Lecture by Xenophon Zolotas on the economic situation of Greece (2 June 1978)

Caption: During a speech at the Institute of Banking Studies on 2 June 1978, Xenophon Zolotas, Governor of the Bank of Greece, focuses on the positive contribution Greece would make as part of the European Community.

Source: ZOLATAS, Xenephon. The positive contribution of Greece to the European Community. Athens: Bank of Greece, 1978. 75 p. (Papers and Lectures 40).

URL: http://www.cvce.eu/obj/lecture_by_xenophon_zolotas_on_the_economic_situation_of_greece_2_june_1978-en-bcf0f659-7dc6-4926-a482-ca0e15a3ff29.html

Publication date: 21/10/2012

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What I have said so far shows that Greece would gain great advantages by joining the Community as a full member and that is why she is seeking to accelerate the process leading to accession. Withdrawal from the association agreement unanimously approved by the Greek people sixteen years ago would have serious consequences for the country's future.

It is being argued in various quarters that Greece would have a lot to gain from her accession to the Community but little to offer in return and would lay a considerable financial burden on the Community. Nevertheless, they say, her accession is accepted for more general reasons and in keeping with the principles embodied in the Treaty of Rome. Here there is a serious misunderstanding which is probably due to the fact that no one has undertaken so far to examine the real consequences of Greece's accession and what she would actually contribute to the Community.

I. The achievements of the Greek economy, 1962-1977

Before proceeding to analyse these matters, I consider it necessary to describe the spectacular achievements of the Greek economy during the period 1962-1977.

Since 1962, when the Athens Agreement came into force, few countries have been able to show similar achievements. A spectacular increase in GNP has been combined with internal and external monetary equilibrium. At the same time, substantial structural changes have taken place.

Specifically, during the period 1962-1977, the average annual rate of increase in GNP was 6.6 per cent for Greece, 3.8 per cent for the Nine, 4.0 per cent for Italy and 3.9 per cent for Ireland. During the period 1962-1976, productivity (GDP per employed person) increased at an average annual rate of 7.3 per cent in Greece and 3.9 per cent in the EEC. As a result, output per employed person rose from 37.5 per cent of the EEC average in 1962 to about 60 per cent in 1976. Similarly, GNP per capita increased from $507 in 1962 to $2,879 in 1977, which is equal to about half of average per capita income in the Community, compared with just about one-third in 1962. GNP per capita in Greece is almost the same as Ireland's and not much less than Italy's.

The average annual rate of increase in industrial production during the period 1962-1977 was 9.0 per cent for Greece, 4.1 per cent for the EEC, 4.7 per cent for Italy and 5.6 per cent for Ireland. Also, the average annual rate of increase in gross fixed capital formation was 6.4 per cent for Greece and 3.3 per cent for the Community. It is also significant that, during the same period, industrial employment increased at an average annual rate of 3.3 per cent in Greece, compared with a decrease of 0.5 per cent in the EEC and an increase of only 0.7 per cent in Italy and 1.2 per cent in Ireland.

Structural changes were also considerable during the period examined. As a percentage of GDP (1970 prices), income from agriculture fell from 22.7 per cent in 1962 to 14.3 per cent in 1977, while income from secondary production rose from 25.9 per cent in 1962 to 33.0 per cent in 1977. The Greek manufacturing industry made spectacular progress during the period. As a result, its share in GDP rose from 14.5 per cent in 1962 to 21.5 per cent in 1977. These developments were combined with changes in the structure and composition of industrial output. Thus, between 1960 and 1970, the share of capital goods in total industrial production increased from 20.3 per cent to 32 per cent, while the basic metals industry raised its share from 2.7 to 10.1 per cent. At the same time, the basic metals industry's exports grew at a very high rate. As a result, the exported part of manufacturing output approached 15 per cent in 1976. A further indication of the dynamism and flexibility of manufacturing industry is its success in penetrating new markets. A recent example is the rapid growth of exports — mainly of manufactured products — to the Arab countries, from $66 million in 1973 to $533 million in 1977.

The dynamism of the Greek economy is also reflected in developments during the three-year period 1975-1977, compared with what happened in other OECD countries. This period was characterized by great difficulties internationally, which took the form of stagflation combined with high rates of unemployment. Thus, while GNP grew at an average annual rate of 5.2 per cent in Greece, the corresponding rate for the EEC and the European members of the OECD was around 1.5 per cent. Also, industrial production expanded at an average annual rate of 5.6 per cent in Greece, compared with about 1 per cent in the Community. Finally, industrial employment increased at an average annual rate of 3.8 per cent in Greece, while the corresponding rate for the EEC was negative (–2.5 per cent).

If the Greek economy continues to exhibit the same dynamism as in the last sixteen years, which is quite possible, it will soon narrow the development gap between it and the Community, especially since its effort will be supported both technically and financially by the EEC.

It should be noted that the draft of the five-year plan for 1978-1982 predicts an average annual increase of 6 per cent in GDP, 7.5 per cent in industrial production, 3.5 per cent in agricultural output, and 9.3 per cent in investment. Experience has shown that these rates are not hard to attain.

The developments I have referred to show that the concern expressed from time to time regarding the difficulties that Greece's accession might create for the Community is unfounded. On the contrary, as will be seen in the next chapter, Greece's contribution to the economies of the member countries would be considerable, offsetting whatever burden her accession might lay on the Community.

II. The EEC’s alleged difficulties from Greece’s accession

1. Industry

Before making any reference to the difficulties that Greek industry — or agriculture for that matter — might give rise to after Greece's accession to the Community, I would like to point out that there are special conditions which radically differentiate Greek industry from the industrial sectors of other candidates for accession.

