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THE EUROPEAN COMMUNITY'S RELATIONS
WITH COMECON
AND ITS EAST EUROPEAN MEMBERS

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Q. What is the scope of the Joint Declaration which the European Community and the Council for Mutual Economic Assistance, or COMECON, signed in Luxembourg on 25 June 1988?

A. The Joint Declaration finally establishes official relations between the European Economic Community and COMECON. The two sides undertake to cooperate "in areas which fall within their respective spheres of competence and where there is a common interest". The areas of cooperation, as well as the forms and methods, will be decided after "contacts and discussions".

Q. What is the significance of the Joint Declaration?

A. It is a milestone in relations between the EC and COMECON, and more especially its European members, even though it is limited to procedural matters. It opens the way to the establishment of diplomatic relations between the EC and the individual East European countries and to bilateral agreements with each of them.

The European Council in Rhodes (2-3 December 1988) "Welcomes the readiness of the European members of the CMEA to develop relations with the European Community and reaffirms its willingness to further economic relations and cooperation with them, taking into account each country's specific situation in order to use the opportunities available in a mutual beneficial way."

Q. Why is this important?

A. The establishment of diplomatic relations implies recognition by the East European countries of the EC as such, which is more than the sum of its twelve Member States. It marks the formal reversal of East European policy towards the EC and is an important step in the normalization of relations. Moreover, it will make contacts and communication easier as the establishment of diplomatic relations normally leads to the accreditation of an envoy to the Community at the head of a Mission to the EC, based in Brussels.

Within weeks of the signature of the Joint Declaration the EC established diplomatic relations with six of COMECON's seven European members: the Soviet Union, Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary and Poland. Cuba followed them in September: it remains to be seen whether Cuba considers the normalisation of diplomatic relations as a first step towards negotiations with a view to concluding a bilateral agreement.

Recognition is also of political significance from the Community's point of view, not least because it can be expected to lead to acceptance of the right of the Community as such to participate in international organisations and to gain multilateral conventions in accordance with its own competences and procedures.

"Further progress in the CSCE process"(1) has been reaffirmed by the European Council in Rhodes.

Q. Why was it necessary to wait 30 years after the creation of the EEC before relations could be normalized?

A. As an economic entity, the Community has sought to establish official relations with all its trading partners from the very beginning. Indeed an EEC aide memoire to the Soviet Union as far back as 1963 expressed the hope that relations between them could be normalized. A decade later, the Community offered to conclude trade agreements with each of the East European countries in view of the introduction of the common commercial policy.

The East European response was to call for talks on relations between COMECON and the EC. The Community was prepared to establish a working relationship with COMECON, to be set out in an agreement, but insisted that trade relations must be the subject of separate agreements with COMECON's members. Romania accepted this, and a trade agreement was concluded in 1980.

It was only in 1986, after a series of inconclusive talks, that the COMECON itself indicated its readiness to accept the Community's parallel approach and that all seven of COMECON's European members expressed a desire to normalize their bilateral relations with the Community. Talks between the EC and COMECON were therefore resumed in 1986 at expert level, this time aimed at agreeing a Joint Declaration, rather than an agreement. Even so, there was one more hurdle to be overcome: acceptance by COMECON that the territory of the European Community includes West Berlin. This hurdle was finally overcome in May 1988.

Q. The second, successful set of talks coincided with the inauguration of economic and political reforms in Eastern Europe. Is there a causal relationship here?

A. The general thaw in East-West relations clearly has influenced East European policy towards the European Community also. Once the Soviet Union and other East European countries accepted the need for economic reforms at home, it made sense for them to seek to develop further their trade relations with the industrialized market economies.

(1) CSCE : Conference on Security and Cooperation in Europe.

The Community's determination to carry out its programme for the completion of the single market by 1992, and the success of its efforts to date, probably have played a part also. COMECON's European members may have decided that it is better to normalize, and eventually strengthen, their trade and economic relations with the EC now rather than later. Like other trading partners of the Community they may view the arrival of the single market with some concern — not that the Community's actions, present or planned, justify such concern on their part. But it's true that a certain economic handicap, reflected in the fact that raw materials, semi-manufactures and agricultural products account for the bulk of their exports to the EC, may well have prompted the East European countries to seek commercial as well as in many cases economic cooperation with the Community.

Q. But what does the Community stand to gain from this?

A. The level of trade with Eastern Europe is still very low; in 1987 EC exports came to ECU 19,200 million, its imports to ECU 24,500 million. By comparison, the corresponding figures for the Community's trade with Switzerland were ECU 32,700 million and ECU 26,700 million. But the potential for trade with Eastern Europe obviously is much greater. There is a potential market there of 390 million consumers for Community products.

The EC has other reasons for wishing to normalize its relations with Eastern Europe. The reform process in those countries is only at its beginning, and by developing closer ties Western Europe can hope to stimulate this process, which should lead to positive effects, not only on the living conditions of East European peoples but also on political evolution in those countries.

