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THE COMMUNITY'S RELATIONS WITH IRAN.

(Commission communication to the Council)

COM(76) 90 final.

- Introduction

- Report on the exploratory talks concerning the negotiation of an agreement with Iran

- Recommendation for a Council decision authorising the opening of negotiations.

## A. INTRODUCTION

1. During the last few years the relations between Iran and the Member States of the Community, particularly, but not only, in the economic and trade fields, have undergone a very rapid expansion and development. But this has not as yet been matched by the emergence of a similar intimacy of relations between the Community as such and Iran. It is towards the filling of this gap, which is increasingly regretted by both parties, that the Commission's present paper and the proposals contained in it are addressed.

2. Iran is the second largest producer of oil in the Middle East and accounts for 18 % of the Community's supplies. Iran has proved a reliable partner, and has given assurances on many occasions that it intends to remain so. In addition, it represents a singularly dynamic export market for the Community<sup>1)</sup>. This complementarity between the import needs of Iran's rapidly growing economy and the Community's requirements in energy has contributed to a very substantial increase in trade between the two parties. It is in the interest of both of the Community and of Iran that this complementarity, which will need increasingly to be characterised by a change in the structure of the trade between the two partners, should develop in a coherent way and should lead to the creation of closer links of interdependence.

3. Iran is a country with great ambitions and immense potential. It is already the eleventh largest exporter in the world. Its economic development, based on abundant natural resources and capital and an excellent labour force, requires a solid international basis, and Iran is hoping to find this basis through far-reaching cooperation, as a privileged partner, with the Community. This aspiration, which as often been voiced by the highest Iranian authorities, is a reflection of the close historical, political, cultural, and economic ties which Iran has with Europe. It is in the interest of the Community not to disappoint Iran in this aspiration, but rather to respond to it fully within the limits of its resources and respecting its other international obligations.

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1) See figures for development of Iran/EEC trade in Annex III.

## B. THE EXPLORATORY TALKS

4. The trade agreement between the EEC and Iran which was concluded in 1963 expired on 30 November 1973. This agreement had in practice ceased to be of any interest to Iran since the "erga omnes" tariff concessions, which were restricted to carpets, dried apricots, raisins and caviar, had been bound under GATT (with the exception of a tariff quota for raisins) and did not take into account the rapid change in Iran's economic situation, or its industrial development and desire to diversify its exports.

5. It was for this reason that, even before the expiry of the agreement, the Iranian authorities had stressed the need to negotiate a considerable extension of its content. This request was made during a visit by the Member of the Commission responsible for external relations to Tehran in May 1971 and in subsequent discussions held in Brussels in February 1972 between an Iranian delegation and a Commission delegation. Following the lapsing of the agreement, new talks were held in Brussels in January 1974 to examine the possibility of negotiating a new, wider agreement. On this occasion, the Iranian delegation, while accepting that there were no actual trade problems between the two parties, nevertheless expressed the wish to be accorded complete duty-free access to the Common Market for Iranian industrial products, and in particular for those produced under joint venture schemes with Community firms. Iran considered that it was at a disadvantage in its trade with the Community compared with other countries with which the Community had concluded agreements,

6. The Council held a first exchange of views on 12 November 1974 on the guidelines for future relations between the Community and Iran. On that occasion the Council stressed the political and economic importance which the Community attached to its relations with Iran and expressed its desire to seek appropriate solutions in the mutual interest of the two parties. The Council also recognised that a trade agreement of the kind previously concluded with Iran no longer provided an appropriate solution and it agreed that talks should be started with Iran with an open mind, to establish what would be the best form of agreement to enable the new economic and trade relations between the two parties to develop under mutually satisfactory conditions.

After a number of further discussions in COREPER, the Council again discussed relations with Iran at its meeting on 10 and 11 February 1975. Following them the Commission established contact with the Iranian authorities to propose the resumption of the exploratory talks which had been in abeyance since January 1974. In a Note Verbale of 25 March 1975, the Iranian Mission reported that the Iranian authorities had given their agreement in principle to the holding of exploratory talks with a view to concluding a general agreement on economic cooperation taking account of the current economic situation in Iran, the European Communities and the world.