For one thing, Greek industry first began to adjust to the economic conditions prevailing in the Community as far back as 1962, when the association agreement came into force. Since then, it has made tremendous progress, with the gradual establishment of a complete customs union. This fact is reflected in the growth of the sector's productivity at an average annual rate of 7.4 per cent during the period 1962-1975, compared with an estimated 4.3 per cent for the EEC. As a consequence, the international competitiveness of Greek industrial products has improved, with the effect of raising the share of industrial products in the country's total exports from 6.1 per cent in 1962 to 51.7 per cent in 1977. At the same time, the share of industrial products in total exports to the Community rose from 1.8 per cent in 1962 to 60.3 per cent in 1977. It is also worth noting that the share of industrial exports to the Community in the country's total industrial exports reached 39.5 per cent in 1977, compared with 10.5 per cent in 1962.

These favourable developments are largely due to the fact that, under the Athens Agreement, import duties have gradually been reduced or abolished in commercial transactions between Greece and the Community. EEC tariffs on industrial products imported from Greece were totally abolished in 1968. Hence, the Community's industrial sector would not be affected by the accession of Greece, seeing that the effects of Greece's entry have already been exhausted during the period of her associate membership. Here it should be mentioned that the share of Greek industrial exports to the EEC in the Community's total industrial imports is not more than 0.5 per cent, while in the case of textiles, which are usually the subject of considerable controversy, it is roughly 1.5 per cent. Nor would accession differentiate the relationship between Greek industry and the Community, for the sector is already oriented towards the EEC market. On the contrary, the industrial sectors of Spain and Portugal, regardless of the stage of industrial development attained in each of these countries, have made no preparations for their integration into Europe.

Similarly, the adverse effects of accession on Greek industry would be limited. This is because Greece has abolished import duties and quotas on two-thirds of the industrial products imported from the Community, while on the remaining one-third duties have been reduced by 52 per cent. It is true that there are certain other charges on imported goods — mostly in the form of indirect taxes — which will be readjusted during the transitional period. At any rate, by the end of the period of transition stipulated in the association agreement (31 October 1984) any remaining duties will have been abolished. Also, Greece has already aligned her import tariff to the Community's common external tariff for products of the 12-year period, while for products of the 22-year period the alignment will proceed gradually until it is completed by 31 October 1984. It is therefore clear that both Greece's and the Community's industrial sectors have already borne the consequences of accession to a large extent.

Greek industry must not be considered in the same light as the industrial sectors of other countries. I am not suggesting of course that by 1984 Greece's industrialization will have reached Community levels. It will still need similar support to that given by the Community to Ireland, Southern Italy and the backward areas of Britain.

It is thus evident that the Commission's proposal to introduce an escape clause between the EEC and the three applicant countries is unjustified as regards Greece. This clause will apply when a sector of the economy of one of the applicant countries is faced with difficulties owing to accession and can be invoked by either the candidate or the Community. As far as Greece is concerned, the matter is closed because the period within which she could invoke the escape clause stipulated in the association agreement has expired. If this matter were brought up again, it would place the accession agreement in an inferior position to the agreement of association. The only escape clause that can be invoked by the member countries against one another — as was recently done by Italy — and which is of course applicable to Greece, is the one referring to serious balance-of-payments crises.

In conclusion, I would like to emphasize once more that the integration of Greek industry into the Community will not give rise to problems. If some problems did exist once, they were left behind in the course of the sixteen years since Greece became an associate member of the EEC. From every point of view, Greece's accession will be an act of legalization and ratification of the *status quo* which has been in effect since 1962.

2. Agriculture

I now turn to Greek agriculture, which is the most sensitive question in the negotiations leading to accession. First of all, I would like to say that in this sector too Greece differs substantially from Spain and Portugal. It is therefore wrong for the Commission to place Greek agriculture in the same class and to deal with it on the same terms as the agricultural sectors of the other two applicant countries. The principal difference lies in the fact that the problems which, as argued in certain quarters, would be created by Greece's accession, actually stem from the association agreement. Under that agreement, even if Greece remained an associate member, the harmonization of her agriculture with the Community's should have been completed or be nearing completion. Hence, if the dictatorship had not intervened and caused the freezing of the association agreement, the matter would now have been closed. Greek agriculture would have been harmonized with the member countries' agricultural sectors according to the principles embodied in the Community's common agricultural policy, and all would have been well. But, after the fall of the dictatorship, even though the EEC had an obligation to embrace Greek agriculture in its common agricultural policy, very little progress has been made in that direction. It is possible that this delay is due to the fact that Greece, right after the restoration of democracy, submitted an application for full membership. The possibility, therefore, that she might soon become the tenth member of the EEC may have held up the process of taking certain measures or decisions stemming from the association agreement, with the prospect of dealing with them within the broader framework of the country's forthcoming accession to the Community. In any event, regardless of procedural changes, proper adherence to the Community's obligations under the association agreement would have the effect of closing the question of "Greek agriculture" once and for all, with its full harmonization with the Community's.

However, independently of the association agreement and the specific obligations arising from it, the integration of Greek agriculture into the Community is not going to create for the member countries any of the problems which are put forward as arguments in connection with the Greek application. In the first place, the argument relates to a possible large increase in the supply of some Greek farm products in EEC markets, owing to the higher prices they can fetch there. The fear implied is that this might provoke acute competition at the expense of similar goods produced by some of the present members of the Community. In the second place, the argument refers to the possibility of an excessive increase in the burden laid on the Community's Funds in connection with CAP obligations, owing to Greek agriculture's low productivity which is due to the small size and inefficient organization of farm holdings.

Regarding the first argument, I must say that in principle the possibility of an excessive increase in agricultural output owing to a rise in prices after accession is rather remote. This is because prices are being adjusted gradually and will generally not increase sharply. Also, owing to the nature and composition of output and the structure of farms, the price elasticity of supply is, with few exceptions, relatively low. Finally, the small volume of Greek agricultural output precludes the possibility of keen competition over a wide range of products. Besides, owing to its composition, Greek farm output is largely complementary to the Community's and does not compete against it. Although there have been some cases of such competition, they refer to a very small number of products and a very short period of time. Corrective measures in this respect would not be difficult to apply.

