicant countries all have energy plans in the course of preparation or adoption, the objectives of which are similar to those adopted by the Community. These plans are based essentially on three principles: a reduction in the consumption of energy per unit of product, the development of domestic energy resources and the diversification of external sources of supply in order to reduce dependence on imported oil.

IX.1.1. Consumption of energy

3. Over the period 1960-73, the three applicant countries' gross energy consumption grew at a very rapid rate, between 7.5% and 12.5% *per annum*. It appears that, following the 1973-74 oil crisis, the growth of demand has now picked up again at a scarcely reduced rate. In 1976, gross energy consumption (including bunker fuel) was as follows:

	Greece	Portugal	Spain	EUR-9
Gross energy consumption, in 1976 of which : oil	14.5 million toe 10.4 million toe	9.0 million toe 7.3 million toe	67.2 million toe 48.5 million toe	959.0 million toe 539.4 million toe
Variation compared with 1975 : energy oil	+ 11% + 10%	+ 2% + 6%	+ 6% + 11%	+ 6% + 6%
Consumption of energy per unit of GDP (1974) (toe/10^3 EUR)	0.87	0.71	0.82	0.99

IX.1.2. Development of resources

4. Although the scale differs from country to country, all three applicant countries mine solid fuels and operate hydroelectric power stations. The problems that are faced in the production of solid fuels are identical to those encountered in the Community.

Although all three countries have a programme for the construction of nuclear power stations, only Spain already has power stations in operation - three stations with an output of 1.12 GWe. These power stations cover 2% of Spain's energy demand, which is roughly comparable to the present figure of 3% in the Community. Portugal and Greece should each have one nuclear power station coming into service during the eighties.

It should be noted that Spain has not signed the Non-Proliferation Treaty and this will pose problems concerning the verification of Euratom safeguards by the International Atomic Energy Agency.

In 1976 Spain was the only crude oil producer of the three applicants - with 1.8 million tons; however, all three countries are pursuing active oil and natural gas research and exploration policies - particularly offshore - which are promising for the future.

Some natural uranium production capacity is being developed in Spain and should cover nearly one quarter of demand as from 1980.

In summarized form, domestic energy production was as follows in 1976:

	Greece	Portugal	Spain	EUR 9
Production of energy in 1976	3.6 million toe	1.3 million toe	16.1 million toe	397.4 million toe
of which:				
- solid fuels	3.1 million toe	0.2 million toe	7.4 million toe	186.6 million toe
- oil	-	-	1.8 million toe	21.3 million toe
- natural gas	-	-	-	142.1 million toe
- hydro-electric	0.5 million toe	1.1 million toe	5.2 million toe	21.9 million toe
- nuclear	-	-	1.7 million toe	25.5 million toe

IX.1.3. Diversification of external sources of supply

5. Through a State company, Spain has acquired interests in oil deposits in Africa and the Middle East. Contracts for the supply of natural gas have been concluded with Libya and Algeria.

In Greece, a study has been undertaken to assess whether it is worthwhile developing a natural gas network, which would enable contracts for imports of LNG to be concluded.

The high level of imports causes the three applicant countries very serious balance of payments problems.

6. In the three applicant countries, a large proportion of the transactions are controlled by the State, either through nationalized companies for the production, processing and distribution of energy (in Spain and Portugal) or through a very strict control of prices (the Greek Government fixes the ex-refinery prices for petroleum products). These market control procedures will have to be studied very carefully.

There appears to be excess refinery capacity in the three applicant countries, as in the Community.

IX.1.4. Conclusion

7. The energy situation in the applicant countries is comparable to that in the present Community, particularly that in the Member States which are most dependent on oil imports. The applicant countries have, generally speaking, made efforts to improve their energy situation, to reduce consumption and lessen their degree of dependence on imported oil. It is important that these efforts be continued and that the energy policies of the applicant countries move as closely into line as possible with the energy policy objectives established at Community level.

It will be necessary in particular to take account of the energy situation in the applicant countries throughout the negotiations and when special measures for those countries are drawn up.

CHAPTER C

The social aspects of enlargement

X. The social aspects of enlargement

Introduction

The social chapter of this report is divided into two sections. The first lists a number of elements through which the social situation in the applicant countries and its probable future development can be assessed. The second deals with the social effects of enlargement, in particular those arising from the implementation, in the applicant countries, of Community principles and provisions in this sphere.

The migration phenomenon is exclusively discussed in view of the considerable number of migrant workers from the applicant countries working in the Community and the Community principle of personal freedom of movement.

1. THE SOCIAL SITUATION IN THE APPLICANT COUNTRIES

1.1. Demographic trends

The applicant countries have a total population of about 55 million inhabitants, or more or less the same as that of Italy. Spain, with 36 million, accounts for nearly two-thirds of this total.

In addition to the demographic data referred to in the Macroeconomic Report, it should be noted that the applicant countries have a much higher natural population growth rate than the majority of the Member States (10.0% in Spain, 8.6% in Portugal and 6.8% in Greece, compared with the Community average of 1.8% in 1975). The rate is as high as 10.9% in Ireland and 4.9% in Italy however.

Forecasts seem to indicate that by 1985 the Spanish population will have increased by 10.3% compared with 1975, whereas the increase for the whole of the present Community is estimated at only 4.6%. Portugal and Greece are expected to show increases of 5.0% and 3.3% respectively.

1.2. Education and vocational training

In 1970, expenditure on education in general amounted to 2.4% of the GDP in Spain, compared with the Community average of 5.3%. Nevertheless, the applicant countries have made considerable progress in this sphere, especially in recent years. The percentage of the total population attending school or university has reached more or less the same level as in the Community: during the 1973-74 school year, the figures were 19.5% in Spain, 18.8% in Greece and 19.1% in Portugal, compared with a Community average of 19.4%.

Nonetheless, this rate would be lower than the Community average if the number of those attending school were compared with the school-age population, in view of the fact that the latter is larger in the applicant countries than in the Community, mainly because of demographic differences.

Although the growing efforts being made in respect of general education in the applicant countries have also helped to promote the expansion of vocational training, there is still much to be done in this sphere. In Greece, for example, the shortage of specialized and skilled workers, which is already being felt, may become more marked in future. Unless adequate steps are taken, these shortages may, in the long term, become a major hadicap in the pursuit of economic expansion.

1.3. Standard of living

1.3.1. Consumption

Living standards are generally unsatisfactory compared with those in most Member States. Figures on the consumption of foodstuffs reveal the need for dietary improvement, especially as regards protein foods. In 1975, cereal consumption per capita was 114 kg in Greece, 112 kg in Portugal and 77 kg in Spain, whereas in the Member States - except for Italy (125kg) and Ireland (84 kg) - consumption did not even reach the level recorded in Spain. On the other hand, meat consumption per capita in the applicant countries is much lower than that in any Member States: 48 kg in Spain, 40 kg in Greece and 45 kg in Portugal, compared with the Community average of 82 kg.

Per capita energy consumption also reflects the level of progress of the applicant countries. In 1975 it was 2 362 tce in Spain, 2 149 tce in Greece and 1 137 tce in Portugal, compared with a Community average of 4 781 tce, with the lowest figure (2 960 tce per capita) being that for Ireland.

Similarly, as regards the number of motor vehicles and television sets per 1 000 inhabitants, none of the applicant countries reaches the Community minimum - again represented by Ireland - with 164 and 178 respectively in 1975.

1.3.2. Health

As regards health and medical care, the SOEC figures (1974) show 2 doctors per 1 000 inhabitants in Greece, 1.2 in Portugal and 1.5 in Spain, compared with 1.2 in Ireland, 2.0 in Italy and 1.7 as a Community average. The hospital infrastructure, also, is still distinctly inadequate. There are 6.3 hospital beds in Greece per 1 000 inhabitants, 6.1 in Portugal and 5.2 in Spain, whereas the Community average is 10.3 (10.6 in Italy and 11.0 in Ireland).

Furthermore, the infant mortality rate (deaths during the first year per 1 000 live births), which is an important indicator of the level of health standards, is 24.1 in Greece, 37.9 in Portugal and 13.8 in Spain compared with 20.9 in Italy, 10.4 in Denmark and 16.9 in the Community as a whole (figures for 1975, except Spain: 1974).

1.3.3. Housing

The concentration of the population in certain industrial regions further aggravates the very serious problem of housing, which is inadequate as regards both quality and quantity.

In Spain (1970) and Greece (1971) only 65% of dwellings had running water. In Portugal, according to the figures given in the 1977-80 Plan, only 40% of the population had running water in their homes in 1976. Judging from the following figures, however, considerable efforts have been made in this sphere in recent years.

In 1974 the construction of residential accommodation accounted for 6.8% of the GNP in Spain, 4% in Portugal and 4.4% in Greece; housing represented 27.2% of gross fixed asset formation in Spain, 20.4% in Greece[1] and 20.7% in Portugal, compared with the Community average of 25.4%.

The number of dwellings completed in 1975 was 374 400 in Spain, 120 900 in Greece and 46 800 in Portugal, or as indices, 10.6, 13.4 and 5.3 completed dwellings per 1 000 inhabitants, the corresponding average figure for the Community was 6.8.

1.4. Employment

1.4.1. Wage-and salary-earners as a proportion of the labour force

General indications have already been given in chapter A on trends in the working population, activity rates and employment by sector in the applicant countries. At this point let us add that in Spain wage-and salary-earners account for 69.8% of the working population (OECD: 1975). In Portugal, as was pointed out in chapter A, the proportion of wage- and salary-earners (76.7%[2]) is comparable to that in the Member States of the Community. In Greece, the rate was 42.3% in 1971. Despite any increase in this figure since then, it shows that in this country self-employed occupations (in agriculture, crafts, cottage industry and the services sector) are much more widespread than in the other applicant countries or in the Community.

[1] Last known figure: 27.8% in 1976.

[2] According to a recent survey the rate was only 66% in 1976.

1.4.2. Female employment

The SOEC figures for 1975 show that in Spain 19.4% of the total female population was in employment in Greece 11.1% (1971 figure) and in Portugal 18.2%, compared with the Community average of 28.2%. This rather marked difference between the applicant countries and the Community may be explained chiefly by the fact that many women in these countries carry out seasonal or occasional work or work as domestic help, and are therefore not included in the statistics on the working population. Their numbers may well be considerable since the economic structure of these countries lends itself to these "marginal" activities.

1.4.3. Unemployment

The unemployment statistics in the applicant countries are not comparable with the figures for registered unemployed used in the Member States[1], owing to methodological differences.. Subject to this reservation, the SOEC estimates show a slightly higher level of unemployment in Spain than in the Community (5.3% compared with 5.0% in 1976). In 1977 the number of unemployed in Spain increased: in the fourth quarter the figure was approximately 832 000, corresponding to a rate of 6.3%. The building sector appears to be the most affected by the drop in employment.

In Greece, according to official statistics, the average number of unemployed in 1976 was 28 500, whilst the SOEC estimate for the same year was 35 000.

[1] The official unemployment statistics in Greece, for example, exclude the agricultural sector, young first-job-seekers, and agricultural workers who return to the land after having been employed in the second or tertiary sector (this mostly involves seasonal occupations connected with tourism in the service industries).

[2] Source: INE (National Statistics Institute).

However, according to information provided by the Greek authorities, it would appear that the real figure is much higher, and probably amounted to about 100 000 unemployed in 1976, or almost 3% of the working population. In any case, it appears that unemployment fell by about 7% compared with 1975. This improvement in the employment level was due to developments in the general economic situation, a sharp increase in the number of those attending school, a decline in the number of workers leaving agriculture and a reduction in overtime working - factors which have all made for a drop in the number of job-seekers.

In Portugal, the unemployment rate amounted to 2.8% of the working population in 1970. Since then, the world economic recession, together with specifically Portuguese problems (high inflation rate, economic difficulties after the 1974 revolution, large-scale repatriations) have greatly increased the number of unemployed. In 1976 unemployment appeared to have reached a total of almost half a million workers, which corresponds to a rate of 14 - 15%. A recent survey puts the unemployment rate at nearly 7.5%[1].

In addition, in all three applicant countries there is large-scale hidden unemployment and under-employment, particularly in agriculture. On the other hand, this untapped labour reserve could provide great potential in the event of a rapid revival in the economy, on condition that a number of measures are adopted in the spheres of training and the geographical and occupational mobility of workers.

1.4.4. Probable trends

Although the structural weaknesses in the applicant countries are more or less similar, the employment outlook differs.

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1 This survey did not cover young first job seekers or persons living in a household where the head of the household had an income ("convivencia").

In Spain, as emerges from the data on trends in the structure of employment over the last ten years (see Part I) the share of population employed in agriculture remained relatively high. At the same time, industrial production potential increased very rapidly.

The economic recovery policy introduced by the Spanish Government in the Moncloa Agreement, which covers the next two years, is mainly concerned with maintaining the level of employment. The latter would be achieved mainly through a substantial increase in public investment (30% for 1978) and a transfer mechanism providing for a gradual reduction in the social security contributions paid by undertakings. These measures will be backed up by a youth employment policy.

In Greece, economic growth has continued at a steady pace and the employment situation has improved constantly. In 1976 employment rose by 7-8% in the labour-intensive manufacturing industries and by about 4% in the building sector. Based on these positive economic and social trends, the 1976-80 Five Year Plan aims to create 210 000 new jobs during the reference period, divided between the industrial sectors and the service industries. According to the guidelines of the Plan, half of these new jobs could be filled by young persons entering the labour market, whilst the other half could help improve the unemployment situation or provide openings for migrants returning to Greece or workers leaving agriculture. Estimates drawn up recently by a group of experts from the OECD confirm that these objectives are reasonable.

Forecasts on employment trends in Portugal do not suggest any improvement in the situation. The 50% reduction in unemployment, which was one of the objectives of the 1977-80 Plan, is very unlikely to be achieved. The decline in the economic situation has forced the Portugese authorities to defer the attainment of this objective to a later date. For 1978, and very probably for 1979, their stated aim is to maintain the present level of employment since, meanwhile, new influxes of young people will arrive on the labour market. According to current estimates there will be 186 000 young first job seekers amongst the unemployed in 1980.