7. A Commission delegation, led by Sir Christopher Soames, visited Iran on 13 and 14 May 1975. It met the Iranian Prime Minister, Mr Hoveida, the Minister of Economic and Financial Affairs, Mr Ansary, and a number of senior Iranian officials. During this visit, the Commission delegation expressed its conviction that, because of Iran's rapid and considerable economic development, any agreement between the Community and Iran should lay particular emphasis on close economic and trade cooperation, and that, in this spirit of cooperation, any tariff problems which arose could generally speaking be solved on a case-by-case basis. It would therefore be necessary to carry out a fact-finding exercise to identify current and potential problems. The Iranians, while maintaining their position

of principle that Iran wished to negotiate an agreement which would eliminate all discrimination compared with its competitors enjoying the benefits of preferential access to the Community market, agreed to the holding of technical discussions. These took place in Brussels from 15 to 17 July 1975 and in Tehran from 27 to 29 October 1975.

8. On the basis of the information supplied by the Iranian side on their forecasts of future exports to the Community, it was established that many of these export products are considered to be non-sensitive under the Community's Generalised System of Preferences and therefore enter the Community under this system free of duty, in practice without any quantitative limitation since the theoretical ceilings are not applied.

9. On the other hand, for some products of substantial importance for Iran's future development, which are considered by the Community to be sensitive or semi-sensitive or are not included in the GSP, the opportunity of duty-free importations at present provided for would be insufficient if they were to remain unchanged.

The products falling in this latter category were :

- (a) refined petroleum products
- (b) textiles and footwear
- (c) cast iron, including sponge iron, and steel
- (d) aluminium
- (e) copper
- (f) electrical and electronic products
- (g) carpets.

10. It was, however, established that, with the exception of carpets and certain textiles and footwear, important export capacities will not be built up before 1980/82. But the Iranian side even so wishes to be given a degree of certainty regarding the tariff arrangements which are an important factor in the consideration of investment decisions.

11. The Commission reaches the following tentative conclusions regarding these "problem sectors" :

i. Textile products and footwear

Any possible improvements will need to take account of the particularly difficult situation in these sectors.

ii. Certain ferrous and non-ferrous metal produced by first-stage processing

At present these products are not covered by the GSP. Priority should be given to examining to what extent they could be included, either as part of the improvements to the system envisaged in the context of the current multilateral trade negotiations or in the annual adjustments. It would then have to be seen whether the possibilities of duty-free importation thus opened up would be sufficient to accommodate Iran's intended exports.

iii. Electrical and electronic products

The trade problems of these products will have to be examined case by case, in due time, taking into account the degree of their sensitivity.

iv. Refined petroleum products

Until 1981-82, large-scale exports of refined petroleum products are not to be foreseen in view of the time needed for the implementation of Iran's investment projects, which moreover have still not been finalised. Nevertheless, since access to the Community market for these products, and in particular their tariff treatment, is an essential factor in Iran's investment decisions, assurances would need to be given as to access and tariff treatment.

v. Petrochemical products

It was established that this would not be a problem sector, for this wide range of products would be intended mainly to cover domestic demand.

12. The Iranians confirmed that in general their industrialisation policy aimed to avoid investment in projects which were not economically sound and to avoid their exports creating situations that would disturb the market. Iranian policy is to create highly capital-intensive industries wherever appropriate, taking into account economies of scale, and to export a certain percentage of production. These industrial exports would increasingly consist of finished products. The Iranians agreed with the Commission delegation that the establishment of close cooperation could prove very useful in avoiding the creation of non-economic capacity or disturbance of the market.

13. The Iranian side did not accept that tariff problem could invariably be solved by the GSP. In their view, the normal application of the GSP alone would not provide sufficient assurance for future investment projects and would not reflect the privileged nature sought for the future agreement.