As regards the argument of low productivity, I will prove that this impression does not reflect existing conditions in Greek agriculture.

In connection with both these arguments, I would like to draw attention to the following points:

F i r s t, the small volume of Greek agricultural output in comparison with the Community's is a guarantee that the accession of Greece will have only marginal effects on the structure of the EEC's agricultural sector. Suffice it to mention that, after Greece's accession, the Community's farmland will increase by 7.5 per cent, output by 5.2 per cent, the number of farms by 15.5 per cent, and the active farming population by 7.9 per cent. The respective percentages would be much higher following the accession of Spain and Portugal. In fact, with the accession of Spain, farmland would increase by 40 per cent, the active farming population by 35 per cent and the number of farms by 36.4 per cent. Furthermore, Greece's agricultural exports to the EEC represent only 0.6 per cent of the Community's agricultural output. It is thus evident that accession or the harmonization of Greek agriculture under the association agreement would cause only marginal changes in the supply of Greek products in the Community, which would not exceed the absorptive capacity of the EEC market.

Specifically, regarding products in which the Community is self-sufficient (soft wheat 108 per cent, barley 104 per cent, wine 102 per cent, all kinds of meat, and dairy products) there is no problem since Greece's output of these products is very small compared with the Community's. In fact, the quantity of soft wheat grown in Greece is only 4.9 per cent of that produced in the EEC, and the respective figures for barley, wine and meat are 2.8, 2.9 and 2.3 per cent. Furthermore, in most cases — mainly meat and dairy products — we have to import large quantities from abroad, while wheat and barley output is barely enough to satisfy domestic demand. The fact that Greece is in deficit regarding products which are in surplus in the Community will have some effect on the balance in the common market, as recognized by the Commission.

On the other hand, in the case of products in which the Community is not self-sufficient (maize 56 per cent, hard wheat 85 per cent, rice 83 per cent, vegetables 94 per cent, fresh fruit 80 per cent, citrus 43 per cent), Greek production will supplement the Community's, although for most products it will not be able to cover the EEC's whole deficit. This is because, no matter how much it increases, Greece's output of such products would still be only a small fraction of the Community's total imports. At present, the share of imports of farm products from Greece in the EEC's total imports of such products from third countries is only 1.1 per cent.

Consequently, Greece's entry into the EEC will have no effect on commercial relations between the

Community and third countries. The fears expressed by the Commission in this respect are therefore totally unfounded as far as Greece is concerned.

S e c o n d, soil types and climatic conditions in Greece are such that Greek agriculture is complementary to and does not compete against the Community's. The major Greek crops (currants and raisins, olive oil, cotton, fruit, citrus and vegetables) are either not produced at all in the EEC's member countries or are grown in small quantities. On the other hand, the Community has a comparative advantage in the production of livestock products which are in deficit in Greece. Characteristically, the share of crop production in Greece's total agricultural output is 70 per cent, while livestock production is only 30 per cent (1976 data). By contrast, crop production in the Community is only 40 per cent of total agricultural output, with livestock production at 60 per cent. It is a significant fact that, even in countries like Italy and France, whose agricultural sectors are supposed to be strongly in competition with Greece's agriculture, the share of livestock production in total agricultural output is considerably higher (42 per cent in Italy and 55 per cent in France) than in Greece (30 per cent).

It should therefore be abundantly clear that Greek agriculture is largely complementary to the Community's and does not compete against it. Regarding most of the farm products grown in Greece, the EEC is in deficit, with considerable imports from third countries.

Consequently, by becoming a full member, Greece would help the Community reduce its deficit in products which are produced and exported by our country. Furthermore, in the case of certain products, Greece would give the Community a comparative advantage vis-à-vis the rest of the world. Such products are currants, on which Greece has a monopoly in the European and the world market; olive oil, for which her only competitor in the Community is Italy; cotton; oriental tobacco; and sultana raisins, with no competitor in the European market. Even if special conditions in any year produce a surplus of one or more of these products, it will not be at all difficult for the Community to absorb it. It is worth noting that, in 1976, only 16 per cent of the Community's agricultural price support budget was spent for wine, fruit, vegetables, tobacco and olive oil, that is, for products which are also produced in Greece and might create surpluses.

Greek agriculture displays considerable flexibility and adaptability. It must, however, be given suitable incentives and guidance to induce Greek producers to engage in the cultivation of crops that can be disposed of profitably both in the Community and in Greece. The EAGGF will play a considerable part in this matter.

T h i r d, on the question of Greek agriculture's structural weaknesses and low productivity, it must be said that the real situation prevailing in the agricultural sector is entirely different from what it is made out to be in various publications. This is because the results of the population census of 1971, which gave 41 per cent of the country's labour force to agriculture, are considered incomplete and in any case cannot apply to 1978.

Since 1971, the workforce in the agricultural sector has decreased considerably as a result of internal (towards major urban centres) and external (towards overseas and European countries, mainly Germany) migration.

A survey carried out by the Agricultural Bank shows that the active farming population numbers 669,718 persons or 24.2 per cent of the country's active population. The corresponding ratio for Italy is 16 per cent. If we go back to 1958, when the Community was founded, we will see that those employed in agriculture represented 35 per cent of Italy's active population. Today, the corresponding ratios are 24 per cent for Ireland, 21 per cent for Spain and 27 per cent for Portugal. Considering that in Greece the share of agricultural income in GDP amounts to 14.3 per cent, it is evident that the structure of income and employment in agriculture does not differ from the corresponding structure in Italy in 1958 and in Ireland in 1973, the years when they joined the Community.