1.5. Wages and salaries

1.5.1. Wage and salary trends

According to national statistics on gross hourly earnings in industry and consumer prices, since 1970 the real increase in workers' wages has been greater in Spain and Portugal than in the nine Member States. In Greece, this increase has run more or less parallel with that in the Community. The annual average rise for 1970-75 was 8.4% in Spain, 9.4% in Portugal, and 4.1% in Greece, whereas in the Community the best figure (7.1%) was achieved in three countries (Belgium, Ireland and Italy) and the lowest (2.8%) was recorded in the United Kingdom.

Since 1975, however, the real increase in wages and salaries has been extremely modest. Although precise statistical data are not yet available it would seem that in some cases there has been a drop in real wages and salaries.

1.5.2. Wage and salary levels

Any comparison between the wages and salaries paid in the various countries comes up against the problem that the official exchange rate are unrealistic. It is only possible to compare workers' real incomes on the basis of purchasing power parities applied to annual net incomes (i.e., after deduction of income tax and social security contributions). Such a calculation is impossible at the present.

If the figures for gross hourly earnings in industry are converted into US dollars on the basis of official exchange rates, the hourly earnings of workers in most Community Member States (with the exception of Ireland and the United Kingdom) will appear to be more or less double those in Spain and more than three times those in Greece and Portugal. However, consumer price surveys carried out in the Community, and a survey following the same methods in Spain in 1975, show that the purchasing power of the currencies of the applicant countries was higher than the official exchange rate indicated: in Spain, for example, it could be assessed on average at 40% - 50% higher. A calculation based on purchasing power parities would therefore have implied a considerable reduction in the differences between wages in the existing Member States and those in the applicant countries. The effects provided by inflation and the deterioration in the currencies of the applicant countries have, however, been so great that, without a new, detailed calculation, this situation cannot be confirmed at present.

1.5.3. Minimum wages

Since 1964 there has been a system of guaranteed minimum wages in Spain; however, in 1976 it covered only 45% of the figure regarded as the basic minimum for a family. It appears that almost 1 000 000 workers are in a position to benefit from provisions concerning guaranteed minimum wages.

In Greece, there is a statutory minimum daily wage for workers in the private sector, but it appears that in most cases wages are higher than this level. During the last three years the minimum wage has been increased considerably, particularly for women. This has led to a reduction of 9% in the disparity between minimum salaries for men and women, which was still about 23% in 1962.

In Portugal, provisions were adopted in 1974 guaranteeing a minimum wage of Esc 3 300 in the industrial sector. This sum has been adjusted periodically and was raised to Esc 4 500 in 1977, when a guaranteed minimum wage of Esc 3 500 was introduced in the agricultural sector.

1.5.4. Wages policy

As regards wages policy in Spain, the economic agreements contained in the "Pacto de la Moncloa" are designed to protect purchasing power, particularly of the lower income brackets. In Portugal, the need to combat inflation is even more strongly felt. Hence the necessity, according to the Portugese authorities, to ensure that wages increase at a slightly lower rate than the inflation rate.

1.6. Working conditions

1.6.1. Hours of work

As regards hours of work, most collective agreements in Portugal and Greece currently provide for a normal working week of 45 hours for manual workers. In Portugal, however, office workers benefit from more favourable provisions under a collective agreement with 40 hours per week or even less.

In industry, the actual time worked by manual workers in the three applicant countries in 1977 amounted to between 41½ and 42 hours per week, which is fairly comparable with conditions in Member States of the Community.

1.6.2. Paid leave and public holidays

In Portugal, in 1976, a Decree Law on paid leave fixed the duration of annual leave at 21 days minimum and 30 days maximum, with the right to paid leave beginning after one year's service. The same law fixes 12 public holidays, in addition to which there are one or two local public holidays.

In Greece, a national collective agreement passed into law fixed the minimum duration of paid annual leave at 12 consecutive working days for 1977; this period is increased by one working day for each six months' seniority up to a total of 26 days. There are 12 - 13 public holidays.

The systems of paid leave and public holidays in Portugal and Greece do not differ greatly from those in force in the nine Member States, which provide for annual leave of 15 - 27 days or more, in addition to, from seven to thirteen public holidays.

1.6.3. Social security

Social security in the three applicant countries normally covers the risks listed in ILO Convention No 102 through the various schemes: sickness and maternity, unemployment, disability, retirement, death, industrial accident, occupational diseases and family allowances. Special schemes exist for wage- and salary-earners in agriculture, and sometiems for miners, seamen and workers employed by the railways and the public sector.

In Spain and Portugal, all wage-and salary-earners are covered by one scheme or another; in Greece some wage- and salary-earners do not come under the general or special schemes if they receive equivalent benefits from their employers.

The conditions governing entitlement to benefits are, however, sometimes more restrictive than in the Community, since insured persons do not receive all benefits. This is particularly true of unemployment: in Portugal and Spain only a minority of workers are entitled to unemployment benefit.

The level of benefits under the various social security schemes is often lower than that granted under similar schemes in the present Member States of the European Communities. Consequently, the percentage of expenditure on social security in the gross national product of the applicant countries is not much more than 10%, whereas in 1975 it accounted for between 19 and 28% in the Member States.

As regards the financing of social security schemes, in the three applicant countries they are financed almost exclusively from employers' and insurees' contributions: in Portugal contribution rates in 1976 were 20.5% for employers and 9% for workers; in Greece they were 17% and 9% and in Spain about 40% and 7%

respectively of contractual wages. In Spain the Government contribution corresponds to 6% of wages, whilst in Portugal and Greece deficits in the sickness insurance and disability - old age - survivors pension schemes are covered from public funds.

1.7. Population movements, emigration

Between 1950 and 1973, according to OECD statistics on net emigration, 1 489 000 Spaniards, 583 000 Greeks, 1 968 000 Portuguese, 590 000 Irish and 2 339 000 Italians left their countries.

If these figures are compared with those for the resident population of the respective countries in 1973, it can be seen that net emigration amounted to 21.8% for Portugal - emigration to former colonies played a very important part in Portugues migratory movements - 19% for Ireland, 6.6% for Greece and 4.3% for Spain and Italy.

In the same year, 539 000 Spaniards, 588 000 Portuguese, 314 000 Greeks, 672 000 Turks, 607 000 Yugoslavs, 446 000 Algerians, 860 000 Italians and 455 000 Irish workers were among the foreign workers employed in the Member States, who totalled 6 637 000, or 7.8% of all wage and salary earners working in the Community. Nationals of the applicant countries (1 441 000) accounted for nearly 22% of this total.

Since then their numbers have fallen. In 1976 there were 448 000 Spaniards, of whom 265 000 were in France[1] and 107 000 in Germany, 239 000 Greeks, of whom 173 000 were in Germany, and 569 000 Portuguese, of whom 475 000 were in France[1]; i.e., a total of 1 256 000.

It thus appears that as countries of emigration the applicant countries are exposed at two levels to the effects of the economic crisis since the latter is felt both directly in the functioning of their national economies and indirectly through the return of migrant workers. The additional strain these workers place on the labour market and the loss of their remittances from abroad cannot but worsen these countries' economic situation.

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[1] Estimates based on the situation at the end of 1973, since more recent figures are not available.

2. SPECIFIC PROBLEMS WHICH MAY ARISE FROM ENLARGEMENT AND THE FUNCTIONING OF THE COMMON MARKET

2.1. Freedom of movement for workers

While freedom of movement is one of the foundations of the Community (it is one of the four types of freedom which the Treaties aim to guarantee: freedom of movement for persons, goods, services and capital), it is also, particularly in the present situation, the key problem of enlargement in the social field.

The question which arises is whether, in the present situation of high unemployment, even in the traditional immigration countries, the opening-up of frontiers would not be likely to give rise to migratory movements on such a scale as to compromise the proper functioning of the Common Market or seriously aggravate the economic and social crisis in one or more Member States of the Community.

Migratory pressure is mainly a question of demographic factors, unemployment or underemployment, surplus manpower in agriculture, lack of symmetry as regards pay structures and, to a lesser extent, the fact that the population is accustomed to emigrating for economic reasons. These factors should give rise, on the supply side, to a strong tendency towards emigration during the first years following enlargement.

The research work and studies on migration between European countries confirm, however, that the factors affecting the demand for labour have a more decisive influence on migratory movements than those which stimulate emigration on the supply side.
If there are no concrete prospects of employment in the countries of immigration, these movements are greatly reduced in amplitude.

This observation is also borne out by the operation of the system of freedom of movement between Community countries; the flow of Community workers towards Member States which are traditionally countries of immigration falls off considerably during periods of economic crisis, despite the existence, in some regions of the Community, of widescale unemployment and underdemployment (see table below).

Placement accompanied by immigration to a Member State of workers from other Member States

Year	1965	1967	% reduction	1972	1975	% reduction
EEC workers,	261 000	96 000	- 63.2	195 000	65 000	- 66.6
of whom Italians	235 000	75 000	- 68.0	161 000	32 000	- 81.1

These figures indicate the fluctuations in the movement of Community workers resulting from the employment situation in the countries of immigration.

On the whole, migration responds almost automatically to the balance between supply and demand. Furthermore, it should not be forgotten that in view of the lack of uniformity among Member States' labour markets, migrant workers, generally speaking, do not compete with national workers, but help to restore the equilibrium of that section of the labour market abandoned by national workers.

Admittedly the readiness to emigrate may encourage certain firms in the present Community to take on workers from the applicant countries.

This situation, added to the demographic expansion and migratory pressure characteristic of the applicant countries, might encourage spontaneous movement of workers from those countries, particularly during the early years following enlargement. In view of the high unemployment rate at present affecting the Community and the uncertain prospects of economic recovery, together with forecasts of a very considerable growth in the population of working age in the Community between now and 1985, spontaneous migration beyond a certain level, following enlargement, would be liable to disburb the labour market in some regions of the Community fairly seriously.

The preceding observations suggest the need to pay closer attention to movements which might take place and to reinstate this problem in the context of Community regional development and investment measures in the three countries in question.

At this stage, however, until such time as it is possible to undertake a better assessment of both potential migratory movements and the effects of development policy and of the desirable integration measures, the problem of freedom of movement for worekrs should be placed on the same footing in the negotiations as the problems raised by enlargement in the fields of agriculture, industry, competition, etc.

Furthermore, the situation in which workers in the three applicant countries are placed must not be less favourable than that of workers in associated or non-associated countries. The principle of most favourable treatment is fundamental and cannot be called in question.

The problem referred to above does not, of course, affect migrant workers from applicant countries already resident in a Community country; with regard to such workers, all forms of discrimination in the sphere of terms of employment and working conditions must be abolished at the time of accession, including those concerning entitlement to extend work permits. In this connection it should be pointed out that the additional protocol of 1976 to the 1972 Trade Agreement between the Community and Portugal already makes provision for the abolition of discrimination against Portuguese workers as regards working conditions, including remuneration and social security.

2.2. Social security for migrant workers

The coordination system for social security regimes of workers moving around inside the Community, set up under Article 51 of the Treaty of Rome, will have to apply to the new Member States.

For this reason, Regulations (EEC) Nos. 1408/71 and 574/72 will need technical adaptations before accession.

2.3. Vocational training and the European Social Fund

Present trends in the applicant countries combined with the international economic situation are imposing major structural changes in the economies of these countries. Enlargement can be expected to accentuate this pressure in view of increased competition; in addition, economic readjustment will call for social measures especially in the sphere of vocational training.

Until an overall plan for enlargement - dealing with the whole range of sectoral policies and social problems of the enlarged Community - is drawn up, it is difficult to quantify changes in terms of employment and vocational training requirements. Nonetheless, these needs will undoubtedly be great, since the problems resulting from enlargement will add to those which the applicant countries are already facing.

The ESF will be a valuable instrument for social action in this sphere, since its main objective is to promote employment by helping to finance measures in favour of the geographical and occupational mobility of workers. The absorption of structural unemployment and underemployment in the less-developed regions of the Community constitutes a fundamental aim of the ESF. This approach will be perfectly suited to the economic and social situation in the enlarged Community; provisions recently adopted by the Council on a contribution of more than 50%, under certain conditions, towards vocational training measures in the less developed regions of the Community could easily be applied in numerous regions in the applicant countries. Furthermore, the financial participation of the Fund in respect of vocational training for certain categories, in particular women, young persons and migrant workers, cannot but be beneficial to the applicant countries.

In addition, at sectoral level, substantial intervention may also be expected from the EAGGF for training workers who, whilst remaining in the agricultural sector, need to acquire new skills to adapt their training to new production techniques or production methods for new crops.

In the coal and steel sector the ECSC provisions on retraining for workers could help to reduce strains in this sector, which might be accentuated by enlargement.

There should be no difficulty in applying the provisions of the ESF, EAGGF and ECSC. Nonetheless, there is some danger that unless the training structures of the applicant countries are expanded and improved (centres, facilities, instructors, etc.), they may find it difficult to take full advantage of the Community financing available.

2.4. Other Community provisions in the social sector

Any review of Community legislation on social affairs must include the Directives already adopted by the Council in recent years - as part of the social action programme - and those it will adopt before enlargement. These Directives involve sectors such as the harmonization of legislation in the Member States to protect the rights of workers in the event of transfers of undertakings, or mass dismissals, and strengthening provisions on women's rights to equal treatment as regards pay, working conditions, and access to employment.

Although labour law is evolving rapidly in the applicant countries - especially Greece and Portugal - and already contains some of the minimum standards laid down in Community Directives, changes will undoubtedly be necessary, although it is not yet possible to define their scope.

2.5. Participation by the two sides of industry

Participation by the employers' and workers' associations of the applicant countries in the Community's various advisory bodies and the existing joint committees raises a problem that still has to be studied in depth. The representatives of these organizations on the bodies and committees in question are proposed either by the Governments or by employers' and workers' associations established at Community level. In order to be able to participate in the work of the Community, the national organizations must therefore normally belong to the international associations set up at Community level. This is not yet so in all cases: in two of the applicant countries the major trade unions are not yet affiliated to the European associations.

C H A P T E R   D

REGIONAL PROBLEMS AND ENLARGEMENT

XI.1. Regional problems and enlargement

XI.1.1. Increased regional disparities in a Community of Twelve

Even if the regional consequences of an increase in trade between the Nine and the Three are disregarded, the accession of three new countries with a low level of development and considerable internal regional imbalances will change the extent and nature of the Community's regional problems.

