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**EXTENSION OF OPERATION PHARE**

*The Commission has presented to the Council and the Group of 24 an action plan aimed at extending the present scope of Operation PHARE (Poland and Hungary). The proposed action plan will include support measures for Bulgaria, the German Democratic Republic, Czechoslovakia, Yugoslavia and Romania.*

*It is based on specific requests made by the five countries concerned and analysed in greater detail during the fact-finding visits to those countries arranged by the Commission. Priority spheres of action are to be proposed to the Group of 24, which will be encouraged to make a special effort to promote those countries' economic recovery.*

**1. BACKGROUND**

At the Arche Summit in July 1989 the Commission was requested to coordinate the assistance granted to Poland and Hungary. On 26 September 1989, at their high-level meeting, the Group of 24 adopted an action plan presented by the Commission for those countries.

On 13 December 1989, at the G-24 ministerial meeting, the principle of extending the assistance to Bulgaria, Czechoslovakia, the German Democratic Republic and Yugoslavia was accepted.

On 16 February 1990, the scope of this decision was extended to include Romania.

The five countries presented memoranda setting out the objectives of their reform programmes and requesting certain special forms of assistance. In March 1990, the Commission arranged exploratory visits to all the countries concerned. It was found that most of the countries had adopted, during the first half of 1990, all the necessary basic legislative texts for establishing democracy and introducing economic systems open to competition and based on market laws.

## **II. THE COMMISSION'S CONCLUSIONS**

The Commission considers that the implementation of the political and economic reform programmes has now reached a stage where the conditions for the granting of coordinated aid imposed by the ministers of the 24 at their December 1989 meeting have largely been fulfilled.

This being so, it is now urgent to define the priority uses for this coordinated aid in order to help the countries concerned to achieve their economic reforms. These priorities must be worked out in the light of the various countries' economic situation, special requirements and absorption capacity.

The Group of 24, the Community and the multilateral financial institutions, in particular the EBRD (European Bank for Reconstruction and Development), must collaborate wherever possible, making use, for example, of cofinancing or other means, so that the beneficiaries can derive the maximum additional benefits from these combined efforts.

## **III. THE PRIORITIES FOR COORDINATED ASSISTANCE**

The main components of the proposed assistance are as follows:

- A. Improved access to Western markets;
- B. food supplies;
- C. training;
- D. environment;
- E. Investment and economic restructuring;
- F. financial support.

### **A. Improved access to Western markets**

This objective must be attained by:

- . granting most-favoured nation status (in so far as this rule is not yet applied);
- . extending the GSP to the German Democratic Republic, Czechoslovakia, and Bulgaria from 1 January 1991, and improving GSP conditions for Romania and Yugoslavia;
- . improving the concessions for agricultural products, in particular for Bulgaria, Romania and Yugoslavia.

Complementary action to be taken specifically by the Community:

- . speeding-up of timetables for the dismantling of specific quantitative restrictions, and for other forms of liberalization in the context of the trade and cooperation agreements between the Community and the countries concerned;
- . association agreements with those countries, in order progressively to establish free trade areas, as and when each country makes the necessary changes to its economic system.

### **B. Food supplies**

In all these countries, particularly Bulgaria and Romania, agriculture is an essential component of economic development. Despite these countries' agricultural potential, the situation there is critical.

Considerable efforts are required to overcome these problems and the private sector must play an essential role in this respect. The aim of the aid provided by the Group of 24 should be to facilitate the development of the private sector throughout the agri-food chain, from production to processing to distribution.

The humanitarian aid provided by the G-24 for the Romanian population immediately following the December revolution and the food aid subsequently supplied by the Community will probably have to be continued. This form of aid will nevertheless quickly have to be replaced by action to improve national supply sources, with the emphasis on private initiative, agricultural research, production technology and the modernization of the food industry.

### C. Training

Training will be an important part of the various sectoral programmes. All the countries concerned have stressed the need for training in business management, vocational training, financial services and languages.

The Community is planning to open to these countries schemes operated by the European Training Foundation and the Tempus programme (Transeuropean Mobility Scheme for University Studies). All the members of the Group of 24 are called upon to play an active part in the Foundation and Tempus.