Also, output per agricultural worker (considering the size of the farming population derived from the Agricultural Bank's survey) is estimated at $2,700 for 1975 (at 1970 prices and exchange rates), compared with the EEC's $3,750. These figures give a totally different picture from that based on 1971 data.

Finally, the question of the small size of farms in comparison with their counterparts in the Community must be examined in the light of the special conditions prevailing in Greece and the changes that have taken place in the country's agricultural sector in recent years.

It is first of all necessary to dispel the impression that Greek agriculture is dominated by dwarf farms. According to the 1971 census, there are 1,036.6 thous. farms with a total of 3,586.3 thous. hectares of farmland, which works out at 3.5 hectares per farm. About 230 thous. farms, accounting for 113.5 thous. hectares of land, are less than one hectare in size. Virtually all these small farms, as well as a number of somewhat bigger ones (one to two hectares), although statistically in existence, must be considered either abandoned or rented out. They do not therefore exist as independent units. Consequently, it may be said that the number of really "active" farms in Greece is far smaller than indicated by the census of 1971 and that, according to some estimates, it does not exceed 650 thous., with an average size of 6 hectares. Besides, the shift from extensive to intensive crops, which was particularly marked after the end of World War II, has considerably reduced the significance of size as a determinant of the productivity of agricultural holdings. Moreover, owing to the special climatic and soil conditions prevailing in Greece, a comparison between Greece and the Community in terms of farm size may be misleading, since these conditions are conducive to the development of high-yield crops that do not require large tracts of farmland and therefore render even small holdings profitable, as for instance fruit, vegetables and precocious products calling for intensive farming methods.

Finally, it should be added that, during the period 1975-1977 when the association agreement was reactivated, Greek agriculture made considerable headway towards modernizing its production capacity. The main thing, however, is that we became aware of the need to follow a consistent and well-integrated agricultural policy, a concomitant part of which is the working out and timely announcement of annual agricultural programmes to guide producers towards the desired products. A number of bills for the modernization of agriculture are awaiting ratification by Parliament, while farmer cooperatives are going to be reformed so as to play a more active role in the production, processing and marketing of agricultural products.

The preceding analysis shows that the accession of Greece, which in terms of results does not differ significantly from the association agreement, is not going to create additional problems for the CAP, but will rather do good to it. Of course, at the start there are going to be problems in some sectors, but they will be solved through close cooperation between Greece and the Community, provided that the assistance and support stipulated in the Treaty of Rome are forthcoming, both from the EAGGF and the European Investment Bank.

Here I would like to stress that, just as in the case of industry, Greece is not prepared to accept for her agriculture the escape clause that the Commission seems to suggest for the 5 to 10-year transitional period proposed for the joint accession of the three applicant countries. An escape clause can be proposed for a country which is just starting membership negotiations. But Greece, as an associate member of the Community, is in an altogether different position from the other candidates and it would seem at least unreasonable for her to be placed in a worse position under the proposed escape clauses. It would in fact be absurd for Greece as a full member to accept countervailing charges on her farm products during the transitional period, especially since, under the association agreement, the Community has an obligation to proceed to the full harmonization of Greek agriculture with the Community's and to abolish every sort of escape clause. Agricultural harmonization will have the effect of putting Greek farm products on an equal footing with the corresponding products of the nine member countries, thereby totally precluding the possibility of levying countervailing charges on her products.

3. Freedom of Movement of People

A further question engaging the attention of the Community in connection with the accession of the three applicant countries is the possibility of a serious worsening of unemployment in the EEC. Owing to the industrial and agricultural restructuring anticipated in the applicant countries, it is argued that the trend towards capital intensive production systems would give rise to increased unemployment and it is feared that this could lead not only to economic disturbances but also to social and political unrest. These problems are expected to be aggravated in the developed members of the Community, since they would attract the jobless from the less developed regions. This is because articles 48-49 of the Treaty of Rome stipulate the right to the freedom of movement of workers among member countries.

As in the instances previously examined, here too the fears expressed in Community circles do not apply to the Greek case. Greece is the only country in Europe where there is no unemployment problem, seeing that the unemployment rate was barely 1.5 per cent in 1977.

As the country's industrial sector continues to grow, not only will there be less unemployment, but there is a real risk of bigger labour shortages, particularly in some categories of jobs. This is evident from the 26,000 foreign nationals already working in Greece, at least half of whom come from Western Europe.

The argument that the effort to modernize Greek agriculture would contribute to the creation of surplus labour, which would seek employment on better terms in the EEC labour markets, is unfounded for the following reasons:

F i r s t, because the development pattern of Greek agriculture in the Community context favours relatively labour-intensive crops.

S e c o n d, the large number of people appearing to be employed in Greek agriculture conceals the fact that a high proportion of the agricultural workforce consists of people over the age of 55, who will soon go into retirement, and

T h i r d, because Greece is at the stage of industrial development and will therefore need a growing supply of manpower. This is also evident from the fact that, despite a considerable increase in the net repatriation of Greek workers from Western Europe in recent years, the unemployment rate has remained at a very low level, which supports the view that repatriates have been readily absorbed into the Greek economy.

The implication is that Greece's accession would not worsen the Community's unemployment problem, a conclusion also accepted by the Commission in its 1976 opinion on the Greek application for membership. Even if there were a drop in agricultural employment, it would not be a reason for large numbers of workers to seek jobs in the EEC, since those giving up farming would be able to find employment in the food processing industries and other activities to be created in rural areas. This is the principal aim of the country's regional development programme. If the programme is successful, it will probably bring about an outflow of manpower from the centre — mainly the basin of Attica, where roughly one-third of the country's labour force is employed — towards the periphery. Here too an important part will be played by the improvement of working conditions in the agricultural sector following Greece's accession to the EEC and the harmonization of Greek agriculture with the Community's.

