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for membership

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# Contents

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|                                                          |    |
|----------------------------------------------------------|----|
| <b>Background</b> . . . . .                              | 7  |
| <i>Part one</i>                                          |    |
| <b>General remarks</b> . . . . .                         | 9  |
| Outline of the economic situation in the Community . . . | 10 |
| Outline of the economic situation in Spain . . . . .     | 11 |
| Impact of accession . . . . .                            | 14 |
| Industry . . . . .                                       | 14 |
| Agriculture . . . . .                                    | 15 |
| Fisheries . . . . .                                      | 16 |
| Social aspects . . . . .                                 | 17 |
| Regional aspects . . . . .                               | 17 |
| External relations . . . . .                             | 18 |
| <b>Conclusions</b> . . . . .                             | 19 |
| <br>                                                     |    |
| <i>Part Two</i>                                          |    |
| <b>Specific considerations</b> . . . . .                 | 23 |
| <b>Customs union</b> . . . . .                           | 23 |
| EEC-Spain Agreement . . . . .                            | 23 |
| Adoption of the CCT and customs legislation . . . . .    | 24 |
| Territorial application of the customs union . . . . .   | 24 |
| <b>Agriculture and fisheries</b> . . . . .               | 24 |
| Agriculture . . . . .                                    | 24 |
| Fisheries . . . . .                                      | 26 |
| <b>Industry and energy</b> . . . . .                     | 27 |
| Industry . . . . .                                       | 27 |
| Energy . . . . .                                         | 30 |
| <b>Social aspects and movement of workers</b> . . . . .  | 32 |
| Social aspects . . . . .                                 | 32 |
| Freedom of movement . . . . .                            | 32 |
| <b>Regional aspects</b> . . . . .                        | 33 |
| <b>External relations</b> . . . . .                      | 35 |
| <b>Banking and insurance</b> . . . . .                   | 36 |
| Banking . . . . .                                        | 36 |
| Insurance . . . . .                                      | 37 |
| <b>Transport</b> . . . . .                               | 37 |

|                                                                                                                                             |    |
|---------------------------------------------------------------------------------------------------------------------------------------------|----|
| <b>Competition and aids</b> . . . . .                                                                                                       | 38 |
| Rules applicable to undertakings . . . . .                                                                                                  | 38 |
| State aids . . . . .                                                                                                                        | 38 |
| State monopolies . . . . .                                                                                                                  | 39 |
| Public undertakings . . . . .                                                                                                               | 39 |
| <b>Taxation</b> . . . . .                                                                                                                   | 39 |
| <b>Community budget</b> . . . . .                                                                                                           | 40 |
| <b>Other Community policies</b> . . . . .                                                                                                   | 40 |
| <br>                                                                                                                                        |    |
| <b>Annexes</b>                                                                                                                              |    |
| Table 1 — <i>Per capita</i> GDP in the Community . . . . .                                                                                  | 43 |
| Table 2 — Gross domestic product by branch at 1970 prices . . . . .                                                                         | 44 |
| Table 3 — Volume indices of gross domestic product at market prices . . . . .                                                               | 45 |
| Table 4 — Population . . . . .                                                                                                              | 45 |
| Table 5 — Employment . . . . .                                                                                                              | 45 |
| Table 6 — Consumer price indices . . . . .                                                                                                  | 48 |
| Table 7 — Spain's Energy situation . . . . .                                                                                                | 49 |
| Table 8 — Some agricultural indicators for Spain and the Community . . . . .                                                                | 50 |
| Table 9 — Composition of final agricultural production in Spain, the Community of Nine and Italy . . . . .                                  | 50 |
| Table 10 — Total production of certain agricultural products in Spain as compared with the Community . . . . .                              | 51 |
| Table 11 — Yields per hectare in Spain as compared with the Community for cereals, rice and potatoes . . . . .                              | 53 |
| Table 12 — Irrigation in Spain . . . . .                                                                                                    | 53 |
| Table 13 — <i>Per capita</i> consumption of various agricultural products in Spain and the Community . . . . .                              | 54 |
| Table 14 — Production, availability and degree of self-supply in the Community of Nine plus Spain—Principal agricultural products . . . . . | 55 |
| Table 15 — Spain's external trade . . . . .                                                                                                 | 56 |
| Table 16 — Spain's exports (agricultural products) . . . . .                                                                                | 57 |
| Table 17 — Spain's imports (agricultural products) . . . . .                                                                                | 58 |
| Table 18 — Trend of Spain's trade, 1958-77 . . . . .                                                                                        | 59 |
| Table 19 — Spain's principal suppliers and customers in 1977 . . . . .                                                                      | 60 |
| Table 20 — EEC-Spain trade by category of product . . . . .                                                                                 | 61 |
| Table 21 — Balance of payments . . . . .                                                                                                    | 62 |
| Table 22 — Gross official reserves . . . . .                                                                                                | 63 |
| Table 23 — Liquidity of the economy (money and near money) . . . . .                                                                        | 64 |