C. RECOMMENDATION FOR A COUNCIL DECISION AUTHORISING THE OPENING OF  
NEGOTIATIONS

14. The exploratory talks can now be considered to have been completed. In particular, after the technical talks, a series of informal contacts took place between Mr Ansary, the Iranian Minister of Finance and Economics and Mr Gundelach, Member of the Commission, which demonstrated clearly the will of both sides now to move into the phase of negotiations with the firm intention of reaching an agreement on the basis set out below. Consequently the Commission feels that the Community should now adopt a position on the nature and content of the agreement to be negotiated with Iran.

15. In the light of the experience gained during the exploratory talks, the Commission considers that it is in the interest of both parties to negotiate an agreement which would give a convincing expression to the special relations between Iran and the Community. The agreement should be of long duration and be capable of future development. It is only thus, with continuity and ever closer cooperation that a dynamic approach to the problems taking account of economic development is possible.

16. On this basis, the Commission considers that a proposal should now be made to Iran to negotiate a comprehensive agreement which would create a framework for the development of the closest possible economic and trade cooperation which could be undertaken by the Community in the fields for which it is responsible and in accordance with its international obligations. The agreement should contain provisions making it possible to find solutions in a pragmatic way for immediate and long term practical trade problems which arise in the relations between Iran and the Community. The Commission does not think it is appropriate to provide

in such an agreement for preferential trade provisions ; there are many economic, political and legal reasons for this, which the Commission has stressed earlier during discussions in the Council and the COREPER, and it is also the view of the Commission that such provisions are not needed in order to meet the specific trade needs of Iran.

The agreement would also envisage measures of economic co-operation which were not able for one reason or another to be undertaken within the framework of the continuing bilateral economic co-operation between the Member States and Iran, or which were considered by all the parties involved to be more suited to being dealt with at a Community level.

17. The agreement should specify as its objective the creation between Iran and the Community of a particularly close and dynamic link which would reflect the close historical links between the Member States of the Community and Iran, the political will of the two parties to strengthen their relations, the complementary nature and interdependence of their two economies and the intention to develop their mutual trade.

18. The agreement should then set out the joint guidelines for cooperation in the trade and the economic fields and would set up - in the form of a Joint Commission - the instrument needed to implement this cooperation in the two sectors. The guidelines would provide for the scale of such cooperation to grow as possibilities arose, as needs were felt and as the policies of Iran and the Community develop.

19. So far as trade cooperation is concerned, the two parties should grant each other most-favoured-nation treatment whilst respecting their international obligations. In the case of Iran, which is not a member of the GATT and which in its planning allocates its imports among exporting countries, this treatment would need to include an undertaking not to discriminate against imports from the Community.

20. The Community would endeavour to find appropriate solutions in good time to any tariff problems which might arise (in particular in relation to such joint venture projects as the Joint Commission should consider as being of mutual interest) using such existing or new measures of trade policy as it deemed suitable and taking into account Iran's economic development and export interests and the economic situation of the relevant sectors of the Community. For some particularly important products, appropriate solutions might have to be envisaged for implementation immediately on the entry into force of the agreement.

21. In the field of non-tariff barriers, the two parties should undertake to seek all appropriate ways and means for their elimination.

22. The two parties should agree to pursue through the Joint Commission such actions in the fields of trade cooperation and trade promotion as would assist the increase of trade between Iran and the Community.

23. Provision should be made to enable negotiations on the trade cooperation provisions to be re-opened after the end of the sixth year of the agreement. This would, in particular, provide an opportunity to examine whether, in the light of the economic situation of Iran or the Community at that time, it would be desirable to reinforce or enlarge the scope of the agreement subject to international obligations of both parties.

24. The economic cooperation section of the agreement would aim to add a Community dimension to the existing and continuing bilateral economic cooperation between the Member States and Iran. It would thus complement Iran's continuing cooperation with the Member States. The agreement should make it clear that the right of the Member States to act in the field of bilateral economic cooperation remained untouched. The economic cooperation at Community level, like the trade cooperation, should be capable of future development. No field which might be the object of economic cooperation would be excluded in advance.