### D. Environment

Action at national and regional levels is required in these countries in order to prevent any further deterioration in the environment.

The immediate and longer-term spheres of action include:

- industrial emissions,
- nuclear safety,
- effluent treatment works,
- air- and water-pollution monitoring equipment,
- disposal of toxic wastes,
- training of local specialists and supervisory staff.

These measures must form part of a comprehensive, multiannual strategy worked out together with the authorities on the spot and in conjunction with international institutions, particularly the World Bank. The European Reconstruction and Development Bank should also play an active role in the financing of projects in this sphere.

### E. Investment and economic restructuring

In order to support these countries' reform efforts, the Group of 24 must strengthen its own instruments for promoting and protecting investment and must provide support for joint ventures and other forms of industrial cooperation. Export credits and export credit insurance should be used to improve outlets for the products of this cooperation. A venture capital facility should also be established or developed.

The EBRD should play an essential role in developing the private sector by making finance available.

Information centres for companies, data banks with information on market conditions, possible partners for the setting-up of joint ventures, trade weeks, trade fairs and exhibitions must be used extensively.

Within the Community, the Commission will propose that the countries concerned should be able to benefit from loans from the European Coal and Steel Community and from the European Investment Bank, guaranteed by the Community budget (Yugoslavia is already eligible for EIB loans).

Lastly, the social consequences of economic restructuring will require back-up measures which will dovetail with the coordinated assistance priorities (unemployment insurance, occupational retraining and geographical mobility).

#### F. Increased financial support

The political and economic reform process involves certain risks and sacrifices for the countries concerned. The Group of 24 must therefore make an effort to provide the necessary back-up. This effort must attain the necessary critical mass, extend over a period matching the requirements identified and the absorption capacities of the countries concerned and harness a wide range of resources.

The Community, for its part, has worked out the budgetary measures required for prolonged technical assistance and multi-annual financial support, in addition to the aid provided at bilateral level by its Member States. The Commission proposed that the financial resources allocated to those countries should be increased considerably. If the increase were introduced this year, the level could be brought up, in stages, to ECU 1 billion by 1992. The Community will make use of other means, such as ECSC and EIB loans, to promote the restructuring.

The Community intends to examine, in close conjunction with the multilateral financial institutions, the proposals which incorporate the lessons learnt by the Community in granting medium-term financial assistance to Hungary. Other members of the G-24 will be called upon to contribute to the financial efforts made in order to stimulate non-inflationary growth. In any event, precautions will be taken to avoid the generation of debt exceeding the ability to repay based on reasonable growth assumptions.

#### G. Specific priorities by country

A list of specific priorities by country is given below. This list has been drawn up on the basis of requests made by the countries concerned and the findings which emerged from the visits by Commission representatives.

##### Bulgaria

- . agriculture and the agri-foodstuffs industry,
- . the environment,
- . investment (transport and telecommunications),
- . training (management, financial services, scientific and technical activities),
- . restructuring (the chemical industry and light industry),
- . tourism,
- . improved access to markets.

Czechoslovakia

- . industrial restructuring,
- . the environment (pollution control, industrial waste, nuclear safety),
- . energy,
- . training and youth exchange schemes,
- . investment (transport and telecommunications),
- . scientific and technical assistance,
- . improved access to markets.

GDR

- . food supplies (restructuring of slaughterhouses, dairy products and sugar production, etc.),
- . the environment (water pollution, atmospheric pollution, industrial pollution, protection of the cultural heritage),
- . investment (transport and telecommunications),
- . training (management, higher education, scientific and technical activities),
- . improved access to markets.

- Romania

- . agriculture and food supplies (research, production technology, joint ventures),
- . the environment,
- . investment (transport, tourism, small businesses),
- . training (management, banking, tourism, communications, agri-foodstuffs industry),
- . improved access to markets.

- Yugoslavia

- . agriculture,
- . the environment (pollution of the Danube and Sava basins, and Adriatic coast),
- . investment,
- . restructuring of banking and industry,
- . training (banking, management, tax systems),
- . structural adjustment, including social aspects,
- . improved access to markets.