Q. What progress has the Community made in negotiating bilateral agreements with East European countries?

A. There have been major developments since the conclusion of the Joint Declaration. Negotiations for bilateral agreements with Hungary and Czechoslovakia have been successfully concluded, as have exploratory talks with Poland and Bulgaria. These talks were limited initially to trade agreements, but were then extended to cover wider cooperation as well, following a discussion in the EC Council of Ministers of 25 July 1988. The European Commission is now seeking to obtain a formal negotiating mandate from the Council.

There have been exploratory talks too with the German Democratic Republic for a trade agreement. In 1987 the Community's imports from the GDR came to ECU 1,400 million and its exports to ECU 1,100 million. But these figures do not include trade between the Federal Republic of Germany and the GDR. This continues to be treated as inner-German trade.

Negotiations with Romania for a trade and cooperation agreement have been going on since April 1987. The new agreement would replace two agreements concluded in 1980, following the EC's 1974 offer to conclude bilateral agreements with COMECON's East European members. The first agreement covers trade in industrial products, the second provides for the setting up of a Joint Committee. This is an institutional framework within which the two sides can raise problems of common interest, especially on trade matters.

Of all the bilateral talks held in 1988, the two rounds of exploratory talks with the Soviet Union for a trade and economic cooperation agreement were among the most important. After all, it is the Community's largest trading partner among the COMECON countries: EC imports came to ECU 13,100 million and its exports to ECU 9,200 million in 1987.

During these exploratory talks the Soviet delegation pointed to the important role foreign trade is expected to play in the country's development. The Community clearly is not averse to developing its trade with the Soviet Union; with which it has a deficit, due in large part to its substantial energy imports. It has stressed the need for a substantial improvement in the conditions under which Community businessmen and exporters are able to work in the Soviet Union.

The Community wants to deal with these countries according to their specificity. This is clear from the two agreements already concluded. In a statement on relations with COMECON and its Member States on 25 July 1988 the EC Council of Ministers "confirmed the importance the Community attaches to developing these relations on the basis of a pragmatic and flexible approach, taking account of the special feature of each individual case, and on the basis of reciprocity and mutual advantage."

Q. What are the main features of the agreement with Hungary?

A. Hungary's efforts at economic reform have earned it considerable political goodwill. This fact is reflected in the contents of the 10-year trade, commercial and economic cooperation agreement signed on 26 September 1988 and which entered into force on December 1, 1988.

The agreement's trade provisions are especially far-reaching. They cover both industrial and agricultural products, except for steel and textiles, which are covered by existing sectoral agreements or arrangements. The agreement provides for the elimination, in three stages, of discriminatory quantitative restrictions applied to imports of a range of Hungarian products.

Restrictions on a number of non-sensitive items will be ended within a year following the entry into force of the Agreement; on products considered fairly sensitive these restrictions will be lifted by the end of 1992. The remaining quantitative restrictions, covering the more sensitive products, will be eliminated by 31 December 1995 at the latest. The Agreement contains a safeguard clause, with a special procedure applicable in the case of the more sensitive products.

Under the Agreement's trade provisions Hungary undertakes to improve access to its market for Community export and other businesses. It will implement its import licence system and overall consumer goods quota on a non-discriminatory basis, and ensure that Community firms are not discriminated against when contracts are awarded. Community businesses will also be accorded non-discriminatory treatment with such practical matters as office rental, staff recruitment, etc.

The Agreement's provisions for economic cooperation are aimed at opening up new sources of supply and new markets; encouraging cooperation between economic operators, in order to promote joint ventures; licensing agreements and other forms of industrial cooperation; and to encourage scientific and technological progress. The sectors covered include industry, mining, agriculture, scientific research, energy, transport, tourism and environmental protection.

A Joint Committee is to be set up under the Agreement. It will meet annually and be responsible for the smooth operation of the Agreement. The Joint Committee looks for practical ways of improving mutual import opportunities in the Community and Hungary. Its first meeting took place on 12 and 13 December 1988.

Q. Is the agreement with Czechoslovakia similar to the Hungarian?

A. Although it was negotiated at roughly the same time, the agreement with Czechoslovakia, which was signed on 19 December 1988, is much more limited in its scope, as it only covers trade in manufactured products. Even so, its aim is to raise trade between the EC and Czechoslovakia to as high a level as possible.

To this end, the Community will remove a certain number of quantitative restrictions applied by individual Member States on imports from Czechoslovakia and suspend certain others. Substantial progress is expected in the elimination of such restrictions during the life of the agreement, set initially for four years.

Czechoslovakia, for its part, will take a number of steps to encourage imports from the Community. It will provide information on its economic development plans, its intentions as regards imports and investments in industrial sectors likely to be of interest to exporters in the Community. The Czech authorities will also improve working conditions for Community businessmen and encourage trade promotion activities.

Q. Does the Community have any sectoral agreements with East European countries?

A. Yes, except with the Soviet Union, a large part of whose exports to the Community consists of products for which the latter has not found it necessary to conclude sectoral agreements with supplier countries.

Following the conclusion of the GATT Multifibre Arrangement (MFA), the Community has concluded textile agreements with Bulgaria, Czechoslovakia, Hungary, Poland and Romania, modelled on its textile agreements with developing MFA countries.