25. Both parties should also undertake not to discriminate against the other as regards access to natural resources and the supply of raw materials, food and industrial products, and not to take any action in this field which might hinder the implementation of contracts concluded between business firms, subject to international obligations and rights.

26. The Commission's detailed proposals are set out in the draft negotiating directives annexed to the draft decision authorising the opening of negotiations with Iran 'Annexes I and II)<sup>1</sup> which the Commission recommends the Council to adopt.

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(1) The annex to Annex II does not prejudice the legal form to be given in the agreement to provisions including ECSC products within its scope.

RECOMMENDATION FOR A COUNCIL DECISION AUTHORIZING THE OPENING  
OF NEGOTIATIONS WITH IRAN

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THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaties establishing the European Communities,

Having regard to the recommendation from the Commission,

Whereas the Council, at its meeting on 12 November 1974, stressed the political and economic importance which the Community attached to its relations with Iran ; whereas the Council declared its readiness to open negotiations with Iran in a completely open frame of mind with a view to establishing the forms and content of a new agreement likely to enable trade and economic relations to develop to the satisfaction of both parties,

Whereas the exploratory talks which have been held with Iran since that time suggest that it is appropriate to open negotiations,

HAS ADOPTED THIS DECISION :

Sole article

The Commission is hereby authorized to open negotiations for the conclusion of an outline agreement on economic and trade cooperation between the European Communities and Iran.

The Commission shall conduct these negotiations in accordance with the directives annexed hereto.

Done at.....

For the Council,

NEGOTIATING DIRECTIVESA. Nature of the agreement1. Scope

The aim of the negotiations would be the conclusion of an outline agreement on trade and economic cooperation between the European Communities and Iran in the fields covered by the Treaties establishing the Communities<sup>1)</sup>.

2. Evolutive nature

An essential feature of the agreement would be that it is capable of future development. No field which could be covered by economic and trade cooperation would be excluded, and the two contracting parties would propose to explore together within the Joint Commission any practical opportunities for cooperation.

3. Duration

The duration of the agreement would be indefinite. However the agreement could be denounced after six years and one year notice would be required.

From the end of the sixth year of application of the agreement negotiation could be opened on the trade cooperation provisions. This would, in particular, provide an opportunity to examine whether, in the light of the economic situation of Iran or the Community at that time it would be desirable to reinforce or to enlarge the scope of the agreement in this field, subject to international obligations of both parties.

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1) See also the draft protocol relating to the ECSC which is annexed to this document.

## B. Content of the agreement

### 1. Preamble

The contracting parties would refer to the close historical links, the political will and the growing complementarity of their economies which had led them to seek through this agreement the definition of a new and special relationship between Iran and the European Community.

### 2. Trade cooperation

2.1. The contracting parties would record their commitment to and reciprocal interest in the development and diversification of trade between Iran and the Community and the creation of increasingly close links of trade interdependence.

2.2. With this aim in view they would grant each other most-favourable treatment in the tariff field

2.3. They would endeavour to maintain or grant each other the maximum trade facilities possible for products of importance to either party ; the means to achieve this would remain at the discretion of each of the contracting parties. In this context the Community would endeavour to find appropriate solution for tariff problems arising in connection with Iranian exports to the Community, taking into account Iran's economic development and export interests and the economic situation of the relevant sectors of the Community.

2.4. The contracting parties would undertake to seek all appropriate ways and means for the elimination of non-tariff-barriers.

2.5. Each of the two contracting parties would undertake not to discriminate against the other party with regard to access to natural resources and supply of raw materials, food and industrial products, and not to take any action in this field which might hinder the implementation of contracts between business firms, subject to international obligations and rights.

2.6. They would agree to take all possible measures to favour and facilitate trade promotion in their respective markets. The joint Commission of the agreement will have to propose the appropriate ways and means.