The regional disparities will be greater because:

(i) The differences in development levels between regions in the enlarged Community will be greater than in the Community of Nine. (Measured in *per capita* GDP, the gap between the poorest region and the richest region, which is approximately 1 to 5 between Calabria and Hamburg, and 1 to 6 between the West of Ireland and Hamburg, will increase to approximately 1 to 12 between the Portuguese region of Vila Real-Bragança and Hamburg and 1 to 10 between the four poorest Portuguese regions and Hamburg[1]).

(ii) The enlarged Community will have an additional 53 million inhabitants, some 34 million of whom live in regions with an overall average *per capita* product close to the average *per capita* product of the Italian Mezzogiorno and the West of Ireland.

The nature of the regional problems will not be the same. For example, the Community will be faced with the development lag of a larger number of agricultural regions, mountainous regions and peripheral regions, with a number of regions that are exclusively agricultural and have little contact with industrial society, with more regions of high migration, with more extensive regional depopulation phenomena, etc.

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1 On the basis of 1971 data, the region of Vila Real-Bragança has a population of 471 500; the four Portuguese regions with the lowest *per capita* GDP account for 46% of Portuguese territory and have a population of 2 662 000. No adjustment has been made for differences in purchasing power. The Hamburg region has 1 740 000 inhabitants.

2. Level of development and regional disparities in the applicant countries

Apart from their low overall level of development, the applicant countries are faced with considerable regional imbalances. As a result, an appreciable number of their regions show underdevelopment characteristics that are much more marked than those revealed by an analysis of their economies that is not differentiated on a regional basis. The economic growth of the applicant countries tends in fact to reinforce the regional imbalances.

(a) Low level of development in the applicant countries

Taken together, the three applicant countries cover 728 400 km^2 and have a population of 53 million, equivalent to 47.65% of the territory and 20.6% of the population of the present Community. However, they produce the equivalent of only 10.2% of the Community's GDP.

In 1975 the per capita GDP of Portugal, Greece and Spain was 32%, 44% and 54% respectively of the average per capita GDP of the Community; the corresponding figures for Ireland and Italy were 47% and 59%.

The low level of per capita GDP in the applicant countries is a sign of their development lag. This can be seen more clearly by referring to the situation as regards their economic and social structures:

(i) Agriculture accounts for 36% of total employment in Greece, 28% in Portugal and 22% in Spain, compared with an average of 8.7% in the Community. The productivity of this sector is particularly low - 45% of the productivity of the other sectors in Greece, 53% in Spain and between 30% and 40% in Portugal.

(ii) The industrial sector accounts for 38% of employed workers in Spain, 33% in Portugal and 28% in Greece, compared with 42% in the Community. The average productivity of this sector in relation to average Community productivity is 55% in Spain, 51% in Greece and 33% in Portugal. These average data in fact conceal the profound duality of the industrial sector in these countries. Alongside modern undertakings that are very often subsidiaries of foreign companies there are innumerable unproductive and mainly artisanal undertakings that are ill-suited for growth and are in great danger of suffering from Community competition. The employment rate of the population[1] is 35.4% in Spain, 35% in Greece and approximately 33% in Portugal, compared with the Community average of 39% (Ireland 33%, Italy 33.7%).

(iii) The economic and social infrastructure is generally insufficient, particularly in numerous regions with a low level of industrialization, and, as a result, hinders the development of large parts of the territory.

As an indication of the standard of living, only 65% of housing units in Spain and Greece had running water in 1971, while in 1976 the figure for Portugal was only 40%.

(b) Considerable internal regional imbalances

In addition to the differences in development levels between the Community and these countries there are profound regional imbalances within each of them. From the regional viewpoint, each of the three countries in question is characterized by a very marked concentration of the population and of secondary and tertiary activities in one or more regions and by stagnation and indeed large-scale depopulation in large parts of their territories.

For example:

(i) in Greece the Athens-Piraeus region, covering approximately 3% of Greek territory, accounted for 32% of the population in 1971 and approximately 47% (in 1965) of the country's gross domestic product. The density of Greater Athens was 5 935 inhab/km^2 (compared with a density in the other regions of between 34 and 80 inhab/km^2) and the *per capita* GDP was approximately double that in most other regions. With Thessalonike, Athens accounts for approximately 70% of industrial jobs and 63% of tertiary jobs.

(cont'd)

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(ii) The Portuguese economy is characterized by a concentration of the population and of secondary and tertiary activities in the three coastal regions situated furthest north. These three regions,

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[1] Proportion of the population in employment.

representing 37% of Portuguese territory, accounted in 1970 for 80% of the population, 90% of GDP and 95% of industrial production. One of them, the Lisbon region, had a per capita GDP practically double that of the other two. The other four regions had a density of between 23 and 61 inhab/km^2 and the per capita GDP in the poorest region was three times lower than that of the Lisbon region.

(iii) In Spain, four provinces (Vizcaya, Madrid, Guipúzcoa, Barcelona) representing 4% of the country's territory account for 28.5% of the population and 39% of GDP. In 1975 these four provinces, with the provinces of La Coruna, Oviedo, Sevilla and Valencia, accounted for 45.7% of the population compared with 44% in 1970 and 38% in 1960.

More than half of the country's territory has been losing population for twenty years and the central provinces around Madrid, the southern provinces and those situated along the frontier with Portugal are being deserted. The ten provinces with the lowest per capita income have an average density of 30 to 40 inhab/km^2.

The following tables give an idea of the concentration of wealth - the regions where population is concentrated also being those with the highest per capita GDP[1].

SPAIN

Extreme-case provinces	Index of per capita GDP in 1973. The country as a whole = 100	Population density in inhab/km^2 in 1973	Index of population change, 1961-75 1961 = 100
Vizcaya	140	498	155
Madrid	137	504	167
Guipúzcoa	132	331	146
Barcelona	133	540	153

Soria	91	11	70
Guadalajara	93	12	73
Huesca	98	14	92
Cuenca	76	14	70
Teruel	80	11	71
Spain overall	100	69	116

[1] A set of maps showing the regions is annexed hereto.

PORTUGAL

Region		Index of *per capita* GDP in 1970	Density in inhab/km^2 in 1975	Change 1970-75 in %
Porto	1	85	340	6.3
	3	69	125	2.4
Lisbon	5	147	186	13.3
	7	64	61	10.1
	2	52	42	- 3.8
	4	63	38	- 8.4
	6	75	23	- 3.2
Portugal overall		100	102	6.2

GREECE

Greek regions	Index of *per capita* GDP in 1965. Country as a whole = 100	Density in inhab/km^2	Index of population change 1961-71 1961 = 100
Athens region	153	5 935	137
Remainder of Central Greece	98	41	102
Peleponnese	89	46	90
Ionian Islands	73	80	87
Epirus	61	34	88
Thessaly	73	47	96
Macedonia	87	55	100
Thrace	65	38	92
Aegean Islands	80	46	87
Crete	75	55	94
Greece overall	100	66	104

Generally speaking, the regions that are losing their population are predominantly agricultural.

In Portugal, five regions out of seven have between 44% and 69% of their workers employed in agriculture. In Spain, more than 20% of the labour force is employed in agriculture in 41 provinces out of 50 (in 31 of them the percentage is over 30% and in 17 provinces it is over 40%). In Greece, nine of the ten regions have between 45% and 73% of their workers engaged in agriculture.

These regions generally have low agricultural productivity. In Spain, for example, twelve of the provinces have an average level of productivity per agricultural worker between 20% and 40% of that achieved in the other sectors.

In addition to the characteristics of the socio-occupational structure of the population, reference should also be made to the characteristic features of the economic and social infrastructure, which is particularly deficient in certain regions.

Owing to the lack of financial resources, infrastructure is built only where it is most necessary to increase national production in the short term. In Portugal, for example, the lack of infrastructure to open up the interior areas makes the spread of progress very difficult. The marketing of local products is not organized, and access to information and to social and cultural facilities is difficult. As a result, one can see in these areas an absence of incentive to produce, in both the agricultural sector, which functions partly on the basis of autarky, and in industry, which essentially meets local demand. In addition, all these activities are totally dependent on numerous intermediaries.

The present regional imbalances are the result of the absence of a balanced urban network in the applicant countries. This is particularly true in Greece, where the main towns are Athens, with 2 500 000 inhabitants in 1971, Salonika (557 000), Patras (120 000) and Volos (88 000).

In Portugal the main towns are : Lisbon (1 600 000 inhabitants) and Setúbal (80 000), Oporto (500 000) and Braga (68 000), and Coimbra (75 000).

In Spain, the main centres are not distributed evenly over the country. In 1966, only four towns had more than 500 000 inhabitants: Madrid (3 000 000), Barcelona (1 700 000) and Valencia and Seville (600 000); these were followed by Saragossa (400 000), Bilbao (370 000), Málaga (320 000) and then by eight to ten towns with more than 100 000 inhabitants each.

(c) <u>The imbalance in regional growth is likely to become more marked</u>

In Greece the population of the Athens region increased by 37% between 1961 and 1971 while practically all the other regions lost a proportion of their population, the regions with the greatest losses being those with the lowest <u>per capita</u> GDP. This process continued between 1970 and 1975.

It can be deduced from the socio-occupational structure of the population in the various regions that future economic growth, by bringing about changes in the structures of production (reduction in the proportion of workers engaged in agriculture, increase in the other sectors), will tend to increase the concentration in the Athens-Piraeus area, which is already experiencing numerous problems of congestion, and will at the same time accentuate the exodus from most of the other Greek regions, which are already sparsely populated.

In Portugal, economic growth is centred principally on Lisbon, which with nearby towns such as Setubal accounts for approximately 55% of the total urban population. In the inland regions, the high proportion of workers engaged in agriculture, the fact that this workforce is ageing and the low productivity of this sector suggest that the process of depopulation witnessed in the past will probably continue.

In Spain, the considerable expansion of the Spanish economy beginning in the sixties, brought about mainly by an increase in the role of the industrial and tertiary sectors, has given rise to considerable changes in the territorial distribution of the population, leading in particular to a greater concentration in the industrial areas and major urban centres.

The internal migratory movements have been particularly marked. Between 1950 and 1970 six million people were involved. Assuming continued industrialization and expansion in the tertiary sector, the tendency towards increased urbanization and concentration of activities can be expected to continue.

It follows from the above that the rapid economic growth of the three applicant countries has been accompanied over the last twenty years by:

(i) a geographical concentration of the population, investment and development in the major industrial urban centres;

(ii) a loss of resources by the poorest regions because of the destruction of their local productive activities, stagnation of their agricultural activities and progressive depopulation, all of which have led these areas into the vicious circle of underdevelopment by decline.

Leaving aside for the moment the effects of enlargement on the regional problems of the applicant countries, the present structures of those countries and particularly the structures in their numerous agricultural regions suggest that in the absence of a very active regional policy the depopulation-concentration process will continue.

An initial estimate up to 1985 of the regional employment problems of Greece, Portugal and Spain shows that if the economic development of these countries continues on the same lines as in the past, this would lead:

(i) In Greece, to the migration of workers to the Athens region. If labour mobility strictures were to rule out such movements, unemployment in most regions would be at a very high level and the differences in per capita GDP between Athens and the other regions would increase;

(ii) In Spain, to a similar situation, the extent of which is difficult to determine, but it would be reflected in internal migration, especially to Saragossa, Vizcaya, Guipúzcao, Barcelona, the Balearic Islands, Valencia, Oviedo, Gerona and Madrid, and in emigration to other Community countries. In the absence of migration, unemployment in a large number of regions would be extremely high;

(iii) In Portugal, since employment problems are severe throughout the country, emigration rather than internal migration must be anticipated.

It is normal that economic growth in countries that are becoming industrialized should be accompanied by a reduction in the rural population and an increase in the urban population. On the other hand, the concentration of most of this growth in a single region (Athens in Greece, Lisbon in Portugal) or in a small number of provinces (in Spain) could be avoided in part by policies to promote a better geographical distribution of activities. Such policies accompanying rapid growth in the applicant countries should endeavour to prevent excessive concentration - which congests the development centres - and all the problems this entails (high social costs, deterioration of the environment, structural inflation). The consequences of these problems can be so severe as to provoke bottlenecks in the longer term that make it difficult to pursue growth at a satisfactory rhythm.

XI.2. Regional development policy

XI.2.1 Regional policy in the applicant countries

In all of these countries, which have recently become democratic, the importance of regional policy as a means of participation in power seems to be considerable.

In the past, the economic policy of each of the applicant countries was principally aimed at ensuring growth rather than harmonizing its distribution at regional level or even making tolerable the disparities resulting from rapid growth. This priority stemmmed from the fact that the countries concerned had few funds available for policies whose impact on growth is felt only in the medium and long term.

At the present time, the emergence of regional concerns is being checked by uncertainty regarding the attaintment of a satisfactory growth rate.

Given the increase in regional problems in the applicant countries and the constant expansion of their regional policies, it is probable that the re-establishment of a satisfactory growth rate, together with a greater volume of funds, would enable them to step up their efforts to achieve a better territorial balance as regards growth.

(a) Greek regional policy

The main tools available to the authorities for promoting economic growth in specific areas are public investment programmes and a system of regional aids.

(i) In 1975, the commitment appropriations for public investment approached 635 million u.a., 246 million u.a. going to Attica and 387 million u.a. to the rest of the country. Of the 387 million u.a. not allocated to Attica, 94 million u.a. was for agricultural works, 88 million u.a. for transport, 74 million u.a. for municipal works and 64 million u.a. for education (in 1975 Greek gross fixed capital formation was 3 300 million u.a.).

(ii) The system of regional aids divides Greece into five incentive areas; it is based essentially on exemption from taxes and other charges.

A new regional policy - which is to be more systematic than in the past - is being prepared by the regional development and land utilization departments of the Greek Ministry of Coordination and Planning.

These departments recommend a multi-centre development axis based on the four largest Greek towns, Patras, Athens, Volos and Salonika (linked by the only fast four-lane highway in the country) and the industrial areas of Salonika, Volos, Patras and Komotini. They also consider it necessary to maintain the population of the small and medium-sized urban centres to avoid the depopulation of certain viable agricultural areas.

In order to be able to benefit from the Regional Development Fund, the Greek administration has already prepared regional development programmes based on the Community model. It is currently in the process of adapting the Greek system of regional aids.

(b) Portuguese regional policy

Concern for regional matters is embodied in the Constitution. Article 91 states that the plan must ensure the harmonious development of the various regions of the country.