That the accession of Greece would not necessarily entail an increase in labour migration in the Community is proved by existing statistical evidence, which shows that, from 1968 (when the movement of labour in the Community became completely free) to 1972 (when migration flows diminished), intra-EEC migration increased at a considerably slower rate than immigration from third countries. I therefore fail to understand why Greece's entry would increase the flow of Greek manpower to the other members of the Community.

However, even if accession gave rise to a labour surplus in Greece, it is doubtful whether it would be directed towards the other member countries. It would be more natural for this surplus manpower to move towards overseas areas (notably the United States, Canada, Australia, South Africa, Latin America) and the Middle East. It is estimated that about four million people of Greek descent live in these countries. This fact is a strong inducement for the rural population of Greece to emigrate, mainly on account of the family ties existing between them and the emigrants. Moreover, in overseas countries Greek emigrants mostly start a business and settle down permanently.

The fears expressed with regard to the impact of Greece's accession on the Community are thus seen to be groundless. Equally groundless is the view that the pressure to be exerted on small business firms by stiffer competition would lead to a sharp rise in unemployment and to increased labour migration towards the other members of the Community.

Let me give two main reasons why this is not going to happen:

F i r s t, owing to the built-in flexibility of small firms, they will be able to adjust the composition of their output to new market conditions.

S e c o n d, the policy to be followed, which will be in line with similar arrangements in the Community, will contribute to the smoother adjustment of small and medium-sized firms and thus to a significant reduction of the adverse effects of accession.

4. Energy

The energy problem is a major concern of the Community in relation to the accession of the three applicant countries. In the Commission's opinion, while the Community has to import 57 per cent of its energy supplies (particularly of oil), the three applicant countries are severally between 78 and 88 per cent import-dependent for energy.

It is indeed a fact that Greece's import-dependence for energy was 74.5 per cent in 1976. Since then, however, there are reliable indications that the ratio has begun to fall. The Centre of Planning and Economic Research has projected a drop of the ratio to 71 per cent in 1982 and 66 per cent in 1987, which will be quite close to the Community's average. The considerations underlying these projections are:

F i r s t, Greece has vast unmined deposits of lignite, which are gradually being put to use for the production of electric energy.

S e c o n d, there is also a large number of waterfalls, most of which remain unused. Their systematic exploitation would ensure the production of further large amounts of electric energy from domestic sources.

T h i r d, in the last few years Greece has been conducting an extensive programme of drillings for the discovery of oil fields. Results have been encouraging and it is hoped that, in about two years, known deposits will yield 30 thous. barrels a day, meeting 20 per cent of domestic demand for oil. Also, possible oil fields have been detected in the Ionian and Aegean seas, which may eventually increase the country's output of hydrocarbons to a considerable extent, with a commensurate reduction of her dependence on energy imports.

F o u r t h, Greece can make extensive use of solar energy. Technological advances in this field would yield comparatively better results.

It is therefore my belief that the Commission's fears regarding the energy problem are excessive, at least as far as Greece is concerned. A further reason for differentiating the Greek case is that, as will be seen in the next section, a large proportion of the country's trade deficit, which is merely due to increased expenditure for oil imports in the last three years (1975: $662.2 million; 1976: $822.3 million; 1977: $775.3 million), is covered by the inflow of foreign exchange from non-Community sources.

5. Monetary Equilibrium and Balance of Payments

The Commission is also concerned at the possibility that the joint accession of the three applicant countries might adversely affect the achievement of Europe's economic and monetary union. The Community is already faced with problems in this connection, which have been made considerably worse by the conditions of stagflation prevailing in the last few years. It is thus argued that the enlargement of the Community at the present time would have an adverse effect on the nine member states as well as on the acceding countries. On this point too, however, Greece's position is clearly different from that of the other two applicants. Since the Commission strongly emphasizes the difficulties that would be created for monetary union, I will devote the next few paragraphs to an analysis of monetary and balance-of-payments developments in Greece over the past few years.

Greece's accession is not going to add to the Community's monetary problems. It should be stressed that, for many years after 1953, Greece combined rapid economic development with exemplary monetary stability. Suffice it to mention that the average annual rate of increase in the consumer price index was 2.3 per cent during the period 1955-1972 and 2.7 per cent during the period 1962-1972. In the latter period, the corresponding rates were 3.9 per cent for the OECD countries, 4.5 per cent for the European members of the OECD, and 4.2 per cent for the members of the EEC. It was only after the repeated mistakes of the dictatorship that Greece suffered from high inflation and a large balance-of-payments deficit. Following the restoration of democracy, however, inflation was brought under control, dropping to 12.2 per cent in 1977, compared with 11.4 per cent in the Community. Consequently, the accession of Greece would give rise to far fewer problems than those that resulted from the accession of a number of other countries.

The same is true of Greece's balance of payments. Her balance of trade has always been in deficit, but invisible receipts, which are the country's principal source of foreign exchange, cover a considerable part of this deficit. The remainder is financed by the autonomous inflow of venture capital and other mostly private Greek capital, which in effect consists of unilateral transfers.

Despite the chronic deficit in the country's balance of trade, developments during the period following the signing of the association agreement were satisfactory. The average annual increase in exports during the period 1962-1977 was 16.9 per cent, while their share in GNP rose from 5.8 per cent in 1962 to 10.3 per cent in 1977. In the last three years, despite the unfavourable conditions that prevailed in the international market, the deficit on current account amounted to between $1,075 million and $1,270 million, while as a percentage of GNP it fell from 7 per cent in 1973 to 4.8 per cent in 1977. At any rate, the peculiarity of the Greek balance of payments lies mainly in the movement of invisible receipts and capital. With specific regard to invisible receipts, it should be noted that the country's tourist potential, the large number and wide dispersion of Greeks in overseas countries, and the large size of the Greek merchant fleet make for a rapid and steady increase in the surplus of invisibles, now covering almost 67.4 per cent of the trade deficit.