|                                                                                                                            |    |
|----------------------------------------------------------------------------------------------------------------------------|----|
| Table 24 — EEC share (1976) of exports and imports . . .                                                                   | 65 |
| Table 25 — Imports into the Community from certain Mediterranean countries (1977) . . . . .                                | 66 |
| Table 26 — Exports from certain Mediterranean countries to the EEC as a proportion of their total exports (1976) . . . . . | 67 |
| Table 27 — Migration . . . . .                                                                                             | 68 |
| Table 28 — Spanish investment in Latin America (principal destinations) . . . . .                                          | 70 |
| Table 29 — Spain's imports of certain agricultural products, by source . . . . .                                           | 70 |

*List of graphs*

|                                                                                                    |    |
|----------------------------------------------------------------------------------------------------|----|
| 1. <i>Per capita</i> gross domestic product in 1976 at current exchange rates and prices . . . . . | 71 |
| 2. Trend of gross domestic product by branch from 1970 to 1976 at 1970 prices . . . . .            | 72 |
| 3. Civilian employment by branch—1976 . . . . .                                                    | 73 |
| 4. Composition of final agricultural production—1976 . . .                                         | 74 |
| 5. Consumer price indices 1960-77 . . . . .                                                        | 75 |
| 6. Spain's exports . . . . .                                                                       | 76 |
| 7. Spain's imports . . . . .                                                                       | 77 |
| 8. Trend of exchange rates of European currencies in relation to the peseta . . . . .              | 78 |

*List of maps*

|                                                                                 |    |
|---------------------------------------------------------------------------------|----|
| Information map . . . . .                                                       | 79 |
| 1. Population density—1975 . . . . .                                            | 80 |
| 2. % Average annual rate of population variation for 1962-1975 period . . . . . | 81 |
| 3. Active agricultural population—1975 . . . . .                                | 82 |
| 4. Agricultural productivity . . . . .                                          | 83 |
| 5. Agriculture . . . . .                                                        | 84 |
| 6. Industrial employment (excluding construction) . . . . .                     | 85 |
| 7. Industrial productivity . . . . .                                            | 86 |
| 8. Productivity in service industries . . . . .                                 | 87 |

## Background

On 28 July 1977 Spain's Minister for Foreign Affairs, Mr Oreja, acting on behalf of his Government, presented to the Council of the European Communities Spain's request for membership of the European Coal and Steel Community (ECSC), the European Economic Community (EEC) and the European Atomic Energy Community (EAEC).<sup>1</sup>

The Council agreed at its meeting on 19 September 1977 to set in train the procedure laid down in Articles 98 of the ECSC Treaty, 237 of the EEC Treaty, and 205 of the EAEC Treaty, and specified that in preparing its Opinion the Commission would keep in close contact with the Member States and Spain.

Contact with the Spanish authorities has been maintained through the Ministry for Relations with the European Communities under Mr Calvo Sotelo, and the Commission has been provided with ample documentation on the situation in Spain. The Member States for their part have been kept informed of the progress of the Commission's work on the preparation of this Opinion. The Opinion should be read in the light of the Commission Communication to the Council dated 20 April 1978 on General Considerations on the Problems of Enlargement, and related documents.<sup>2</sup>

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<sup>1</sup> Bull. EC 7/8-1977, points 1.1.1 to 1.1.5.

<sup>2</sup> Bull. EC 11-1978, points 1.1.1 to 1.1.8; Supplements 1/78, 2/78 and 3/78 — Bull. EC.