Practical steps have been taken to achieve this aim at the level of the administration: a few months ago a regional department was set up within the Ministry for National Planning, and preparations have been made for a reform involving the creation of regions with decentralized bodies which would work together with the central department in framing and executing sectoral and regional integrated programmes under the national plan.

For some years now the authorities have been working on a policy aimed at achieving a better distribution of Setúbal near Lisbon and of Sines a little further south is intended to prevent congestion in the capital, and the creation of an industrial estate in Braga is designed to do the same for Oporto.

It appears that in the medium term the authorities intend to preserve the development possibilities of the regions of the interior in order to prevent them from becoming depopulated and to slow down the population build-up on the coast. The immediate objective is to place a temporary check on the rural exodus from the interior by halting the reduction in the number of agricultural jobs. It is intended to attain this objective by improving the living conditions of the population of the regions in question and providing access to the most essential services (better transport, housing, hospitals, schools, development of local government departments, etc.).

The longer-term objective is to promote the creation of activities in the interior by establishing development centres (through the construction of industrial estates in the towns of Covilhã, Evora, Béja and Faro) following the one established in Braga, and the creation of the Sines estate, by seeking to strengthen the role of the other towns in the interior and by developing integrated programming areas.

At present the main instruments of regional policy are:

(i) the public undertaking responsible for the construction and management of the industrial estates;

(ii) the investment programmes of the public sector; in 1977 the commitment appropriations for public investment in specific areas (90% of all public investment) amounted to approximately 670 million u.a., of which 327 million u.a. went to the provinces of Lisbon and Setúbal alone, the remainder of the country receiving only 355 million u.a. Of the total 670 million u.a., 62 million u.a. was earmarked for education, 41 million u.a. for health and social security, 384 million u.a. for housing and urban works, 32 million u.a. for agriculture and 86 million u.a. for transport (in 1975 Portuguese gross fixed capital formation was 1 500 million u.a.);

(iii) the public undertakings, because of their importance in terms of gross fixed capital formation and the power of the authorities to decide on their location;

(iv) the virtual absence of a system of regional aids means that it is not possible to influence the siting of private sector firms. There is, however, some regional differentiation under the system of general or sectoral aids, which is based essentially on tax exemptions.

Ambitious in its objectives, but lacking funds, the Portuguese regional policy is at a preparatory stage; a land utilization plan is being drawn up. The national plan should take concrete shape through integrated programmes that are both sectoral and regional.

(c) <u>Spanish regional policy</u>

In 1964 a number of regional objectives were included in the first development plan. As the main objective of this plan was economic growth, and despite provision for the balanced participation of all the country's regions in the development effort, the public authorities concentrated their growth balancing activities on five development points (La Coruna, Seville, Valladolid, Vigo and Saragossa) that were suitable for short-term economic development until 1971. Burgos and Huelva were added for the period up to 1974, Granada, Córdoba and Oviedo (up to 1980) and Vallegarcia and Logroño (up to 1981)[1].

The next two plans saw progress in the formulation of a regional development strategy. The third plan (1972-75) linked sectoral planning to regional planning. In order to achieve optimum development of the whole country, it envisaged grouping the population together in a hierarchical network of towns. Under the plan, four cities in addition to Madrid and Barcelona were to have over 750 000 inhabitants by 1980 (Valencia, Bilbao, Seville and Saragossa) and seventeen "balancing cities" were chosen as being best suited for expansion to over 250 000 inhabitants by 1980. To meet the needs of the rural areas, provision was also made for consolidating the medium-sized towns.

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[1] See Annex III: map of the development points.

The administrative structure set up in 1973 comprises:

(i) a Ministry of Planning with an economic department and a regional department;

(ii) 15 regional ministerial delegations covering the whole of the country and regional planning committees.

The main incentives designed to draw industry to the development points and industrial centres set up to ease congestion were as follows:

(i) public subsidies amounting to 20% of the fixed investment costs for the promotion points and 10% for the development points;

(ii) substantial tax relief;

(iii) loans at preferential rates (1% interest rate subsidies).

As regards the cost of regional policy in Spain, we only have a few estimates relating to 1975:

(i) 63 million u.a. in the form of subsidies and 882 million u.a. in the form of loans at preferential rates;

(ii) 172 million u.a. in the form of capital expenditure on infrastructure in the first seven development points under the first and second plans.
(Spanish gross fixed capital formation : 47 700 million u.a.).

The granting of autonomy to Catalonia and the Basque region is the beginning of a process that could change Spanish regional policy in a number of ways which ought to enhance its importance, in particular through the definition of a more precise framework for land utilization.

II.3. The Community's policy towards the regional problems of enlargement

3.1. If the applicant countries were to become full members in 1978, and if the Regional Fund were disbursed in its present form, the sums that would be spent on those countries in 1978, calculated with reference to both population and *per capita* GDP of their problem regions, would amount to approximately 105 million EUA for Greece, 125 million EUA for Portugal and 190 million EUA for Spain, making a total of 420 million EUA.

This "mechanical" estimate does not allow for the regional problems that will arise in the applicant countries as a result of enlargement; nor, by definition, does it allow for the increased structural needs that will be felt by certain regions of the present Community following enlargement.

3.2. The Community of Twelve, as such, will have to face the serious regional problems mentioned in Part I: an additional 34 million people living in regions where the average product *per capita* is similar to that of the Mezzogiorno; wider divergences in development levels between regions, liable to be widened further by the economic effects of enlargement.

This situation could endanger the cohesion of the Community unless vigorous action is undertaken at the level of the enlarged Community.

3.3. Thus, enlargement poses the problem of essential structural measures in terms that are new both qualitatively and quantitatively. Among these measures action to reduce regional disparities through the rapid development of certain parts of the Community of Twelve and the redevelopment of a number of regions particularly affected by enlargement are absolutely essential.

The scale of the problems to be solved is such that the structural measures, in particular sectoral and regional operations, must be mutually consistent and must also fit in with the Community's general economic policy.

3.4. Regional action must be scaled to match the problems that arise.

If underdevelopment is to be overcome, and if the three applicant countries are to become rapidly integrated into the common market, they - and indeed certain Community regions in a similar situation - will have to be able to invest heavily so as to create new jobs.

Gross fixed capital formation as a percentage of domestic product, at present around 20% for the applicant countries (22% for the Community), should be increased if they are gradually to catch up. (Ireland's latest programme plans to increase the percentage to 30%.)

The economic structure of the three countries, with industries protected by customs duties and agricultural sectors functioning partly as closed economies, is weak, which means that it will not be possible to finance investment needs from national savings once the frontiers are opened up - particularly as there is a tremendous amount of pressure in these young democracies for the raising of wages to the European level.

The investment effort will thus have to be financed partly through contributions from outside, in particular from the Community. The need for outside help will be particularly great since entry into the common market will make it necessary for the three countries to speed up the process of restructuring their productive apparatus, both in agriculture and in industry, and public infrastructure and services will also have to be established rapidly, since what there is at present is well below the average standard attained in the nine Member States. This remark also applies to certain regions of the present Community.

The three applicant countries, like certain of the present Community regions, also suffer from the low productivity of their economies, which is aggravating employment difficulties that are already serious enough as it is.

In all three countries, the agricultural labour force is very large. In 1975, it represented nearly 30% of the total working population (Community average: 8.7%), and exceeded 50% in many regions. Any increase in agricultural productivity (present productivity is about 50% of the Community average) will lead to a massive flight from the land.

The non-agricultural sectors in these countries, as in certain Community regions, are partly concentrated in activities of local and regional interest (artisanal), which are ill-equipped to cope with the opening-up of markets, price competition and rising wages. Since these activities are labour-intensive a great deal of labour is likely to be released.

This difficult situation is aggravated by an increase in the population of working age. It seems that the increase in working population in the three countries from 1975 to 1985 will be about 1.1% per year, compared with 0.8% in the Community (although many underdeveloped regions in the Community have a rate much higher than 0.8%).

The effect of all these factors together will be either a very high rate of unemployment, particularly in the least industrialized regions, or massive emigration to the north of Europe; the alternative - and this is the only politically acceptable and economically effective solution - is for the Community to participate in financing a considerable investment effort in the applicant countries, and also in a number of problem regions in the present Community.

3.5. From 1978 onwards, the Community regions with serious development or redevelopment problems eligible for Regional Fund assistance will have regional development programmes which the Member States are to present to the Community. This method prevents aid being spread too thinly, and ensures more coherent and economically effective investments. It could easily be extended to cover the applicant countries. Moreover, the forms of assistance that can be used for the non-quota section of the ERDF allow great flexibility.

The regional development programmes method also enables a comparison to be made of the ways and means adopted for restructuring and development in the countries and regions most affected by the process of enlargement; besides, it allows the needs and problems to be identified more clearly and facilitates the coordination of Community and national financing instruments so that the right volume of funds can be allocated to solving problems and achieving aims.

The regional problems that have been identified are so serious that the funds that might be made available represent only a partial solution. Certain Community policies (e.g. agricultural policy, external policy, competition policy, industrial policy) must be developed with greater reference to regional problems; they will thus be able to contribute to the reduction of disparities. A medium-term action programme combining macro-economic aims with regional and industrial structural measures would ensure the necessary coherence.

C H A P T E R E

Effects of enlargement on agriculture and fisheries

XII. EFFECTS OF ENLARGEMENT ON AGRICULTURE

1. The common agricultural policy now influences - directly or indirectly - many aspects of the production and marketing of almost all agricultural products in the Member States. It is therefore in the agricultural sector that it is most vital to examine the consequences of admitting the three new applicants : a most delicate task when account is taken of the physical and economic dimensions of the agricultural sector in the three countries : these dimensions appear considerable even in comparison with the corresponding figures for the whole of the Community. In this connection it will suffice to quote a few particularly significant figures : the transition from a Community of 9 to a Community of 12 means, under the present circumstances (i.e., ignoring the dynamism generated by the integration process), a 55 % increase in the number of persons employed in agriculture, a 49 % increase in the agricultural area, a 57 % increase in the number of farms and a 24 % increase in total production (see the main basic data in Table 33).

It would therefore appear important in this context to analyse the basic features of agriculture in the three new applicant States with a view to pinpointing the factors which, in the event of enlargement, could impede the integration process.

III. THE DEVELOPMENT OF THE AGRICULTURAL SECTOR

Although it is very difficult to express the development gap between countries in figures, a number of indicators show the approximate situation of one country in relation to others and enable certain tentative comparisons to be made.

The three applicants all have a per capita gross domestic product which is below the Community average and less than that of any Member State except Ireland. The same applies to the per capita GDP for the three chief economic sectors and particularly for agriculture.

Average GDP per member of the labour force [1]

(current prices and exchange rates)

1975

	SPAIN	GREECE	PORTUGAL	EUR 9
All sectors	7 961	6 539	4 486	13 382
Index : EEC average = 100	59	49	33	100
Agriculture	3 219	3 053	2 317	6 803
Index : EEC average = 100	47	45	34	100
Non-agricultural sectors (all)	9 302	8 451	5 333	14 006
Index : EEC average = 100	66	60	38	100
Agriculture as a % of other sectors	35	36	43	48

[1] (See also Table 34)

The productivity gap beween agriculture and other sectors, which is considerable on average within the Community, is even more marked in the countries in question.

Over the past 15 years economic growth has been considerably greater in the three applicant States as a whole than in the Community Member States ; this also applies to agriculture in Greece and, to a lesser extent, in Spain (see Table 35). In Portugal, on the other hand, growth was very limited during the reference period and generally slower than in most of the Member States.

The growth rate for the agricultural sector in the three countries taken together was substantially slower than for the rest of the economy. Agriculture's share in total production has therefore been reduced considerably.

Agriculture as a percentage of the gross domestic product
(Constant prices 1970)

	1960	1975
SPAIN	19.5	9.8
GREECE	21.9	14.7
PORTUGAL	25.7	12.3
FRANCE	9.6	5.6
ITALY	11.6	8.2
IRELAND	19.8	18.3

Agriculture's share of GDP remains higher than in most of the Community Member States, however, Ireland being the only exception.

Despite the favourable trend, the agricultural productivity gap separating the three applicant States and the Nine has narrowed only slightly in fifteen years. In the case of Portugal, the gap has even widened.

Per capita GDP in agriculture

(Constant prices and exchange rates)

	1975 Index (1960=100)	Per capita GDP in agriculture as percentage of the EEC average 1960	1975
SPAIN	358	31	44
GREECE	413	26	43
PORTUGAL	219	31	27
EUR 9	250	100	100

This results mainly from the trend in the agricultural labour force. The drift away from agriculture has been less rapid in the three applicant States than in the Community on average (See Table 36). Agriculture therefore remains very important as a source of jobs in these countries.

Persons engaged in agriculture as a percentage of the total labour force

	1960	1975
SPAIN	42.3	22.0
GREECE	57.0	35.4
PORTUGAL	42.8	28.1
EUR 9	17.0	8.7

The mobility of agricultural labour, which has been rather limited if the very rapid economic development during the reference period is taken into account, can probably be explained by the considerable underemployment affecting certain non-agricultural sectors (trades, tourism, etc) ; it can also be explained to a certain extent by the expansion of industrial sectors which are capital-intensive and employ relatively few workers (steel, shipbuilding, petrochemicals, etc.).

Past trends would seem to indicate that, despite the potential of the agricultural sector, the productivity gap between agriculture and the other economic sectors can only be narrowed by considerably reducing its labour force ; this of course depends on the rate of development and the options available elsewhere, particularly in industry.

Agriculture is more prominent in the economy of the three applicants than in the Community not so much because of the natural conditions as because of the level of development in the other sectors. Indeed, natural conditions are on the whole not very favourable to agriculture in the three applicant States :

- SPAIN which, with about 32 million hectares, accounts for over 70 % of the utilized agricultural area in the "Three", is a very mountainous country (only 40 % of its territory is less than 500 metres above sea level) and has a predominantly dry continental climate (about four fifths of the country) and a poor water network ;

- PORTUGAL (about 4 million ha, 9 % of the UAA of the "Three") is less mountainous than Spain but is also affected, particularly in the south, by a shortage of rainfall and a lack of natural soil fertility in many areas ;

- in GREECE (about 9 million ha, 20 % of the UAA of the "Three") mountains cover about 80 % of its area ; the climate is predominantly Mediterranean and the precipitation is poorly spaced over the year. The water network is also very limited in this country.

