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GREECE AND THE EC

Note by Foreign and Commonwealth Office

Attached is a copy of the Greek paper, which is
Reference A to the Revise of this Brief.

Foreign and Commonwealth Office

24 March 1982

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THE FOREIGN MINISTER OF GREECE

Athens, 19 March 1982

Mr. President,

I have the honour to submit to you a document with the position of the Greek Government on its future relations with the European Communities. It is the intention of the Prime Minister Mr. Papandreou to raise this issue at the forthcoming European Council.

Please accept, Mr. President, the assurance of my highest consideration.

(s.) YIANNIS EARALAMEOPULOS

His Excellency
Mr. Leo Tindemans
President of the Council
of the European Communities
Brussels

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POSITION OF THE GREEK GOVERNMENT ON GREECE'S RELATIONS WITH
THE EUROPEAN COMMUNITIES

1. The economy of Greece differs markedly from that of the Community as regards both its level of development and its structures.

The special features of the Greek economy hamper its smooth functioning within the Community framework, the more so because the Greek Accession Treaty ignored them.

Community rules and mechanisms continue to be shaped and to operate to suit the central and developed economies for which they were of course originally conceived, whereas they have an adverse effect upon regional and less developed economies.

Because the enlargement of the Community did not go hand-in-hand with adjustment and differentiation of Community rules to take account of the special nature of the economy of Greece, the accession of Greece is either exacerbating some of our nation's problems or making their solution more difficult.

The repercussions of accession upon the economy of Greece were of course aggravated because they appeared at a time of serious international crisis.

Thus the economic problems which at present confront Greece principally spring from structural weaknesses, inequalities and imbalances within the economy, but their severity stems to some degree both from the international crisis and from the consequences of accession.

2. The Greek Government feels that it must draw the attention of the Community both to the special nature of Greece's problems and to the policy which it has devised to deal with them, in the hope that the Community will effectively recognise the need for special arrangements permitting the development of the Greek economy and, more generally, of Greece's links with the Community, without

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/ dispute

dispute or conflict and to the advantage of both sides.

The Greek Government is ready to examine together with the Community the possibility of working out such special arrangements which would be consistent with Greek social and economic programmes and contribute to the attainment of its development objectives.

In this context, "special arrangements" should be taken to mean that, on the basis of consideration of the general interest and the necessary political resolve, a decision should be taken to introduce differentiation into the management of Community policies and to evolve new mechanisms which will make due allowance for the special nature of the economy of Greece.

3. The structural defects of the Greek economy are briefly the following:

Weak economy ?

- an over-developed tertiary sector, a wide-spread black economy and a pronounced degree of parasitism. ?
- agricultural production accounts for only 17.2% of GNP whereas the agricultural population is 30% of the total population.
- the limited contribution (19.6%) of processing industries to GNP.

Weaknesses within each sector are as follows:

Industry:

- 85% of companies employ fewer than five persons.
- Greece imports 80% of its capital equipment (machines).
- investment in processing industries represents only 4% of GNP.

Agriculture

- under-employment of a large part of the active population which, under present circumstances, cannot be absorbed into other sectors of the economy, and certainly not in the workers' home areas.
- the extremely small size of agricultural holdings and their great fragmentation.
- the inadequacy of the infrastructure and organisation for marketing and processing agricultural products.

Lastly, a basic feature of the structure of the Greek economy is the existence of very great social and regional inequalities, and great disparities in incomes, along with the distorted over-development of the Athens area.

4. The fact that the international economic crisis has hit an economy which while suffering from structural inadequacies has simultaneously to contend with the unsteady effects of accession has led to a serious aggravation of its current problems.

Between 1978 and 1981 the following developments may be noted:

- the rate of inflation increased and hovered during those years around 25%, more than double the rate of previous years and of the average for the Community,
- the rate of increase in GNP fell appreciably each year and in 1981 the figure was negative for the first time.
- the current trade deficit doubled and in 1981 rose to 6.5% of GNP despite the continuing recession.
- the public sector deficit increased dramatically and in 1981 came to 17% of GNP.