The remainder of the trade deficit is covered by capital movement, some items of which exhibit a characteristic peculiarity. Of great importance in this category of capital flows are foreign exchange deposits by Greeks permanently settled or having taken jobs abroad. In recent years there has been a huge increase in the net inflow of these deposits, from $22.1 million in 1968 to $632.5 million in 1977. The bulk of these deposits is converted into drachmas and spent within the country. Considerable amounts of capital are also brought into Greece by Greek emigrants and are invested in real estate or other types of capital assets.

As a result, the surplus of invisibles together with net capital inflow fully offset the trade deficit. As a matter of fact, in 1977 the movement of the various items of invisible receipts and capital inflow was so strong that, in the end, the balance of payments closed with an increase in foreign exchange reserves.

The implication is that neither the monetary sector nor the balance of payments of Greece has weaknesses which could make it difficult for the Community to achieve economic and monetary union.

On the contrary, there are member countries of the EEC which had and still have problems of this kind, but did not have to hold up their accession because of them. I believe therefore that arguments of this sort cannot apply to Greece, whose case, I must stress once again, should be examined in isolation.

6. The Financial Burden on the Community from the Accession of Greece

The association agreement calls for financial support from the Community to Greece. As a result, Greece has received a loan of $125 million, the bulk of which was disbursed before 1967. A new loan of $350 million has been approved.

With her accession to the Community, Greece should and is going to receive further financial and other support so that her economy can approach the level of development of the other member countries. After all, this is one of the advantages that Greece would enjoy by acceding to the Community. In its recent communication on the question of EEC enlargement, the Commission recommends in addition the establishment of a new Fund to assist newly acceding countries in dealing with the structural weaknesses of their economies. This Fund would operate parallel to and in cooperation with the existing ones (Social Fund, Agricultural Fund, Monetary Support Fund).

According to the Commission's calculations and on the basis of data from the budget for 1978, Greece's accession would burden the Community Funds with 360 million EUA a year. The burden on Community Funds would be commensurate to the extent of the structural changes that would have to be made. As far as Greece is concerned, this amount is considerable since it would contribute significantly to the restructuring of her economy. The burden on the Community, however, would be negligible, seeing that in 1978 the sum of 360 million EUA corresponds to 2.9 per cent of the Community budget and to somewhat over 10 per cent of the EEC's total outlay to support the prices of milk and dairy products. So, the argument that accession will lay a heavy burden on the Community budget is also seen to be irrelevant in the case of Greece. After all, this would be the Community's chief contribution to Greece, which would be used for faster economic development so that she can approach the level of the EEC's developed member countries.

III. The Community’s advantages from the accession of Greece

In this chapter I examine the advantages that the EEC would gain from Greece's accession and come to the conclusion that the admission of Greece as a full member, far from creating problems, would be positively beneficial to the Community.

1. Mineral Resources

The Community can gain a significant advantage from Greece's wide variety of largely, unexploited mineral resources. The country's deposits of minerals and ores and her primary energy sources (petroleum, uranium, geothermal energy) are considerable. Many of these products are in deficit in the Community. Through the proper exploitation of her mineral resources, as is shown in the relevant tables, Greece would be able as a full member of the EEC to meet part of the demand for such products in the Community. While demand for these products is expected to grow over the coming decades, world reserves will have decreased owing to intensive mining in recent years. Greek minerals and ores are attractive to the Community for the added reason that it costs much less to transport them from Greece than from the richly endowed regions of Africa or Latin America.

Postwar exploration has shown that the country's subsoil has a great variety of useful minerals, while possibly vast quantities may be found in still unexplored areas. There are large proved deposits of bauxite, lignite, chrome-iron and nickel-iron ores, sulphides, perlite, barytes, gypsum, magnesite (from which dead-burned magnesia is obtained), kaolin, Santorine earth and marble. It is possible that there are considerable deposits of other minerals as well. In particular, deposits of perlite, which is not produced in the member countries and is in great demand in the Community, are practically limitless. Also, Greece has the largest deposits of asbestos in Western Europe, while according to expert opinion she could become an important producer of copper and zinc. Besides, Canadian experts believe that Greece has commercially exploitable deposits of uranium. The quantity of bauxite mined in Greece is among the largest in Europe, comparable only to that extracted in the tropical countries. Greek bauxite is highly important to Europe. Over 50 per cent of the aluminium produced from Greek bauxite is exported to the EEC countries. In 1975, Greece produced 20.2 per cent more bauxite than the Community. Proved deposits of bauxite amount to 300 million tons and possible deposits to one billion tons, while annual output (1975) is only 3 million tons. Greece also produces magnesite and accounts for 12 per cent of world output. There are also considerable deposits of nickel-iron (Greece holds the first place in Europe, with 300-500 million tons of proved deposits). The EEC has a very limited quantity of this ore, but extracts from imported ore 18 per cent of world nickel output. Greece's chromite reserves are estimated at one million tons (proved) to 2.5 million tons (possible). The Community does not produce chromite and demand for it is growing. Greece is also the foremost exporter of bentonite to the Community.

It should not be overlooked that Greece has considerable possibilities of extracting solid and liquid fuels from domestic sources. More intensive exploitation will, however, be needed. Proved deposits of lignite and peat are very large: 3 billion and 2.5 million tons, respectively. Possible deposits of lignite amount to a further 2 billion tons, while those of peat are enormous. These minerals can be used to produce electric energy, fertilizers and other chemicals. There are serious indications that it might be possible to utilize geothermal energy in several parts of Greece (Kammena Vourla, Methana, Lesbos, Melos, etc.). Finally, one should not overlook the possibility of large oil deposits off the island of Thassos and in the Nestos river basin. The Thassos oil wells can produce 30,000 barrels a day and there are signs of much larger deposits in other areas, particularly the Ionian Sea.