## Part One

### General remarks

1. The Preamble to the Treaty establishing the European Economic Community provides that other European States who share the ideal of strengthening peace and liberty may join in the efforts of the Member States.

It was to respect that ideal that the Community did not respond to the Spanish approach of 1962 aimed at ending a long spell of introspection and insolation from the rest of Europe and forging closer links with the Community via the conclusion of an association agreement. In fact, it was not until 1970 that an agreement,<sup>1</sup> dealing purely with trade matters, was concluded between the European Economic Community and Spain. That agreement was concluded as part of the Community's effort to frame a coherent approach to its trade relations with the Mediterranean countries.

2. Since 1975 King Juan Carlos I and the Government of Spain, supported by the country's political, business and labour circles, have been engaged in restoring a pluralist democracy and providing guarantees for individual liberties. This process has culminated in the emergence of a new constitution, adopted by the Spanish Parliament on 31 October.

At the same time Spain's foreign policy has turned firmly towards Europe. As early as February 1976 Mr Areilza, Minister for Foreign Affairs in the first Government formed by the King, had visited the Commission and announced that Spain wanted the negotiations for the adaptation of the 1970 agreement to be conducted with a view to Spain's eventual integration into the Community.

This new policy led in July of that year to a formal request for membership, presented by the Government of Mr Suarez which had been formed following the elections in June.

3. Spain's decision to apply for Community membership enjoys the unanimous support

of all the political parties represented in the Spanish Parliament and of both sides of industry, and, generally speaking, is backed by the population as a whole. The debate being carried on in Spain is concerned not with the principle of entry but with its consequences, particularly the scale of the efforts required to ensure its success.

Such unanimity makes it all the more desirable that Spain should play its part in European integration at a time when new and decisive ground is being broken—with the commitment to extend membership to Greece and Portugal and the drive for greater internal cohesion, involving the setting up of the European monetary system and direct elections to the European Parliament.

From the economic angle, the addition of a market which has considerable development potential will have beneficial effects on intra-Community trade. The benefits could be enhanced by the opportunities opened to the enlarged Community on Latin American markets as a result of Spain's traditional ties with that continent.

It is useless to pretend, however, that Spain's accession will pose no problems, and it is therefore necessary for the sake of both the Community and Spain to take the necessary measures and precautions to ensure that the enterprise is successful.

4. Success implies that Spain's economy should be integrated with the economy of the Community without intolerable strains on either side—with Spain being able to bridge progressively the gap still separating it from the Community—and that, when the process of integration is complete, the Community should emerge strengthened and not 'diluted'.

The need to strengthen the Community has been proclaimed on many occasions and steps are already being taken in that direction quite apart from the prospect of enlargement, though this prospect, rather than de-

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<sup>1</sup> OJ L 182 of 16.8.1970.

tracting from the need for a stronger Community, makes that need all the more pressing and urgent.

The Community authorities will naturally review the steps already taken, with a view to adapting or adding to them to take account of new requirements created by Spain's entry.

5. Admittedly, Spain's economy is relatively small in comparison with the Community's, and this might suggest that Spanish membership should not present the Community with any major difficulties. But in a number of areas Spain competes most efficiently with the Community. In addition, its economy is a developing one and still enjoys conditions of competition, particularly with regard to social costs, which are especially favourable for its expansion. However, despite this assessment account must be taken of certain structural weaknesses in Spanish firms as to size, productivity and technology.

If the necessary measures are not adopted in time, or fail to provide adequate support over the integration period following entry, Spain's competitive position could result in sharp tensions affecting certain sectors of the Community's economy, notably in regions which, because of their economic structure or geographical location, are more vulnerable than others.

6. Similarly, on the Spanish side, unless comparable precautions are taken the weight of the Community's economy could also produce similar stresses in some sectors of the Spanish economy, particularly those that are vulnerable because of the conditions under which they have developed, or in regions that derive the bulk of their income from products which will be unable to withstand competition from the Community.

Furthermore, the employment situation both in Spain and in the Community would considerably increase such strains.

7. It is therefore important to make use of the time remaining to us before Spain's full

integration into the Community in order to take the necessary precautions to mitigate the effects of the two economies' interpenetration. In particular, the gap between their levels of development, which constitutes one of the most obvious sources of strain, should be narrowed as far as possible.