Agricultural production has in recent years been unable to keep pace with increasing domestic demand. This can be seen from the trend in self-supply rates for the main products and trade with other countries, which will be analysed in the following chapters.

The above statements - particularly those regarding the development gaps - are based on national averages. These figures conceal regional disparities which are, in the three applicant States, as large as or even larger than those in the existing Community as a whole (see regional report). In agriculture the disparities are relatively small in Greece but are very marked in Spain and fairly marked in Portugal (see Tables 38, 39 and 40)

<u>Regional differences in productivity per person engaged in agriculture</u>

	Spain (provinces)	Greece (regions, excluding Athens region)	Portugal (districts)
Index for the region with the highest productivity (region with the lowest productivity = 100)	711	171	278

These figures are of course only a guide since the administrative units to which they refer vary in area and economic significance.

XIV. STRUCTURES

The structure of farms, and in particular their size, has a determining influence on the development of agriculture in that it affects the methods od production and thus productivity and, to a certain extent, the choice of crops. There are great differences between the three applicant States in this respect.

The average area of farms of over 1 ha is about 23 ha in Spain, 4 ha in Greece and 10 ha in Portugal (see Table 37). In the present Community, the average area ranges from 7.7 ha (Italy) to 57.4 ha (United Kingdom).

These averages are, however, of little significance since the structural situation often varies considerably within each country.

Of the three, Greece has the smallest range. Small farms predominate and cover almost all the utilized agricultural area : farms of less than 20 ha, i.e. about 99 % of the total, account for 90 % of the area.

Spain and Portugal, on the other hand, countain great contrasts : farms of less than 20 ha (84 % of the numerical total in Spain and 94 % in Portugal) account for only 20 % and 37 % respectively of the total UAA. Conversely, farms of over 100 ha (3.1 and 1 % of the numerical total respectively) account for 59 % and 45 % respectively of the total area.

The average area of farms varies considerably from one region to another (see Tables 38, 39 and 40). In Portugal the range is from 63 ha in the region of Evora to 3.2 ha in the region of Porto[1]. The large farms are concentrated in the south (particularly the districts of Portalegre, Evora and Beja).

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[1] The figures for Portugal refer to the situation prior to the agrarian reform.

In Spain the range is not so wide, the extremes being 6.2 ha in Galicia and 32.8 ha in the centre. The large farms are found mainly in the centre of the country.

A regional analysis confirms that Greece is fairly homogeneous ; the range is from 2 to 4.4 ha, in Epirus and Thrace respectively.

As climate and soil fertility vary considerably within one and the same country, the size of farms may have a very different significance from one region to another. Irrigation is particularly important in this context since in most parts of the three countries in question it is indispensable for a large number of crops (maize, sugar beet, fruit and vegetables, tobacco, cotton, protein-rich crops and fodder crops).

As yet, relevant figures are available only for Spain. The irrigated area in that country represents about 65 % of the irrigated area of the "Three", however. Table 41 shows that the irrigated area per farm with irrigation (farms of over 1 ha only) averages only 2.6 ha overall. Unfortunately, regional figures are not available, but on the national level the distribution of irrigated areas in relation to the number of farms presents a much more balanced picture than that of farm areas in relation to the total area.

Another structural aspect which is important for rational cultivation of the land and thus for the improvement of agricultural productivity is the sub-division of farms into plots.

This problem seems to be acute in all three countries. Farms are divided into an average of 10.8 plots in Spain, 6.5 in Greece and 6.4 in Portugal.

Regional figures also show that the division of farms into plots is most prevalent in those regions in which farms are smallest and which, therefore, face a dual problem.

Here again, Greece is the most homogeneous of the three countries.

Tables 38,39,40,49,50 and 51 permit certain comparisons to be made, for each region in the three countries, between strctural characteristics, productivity and type of crops.

From this emerges a kind of regional profile of agriculture, constituting only an outline, but nonetheless showing the main characteristics.

In particular, it is interesting to compare regions which have similar production features but which differ structurally or, conversely, regions with structural similarities but specializing in different branches of production.

Examples of the first case are the Spanish regions of Galicia and Norte. These two regions are predominantly stock-farming areas but the Galician farms are smaller on average and sub-divided into a greater number of plots. This situation has obvious repercussions on productivity.

Examples of the second case are Levante, in particular the provinces of Alicante, Castellon and Valencia, where crop products predominate, and Galicia or certain provinces of Norte. In Levante, which accounts for a large proportion of Spain's fruit and vegetable production, and in particular citrus fruit, productivity per person engaged in agriculture is considerably higher than in the other two regions, where the farms specialize mainly in stock-rearing.

• PRODUCTION AND DEMAND

The production structure in the three countries, which is typically Mediterranean, differs considerably from the average Community structure and from that of most of the present Member States (see Table 42).

Plant products predominate over livestock products, particularly in Greece and Portugal.

The relative importance of the various product groups taken individually corresponds to the situation in certain Member States (Netherlands, Belgium, United Kingdom, France and Italy in the case of fresh vegetables ; France, Italy and Luxembourg in the case of wine). However, in none of the Member States of the present Community, with the exception of Italy, has the product group consisting of fruit and vegetables, wine and olive oil, such relative importance as in the three applicant countries. This structure is changing gradually ; a slight increase in the proportion of livestock production is apparent in Spain and Portugal, but the reverse trend is seen in Greece.

The rate of population increase over the last fifteen years has been higher at least in Spain and Portugal, than the Community average, and living standards have improved with the rapid expansion of the economy in all three countries ; these two factors have meant a rapid and selective increase in domestic demand for agricultural products. The eating habits of the population have, over the last few years, undergone changes which in some cases have been substantial (see Table 43). These changes have affected plant products (for example, increase in sugar consumption) and, even more so, livestock products. Per capita consumption of beef and veal, pigmeat and poultrymeat has in all three countries more than doubled over a period of some ten years. Consumption of milk and its derivatives, except butter, has also almost doubled.

Over the same period consumption in the Member States increased to a lesser extent, except in Italy where the situation in the Sixties was similar to that in Spain, Portugal and Greece.

Differences, in some cases major ones, still exist, however, between the Three and the Nine. In the three new countries, less sugar is consumed but more cereals, potatoes, vegetables, fresh fruit, wine and olive oil. As regards livestock products, the "Three" consume less beef, veal and pigmeat, but more sheepmeat and goatmeat and about the same amount of poultrymeat. As for milk products, butter consumption is clearly lower. Cheese consumption is higher in Greece but lower in the two other countries. These comparisons are based on the Community average, although substantial differences also exist among the Member States. Broadly speaking, the level of consumption in the "Three" is not greatly different from that recorded in Italy.

The rise in demand has considerably boosted production. There has been an increase in the output of not only those products in which these countries were deficient, but also traditional export products (see Table 44). Production of feed grain, sugar beet and meat (beef and veal, pigmeat and poultrymeat) has roughly doubled over the last ten years. Milk production has increased by 50 %. Production of vegetables, fruit and wine has risen rapidly, especially in Greece and in Spain, whereas production has increased at a slower rate in Portugal, generally speaking.

However, the increase in production has not prevented a deterioration in the self-supply rates, at least for certain products (see Table 45). As regards plant products, this has been the case in Spain and Portugal with cereals (especially maize) and vegetables. There are no recent data available for Greece, but the trade pattern, analysed in the next chapter suggests that the situation there is similar. As regards livestock products, the self-supply rate has generally improved in Spain and Greece in the case of meat (beef and veal, pigmeat and poultrymeat), butter and cheese. In Portugal, on the other hand, it has deteriorated in the case of all these products.

Despite the rapid increases in production over the last few years and unfavourable natural circumstances, the unexploited potential of these countries, albeit difficult to quantify, remains considerable.

Yields per hectare (see Table 46) appear to be very low, particularly in Portugal and Spain, in comparison with those in the Community (in some cases less than half) and suggest that it may be possible, at least technically, to increase production even without basic alterations to the existing production setup. Differences seem to be particularly great in the case of cereals. However, it should be pointed out that the conditions of production differ, from both the structural and the climatic point of view, from the average conditions in the Community. Comparison with figures relating to Italy, or even to the United States, where the extensive methods of production approximate most closely to those in certain areas of Spain or Portugal, considerably reduces the scale of the differences. Nevertheless, the latter remain significant in the case of the more intensive crops such as maize, rice or potatoes.

The situation as regards permanent crops remains static, but certain data suggest that intensification is at least a theoretical possibility. In this connection mention may be made of the irrigated areas in Spain which are already used as olive groves (roughly 80 000 hectares).

In all three countries, however, the extension and increase of production still depend largely on irrigation. This is true not only for highly intensive crops such as fruit and vegetables but also for most of the products in which the three countries are deficient (maize or vegetable proteins). Considerable efforts to irrigate the land have been made in the past and continue to be made, particularly in Spain and Greece. The area irrigated has increased over the last few years by more than 80 000 hectares per year on average in Spain and by more than 30 000 hectares per year in Greece. Portugal, on the other hand, appears for the moment to be interested mainly in increasing the seemingly inadequate use made of existing networks.

The rapid increase in the productive area and the constant improvement in yields per hectare of fruit crops, particularly in Spain, seem to testify to the fact that the physical or technical limits of these crops have not yet been reached and that the limiting factors are the absorption capacity of the domestic market and the export possibilities, rather than natural conditions or cost factors.

Both Spain and Greece have, over the past few years, been faced with the problem of surpluses in the fruit and vegetable sector.

Available statistics show, however, that the extremely rapid expansion of orange-growing over the past few years has been accompanied in Spain, which accounts for more than 74 % of orange production by the Three, by a steady fall in yields per hectare.

It is difficult at this stage to explain this phenomenon. It could however, correlate with Spanish efforts to orient production towards early or late varieties which, by and large , are less productive.

Trends in productive areas and yields per hectare under citrus fruits in Spain

	Productive areas in hectares	Productive areas 1976 index (1964 = 100)	Yield per hectare (100 Kg/ha) Ø 64-66	Yield per hectare (100 Kg/ha) Ø 74-76
oranges	139 534	161	190.7	136.3
mandarins	51 027	510	152.3	151.3
lemons	23 480	208	81.9	144.7
grapefruit	347	169	196.7	147.0

The planting of less intensive crops than those mentioned above is hampered, at least partly by the water shortage and by the structural situation prevailing in the three countries. To make the investment worthwhile, from both an economic and a social point of view, new irrigation works hove understandably been concentrated very heavily in the areas where the quality of the soil and the concentration of labour ensured more intensive use. The average farm area is much smaller in the irrigated zones than in the rest of the country. Productivity per unit of area is, under these conditions, the criterion determining the choice of crops. The difference between fruit and vegetable crops and other intensive crops, such as maize or sugarbeet, is too great to allow farmers[1] to make a real choice.

As regards stock-farming, data relating to production and to the self-supply rate show that there has been a satisfactory increase in the output of pigmeat and poultrymeat. This has also been the case, particularly as regards Spain and Greece, with beef and veal production.

[1] This matter has been analysed, with reference to the Mediterranean regions of the Community, in Document SEC (76) 4450/1 and 2 (see in particular point 31, page 27).

Even so, the three countries still have a large deficit in the beef and veal sector. Moreover, the production increase, which has been mainly due to the greater average weight of slaughtered animals (see Table 47) and to the development of intensive fattening units[1] has been accompanied by an increase (in some cases a very sizable increase) in imports of feed grain, in particular maize and vegetable proteins. If this trend continues, it will mean growing imports of basic feeding stuffs for cattle.

Any new development model for beef and veal production, on the other hand, would require thorough-going structural changes since it would involve an increase in fodder production, resulting from the considerations already set out on page 180. It would also require an improvement in the structures of the dairy herds which provide calves for fattening and which, in all three countries, are usually small in size (see Table 48).

Within the same country, natural and structural conditions, the extent of irrigation networks etc., sometimes differ widely and this often leads to a marked concentration of specialized farming in well-defined regions, just as it does in the Mediterranean regions of the Community. Thus, for example, in Spain more than 80 % of citrus fruits are produced in the Levante region, more than 75 % of olive oil in Andalucia and nearly

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[1] roughly 20-25 % of young cattle slaughtered in 1973 in Spain came from these units.

70% of wine in the Centre, Levante and Western Andalucia regions. This same phenomenon is also apparent, albeit to a less marked degree, in Greece and Portugal (see Tables 49, 50 and 51). This situation highlights the importance of agricultural policy serving regional development purposes and the need to achieve a balance among the forms of intervention which help increase the profitability of the various types of farming.

XVI. TRADE

The importance of trade to the national economy is not the same for all three applicant States.

Because the domestic market is small, a very open policy towards other countries is a necessity for the economic development of both Portugal and Greece. This is less true in the case of Spain, which has a market of more than 35 million.

The relationship between the value of external trade and production reflects this situation fairly clearly.

	Value of external trade as a % of GDP (current prices and rates of exchange)				Value of external trade in agricultural products as a % of GAP (current prices and rates of exchange)			
	Trade and total production				Trade and agricultural production			
	Imports		Exports		Imports		Exports	
	1973	1975	1973	1975	1973	1975	1973	1975
Spain	13.3	15.9	7.3	7.6	22.1	30.2	20.7	19.4
Greece	21.2	25.5	8.8	10.9	15.4	15.3	26.3	21.6
Portugal	25.5	26.3	15.5	13.3	29.7	42.3	19.6	15.3

These figures show that, in relative terms, the contribution of the agricultural sector to exports has declined, while agricultural imports have increased in relation to national production. However, it has not yet succeeded in keeping pace with the growth in domestic consumption.

The structure of trade has altered substantially over the last ten years (see Table 52). The proportion of agricultural products in exports has fallen very sharply in all three countries. It has also fallen, albeit to a much less marked degree, in imports into Spain and Greece, whereas in Portugal it has risen.

Percentage of trade accounted for by agricultural products

	Imports		Exports	
	1963-65	1973-75	1963-65	1973-75
Spain	20.4	16.9	51.9	25.4
Greece	15.0	11.1	57.9	31.7
Portugal	16.6	20.2	25.8	17.1
EEC Nine	23.8	16.7	12.3	12.1
Italy	22.6	19.8	13.1	8.7

Agriculture is increasingly tending to upset the trade balance. The agricultural balance of Spain and Portugal has shifted from a situation approaching equilibrium to a deficit which amounted, over the period 1973-1975, to 622 and 424 million dollars respectively. This is not the case with Greece, which has managed to boost agricultural exports sufficiently to offset the considerable growth in imports. The surplus on its agricultural balance increased, over the same period, from 38 to 120 million dollars.