In recent years, parallel to the increase in mining output there has been more intensive — partial or full — processing of the various minerals. Before 1965, the bulk of the country's minerals was exported raw. Since then the picture has changed, following the establishment and operation of major bauxite and nickel processing plants.

Output of minerals and ores in Greece rose from 8.9 million tons in 1965 to 29.2 million tons in 1975, an increase of 228 per cent in ten years. At the same time, exports of minerals-ores and metallurgical products reached $285 million in 1975, compared with $24 million in 1965. Exports of metallurgical products alone increased from $24 thous. in 1965 to $154.2 million in 1975. These figures point to the dynamism and possibilities of exploiting Greek mineral resources and to their contribution to the development of the economy. This dynamism is reflected not only in increased quantities but also in qualitative changes in the structure of exports during the last ten years. Thus, exports of metallurgical products rose from 0.1 per cent of total mineral exports in 1965 to 53.9 per cent in 1975. Despite these spectacular developments, the possibilities of developing Greek mineral resources are enormous, seeing that the quantities extracted and exported represent only a small fraction of existing deposits.

At the same time, there are very wide margins for processing mineral output. This is a necessity, in view of the large difference in terms of export earnings between raw and processed minerals. Also, the transportation cost of raw minerals is often much greater than that of processed minerals.

Mining and processing operations must be further developed and expanded. This would greatly assist in the growth of heavy industry in Greece. However, since neither the funds nor the know-how available to Greek business circles are adequate for this purpose, investment in this sector could be undertaken jointly by Greek and European entrepreneurs and be of considerable advantage to both Greece and the Community.

The implication is that, despite its considerable development over the past fifteen years, the Greek economy still has a large growth potential. It is interesting to note that its expansion can be supported to a large extent by promoting the establishment of a heavy metallurgical industry with the help of funds and technology imported from the Community. This would greatly increase the flow of Greek minerals and metallurgical products towards the Community (at a low transportation cost) and directly benefit those EEC firms that would undertake joint ventures with Greek capital in mining and metallurgy.

2. Geographic Position

a. Market penetration by technical firms

Owing to her geographic position and her traditional ties of friendship with the Arab countries, Greece can become a bridge between the Community and the Middle East. Following the steep increase in the price of oil and the meteoric rise in the foreign exchange earnings of the oil-producing countries, the Arab states have begun to carry out large-scale infrastructure projects for their economic and social development. At the same time, their imports are growing rapidly. In both fields, the presence of Greek technical firms and exporters has been strongly felt.

In the case of infrastructure projects, the activity of Greek construction companies is facilitated by the tradition of friendship between Greece and the Arab world and by the experience and machinery available to Greek contractors. I need only mention that there are about thirty firms with a combined staff of over 8 thous. Greek engineers and skilled workers, which have undertaken construction projects worth $5 billion, in Libya, Saudi Arabia, Iraq, Syria, the United Arab Emirates and Iran. Following the expected expansion of these projects, Greek technical firms will be carrying out works worth $2.5 billion a year, of which at least 20 per cent or about $500 million a year will be brought into Greece in the form of profits and fees to Greek personnel.

The activities of Greek construction companies are helping expand the country's exports to the Middle East at a high rate, from $66 million in 1973 to $533 million in 1977. They consist mainly of cement, building materials, metal structures, transport equipment, and other items used in connection with the activities of the various Greek contractors.

The penetration of Greek products into the Arab markets and the award of large construction contracts to Greek technical firms in the Middle East represent important advantages for the Community following the accession of Greece. This is because the strengthening of the Greek balance of trade with the Arab countries would result in a significant improvement of the Community's balance of trade. Mainly, however, the strong presence of Greek technical firms in the Arab countries and the dynamic growth of Greek exports to that area would help promote Community interests in the Arab market. This could be achieved by setting up joint Greek-EEC ventures capable of developing their activities either in the construction sector or in the commercial penetration of the Arab countries, since both sectors offer enormous opportunities for further expansion. The abilities and experience of Greek technical experts and businessmen, who are fully aware of the special economic, political and cultural conditions prevailing in the Arab countries, would considerably facilitate the access of joint Greek-EEC companies to the area of the Middle East.

Furthermore, Greece can serve as a convenient location for joint Greek-EEC ventures oriented towards the markets of the African countries, with which she has traditionally enjoyed the best of relations. Such joint enterprises could supply the developing countries of Africa with a wide variety of products, including building materials, chemicals, electrical and telecommunications equipment, clothing, foodstuffs, etc.

b. Transit centre

Lying directly on the route from Western Europe to the Eastern Mediterranean, Greece can become a bridge between the two regions. She is already a major junction point for airlines on the Europe-Middle East route. Also, a ferry line has been brought into operation between Volos (a principal port on Greece's eastern coast) and Syria, which considerably facilitates the transport of goods to and from Middle East markets. Special train ferries are also going to be used. Finally, there are plans for a major waterway linking the Danube with the Aegean Sea through the Morava river, which will be joined to the Vardar-Axios river by a canal. In this way, Central Europe would gain direct access to the Eastern Mediterranean, and Thessaloniki — lying close to the point where the Axios river meets the Aegean — would develop into an important transit centre for trade between Europe and the Middle East.

One can easily imagine the advantages that the Community would gain from Greece's geographic position, considering that the EEC supplies over 40 per cent of the Middle East's imports.

c. Financial centre

As far as Europe is concerned, the importance of Greece's geographic position is also evident from the fact that Athens and Piraeus are developing into an international financial and banking centre. At present, there are 300 foreign companies in the Athens area and their number is expected to double in a few years. Athens is therefore turning into a major financial and business centre in the Eastern Mediterranean and the Middle East. To facilitate the offshore operations of local branches of foreign banks and companies, the Greek

Government has started taking measures to regulate these banks' lending outside Greek territory, in an effort to simplify the various procedures and institute the required legal and banking reforms.