A 2.3 bi

5. It became necessary to take urgent measures to reverse this negative trend so as to ensure the minimum level of economic balance and stability required to deal with structural weaknesses.

The Greek Government expects that the measures it has taken on financial, monetary and credit matters will have the following effects in 1982:

- a slight increase in national income

2.2 1/2 %

- a slight fall in the balance of payments deficit

- a fall in the rate of inflation and

to below 20%

- an appreciable decline in the public sector deficit, which it is estimated will be reduced from 17% to 12% of GNP despite the continuing imperative need to devote 5% of GNP to defence expenditure.

1982

18 mths compulsory military service.

At the same time, as part of the more general incomes and social policy, the Government took a series of measures for the redistribution of income in favour of the economically weakest classes who had suffered particularly in recent years; these measures are in fact the basis, in the first instance, of the awaited revival of the economy.

The Government's economic policy for 1982 is supplemented by certain institutional measures which, on the one hand, derive from the particular need - in view of the threatening dimensions of the phenomenon - to remedy the situation of undertakings which are overburdened by debt and, on the other hand, are designed to create incentives to investment.

6. The Greek Government feels that financial, credit and monetary measures alone are not an adequate basis for a successful economic policy and that the need is for a decisive long-term political solution to structural inadequacies. The development of the Greek economy will be based on national

/programming

*Have witnessed wages
operation - reduced all
lower/middle range incomes.*

programming, oriented towards solutions to sectoral problems and regional imbalances. The Government is preparing a five-year programme for economic development and the restructuring of the Greek economy, the implementation of which will begin on 1 January 1983. The programme provides for the modernisation of the Greek economy to enable it to meet the demands imposed by international competition. This objective will, however, be fulfilled within the framework of basic and unswerving politico-economic options.

The first option is the development of industry with a view particularly to boosting production, increasing added value, developing strategic industries and advanced technology industries and also supporting small and medium-sized undertakings.

*Co's can't pay back debts
or even interest on debt. If
with govt. will change
loan into equity.*

An equally crucial option, however, is keeping the population on the land, within the framework of increased administrative and economic decentralization.

Essential prerequisites for this are:

- support for agricultural incomes;
- substantial aid for the co-operative movement;
- the improvement of social and cultural infrastructures in the country.

*Govt. allow
massive redundancies*
*Try to get
more scientists &
technicians.*
Wol - no down

7. The basic choice of objectives is first and foremost a industries problem and a responsibility for the Greeks themselves. At the same time, however, the harmonious development and convergence of the economies of the Member States are basic aims of the Treaty establishing the Community.

*Want large scale
of co-operatives.*

The Greek Government believes that the development policy which it has forged does not merely correspond to Greece's own national interests.

*Want higher
increases in
farm prices.*

/The Community

The Community has repeatedly declared the need for Community action to combat inequalities between its regions and members. These declarations have not, however, borne fruit either because suitable mechanisms have not yet been created or because existing policies and mechanisms fail to operate in accordance with the necessary criteria or in the right direction or do not operate effectively because the resources made available are inadequate.

Particularly inadequate is the transfer of resources from the Community budget to the less-developed countries and especially to Greece. In order to have an entirely positive effect, such transfers would - and this never happens - have to offset the negative economic consequences deriving from the trend of trade whether at international level or between the internal market and imports, or from the unfair distribution of activities and the unfavourable terms of trade within the Community which adversely affect the least-developed members and particularly Greece. The result of this situation is the constant widening of imbalances within the Community. For Greece especially, these disparities are the result not only of the very particular structural inadequacies of the Greek economy but also of the unfavourable treatment by the Community of Mediterranean regions as compared with the others with regard to intervention prices, levels of support and the level of protection of Mediterranean products.

To this should be added the fact that even within the Mediterranean area the Greek economy receives unfavourable treatment. Indeed, a number of regulations providing for greater intervention and participation by Community financial instruments in Mediterranean programmes and Mediterranean regions have not been extended to Greece.