8. To give a clearer picture of these problems and identify the measures needed to ensure Spain's successful integration into the Community, the Commission has, in the following chapters, given an outline of the two economic situations. Only those areas of activity that are of particular significance have been considered.

### **Outline of the economic situation in the Community**

9. Throughout the 1960s, when the common market was being set up, and right up until 1973, strong growth served to oil the wheels of integration and cushion the social impact of structural changes in industry and agriculture. Today the economic climate is not so favourable for the integration of a new member into the Community.

10. The last few years have been stormy ones for the world economy. The disruption of the international monetary system following the United States' decision in 1971 to discontinue dollar convertibility, the quadrupling of oil prices at the end of 1973 and the serious payments imbalance and exchange rate fluctuations which appeared as a result contributed to the start, in 1974, of the worst recession since the war. After an appreciable recovery in 1976, which in the United States has lasted right up to the present time, economic activity in the developed countries as a whole last year expanded by some 3%, which is a distinctly lower rate than that achieved in the past. In this economic climate the volume of world trade has not grown by more than 4.5% a year.



11. The expansion of economic activity in the Community has slowed down considerably since 1974, and will remain sluggish in the near future. In these circumstances, one cannot expect a rapid improvement in the employment situation of the Community, where the number of unemployed exceeded 6 million in 1977/78. At the same time inflationary pressures still persist, though to a lesser degree, with rises in consumer prices reaching 7% in 1978 and likely to be of the same order in 1979. Admittedly, the current account deficit has been replaced by a surplus, largely due to the underutilization of internal capacity and better terms of trade; the restoration of improved equilibrium as regards prices and the external accounts has given governments more room to manoeuvre, and economic policy has become more active. Nevertheless, in certain respects the crisis is still very much a reality.

12. A number of industries are still in difficulties. The iron and steel industry, in particular, is still running well below capacity, despite rationalization measures adopted at Community level and in a number of Member States. The shipyards' order books remain empty. Some restructuring is also necessary in the textile industry, where certain sectors give cause for concern.

13. The general slowdown in the economy has also hit the agricultural sector. The unsatisfactory world trade situation has, by causing a deterioration in the trade balance, focused attention on the deficits in the agricultural trade of certain Member States. Moreover, the economic recession has highlighted the unfavourable position of farmers' earnings in the least-developed predominantly agricultural regions.

14. The economic crisis has also had its effect on the Community's external policy, which, thanks to a favourable economic climate, has traditionally been based on the far-reaching liberalization of trade with both industrialized and developing countries. Such liberalization took the form notably of preferential access to Community markets for

products from developing countries (the ACP<sup>1</sup> and GSP<sup>2</sup> beneficiaries), and from countries with which the Community had concluded special agreements because of their geographical position or historical and political ties with various Member States (Greece, Turkey, Mediterranean and EFTA countries).

The recession limited the scope for this essentially commercial policy. Its effects on a number of Community industries and lines of agricultural production were finally transmitted to non-member countries, and the full application of certain agreements these countries have with the Community ran into difficulties. The Community tries to maintain the value of such agreements by applying a diversified policy according to different countries and regions.

### **Outline of the economic situation in Spain**

15. Spain's industrial development started off in a closed circuit, giving rise to an industrial sector made up largely of small, low-productivity firms working for the domestic market. Since the 1960s large, export-oriented firms using advanced technology have been set up, in particular following the implementation of a vigorous policy of liberalization of foreign investment.

The development of Spanish industry, which enjoys strong tariff and non-tariff protection, was based on the availability of a large labour force resulting from the migration of the rural population towards the industrial centres and also on substantial domestic savings, added to which there were the remittances by emigrant workers, earnings from tourism and direct foreign investment.

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<sup>1</sup> ACP = the Community's partner States signatory to the Lomé Convention.

<sup>2</sup> GSP = Generalized system of preferences for developing countries.

Overall, Spanish industry occupies an important place at international level, and should continue to develop at a satisfactory rate. However, as in the Community, certain industries, particularly textiles, iron and steel and shipbuilding, which are of great importance in terms of jobs and exports, are experiencing difficulties as a result of the world situation in those industries.