The variation in the cover rate illustrates these developments more clearly.

Cover rate

(exports as % of imports)

	1963-65		1973-75	
	all products	agricultural products	all products	agricultural products
Spain	36.9	93.7	48.7	73.0
Greece	32.8	126.9	43.7	124.6
Portugal	64.1	100.0	52.8	44.6

Overall (all products), the situations of Spain and Greece are improving. As regards agricultural products, the situation is almost stable in the case of Greece and rapidly deteriorating in the case of Spain. Portugal's cover rate is, however, deteriorating rapidly both overall and in respect of agricultural products.

The better performance of Greece as regards agriculture could be explained by the very favourable preferential trade system which it enjoys on the Community market under the terms of the association agreement which came into force at the end of 1962. However, this is not borne out by the figures, since the trend of Greece's cover rate is more favourable in respect of non-member countries than in respect of the Community. This is due to the fact that, whereas exports to the two groups of countries are more or less keeping pace, imports from the EEC are increasing more rapidly.

Greece: Cover rate (exports as % of imports) in respect of agricultural products

	1963-65	1973-75
EEC Nine	323.3	235.7
Non-Member countries	73.9	79.9

Greece : Trend of agricultural trade

(index : average 1963-65 = 100)

	Imports	Exports
EEC 9	466	340
Non-member countries	313	339

It should, however, be noted that the trends recorded have emerged against a background, in all three countries, of very restrictive import regimes which have substantially reduced the effects of outside competition.

The Community was in 1963-65, and is still in 1973-75, the main outlet for agricultural exports from the three applicant countries, yet contributes relatively little to their imports.

EEC share of agricultural trade

(%)

	Imports		Exports	
	1963-65	1973-75	1963-65	1973-75
Spain	20.8	11.2	59.6	59.8
Greece	21.3	28.7	54.2	54.3
Portugal	11.5	12.1	51.5	45.4

During the reference period, the trend of agricultural trade with non-member countries and with the Community differed according to country.

As far as imports are concerned, the development of trade with the two groups of countries was roughly equal in the case of Portugal, substantially to the advantage of non-member countries in the case of Spain and, to a lesser extent, to the advantage of the Community in the case of Greece.

The trend of exports was practically the same in each case.

During the same period, intra-Community trade developed much more rapidly than Community trade with non-member countries. This is particularly true in respect of imports.

Trend of agricultural trade with the EEC and non-member countries
(index : 1963-65 = 100)

	Imports		Exports	
	from EEC	from non-member countries	to EEC	to non-member countries
Spain	252	526	366	363
Greece	466	313	340	339
Portugal	620	584	231	295
EEC 9	540	199	476	391

The range of products which make up the bulk of agricultural trade [1] varies little between the three countries (see Tables 53, 54 and 55).

In general, the differences are merely in the quantities concerned and the relative importance of each product in the country's overall imports.

Imports consist mainly of meat, milk products and, as regards crop products, of feed grains (maize in particular), sugar, tobacco and vegetable proteins.

[1] The analysis by products, which is very important for estimating the effects of enlargement with respect to non-member countries, is dealt with very briefly at this stage. It can be gone into in greater detail in the light of the external trade figures available in D.G. II, which are to be examined in March.

Some of these are products in which the Community also has a deficit (feed grains, tobacco and vegetable proteins). This partly explains the Community's relatively small contribution to the three countries' imports.

Spanish exports consist mainly of fruit and vegetables, citrus fruit in particular, wine and olive oil. Portugal exports mainly wine, preserved fish, preserved fruit and vegetables (tomato concentrate) and cork. Greece exports fresh and processed fruit and vegetables, tobacco, wine, raisins and olive oil.

Main agricultural products imported and exported by the three countries

IMPORTS

(a) as % of the country's total agricultural imports

	Spain	Greece	Portugal
Live animals and meat	5	15	5
Milk products	4	11	1
Maize	22	26	21
Sugar	15	12	23
Vegetable proteins	23	8	12

(b) 1975 index (1972 = 100)

	Spain	Greece	Portugal
Live animals and meat	80	74	96
Milk products	224	182	204
Maize	408	3,377	347
Sugar	1 354	326	542
Vegetable proteins	238	253	143

In the case of all three countries the figures appear to show substitution for direct meat imports by imports of coarse grains and vegetable proteins required to develop domestic production.

EXPORTS

(a) as % of the country's total agricultural exports

	Spain	Greece	Portugal
Fresh and processed fruit and vegetables	57	58	17
Wine	12	3	40
Olive oil	5	6	2
Fish preparations	-	-	15
Raw tobacco	-	21	-

(b) 1975 index (1972 = 100)

	Spain	Greece	Portugal
Fresh and processed fruit and vegetables	169	233	76
Wine	168	207	148
Olive oil	135	247	86
Fish preparations	-	-	118
Raw tobacco	-	200	-

These few figures show the greater dynamism of Greek exports compared with those of Spain and, particularly, Portugal.

Finally, Table 56 gives a theoretical picture of the total external trade of a Community of 12 for the period 1973-75.

In the static situation which the table assumes intra-Community trade in agricultural products would experience fairly limited growth in both absolute and relative terms.

The trade deficit would be more than double that of the present Community. The agricultural deficit would, however, remain approximately the same size as the result of set-off between the Three and the Nine.

XVII. AGRICULTURAL POLICY

A detailed analysis of the agricultural policies followed by Spain, Greece and Portugal is beyond the scope of the study, at least at this stage.

It nevertheless appears necessary to recall some aspects of those policies inasmuch as they explain, at least in part, production trends in recent years and make possible a better appreciation of the changes that any integration of the countries in question into the Community could imply in this field.

In all these three countries the importance of the agricultural sector in the economy makes it all the more necessary to integrate agricultural development, and hence the policy measures affecting the sector, into the broader framework of the economic and social development of the country. This ensures the required cohesion between sectoral action and overall objectives. The three countries thus draw up guidelines valid for several years, subject to revision or supplement depending on the economic situation, which form part of their development plans.

The main objectives in the agricultural sector are substantially the same for all three applicants. In each case, the increase of productivity and the raising of the standard of living in agriculture are priority aims.

Another major preoccupation, particularly in Spain and Portugal, is obtaining supplies of products in which these countries are substantially in deficit and achieving a trade balance.

Overcoming structural shortcomings constitutes a further concern. In this case it is Greece and Portugal which put more emphasis on the problem, at least in principle, although the objectives sought are sometimes different.

The means employed to achieve these aims are many. Of those which can have a more direct influence on production, price policy has a fundamental importance in all three countries. Combined with import controls, which are generally very strict, it ensures a balance between supply and demand and curbs price fluctuations.

In order to achieve certain specific aims (the programme for increasing beef and veal production, for example) the price policy is often combined with direct aid to production or inputs.

With respect to structures, programmes for extending the irrigation network are of particular importance in all three countries, particularly Greece and Spain. In Portugal a politically and economically far-reaching agrarian reform covering the central and southern part of the country has been adopted by Parliament.

A first look at prices shows up a significant fact : for some products, cereals and meat in particular, prices in the three countries are very close to Community prices and in some cases even higher, whereas for others, most Mediterranean products in particular, prices are substantially lower than Community prices. This implies that, irrespective of the absolute level, the ratios between prices are different in the Community and in the countries in question and that these ratios are normally more favourable to Mediterranean products within the Community.

The import of agricultural products, particularly those in which these countries are in deficit, is often handled by a State monopoly or at least directly controlled by one. In some cases, both Greece and Spain have liberalized imports by setting up frontier mechanisms which are similar in concept to the Community levies. This is the case with milk products in Greece and feed grains, cheeses and certain fishery products in Spain. These mechanisms, however, often appear to function in a fairly rudimentary manner compared with the similar Community mechanisms. Frequent, sometimes daily, changes in the levies in line with variations in world prices are no doubt found impratical and burdensome in countries whose volume of trade cannot be compared with that of the Community. Furthermore, the levies are usually not a substitute for customs duties but are imposed in addition to them and to a series of other import charges, which mean that the overall level of protection is very high.

The grant of premiums or direct aid generally tends to accentuate the phenomenon mentioned on page 192 regarding the ratios between the prices of different products since, in most cases, the recipients are stock farmers or cereal growers. Spain, Greece and Portugal have, for example, each set up a system of premiums, under a programme for increasing national meat production, in order to make higher slaughter weights for cattle more attractive. These premiums have certainly been partly responsible for the growth of production caused by the increase in average slaughter weights.

XVIII. FISHERIES

Greece, Portugal and Spain are all maritime countries with sea-going traditions. In all three of them, fishing is of special importance, but the relative size and structure of the sector vary considerably. We can compare fleet tonnages and numbers of fishermen.

The Spanish fishing fleet is third in the world after those of the USSR and Japan. If we look at the numbers of vessels over 100 grt and the total gross tonnage, we see that the EEC fleet would be doubled by the accession of the three applicant countries[1].

	Number	Total grt
EEC	2 380	794 350
Greece	100	43 600
Portugal	165	126 500
Spain	1 797	580 000

These figures do not, however, give the whole picture, for a large proportion of the fleets of the three applicants consists of vessels of less than 100 grt, especially non-industrial boats. In Greece in 1974, the fleet consisted of 68 boats with freezing capacity, 798 other deep-sea vessels and about 25 000 little boats for small-scale local fishing, not all of them with engines.

The situation in Portugal is similar: of a total of 9 223 vessels in 1975, there were 7 436 of 5 grt or less, and 5 695 of them had no engines.

The Spanish fleet is more modern and on the whole the vessels are larger. Thus, in 1975 it comprised 4 763 boats of 20 grt or more, and some 12 000 smaller craft, mostly with engines.

[1]According to Lloyd's Register of Shipping, as at 1.7.1977 - La Pêche maritime, January 1978.

A comparison of the size of fleets with the number of fishermen in the three countries gives an idea of the structure of fishing:

Greece	(1976)	47 000 (including 15 000 part-time)
Portugal	(1975)	30 000
Spain	(1976)	72 000
Community	(1976)	150 000

The various difficulties which have arisen in fisheries in the last few years, and specifically the extension of exclusive limits to the richest fishing grounds, have so far led to a decrease in the size of the fleet only in Greece. In Spain, fleet modernization has meant the commissioning of some major vessels, which have maintained total tonnage. The Greek and Portuguese fleets are not unsimilar to that of Italy: they are ageing and need replacement, esepecially in Portugal. Both Greece and Portugal are giving state aid for replacement of boats and for renewal and modernization of fishing tackle.

Of the three countries, it is above all Spain which has appreciable fishing interests in the Community's zones. Boats from Northern Spain have traditionally fished off the Atlantic coasts of France, the United Kingdom and Ireland. A fisheries agreement is currently being negotiated. Spain has also made agreements with Senegal, Morocco and Canada, and is negotiating with the United States and Mauritania.

Greece has traditionally fished off the coasts of Mauritania, Libya and Tunisia. An agreement with Mauritania was suspended in 1976.

Portugal has apparently not made any fishing agreements. Until 1977, Portuguese boats were allowed into Community waters (off Greenland) and are currently fishing in the zones of the United States, Canada, Norway, South America and, it would seem, some West African states[1].

[1] Full information is not yet to hand about the applicant countries' fishing activities in the zones of non-member countries, or on fishing agreements made or under negotiation.

Both Spain and Portugal can be expected to have interests in Community fishing zones. Spain because it is traditionally oriented towards French, United Kingdom and Irish Atlantic waters. Portugal because it has suffered from the extension of economic zones (total ban in Angola, gradual reduction in particular in Norway, Canada and the USA) and is therefore likely to seek other fishing grounds. Greece, however, has never fished in the North Atlantic and its fleet does not seem to be equipped for this.

Since 1976 Portugal's economic zone has been extended to 200 nautical miles both off its continental coast and around the islands of the Azores and Madeira. Its continental coastline is 790 km long and the island coasts about 900 km.

Spain has recently extended its economic zone to 200 nautical miles along its Atlantic coast; it has given to understand that it may extend it in the Mediterranean. Its Atlantic coast is 1 938 km long between the Portuguese and French frontiers and about 300 km from the south of Portugal to Gibraltar. The extension also applies to the Canary Islands.

Up to now Greece seems to have maintained a zone of only 6 nautical miles; but the shape of the country with its indented coastline and the thousands of islands, particularly in the Aegean Sea, as well as the rocky sea-bed which restricts fishing means that an extension of this zone for fishing purposes is of little interest.

Up to now Community shipowners have not shown any interest in fishing in the waters of the applicant countries; but it cannot be excluded that the need to seek new fishing grounds might lead them to do so in the future.

In line with the size of their fishing fleets, the applicant countries' production is fairly large, but only Spain almost covers its internal requirements, while Greece and Portugal are in deficit to approximately the same degree as the EEC (the self-supply rate is 85%)[1].

[1] Some basic data on production and trade are given in Tables 57, 58 and 59.

The production of sponges, a traditional Greek export, has dropped considerably (40 t in 1976). However, Greece is developing the breeding of freshwater fish, in particular trout and carp.

None of the three applicant countries seems to have a real market organization but all three give subsidies for various activities and for structural adjustments. Subsidies for fuel oil are granted in Spain and Greece; Portugal does not seem to have provided for this. However, Portugal has a consumer price system which apparently makes it necessary to grant subsidies to auctions.

As regards production the accession of the three applicants will not cause a serious problem, but nor will it solve the problem of Community supplies. At the same time, one can expect problems regarding the exploitation of Community resources and the restructuring of the applicant countries' fleets.

Certainly Portugal and, above all, Spain represent serious competition for Community fishermen. An equitable solution will have to be found particularly since existing fishing fleets are already too large especially in countries where the job situation is precarious and fishermen cannot easily be transferred to other work, in spite of the fact that the Portuguese and Greek fleets are mainly made up of small, old vessels unsuitable for modern fishing.