It should also be noted that the common organisation of markets which covers on average 95% of the agricultural production of the other nine countries only covers 75% of that of Greece, which is in general less effectively covered.

/8. The discussions

8. The discussions in the framework of the mandate of 30 May show that there is now awareness within the Community that its way of functioning is going to create unacceptable situations. In the opinion of the Greek Government the most important of these is the widening of economic imbalances between the more and less developed members. This problem is one of absolute priority for the cohesion of the Community.

The mandate of 30 May traces out certain guidelines which show that the problem has been properly understood. However, the reforms envisaged are not such as to provide a thorough-going solution to regional imbalances as they do not afford the means of achieving the objectives set.

9. The Greek Government believes that the peculiar problems of the Greek economy can be overcome through a series of new regulations different from those which govern present relations between Greece and the EEC.

This new situation presupposes the extension and strengthening of the Community's financial instruments and at the same time the recognition by Community bodies of the possibility, in specific cases and for a reasonable period of time, of derogating from certain Community rules. In particular the following are necessary under the five-year development programme:

- (a) increased Community support for specific projects for the development of sectors, branches and regions, and
- (b) the recognition by Community bodies for a sufficiently long period of the need for derogations from Community competition rules (granting of development incentives, provisional and regulated protection of newly-created industries, granting of export aid for small and medium-sized undertakings, exemption from production limits).

The Greek Government believes that these arrangements can be based in part on the activation of Protocol No. 7 to the Act of Accession of Greece which recognises the need to settle special problems of concern to Greece and recommends that the Community

institutions implement all the means and procedures laid down by the EEC Treaty, particularly by making adequate use of Community resources. It also recognises in particular that, in the application of Articles 92 and 93 of the EEC Treaty, it will be necessary to take into account the objectives of economic expansion and the raising of the standard of living of the population.

to
10. With particular reference/the various Community financing instruments, we consider that:

- the criteria must be reviewed so that the way in which resources are granted and used corresponds to the particular features of the social, economic and administrative situation in Greece;
- the resources available must be increased and the activities of the Funds co-ordinated;
- participation in the financing of projects must be considerably increased and expenditure on social infrastructure covered;
- a new Fund with special resources must be created for the development of the Mediterranean regions with its own resources;
- there must be greater scope for financial resources to be procured by the NCI.

11. We attribute particular importance to the financing of special long-term programmes for the least-favoured regions of Greece (islands, frontier and mountain regions) to cover everything from small land improvement projects to tourist development and the development of small industry crafts and agro-industrial units. We feel that there must be combined invention by the Community Funds and the financing mechanisms of the Community with the above development projects being financed up to 80%.

The specific geographical position of Greece (which has no land frontiers with the Community but an enormous island surface

area) requires particular attention on the part of the Community bodies, given that transport costs, particularly from the Greek islands, are so high as to reduce even further the competitiveness of products from such regions.

12. The Greek Government considers that Athens and Thessaloniki cannot be excluded from finance by the Community Funds. Living conditions in Athens, for example, (environmental pollution, traffic congestion, total lack of town-planning, absence of an efficient social infra-structure) constitute an enormous economic problem, the solution of which will require considerable financial resources to be made available. In the Athens and Thessaloniki regions both the projects carried out and the criteria which will be applied for financing them will of course be adapted to the problems involved, i.e. the aim will be infrastructure development to improve the quality of life, decentralisation of industrial activity to the provinces, etc.

13. One point to be stressed is that Greek agriculture, having as it does to operate side by side with the developed and modernised agricultural systems of the other Member States, faces acute problems under the CAP rules.

In order to alleviate these problems, the Community must provide finance and technical aid for carrying out major land improvement projects, for developing certain sectors, such as fishing by means of the efficient exploitation of Greek lagoons, for setting up and organising agro-industrial complexes and for developing co-operatives.

However, the immediate problem of income support for small farmers remains of vital importance. Given the high rate of inflation in Greece and until such time as it is brought down close to Community average, the proposed Community increases will be useless for Greek farmers, particularly when it is borne in mind that, given the structure of the Greek economy, intervention prices constitute for them the decisive element in their relations with the commercial and industrial sectors.