16. The Spanish textile industry was seriously affected by the world recession; restructuring plans have been implemented which will lead to the closure of marginal firms so as to consolidate the position of the more competitive ones. The industry is now less badly off than its counterpart in the Community. It could nevertheless be affected by rises in labour costs if these rises exceed the gains in productivity resulting from the restructuring measures.

17. The iron and steel industry expanded greatly between 1966 and 1975, a period during which production tripled. Present production capacity is 15.3 million tonnes and it is estimated that it will be about 18.3 million tonnes in 1981. This prospect is based on the forecast of a 7.6% increase in consumption per annum, based on the relatively low level of present domestic consumption (305 kg *per capita* as against 451 kg in the Community in 1976). This rapid expansion is based largely on substantial State aids. The low productivity in this sector, which is no higher than the level recorded by the Community in 1965, might well check the growth of exports; this handicap has hitherto been offset by State aids, import barriers and export subsidies.

18. Shipbuilding suffers from considerable overcapacity. A restructuring plan is being implemented and this should result in a 50% reduction in capacity compared with 1975. The problems which this presents, in particular for employment, are being examined by the parties concerned. The Spanish shipyards rank third in the world in terms of output and they are highly competitive.

19. Like industry, agriculture has played a fundamental role in Spain's economic development and has benefited from measures which have protected it from foreign competition. These measures have been part of an agricultural policy aimed principally at promoting products that Spain does not produce enough of and stimulating exports of other products as far as possible.

The relative failure of this self-sufficiency policy, combined with the desire to join the European Economic Community, has in recent years started to give rise to a liberalization process, which is cautiously and progressively beginning to take concrete shape.

20. Generally speaking, Spain's trade in agricultural products has featured a large deficit caused mainly by growing imports of feed grain and protein of vegetable origin and also, though to a lesser extent, of meat and milk products. On the other hand, there is a surplus of fruit and vegetables, olive oil, rice, wheat and wine.

21. Owing to the country's natural conditions, which differ from one region to another, and given the great variety of production structures, which in some cases results in inefficient use of agricultural potential, highly competitive sectors exist alongside others whose productivity is still, on average, much lower than in the Community. This situation is reflected in the level and especially in the hierarchy of 'institutional' prices, which differ greatly from Community prices. In general, for cereals, animal products and sugar, these prices are very close to Community prices or sometimes even higher; for most Mediterranean products, however, the prices are much lower.

22. Crop products account for a greater proportion of final agricultural production than livestock products. Mediterranean products alone, which are very competitive, account for 40% of total agricultural production and are the country's main agricultural export item. They are concentrated mainly in the regions with the most favourable natural

conditions and they also provide the highest incomes and highest employment levels for an abundant supply of labour.

23. There has been considerable development in recent years in livestock products and the major crops. However, they would seem to be less competitive at Community level. They are nevertheless very important for keeping the Spanish trade balance in equilibrium and production is largely located in regions where natural conditions are poor and general economic development prospects limited.

24. The low yields per hectare suggest that there are real development possibilities in the way of improved productivity, especially when general production conditions are favourable. It should, however, be pointed out that, in dealings with Commission staff, the Spanish authorities have stressed that the real potential is very small.

25. The fishing industry is of considerable economic importance, especially in the northern regions. The Spanish fishing fleet ranks third in the world and first in Europe in terms of total gross tonnage, and is equivalent to two-thirds of the Nine's total fleets. Its size is well out of proportion to the fishing opportunities open to Spain as a result of recent international developments concerning the extension of fishing zones in the North Atlantic and off the coasts of Africa.

26. At regional level, Spain's economy is marked by a heavy concentration of the population and secondary and tertiary activities in the coastal provinces, and particularly in the North and North-East of the country. Most of the provinces in the South and North-West are far less developed than the provinces in the North-East. Furthermore, with the exception of the Madrid region, the whole of the interior, which is mainly agricultural and very thinly populated, constitutes the least developed part of Spain.

27. Since 1974, the slackening of world economic activity and the sharp rise in produc-

tion costs owing to the increases in the prices of energy products and in wages have had adverse effects on the Spanish economy's growth rate. They have accelerated inflation and pointed up some of the economy's structural weaknesses. The rate of growth of GDP, which bordered on 7% in real terms during the sixties and the early seventies, fell to 2.5% in 1976/77. Investment has been very slack since 1975 and is not expected to recover until 1979. Furthermore, with earnings from tourism and emigrant workers' remittances tending to level off, Spain's deficit on its external payments grew between 1975 and 1977.