XIX. RECAPITULATION AND CONCLUSIONS

The most significant alterations brought about by the change from a Community of nine countries to a Community of twelve would be the following:

- a drop in the average level of "wealth" per inhabitant and, consequently, greater disparities in income between member countries (the gross domestic product per capita would fall, given a static situation and 1975 conditions, from $ US 5 221 to $ US 4 760);
- an increase in the number of persons employed in agriculture (4.8 million extra units, a rise of over 50%) and particularly in their representativeness within an enlarged Community (the proportion of persons employed in agriculture of the total working population would increase from the present 9% to about 11%);
- an increase in the relative importance of those farms whose production is considerably affected by their difficult structural situation;
- an increased volume of production, and changes in Community self-supply rates:
  - a slight reduction in the immediate future (assuming a static situation) in the self-supply rate for products of which there are at present structural surpluses, such as meat and milk, but a reduction also for products in which the Community already has a deficit, such as coarse grains and vegetable proteins.
  - growth in the self-supply rate in the case of products where the Community, although it sometimes faces difficulties, is at present in deficit (citrus fruits) but also in the case of products of which there is already a surplus either overall or at certain periods of the year or which, in the new context created by enlargement, might soon produce surpluses (wine, olive oil, certain fresh and processed fruit and vegetables).

These changes, which would be considerable even given present production conditions and prices, would very probably be accentuated by the extension to the three applicants of the Community prices policy.

- a gradual change in trade flows both within the Community and between the Community and non-member countries (substitution between imported products and products of Community origin).

All these factors point to a situation which is going to aggravate considerably some difficulties which are already serious in the present Community.

As far as budget equilibrium is concerned, increased demand and requirements (increased political importance of the agricultural sector and of that part of it with weak structures) will be faced with a proportionally reduced capacity to contribute and therefore to make transfers.

Furthermore, the fixing of common prices, which is already difficult in present circumstances, would be further complicated both politically and economically by the differences in structures and productivity between the various types of farm.

Some differences in production costs and above all the differences in standards of living between the Three and the Nine might well make the concept of "satisfactory income" a very variable one.

Moreover, since inflationary trends in Spain, Greece and Portugal are stronger than in the Community countries which are in the "snake", the application of the present agri-monetary system in an enlarged Community could result in the introduction of monetary compensatory amounts in the applicant countries' agricultural trade. On this assumption, in the event of over-valuation of the green rates in the three countries in question, the application of the agri-monetary system would give rise to expenditure by the EAGGF, since the products to which monetary compensatory amounts apply are generally those in which the applicant countries have a shortfall.

The analyses which have been carried out seem to show that a fairly broad convergence of interests, not restricted to any one of the parties involved, speaks in favour of a cautious approach to the integration process in agriculture. The disadvantages of speeding up this process seem fairly evenly balanced among the parties and in general exceed the advantages which one or other of them might anticipate.

Rapid integration which was not accompanied by substantial structural change might cause increased production of some products thereby accentuating market imbalances. The ill effects of this would be a burden on the whole of society through the increased wastage of resources caused by the destruction or irrational use of surplus products. In the present member countries of the Community they would, however, be felt mainly, in the absence of correcting factors, by farms with structural weaknesses and in particular those specializing in Mediterranean products, which are less well protected by the support arrangements of the common agricultural policy and would suffer more competition from the new member countries.

For a large number of farms concentrated in certain regions, the structural factor, in conjunction with physical and climatic conditions, makes it practically impossible to change to other types of farming in order to adapt supply to changing demand and thereby profit from the positive effects of an enlarged market and growing demand in some sectors, particularly for livestock products.

The applicant countries would receive some financial advantages (Community financing of agricultural policy) and would profit from the abolition of the remaining customs duties which the Community applies to their products and from the effects of the mechanisms provided for by the common agricultural policy (reference prices, protective clauses and some quantitative restrictions[1]), particularly in respect of Mediterranean products, in which they would be most competitive.

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[1] Products in Annex III to Regulation 1035/72 on the common organization of the market in fruit and vegetables.

However, demand for these products is often in elastic and supply is determined by structural conditions and is therefore very rigid. An increase in the supply would therefore exert constant pressure on prices and could reduce or even absorb any advantage to be obtained from an increase in the volume of exports.

Moreover, if the three applicants were, without adequate structural preparation, to give up the various agricultural policy measures (import restrictions, direct and indirect aid, etc.) which at present guarantee a certain balance in production and incomes between Mediterranean products and others, particularly livestock products, this could worsen their already adverse trade balances. The structural situation and the unfavourable climatic conditions are considerable handicaps to lines of production which are more vulnerable in their case, such as coarse grains, milk and meat in particular.

More generally, the unphased adoption of the common agricultural policy, which must achieve Community objectives and is subject to Community constraints, may in some cases run counter to the specific development needs of a given country. For example, the measures to eliminate structural surpluses in the Community as a whole could increase the difficulties of a Member State which might, individually, be greatly in deficit and whose deficit weighed heavily on its trade balance. Individual economic balance still plays an essential role in view of the unsatisfactory degree of development of Community policies other than the agricultural policy (lack of economic and monetary union, limited development of regional policy, etc.).

The growth in production and the changes in trade flows might also affect non-member countries other than the applicants for whom at present the Community is the principal outlet for agricultural products.

These changes could be felt particularly by the non-member Mediterranean countries, whose products are in direct competition with those of the applicants and who would see the relative advantages provided by the preferential agreements with the Community eroded.

CHAPTER F

EXTERNAL RELATIONS AND ENLARGEMENT

The effects of enlargement on the Community's external relations are likely, given the production and external trade structures of the applicant countries, to make themselves felt most strongly in the Community's relations with Mediterranean countries, developing countries, particularly the ACP States, and those countries covered by the Generalized System of Preferences.

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XX.1. COMMUNITY POLICY TOWARDS THE MEDITERRANEAN COUNTRIES

1. TURKEY

The Agreement concluded in Ankara in 1963 set up between the Community and Turkey an association similar in structure, scheduled development and political intent to the Athens Agreement.

The Association has progressed through successive stages in which the prevailing atmosphere varied considerably.

In 1974 relations entered a very critical phase and have deteriorated ever since. Indeed, since the Association Council meeting, finally held in December 1976 after repeated postponements due to persistent tensions between the two parties, this deterioration has been giving grounds for the gravest concern both in Turkey and in the Community.

Admittedly, the Association has not been going well for Turkey in the economic and trade sectors, as emerges clearly from the report of the expert working party set up by the Association Council in 1975 to study the effects of the growing imbalance in Turkey's trade with the Community[1] since 1973. The causes of the imbalance are both structural and cyclical.

No real improvements have been made since 1976. This is essentially because the prospect of enlargement, and in particular of Greek accession, has prompted Turkey to think in terms of a

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[1]See Table 60.

modification in the Association links.

Naturally, Turkey is also concerned about the economic effects of the accession of the three applicant countries. The problem areas are sensitive industries, the employment prospects of Turkish workers in the Community (whose earnings are crucial to Turkey's balance of payments) and, above all, agriculture. Nevertheless, the nature of EEC-Turkey trade flows and the relative size of the trade element in the Association ties mean that the economic impact of enlargement will be felt less strongly by Turkey than by the other Mediterranean countries.

Because of the Ankara Agreement, Turkey will also be the only associate country to have free movement of workers with the Community by 1986.

Affirming as it has since 1963 its concern for balanced relations, the Council stressed when accepting Greece's application that it would take care to ensure that the planned enlargement of the Community had no adverse effect on the normal development of the Association ties with Turkey.

The Community must therefore hold to this line and seek, in close collaboration with Turkey, the practical solutions that will have to be adopted to translate this political will into reality.

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XX.1.2. COUNTRIES COVERED BY THE OVERALL APPROACH

The Community's need for a specific Mediterranean policy was recognised from the inception of the European institutions[1]. Subsequently, the importance of a certain uniformity in the theory and pratice of our relations with virtually all the Mediterranean countries was forcefully reiterated by the assembled Heads of State or Government of the Member States and new members of the European Community (Paris Summit of October 1972). They emphasized that "(The Community) attaches essential importance to the policy of association as confirmed in the Treaty of Accession and to the fulfilment of its commitments to the countries of the Mediterranean basin with which agreements have been or will be concluded, agreements which should be the subject of an overall and balanced approach".

A series of agreements giving effect to this political will were concluded with the Maghreb countries, Israel, the Mashreq countries, Malta and Cyprus; these were intended to lay - or in certain cases restore - the foundations for an improvement in the economic balance and thus contribute towards the political stability of the whole European Mediterranean region.

The accession of Greece, Portugal and Spain will indeed help to stabilize the northern Mediterranean area economically, and therefore politically. Closer analysis reveals, however, that problems are likely to occur for certain southern Mediterranean countries and Malta and Cyprus, and in certain sectors of the economy.

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[1] See Protocols to the Treaty of Rome.

One thing is certain, however : the problems in agriculture will differ from those in industry, and their extent will vary among the countries concerned according to the relative importance for each country of the two sectors.

(a) MAGHREB, MASHREQ, ISRAEL

An analysis of overall trade between the Community and its Mediterranean partners gives us an initial idea of the extent of the problems. Table 61, which sets out import and export figures for the EEC and both its southern Mediterranean partners ("the Eight") and the applicant countries ("the Three"), shows that the importance of the Eight to the Community as trading partners is roughly the same as that of the applicant countries.

The Eight therefore constitute a significant outlet for Community goods (approximately 7% of total exports), with a dynamic market and a trade balance showing a large EEC surplus. There is no doubt, however, that if this imbalance were to increase still further as a result of enlargement, the Community's export openings could well be restricted. It has been shown that, in international trade, countries having a trade deficit with a given partner tend, when the deficit reaches a certain threshold, to turn to other suppliers.

As regards imports, the Community is an important market for six of the eight southern Mediterranean countries, their exports to the Community representing a considerable proportion of their total export trade (1976 figures):

Morocco[1]	54.1%	Egypt	21.7%	Israel	36.6%
Algeria[1]	56.3%	Syria	49.0%		
Tunisia	51.8%				

[1] 1975 figures.

Agriculture

Agriculture forms a key economic sector for most southern Mediterranean countries. Table 62 shows the importance of agriculture in terms of employment, trade and domestic productions. It reveals, for example, that :

- between 45 % and 55 % of the working population in Morocco and Tunisia is employed in agriculture;

- agriculture accounts for over 20 % of GDP in Morocco, and over 10 % of GDP in Tunisia; the proportion of agricultural produce exported itself accounts for a significant percentage of GDP ;

- in the case of Israel, Morocco and Tunisia, agricultural exports cover between one quarter and one fifth of total exports to all countries. Despite this, it should be borne in mind that of the Eight, only Morocco (with the notable exceptions of 1974 and 1975) and Tunisia have a surplus on their agricultural trade balance, while the others are net importers and, with the exception of Lebanon, have growth rates for agricultural production that are lower than the growth in demand ;

- for the main agricultural products (citrus fruit, preserved fruit, wine, tomatoes, preserved vegetables and olive oil) imported by the EEC from the Mediterranean region the applicant countries are generally speaking bigger suppliers than the southern Mediterranean countries.

The large Community market is a crucial factor for the agricultural sector. Table 63 and 64 show that in the case of Morocco, Tunisia and Israel, exports of agricultural produce to the Community represent between 63 % and 70 % of total agricultural exports.

Accordingly, enlargement, which would increase the Community of Twelve's self-supply rate for certain of these products, could in some cases pose economic problems that would be difficult to resolve. This is particularly true of Morocco, Tunisia and Israel but is also true of the other countries to a lesser extent.

Moreover, the new marketing terms offered to the applicant countries could lead in the long run to increases in their production, particularly of fresh or processed Mediterranean produce.

There could thus be strong pressure within the twelve-member Community for the introduction of restrictive measures, which if adopted would increase still further the difficulties facing certain agricultural products from the southern Mediterranean countries on the Community market.

Also, it should not be forgotten that enlargement ought to help to opening the three applicants' markets to the southern Mediterranean countries.

Industry

Acute competition problems are liable to arise even in the industrial sector.

The Community's main manufactured imports from the southern Mediterranean countries consist of a relatively small number of products :

	Breakdown of manufactured exports to the EEC
textile products (yarn, fabrics and garments)	32.6%
petroleum products	19.1%
chemicals and artificial fertilizers	14.0%
iron and steel products	2.4%
precious stones[1]	19.4%
other	12.5%
	100%

An analysis of the structure of exports from the Eight and from the three applicant countries to the Community shows that a large proportion of their trade is in direct competition. This is particularly true of textiles, petroleum products, chemicals and artificial fertilizers, and iron and steel products :

[1] 44% of Israeli exports

Main EEC manufactured imports

from applicant countries and southern Mediterranean countries

1976 million EUR

Country	Textile products	Petroleum products	Chemicals	Iron and steel products
Greece	341.3	163.9	43.2	24.9
Spain	178.7	102.9	127.9	166.9
Portugal	223.2	4.9	42.4	24.9
Algeria	2.8	63.4	3.9	19.0
Morocco	98.7	1.2	13.0	-
Tunisia	112.9	5.2	51.8	-
Egypt	24.6	94.8	6.3	4.4
Jordan, Lebanon, Syria	3.5	3.2	3.0	0.4
Israel	89.7	26.8	64.9	1.3
Total applicant countries	743.2	271.7	213.5	202.7
Total southern Mediterranean countries	332.2	194.6	142.9	25.1

This finding is borne out by an analysis of the source of Community imports of manufactured products; in 1976 the Community bought over four and a half times more manufactures from the three applicants (3 300 million EUR) than from the eight southern Mediterranean countries (749 million EUR).

The new conditions of competition arising from enlargement will affect all the southern Mediterranean countries, since generally speaking they all export to the Community the products listed above.

Nevertheless, there is a risk that in the early stages certain countries would be more severely affected, owing to the greater part played by manufacturing industry in their economies or overall exports; for different reasons Egypt, Syria and Israel fall into this category (see Table 65). The prospects for industrial development and the resulting export opportunities for certain countries, such as Algeria, should, of course, also be borne in mind.

The effect of enlargement would in theory be to place manufactures from the Eight, which are already entitled to duty-free entry, and from Spain[1] which provides roughly two thirds of total exports from the applicant countries, on an equal tariff footing. This implies the loss of a relative advantage for the southern Mediterranean countries. The effects of such a loss could, however, be mitigated by the improved access to the new members' markets, which in addition are conveniently located.