The problem of income support can only be dealt with by means of exceptional arrangements including direct and indirect aid for incomes, to be provided to a large extent by the Community. It must also be stressed that national aid to farmers is proportionally much higher than Community aid to this sector, and that per capita expenditure from national aid is greater in countries with a high per capita income.

14. The Greek Government hopes that the Council of Ministers will recognise the particular nature of Greece's problems.

This applies with respect both to direct measures of an urgent nature and to the general economic policy guidelines which, under a five-year programme for the restructuring of the Greek economy, will reflect fundamental economic policy options decided upon by the Greek Government.

As a concrete expression of such recognition, the Greek Government would request the Council to instruct the Commission to study the problems referred to in the Memorandum and to ask it to propose special arrangements to solve them.

The Greek Government will co-operate with the Commission and in the meantime will finalise its positions and proposals on certain individual sectors. Until special arrangements are decided upon, the Greek Government hopes that the measures in favour of other Mediterranean regions will be extended to Greece and that, in line with what has been stated above, a positive solution will be found for the vital problem of support prices for agriculture products and related forms of agricultural incomes support.

The Greek Government is also awaiting with understandable and considerable interest the further course of discussions currently taking place at various levels on proposals to which it attributes particular importance, and in particular those concerning new Regulations for Mediterranean products, the provision of new Community resources for the implementation of comprehensive programmes in the Mediterranean regions and the reform and strengthening of Community funds and financing bodies.

The Greek Government considers that recognition by the Community of the need to deal with the particular problems of Greece, in conjunction with progress towards a more general reform of Community policies, constitute the minimum possible for creating conditions for Greek membership of the European Communities which will not be in conflict with basic Greek national interests.

Personnel of Community
used to supporting prices
of temperate products
Prod. products hardly felt
look in.

N/S problem is world-wide.
Within Community the N/S is going
to become more tangible
Basis of Community unity is inequality
Decision of previous fact to go
ahead with GEC membership was
political - not - economic.
Now Community must make decision -

to solve Greece's problem
if not Greece must look
to other solns. Nat. & direct.

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GREEK PAPER ON RELATIONS WITH THE EUROPEAN COMMUNITY.

1. REPRESENTATIVES OF EVERY EC MEMBER STATES WERE GIVEN COPIES OF THE GREEK PAPER LATE ON 22 MARCH. THE FULL TEXT HAS BEEN RELEASED TO THE PRESS AND IS PUBLISHED IN THE ATHENS MORNING NEWSPAPERS ON 23 MARCH. I UNDERSTAND THAT THE COUNCIL SECRETARIAT SHOULD HAVE TRANSLATIONS IN ALL COMMUNITY LANGUAGES READY FOR DISTRIBUTION LATER TODAY IN BRUSSELS.

2. THE PAPER, WHICH IS SHORT (15 PAPERS OF TYPESCRIPT IN GREEK), FIRST SUMMARISES IN FAMILIAR TERMS THE STRUCTURAL PROBLEMS OF THE GREEK ECONOMY AND THE DIFFICULT ECONOMIC CIRCUMSTANCES FACING THE PRESENT GOVERNMENT AS A RESULT OF DEVELOPMENTS SINCE 1978. IT SETS OUT THE GOVERNMENT'S SHORT-TERM OBJECTIVES FOR 1982 AND DEFINES THE MAIN ORIENTATIONS OF THE 1983-87 FIVE YEAR DEVELOPMENT PLAN: THE DEVELOPMENT OF INDUSTRY AND - EQUALLY IMPORTANT - THE RETENTION OF THE POPULATION IN RURAL AREAS, WITHIN THE FRAMEWORK OF ADMINISTRATIVE AND ECONOMIC DECENTRALISATION.