28. Spain is now having to contend with a worsening of the unemployment situation; the country has nearly 900 000 unemployed, representing nearly 8% of the labour force as against 5.6% in the Community. It is caused mainly by an inadequate growth rate, greatly reduced opportunities for emigrating to the industrialized countries and the continuing drift of agricultural workers towards the towns. Although a million workers have left agriculture since 1970, 20% of the labour force still works in this sector, which accounts for only 9% of the country's GDP. This analysis does not take account of continuing latent underemployment, the extent of which should not be underestimated. In the opinion of the Spanish authorities, an annual growth rate of 5% would help stabilize, or even slowly absorb, existing unemployment.

A second problem is still inflation, although a marked improvement can be discerned. After being as high as 26% in 1977 the Government forecasts that it could drop to 16% for 1978 and to 12% for the whole of 1979.

29. Lastly, as regards external payments, it would seem that the very large deficit recorded in 1975-77 is now being brought under control. Spain's exports should increase by at least 12% in real terms in 1978, whereas world trade will probably have increased by only 4 to 5%; imports could drop slightly. In any event there will be a marked recovery in the trade balance this year.

At the same time, earnings from tourism and emigrant workers' remittances have shown a marked upswing in 1978. For the first seven months of the year operations on current account showed a surplus of close on USD 500 million, whereas a deficit bordering on USD 3 000 million had been recorded for the corresponding period of the preceding three years. Furthermore, capital movements are in surplus once again, as the capital markets' confidence in the future of the Spanish economy has been restored. As a result, Spain's external monetary reserves have been rapidly built up again: having fallen to USD 3 500 million at the end of June 1977, they were back to over USD 10 000 million at the end of October 1978. It is not certain that this tendency will continue because expected acceleration in economic activity might bring about a deterioration in the trade balance.

30. The Spanish Government's efforts to achieve a recovery were greatly facilitated by the conclusion in 1977, between all the political parties represented in Parliament and the Government, of the Moncloa Pact, which received the support of Spanish business and labour.

The objectives of the Pact were twofold: to correct imbalances and to ensure that the social cost of the economic reforms was fairly spread. These aims were to be attained by limiting wage increases, adopting a more active interest-rate policy and introducing stricter liquidity controls, and also by significantly reducing current public expenditure. Furthermore, a tax reform aimed at reducing inequalities and an increase in public investment expenditure designed to create jobs and improve public services should raise the standard of living, as a *quid pro quo* for the efforts which the two sides of industry have been asked to make.

In this respect, it should be noted that the total burden of taxes and social security contributions in the public sector amounts to only 26% of GDP, as against an average of 41% in the Community. It would therefore seem that the Spanish authorities have considerable room for manoeuvre. It is likely

that this total burden will be increased progressively over the next few years, in particular as a result of the tax reform, which should raise the proportion accounted for by direct income tax.

The Moncloa Pact has already produced beneficial effects in that imbalances are being remedied and the confidence of investors, particularly foreign investors, is being restored. For 1979 the authorities expect an increase of 9% in private investment and 14% in public investment. The GDP growth rate forecast for 1979 is 4.8% in real terms, as against a probable 3.5% in 1978.

It is obvious that maintenance of the social consensus in the country and attainment of the economic policy objectives laid down in the Pact would constitute positive factors in the preparations for Spain's accession to the Community.

## Impact of accession

31. A comparison of the Community's and Spain's economic situations, which are described above, shows that the problems which will result from Spain's integration will require efforts on both sides if solutions are to be achieved which go beyond mere adaptation. While these problems will arise basically from the impact which accession will have on industry and agriculture, the solutions must take account of the effects they will have at the social and regional levels and on the Community's external policy.

## Industry

32. In industry three requirements need to be met; elimination of the present imbalance in the dismantling of tariffs between the Community and Spain, harmonization of the basic conditions of competition—notably from the angle of taxation and aids—and the speedy involvement of Spain in industrial restructuring schemes and in the common