Today, foreign firms in Greece employ a combined staff of about 2,500 — mainly foreign nationals — and it is estimated that in 1977 they brought in roughly $60 million to cover their operating expenses. The facilities given to international companies with capital from EEC sources are a further reason for Greece's attractiveness to the Community.

3. Merchant Shipping

Another advantage to be gained by the Community from the accession of Greece is the enormous Greek-owned merchant fleet. Continuing a very old tradition, the Greek merchant fleet is in effect the world's largest. The Greek-owned fleet of 53 million grt corresponds to roughly 70 per cent of the Community's merchant tonnage. The greater part of this fleet is under the Greek flag (33.5 million grt). The size of the country's merchant fleet is of particular importance, since most of the Community's external trade — accounting for around 35 per cent of world trade — is seaborne.

Consequently, the Greek merchant fleet will be an important asset for the development of the EEC's external trade. I need only mention that, with the accession of Greece, the share of the Community's merchant fleet in world tonnage would rise from 19.4 to 33 per cent.

A further significant fact is the gradual decline of the Community's merchant shipping over the past 15-20 years. Despite government support (tax exemptions, low-interest loans, etc.) from almost all EEC members, the share of the Community's merchant fleet in world tonnage fell from 34 per cent in 1959 to 19.4 per cent in 1977. This occurred at a time when world tonnage tripled. During the same period, the Greek-owned merchant fleet quadrupled, reaching 13.4 per cent of world tonnage, while the capacity of the Greek-flag fleet increased tenfold, owing to improved confidence in the Greek shipping register.

Furthermore, while the merchant fleets of most member countries (except the United Kingdom) are engaged in the transportation of merchandise to and from their flag country, Greek merchant ships are almost exclusively engaged in cross trading. Therefore, on account of its size, Greek merchant shipping is *de facto* opposed to the efforts of some countries to increase government intervention in sea transport. The participation of the Greek merchant fleet would also enhance the Community's negotiating position in international conferences on shipping matters.

4. Balance of Payments between Greece and the EEC

The Greek balance of payments is also one of the many sectors where advantages are to be gained by the Community from Greece's accession. Despite the deficit on current account, which has often given rise to concern in Community circles, the Greek balance of payments should, on account of its structure, be regarded as an asset instead of a disadvantage to the Community.

Specifically, Greece's balance of trade with the EEC was and remains in deficit. In 1962, the Greek trade deficit with the Community of Six was $200 million, or $244.4 million if Britain, Ireland and Denmark are included. These figures rose to $1,584.6 million and $1,830.9 million respectively in 1977. At the same time, the surplus of invisibles from the EEC amounted to $704 million and offset 38.4 per cent of the country's trade deficit with the Community. As a result, the Greek current account deficit with the EEC reached $1,127 million in 1977. It is worth noting that Greece's current account deficit with non-EEC countries in the same year amounted to only $140 million. Of the $1,127 million current account deficit, only 50.8 per cent ($573 million) was offset by an inflow of capital from the Community. The final deficit thus amounted to $554 million. This deficit was financed mainly by autonomous capital inflow from non-EEC sources, foreign exchange deposits, and venture capital belonging to Greeks living outside the Community. Hence, Greece pays most of her deficit from trade with the EEC out of remittances and capital supplied by Greeks working in overseas countries.

These figures gain added importance considering that Greece, a small country, imported EEC goods worth $2,372 million in 1976, while Japan's imports from the Community were worth $2,980 million, Australia's $2,691 million and Canada's $3,100 million. All the same, the Community's balance of trade with these three countries was considerably in deficit. The EEC's trade deficit with Japan amounted to $4,060 million, with Canada to $1,813 million, and with Australia to $178 million. On the contrary, in its balance of trade with Greece, the EEC had a surplus of $1,508 million in 1976, which is almost equal to the Community's trade deficit with Canada. Consequently, while Greece's imports from the EEC are almost equal to Japan's and Canada's, her trade deficit helps the Community's balance of payments, with foreign exchange earned by Greeks working in overseas countries.

5. Political Unification

Apart from economic considerations, it is in the interest of Europe to admit Greece to the community of member countries, in its progress towards economic, monetary and political union. For it should not be forgotten that Greece is the only free, western-style republic in South-eastern Europe, with close political, ideological, and humanistic ties with the other European nations. She is thus an outpost of democracy, freedom and peace in the Eastern Mediterranean region. I therefore think that the accession of a country which is the vehicle of such values would be in the political, social and economic interests of Europe.

What I am suggesting is that Europe needs Greece in order to become a political unity, which will be something much more important than the mere customs union of a group of rich countries. For only if the EEC manages to acquire this unity will it be able to play a constructive part vis-à-vis the two superpowers, thereby making a decisive contribution to the maintenance of equilibrium, peace and security throughout the world.

The role that a united Europe will be called upon to play will not be one of confrontation, but one tending to enhance free cooperation with all countries. On the contrary, if its gradual unification fails, European countries will be unable to deal effectively with the political, social and economic problems of our times.

As was recently stressed by the Greek Prime Minister, Constantine Karamanlis, "the unification of Europe will be the greatest political event of our century. For Europe must unite in order to survive. By doing so, it will strike a balance between the world's powers, safeguard the independence of its peoples, and contribute to the consolidation of world peace and order."

At the same time, it is in the interest of Greece to take an active part in the transformation of Europe, which is based on democratic institutions.

From the very beginning, the EEC was created with the prospect of gradually evolving into an economic and political union. With the accession of Greece, it will have the chance to activate itself — which is essential for the achievement of political unity — and to shape its decisions on new and broader foundations. In this way, it will cease to be regarded as a private club formed by the economically strongest European countries.