3. THE PAPER ARGUES THAT, DESPITE THE DECLARED INTENTION OF THE COMMUNITY TO BRING ABOUT GREATER CONVERGENCE BETWEEN MEMBER STATES AND TO COMBAT INEQUALITIES BETWEEN REGIONS OF THE COMMUNITY, THE TRANSFER OF RESOURCES THROUGH THE COMMUNITY BUDGET TO THE LESS DEVELOPED COUNTRIES, INCLUDING GREECE, HAS BEEN INSUFFICIENT. IT ARGUES THAT SUCH TRANSFERS SHOULD COUNTER-BALANCE THE NEGATIVE EFFECTS OF ACCESSION - WHICH HAVE BEEN INCREASED BY WHAT IS DESCRIBED AS THE UNEQUAL TREATMENT BY THE COMMUNITY OF ITS MEDITERRANEAN REGIONS AND PARTICULARLY OF GREECE. SOLUTIONS ENVISAGED UNDER THE 30 MAY MANDATE DO NOT MEET THE GREEK CASE.

4. THE GREEK GOVERNMENT BELIEVES THAT THE PARTICULARITIES OF THE GREEK ECONOMY CAN BE MET BY NEW ARRANGEMENTS DIFFERENT FROM THOSE THAT GOVERN RELATIONS BETWEEN GREECE AND THE EUROPEAN COMMUNITY AT PRESENT. IT PROPOSES:

(A) INCREASED COMMUNITY ASSISTANCE FOR DEVELOPMENT PLANS IN CERTAIN SECTORS AND REGIONS SEMI-COLON

(B) RECOGNITION BY THE COMMUNITY OF THE NECESSITY FOR GREECE TO BE EXEMPT FOR A CERTAIN PERIOD FROM THE COMMUNITY RULES OF COMPETITION (DEVELOPMENT ASSISTANCE, PROTECTION OF NEWLY ESTABLISHED INDUSTRIES, EXPORT AIDS FOR SMALL AND MEDIUM INDUSTRIES, EXEMPTION FROM PRODUCTION LIMITATIONS). THE GREEK GOVERNMENT BELIEVES THAT THESE ARRANGEMENTS CAN BE BASED ON THE IMPLEMENTATION OF PROTOCOL 7 OF THE TREATY OF ACCESSION AND ARTICLES 92-93 OF THE TREATY OF ROME.

5. AMONG THE FINANCIAL MEASURES WHICH THE GREEK GOVERNMENT CONSIDER NECESSARY TO MEET ITS SPECIAL PROBLEMS ARE:

(A) A REVISION OF THE CRITERIA FOR THE UTILISATION OF FUNDS SO THAT THEY MEET THE SPECIAL SOCIAL, ECONOMIC AND ADMINISTRATIVE NEEDS OF GREECE SEMI-COLON

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(B) AN INCREASE IN AVAILABLE RESOURCES AND IN THE COORDINATION OF ACTION BY DIFFERENT COMMUNITY FUNDS SEMI-COLON

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(C) AN EFFECTIVE INCREASE IN THE ELEMENT OF FINANCE FOR PROJECTS. THE COST OF SOCIAL INFRASTRUCTURE PROGRAMMES SHOULD ALSO BE COVERED SEMI-COLON

(D) THE CREATION OF A MEDITERRANEAN DEVELOPMENT FUND WITH SPECIAL RESOURCES SEMI-COLON

(E) AN INCREASE IN THE POSSIBILITIES OF GREECE ACQUIRING FUNDS FROM THE ORTOLI FACILITY. THE GREEK GOVERNMENT ATTACHE IMPORTANCE TO COMMUNITY FINANCE FOR SPECIAL LONG-TERM PROJECTS FOR THE LEAST DEVELOPED REGIONS OF GREECE. IT ENVISAGES THESE PROJECTS AS BENEFITTING FROM COORDINATED INTERVENTION FROM DIFFERENT COMMUNITY SOURCES TO PROVIDE UP TO 80 PERCENT OF THE FINANCE.