The Community has sought to conclude self-restraint arrangements with countries from which it buys steel. Such arrangements are currently in force with Bulgaria, Czechoslovakia, Hungary, Poland and Romania.

The EC has also concluded self-restraint arrangements covering agricultural products, notably sheepmeat and goatmeat, with most East European members of COMECON.

Q. Can one now look forward to closer, more friendly relations between the EC and both COMECON and its East European members?

A. There is an opening not only in the economic but also in the cultural field.

The general problem of East-West cooperation in that sector was discussed for the first time at the informal meeting of the Community's Ministers of Culture in Athens on 29 November 1988.

Culture as much as trade is a starting point for closer, more friendly relations between East and West. We are entering a new era.

Its scope is perhaps best expressed in the words of Willy De Clercq, the EC's former Commissioner for External Relations: "The establishment of diplomatic relations with East European countries is a historic event of great significance, which we can only welcome.

It is a step of incontestable importance for the improvement of the trade climate in Europe, and one which could have beneficial effects on the economic development of our common continent. But it also represents one more step towards rapprochement between Europeans, taken in the recognition of the irreplaceable role played today by the European Community".

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Community (twelve) Trade with East European Countries, 1986&1987 (in million ECU)								
	I M P O R T			E X P O R T			T R A D E B A L A N C E	
	1986	1987	Change from preceding year in %	1986	1987	Change from preceding year in %	1986	1987
1. URSS	13 158	13 128	0	9 874	9 189	-7	-3 284	-3 940
2. GDR(1)	1 626	1 390	-14	1 072	1 086	+1	-553	-305
3. Poland	2 947	2 907	- 1	2 388	2 332	-2	-559	-575
4. CSSR(2)	2 108	2 055	- 2	1 944	2 078	+7	-164	+ 23
5. Hungary	1 888	1 996	+ 6	2 450	2 372	-3	+562	+ 375
6. Romania	2 483	2 429	- 2	987	651	-34	-1 496	-1 788
7. Bulgaria	549	517	- 6	1 472	1 453	-1	+923	+ 936
8. Albania	125	56	-55	65	56	-14	-60	0
2. - 8	11 726	11 350	- 3	10 378	10 028	- 3	-1 348	-1 322
TOTAL EASTERN EUROPE	24 884	24 478	- 2	20 252	19 217	- 5	-4 632	-5 262

(1) Excluding inner-German trade

(2) Czechoslovakia

Source : Eurostat.

EC (12) TRADE WITH CZECHOSLOVAKIA, 1986 & 1987

Main Imports and Exports

(In 1,000 ECU)

<u>I M P O R T S</u>		
<u>Brief products description</u>	<u>1987</u>	<u>1986</u>
Wood, sawn	106 171	105 484
Petroleum oils	96 655	82 106
Steel sheets and plates	92 109	98 128
Motor vehicles	61 147	70 748
Lignite	53 397	67 902
Polyethylene, PVC, etc.	45 915	52 123
Garments (men's and boys')	43 403	41 295
Hydrocarbons	43 002	33 988
Meat	37 902	48 914
Steel bars and rods	37 971	48 394
Cotton fabrics	37 490	43 031
Machine tools for metal working	30 053	35 249
<u>E X P O R T S</u>		
Industrial machinery, specialized	293 521	247 469
Industrial machinery, general	243 497	214 702
Machinery, metal working	124 252	71 962
Chemicals, organic	93 026	82 919
Machinery, electrical	89 147	86 976
Professional, scientific equipment; control instruments	88 081	77 115
Plastic materials	86 846	85 843
Textile yarn, fabrics	77 158	71 843
Chemical materials, products	63 385	61 021
Office machinery, data processing equipment	55 971	36 458
Metal manufactures	55 279	48 233
Iron and steel	52 882	100 682

Source: EUROSTAT

EC (12) TRADE WITH HUNGARY, 1986 & 1987
Main Imports and Exports
(In 1,000 ECU)

<u>I M P O R T S</u>		
<u>Brief products description</u>	<u>1987</u>	<u>1986</u>
Garments (men's & boys')	66 454	57 704
Hydrocarbons	51 108	44 456
Petroleum oils	47 092	63 019
Garments (outer, knitted)	45 335	41 963
Footwear	40 547	43 110
Meat	37 602	54 093
Polyethylene, PVC, etc.	35 218	22 477
Steel, sheets and plates	33 784	28 924
Furniture, other and parts	22 103	16 130
Chairs and seats	19 738	16 060
Steel coils	19 064	19 255
Wood, sawn	18 357	12 578
<u>E X P O R T S</u>		
Textile yarn, fabrics	241 513	247 951
Industrial machinery, specialized	229 495	216 716
Industrial machinery, general	196 955	204 292
Chemicals, organic	124 384	137 194
Machinery, electrical	114 408	123 584
Plastic materials	102 331	111 977
Iron and steel	83 205	92 326
Motor vehicles	76 783	91 713
Chemical materials and products	76 440	77 074
Manufactured articles, misc.	73 009	63 880
Leather, leather manufactures	67 194	63 794
Metal manufactures	59 673	69 999

Source: EUROSTAT