### 3. Economic cooperation

#### 3.1. Objectives

In view of the complementary nature and interdependence of the economies of the contracting parties, and in accordance with their long-term economic development objectives, the proposed economic cooperation would aim to :

- promote the coherent development of Community and Iranian industries;
- promote industrial cooperation, for example in the field of energy;
- promote mutual investment;
- promote technical, scientific and technological progress;
- safeguard and increase the sources of supply and markets of raw materials, energy, food and industrial products;
- improve employment opportunities and conditions and the standard of living;
- protect and improve the environment;
- promote the rapid growth of economic activity, increased productivity and financial stability.

#### 3.2. Fields covered

The agreement would not enumerate the fields to be covered by economic cooperation. This would be a task given to the Joint Commission. But given the agreement's evolutive nature no field which lent itself to economic cooperation would be excluded in advance.

#### 3.3. Methods

The contracting parties could undertake, promote and facilitate :

- consultations on their plans and prospects for economic development in order to facilitate the coherence of this development;
- systematic cooperation between their industries in order to create new industrial and commercial links or strengthen existing ones, particularly in the form of joint ventures, for example in the field of energy (e.g. downstream operations).



- greater participation, based on mutual advantage, of their firms in the industrial development of the contracting parties;
- increased and mutually beneficial investment;
- technological and scientific exchanges;
- joint operations in third countries;
- the collection and regular exchange of all information on the practical opportunities for cooperation and on the industrial and commercial development of the contracting parties;
- the organization of contacts and meetings between businessmen from the contracting parties;
- specific information and industrial promotion schemes.

#### 3.4. Bilateral activities of the Member States in the field of economic cooperation

The agreement would make it clear that this agreement and action taken under it left untouched the powers of the Member States to act bilaterally in the field of economic cooperation.

#### 4. Institutional aspects of the agreement.

##### 4.1. Joint Commission

A Joint Commission would be set up to provide a framework for and to promote the various forms of trade and economic cooperation proposed. It would be able to set up specialist subcommittees to assist it in certain tasks. Its main work will be to examine the trade problems which might arise and to propose appropriate solutions in good time, and in the field of economic cooperation to implement the general guidelines set out in the agreement itself. The Joint Commission would be composed of representatives of Iran and the Community (Commission assisted by representatives of the Member States). Representatives would be either at ministerial level or at high official level.

##### 4.2. Consultations

The agreement would provide for consultations at an appropriate level and within the Joint Commission on points resulting from the implementation of the agreement.

Annex to ANNEX II

PROTOCOL to be agreed between the Member States of the European Coal and Steel Community and the European Coal and Steel Community on the one hand and Iran on the other hand.

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" The provisions of the outline agreement on trade and economic cooperation between the European Economic Community and the European Atomic Energy Community on the one hand and Iran on the other hand shall also apply in the field covered by the Treaty establishing the European Coal and Steel Community.

## TRADE EUROPEAN COMMUNITIES - IRAN

Value in Mio ₤

	1965 (1)	1970 (1)	1971 (1)	% 71/70	1972 (2)	% 72/71	1973 (3)	% 73/72	1974 (4)	% 74/73	1974(9 m) (5)	1975(9 m) (6)	% 75/74
Import "6"	521,7	677,3	1.059,6	56 %	1.362,9	29 %	2.123,9	56 %	6.395,9	201 %	5.095,7	4.185,3	- 18%
- "9"	-	-	-	-	1.720,1	-	2.824,1	64 %	8.080,9	186 %	6.257,8	5.751,6	- 8%
Export "6"	283,1	556,7	684,4	23 %	797,5	17 %	1.263,5	58 %	1.927,0	53 %	1.426,1	2.775,0	95%
- "9"	-	-	-	-	1.101,8	-	1.697,9	54 %	2.619,6	54 %	1.943,3	3.686,2	90%

Exchanged rates applied : (1) 1 EUR = 1,00 ₤  
 (2) " " = 1,08 ₤  
 (3) " " = 1,25 ₤  
 (4) " " = 1,25 ₤  
 (5) " " = 1,35 ₤  
 (6) " " = 1,32 ₤

Source : Monthly Statistics "Eurostat".