6. REFERENCE IS MADE TO THE PROBLEMS OF THE GEOGRAPHICAL REMOTENESS OF GREECE AND HIGH TRANSPORT COSTS FROM THE ISLANDS.

7. THE PAPER ASKS FOR THE INCLUSION OF ATHENS AND SALONIKA IN SCHEMES FOR COMMUNITY FINANCING. MENTION IS MADE OF THE ENVIRONMENTAL PROBLEMS OF THE CAPITAL.

8. AGRICULTURE. REFERENCE IS MADE TO THE IMMEDIATE AND VITAL PROBLEM OF SUPPORTING THE REVENUES OF SMALL FARMERS. THE PAPER PROPOSES SPECIAL ARRANGEMENTS INCLUDING DIRECT AND INDIRECT INCOME AIDS, FINANCED LARGELY BY THE COMMUNITY.

9. ON PROCEDURE, THE PAPER SUGGESTS THAT THE COUNCIL OF MINISTERS SHOULD REQUEST THE COMMISSION TO STUDY THE PROBLEMS RAISED IN THE GREEK MEMORANDUM AND PROPOSE SPECIAL ARRANGEMENTS FOR THEIR SOLUTION. MEANWHILE THE GREEK GOVERNMENT EXPECT THAT GREECE WILL BE INCLUDED IN MEASURES IN FAVOUR OF OTHER MEDITERRANEAN REGIONS AND THAT THE VITAL QUESTION OF PRICE SUPPORT OF AGRICULTURAL PRODUCTS WILL BE RESOLVED.

COMMENT.

10. THE PAPER STATES THAT RECOGNITION BY THE COMMUNITY OF THE NEED TO DEAL WITH GREECE'S SPECIAL PROBLEMS IS THE "MINIMUM" REQUIRED FOR GREEK PARTICIPATION ON A BASIS ^{COMPATIBLE WITH NATIONAL INTERESTS, BUT THERE IS FURTHER} EVIDENCE IN THIS PAPER OF THE PROGRESSIVE SOFTENING OF PASOK'S ATTITUDE TOWARDS THE COMMUNITY WHICH BEGAN WELL BEFORE THE ELECTIONS OF LAST OCTOBER. ALTHOUGH THE COMMUNITY WILL NO DOUBT FIND DIFFICULTY IN ACCOMMODATING THE GREEKS IN SOME OF THEIR DEMANDS - I HAVE IN MIND PARTICULARLY THE REQUEST FOR THE EXEMPTION FROM THE COMMUNITY'S RULES ON COMPETITION IN PARAGRAPH 4(B) ABOVE - PAPANDEOU HAS ALLOWED HIMSELF TO BE GUIDED BY THOSE WHO ARE ANXIOUS TO SEE GREECE REMAIN WITHIN THE COMMUNITY. IN GENERAL THE GREEKS HAVE GONE FOR SOLUTIONS WHICH SEEM NOT REPEAT NOT TO REQUIRE AMENDMENTS TO THE TREATY.

11. I NOTE THE CAREFUL AVOIDANCE OF A DEADLINE FOR A SOLUTION OF THE GREEK PROBLEM. VARFIS TOLD ME ON 19 MARCH THAT THIS IS DELEIBERATE. THIS OMISSION TENDS TO CONFIRM THE VIEW THAT PAPANDEOU NOW RECOGNISES THE IMPORTANT CONTRIBUTION WHICH COMMUNITY FUNDS WILL MAKE TO THE GREEK ECONOMY THIS YEAR AND IN THE YEARS TO COME, AND KNOWS THAT THE COUNTRY IS NOT IN A POSITION TO FORGO THESE BENEFITS. HE APPEARS TO BE READY TO TAKE A LONG VIEW OF THE DEVELOPMENT OF GREEK-COMMUNITY RELATIONS AND WILL PROBABLY BE PREPARED TO BE REALISTIC IN HIS EXPECTATIONS OF WHAT GREECE WILL GET OUT OF THIS DEMAND FOR A SPECIAL ARRANGEMENT. IT IS NOTEWORTHY THAT THE TERM "SPECIAL STATUS" WHICH WAS FORMERLY EMPLOYED TO DESCRIBE GREEK OBJECTIVES IS NOT USED IN THE PAPER.

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