The real danger facing the southern Mediterranean countries stems rather from the fact that enlargement may increase the Community's production surplus in certain fields, leading to an upsurge of protectionist pressure from industries feeling themselves at risk. The southern Mediterranean countries could then find themselves the target for restrictive measures or limitations, in a situation analogous to that experienced in 1977 in the textile industry.

Such a state of affairs would call into question the whole of the trade element in the cooperation agreements with the southern Mediterranean countries, the Community having consistently taken the stand that these countries should concentrate on developing an industrial sector rather than boosting agricultural production. Indeed,

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[1] Greece and Portugal already enjoy access to the Community market on the same conditions as the Eight.

industry already plays an important part in the economy of these countries, and should lead the way in their development.

Labour

One final factor to be taken into account is the effect of enlargement on the emigration of workers from the countries in question, in particular the Maghreb countries.

At the end of 1976 an estimated 710 000 Maghreb citizens were working in the Community, including 450 000 Algerians, 180 000 Moroccans and 85 000 Tunisians.

The following table gives a breakdown of immigration from this source into the main Community countries of destination :

	Belgium	Germany	France	Netherlands
Algerians	3 000	1 500	440 000	-
Moroccans	27 000	15 500	130 000	29 000
Tunisians	4 000	10 000	70 000	900

The Maghreb cooperation agreements simply confirm the principle of equal treatment for Maghreb and national workers as regards working conditions, pay and social security, making no reference to access to employment.

Responsibility for recruiting Maghreb workers lies with the Member States, who must, however, give priority in employment to Community workers; the sole exception is France, where privileges are accorded to Algerian workers under the Evian Agreements, allowances being made for this in the Community rules.

Lastly, these countries derive a large part of the resources needed to achieve balance of payments equilibrium from their emigrant workers' savings and the free movement of workers in the Community of Twelve may have an effect on the openings for that labour.

Conclusions

The above analysis shows that the enlargement of the Community could give rise to certain trade imbalances causing economic and social problems, with possible political repercussions, in the countries concerned, unless some attempt is made to strike a new balance and find new areas of complementarity between the southern Mediterranean countries and the new Community.

In short, if enlargement has the effect, as is likely, of inaugurating the gradual easing of access for Spanish, Greek and Portuguese products to the markets of the other Member States, to the detriment of similar products from the Eight, then the latter countries would be faced with increasingly serious difficulties to which no easy solution could be found. The need to redirect their trade - in practice, to switch to new types of production - would involve these countries in major adjustments and expenditure far exceeding their own means, all of which would take considerable time.

In this connection, the maximum advantage must obviously be taken of the transitional periods in order to implement the adjustments needed in various sectors in the Community and the southern Mediterranean countries alike.

An overall strategy covering all aspects of economic and social development in the enlarged Community and the southern Mediterranean countries would ensure that consistent measures were adopted.

These adjustments should be defined through active cooperation based on a joint examination of the two sides' agricultural and industrial situations and of the prospects offered by the markets.

The measures adopted in the context of this cooperation would of course have to be consistent with the other objectives of the new Community and should accordingly be integrated into a larger overall structural programme of the type proposed in Part I.

Although it would be premature to anticipate the nature of those measures at the present stage in the proceedings, some broad guidelines can be sketched out.

In the agricultural sector, it will be a question of:

facilitating, if necessary, certain changes in the structure of production in the southern Mediterranean countries to match their domestic food requirements and developing, wherever possible, the cultivation of protein-rich products, in which Europe shows a large deficit.

Community financial aid programmes should be used extensively for these purposes.

As regards the industrial sector, industrial cooperation should be strengthened, and trade between the enlarged Community and the southern Mediterranean countries developed. Here the need is to find ways :

(i) to ensure that investments can be directed to take account of market outlets;

(ii) to analyse the trade flows between the two groups of countries, with the aim of avoiding where possible excessively sharp increases in the flow towards either of the partners.

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(b) MALTA AND CYPRUS

These countries concluded Association Agreements with the Community in 1970 (Malta) and 1972 (Cyprus). The Agreements are intended to lead eventually to the establishment of a customs union. Economic and financial cooperation have also been negotiated under the Overall Approach.

The main characteristics of the two islands can be summarised as follows :strategically important location; small area and population; economy dependent, particularly in the case of Cyprus, on agriculture, processing industries and tourism;

trade carried on mainly with the United Kingdom; and emigration to English-speaking countries.

As regards trade, the 1974 figures show that trade (import/export) with the Community represents 51% of overall trade for Cyprus and 65% for Malta. The accession of Greece alone would raise this figure, in the case of Cyprus, to 59% of imports and 56% of exports[1].

It is likely, moreover, that in the short and medium term trade flows will be concentrated still further on the nine and twelve-member Community. The longer-term trend will depend on both the trade arrangements accorded by the Community to the islands and the development of markets in the Middle East, for Cyprus, and North Africa, for Malta.

Malta and Cyprus are at present enjoying duty-free access to the Community market for their industrial exports and tariff concessions on most of their agricultural exports.

Problems lie ahead for EEC-Cyprus trade relations in the agricultural sector, and these may be exacerbated in the case of certain major products (fruit and vegetables, wine) by the inclusion in the Community of three new Mediterranean countries.

The gravity of the situation is increased by the fact that agricultural products make up 85% of the island's exports.

In any event, the measures outlined above would need to take account of Malta and Cyprus, whose situations are similar, if not to the same extent in each case, to those of the other countries covered by the Community's Mediterranean policy.

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[1] On accession, Greece would have to endorse the terms of the Association Agreement with Cyprus, to which it currently applies "third-country" treatment.

(c) YUGOSLAVIA

1. Under an Agreement concluded in 1973, Yugoslavia has non-preferential links with the Community but, through the Generalized System of Preferences, enjoys privileged access to the Community market. It is difficult, however, to assess the exact impact of the GSP on Yugoslav trade with the Community, since approximately 40% of the country's foreign trade has traditionally been with the Community for reasons of geographical proximity.

The general points made in the section dealing with the repercussions of enlargement on the GSP naturally apply to Yugoslavia.

2. Enlargement threatens to erode, in "market share" terms, the position of certain Yugoslav exports on the Community market.

Yugoslavia will face stiff competition from the applicant countries on the Community market because of their comparable level of development and similar export structure. The development of trade with Yugoslavia will depend to a large extent on the influence that enlargement has on the GSP.

The adoption of the CCT by the three applicants might, however, help to stimulate exports to those countries. Yugoslavia currently has relatively little trade with them, the one exception being Greece, which imports considerable quantities of Yugoslav beef and veal and sheepmeat, but Greece's accession and its subsequent application of Community preference might result in Yugoslavia progressively losing this export trade.

It must not be forgotten, however, that the real problem in the Community's relations with Yugoslavia remains a political one and that the deterioration in economic relations, which is already taking place and is likely to get worse, is hampering Yugoslavia's attempts to strike a balance between its Eastern and Western partners. As it is difficult to see what reciprocal concessions could be made in the trade field under a non-preferential agreement, it will probably be necessary to look for arrangements in the financial or social fields or under the ESP.

The social field is relatively important given the large number of Yugoslav workers employed in the Community. At the end of 1976 it was estimated that 460 000 Yugoslavs were employed in the Community, of whom 387 000 in Germany and 50 000 in France. However, since these workers are highly skilled problems will arise only in the longer term.

One last point that will have to be taken into consideration in assessing the effects of enlargement on relations with Yugoslavia is the question of transport. In view of its geographical position, the question of transportation and transit through Yugoslavia is of crucial importance to Greece, and after accession this will become a matter for the Community, which will probably have to negotiate an agreement in this sector with Yugoslavia. It is clear that the Community will be faced at that moment with demands from the Yugoslavs on which it will probably have to give way.

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XXI.1. DEVELOPMENT POLICY

Accession is also likely to have certain important consequences for the consolidation of the Community's development cooperation policy.

The fact that the applicant countries are in an intermediate position between the developed and the developing countries may create awkward problems for the consolidation of development policy. For some years now, major efforts have been made to harmonize and coordinate cooperation policies within the Community. The results of these efforts have been particularly visible at a number of international meetings, where the Community has been able to coordinate its contribution or even speak with a single voice (as in the CIEC).

The accession of the three applicant countries may have two types of consequences here:

(i) it may slow down the overall process of harmonizing the cooperation policies of the Member States and hamper the consolidation of the Community's development policy; it is possible, for example, that it will become more difficult in future to enter into certain internal or external commitments to increase aid (such as the ODA target of 0.7% of GNP, the proportion of budget resources allocated by the Community to the various programmes of aid to developing countries, etc.);

(ii) it may lead to differences between the positions of the Member States on a number of points which would have the effect of dividing them into two separate categories and prevent the adoption of coordinated or common Community positions in international bodies.

Enlargement could also have the effect of bringing about certain changes in the Community's policy on aid to non-associated countries.

An analysis of Spanish aid flows[1] shows that over the period 1969-73 Latin American countries received 69% of total Spanish commitments, an average of $ 54 million per annum.

It is therefore not inconceivable that once it becomes a member Spain might call for a special effort on the part of the Community to include those countries in the list of recipients of EEC aid to non-associated countries.

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[1] OECD data (excluding grants)

XXI.2. THE ACP COUNTRIES

As far as relations with the ACP are concerned, one can argue that the enlargement of the Community could generally benefit the ACP. However, as a result of the elimination of customs duties and non-tariff measures on products from the three applicant countries, certain ACP exports will find themselves in competition with similar or substitute products, the main products concerned being alcohol, textiles and certain preserves.

However, as regards specifically tropical products (coffee, tea, cocoa, spices) the opening-up of the market will be beneficial since the three applicants currently levy customs duties.

For the other important products exported by the ACP States - oil , copper, ores, phosphates and wood - there should be no appreciable change in the present situation. For ACP manufactured products, the new situation could theoretically mean an extension of the potential market.

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XXI.3. GENERALIZED PREFERENCES

. Before studying the medium-term effects of enlargement on the GSP, it should be noted that the three applicants are granted preferences by a number of non-member countries which will be withdrawn after accession.

Greece has in turn granted limited preferences (tariff concessions up to a maximum of 20%) to a group of countries (including Spain, Turkey, Yugoslavia, Israel, Tunisia, Egypt, etc.) which have agreements with the Community. This problem will therefore be settled when Greece adopts the GSP and the preferential agreements on accession.

The foreseeable consequences extend beyond the technical sphere and affect the Community's chances of continuing its policy in this field in the eighties in line with the intention it expressed in a resolution adopted by the Council in March 1975.

Indeed, the possibility of extending and at the same time improving the system, already reduced by the world economic recession, would seem likely to become even more remote with enlargement.

For three years the world recession has accentuated the disparities between the industralized countries and the poorest of the developing countries; it has also made the Community restrict its offers under the GSP for products affecting Community industries undergoing a crisis. This year, for example, the nominal value of the Community's offer has increased by only 2.4%, signifying a reduction in real terms for the first time. The products for which the offer has been frozen are generally ones in respect of which the applicant countries will cause an appreciable rise in the Community's production capacity, thereby limiting even further the chances of an improvement in the GSP for the developing countries.

The Community could therefore be expected to experience increasing difficulties in improving the system for both agricultural and processed agricultural products, and for manufactured products considered sensitive.

In conclusion, the present GSP may therefore be expected to continue until 1980 without any recurrence of the major increase in the volume of the Community offer witnessed at the outset.

The application of the new system beyond 1980 will largely depend on the recovery of the world economy and the Community's ability to solve its internal economic problems, including the integration of the three applicant countries, whose economic structure puts them in an intermediate position between the industrialized and the less developed countries.

In any event, those countries which benefit from the GSP will also be able to benefit from the opening-up of the markets of the three applicants.

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XXI.4. TARIFF POLICY : THE GATT

The foreseeable consequences of the accession of Greece, Portugal and Spain do not present any notable difficulties as regards the GATT aspects of multilateral relations.

Although the enlargement agreements will in any event have to be presented and examined under Article XXIV of the General Agreement, completion of the ensuing detailed discussion that it will be known whether negotiations under Article XXIV (6) are necessary, such examination should not give rise to any difficulties.

The following can be ascertained from a general look at the applicant countries' tariffs:

XXI.4.1. Industrial products

(i) For Portugal, the level of the bound duties is relatively low (these are mainly specific duties) and appear to be roughly equivalent to their counterparts in the CCT. Almost all products seem to be covered by bound duties, as is the case with the Community.

(ii) For Greece, the level of the bound duties is very much higher (up to 60% ad valorem) than in the CCT. Furthermore, barely 30% of the tariff headings are affected by the GATT undertakings[1].

(iii) For Spain, the level of the duties bound under GATT is also much higher than the bound duties in the CCT. There are relatively few bound headings (less than 20% of the total).

Setting aside Portugal, whose situation with regard to GATT is very similar to that of the Community, it transpires that the incorporation of the applicant countries' tariff undertakings into the Common Customs Tariff will have a positive effect, given the high level and limited number of duties bound by Greece and Spain for these products.

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[1] Greece has already aligned its duties on the CCT for 62% of its imports and is in the process of completing the operation.

XXI.4.2. Agricultural products

It would be difficult to make such definite pronouncements concerning these products: the mere comparison of bound duties is not sufficient, since they represent only a small proportion of the whole; the volumes of trade involved in each tariff line are likely to weigh heavily on the results. However, without making too hazardous a guess, a balanced situation may be predicted.

The Community can therefore be expected to achieve a positive overall result in negotiations under Article XXIV (6), but it will be relatively minor owing to the large difference between the Nine's volume of trade and that of the applicant countries with other countries.

With regard to the more general effects of enlargement on the Community's commercial policy[1], account must also be taken of the following:

The applicant countries will have to adopt preferential arrangements benefiting most other countries with the exception of the United States, Canada, Australia, New Zealand and Japan. It should be noted, however, that these developed countries are precisely the ones which, traditionally, are most active in the defence of their trade interests and that any contracting party has the right to request consultations when it considers that an advantage to which it is entitled under the General Agreement is, or is likely to be, unduly compromised by a preferential arrangement or the subsequent extension of its scope.

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[1] Steps should be taken to ensure that, during the Multilateral Trade Negotiations, Greece, Portugal and Spain do not grant other countries tariff concessions at duties lower than the CCT duties or on products not bound in the CCT (such as those subject to variable levies). The three countries' room for manoeuvre on tariffs is such that this could be avoided.