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**THE EUROPEAN COMMUNITY AND EAST-WEST COOPERATION**

by

**Frans H.J.J. ANDRIESSEN**

**Vice-President  
of the  
Commission of the European Communities**

at

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As the world's largest and most open trading partner, the European Community has a crucial role to play in the far reaching changes now occurring in the international system. This role has gained in importance with the Community's progress towards a single market without internal frontiers, paving the way to increasing economic and political unity. The great European market of 1992 means a giant step towards trade liberalisation, putting the Community in the front line of the battle against protectionism worldwide. In this battle, and in its external relations in general, the Community's instruments of policy are essentially political and economic, making it an attractive partner for all who seek economic progress and peaceful change. This attraction is particularly evident in the opening up of new opportunities for east-west cooperation.

The Community has followed closely the bold initiatives in political reform and economic liberalisation underway in east Europe. These developments have our full support as moves to ensure the effective exercise of human rights, to guarantee genuine economic freedoms and to overcome the division of Europe. The Community is determined to mobilise the considerable policy instruments at its disposal in pursuit of these objectives, which are shared by all members of the western alliance, and so to make its contribution to strengthening the peace, security and well-being of all the inhabitants of our continent.

## A dynamic approach to cooperation

Normal diplomatic relations are an essential condition for closer contacts between east and west but they are not sufficient. Concrete economic achievements are also necessary. This was recognised by the Community at the highest level in December last year when the heads of state and government, meeting in the European Council at Rhodes, reaffirmed the Community's willingness to further economic relations and cooperation with the states of east Europe, taking into account each country's specific situation. The Council also expressed its determination to overcome the division of our continent and to promote the Western values and principles which Member States of the Community have in common.

The Single European Act, which brings together in one document provisions governing political cooperation and economic integration, has enabled us to promote east-west cooperation in a coherent and dynamic way at several levels.

At the multilateral level, the Community and its Member States are pursuing this objective through the Helsinki process. At the closing session of the Vienna Conference on Security and Cooperation in Europe in January, I was impressed by the commitments made on human rights and the progress achieved on trade and industrial cooperation, science and technology and the environment.

The Commission will continue to contribute actively to this process in areas within the Community's competence, notably at the conference on the environment in Sofia later this year, the economic conference in Bonn in 1990 and the follow-up meeting in Helsinki in March 1992. We attach particular importance to the human rights conference which opened in Paris last week and the further conferences on human rights in Copenhagen and Moscow.

These developments have helped create a favourable climate for progress in the Community's bilateral relations. Agreements with Hungary and Czechoslovakia were signed last year and have now taken effect; negotiations with Poland and Bulgaria are well advanced and will begin shortly with the Soviet Union and the GDR. In the case of Romania the outlook is less encouraging in view of its particularly disappointing human rights situation which has led the Community to suspend negotiations for a new agreement. I shall return to relations between the Community and the Soviet Union in a few moments.

At the level of the Member States, diverse forms of economic and cultural cooperation have been developed which complement the Community's own activities. The real business of commercial and economic cooperation, however, is up to individual enterprises whose managers understand far better than politicians and officials what is at stake. Our main task is to provide the best possible environment within which economic operators can compete.

## EC-Soviet Trade

Despite the size of our respective markets, Community exports to the Soviet Union represent only three per cent of overall Community exports. Trade with the Community accounts for eleven per cent of the USSR's imports and fourteen per cent of its exports. In recent years the Community has exported to the Soviet Union goods to the value of approximately ten billion ECUs and imported Soviet goods to the value of thirteen or fourteen billion ECUs. The largest items in Community exports are food, manufactured goods, machinery and transport equipment. Well over half Soviet exports to the Community consist of oil, gas and raw materials which are particularly sensitive to variations in exchange rates and commodity prices.

The low absolute level and lopsided pattern of our trade are mitigated by a number of considerations which contain hopeful signs for the future. With the exception of east Europe and the developing countries, the Community is far and away the most important Soviet export market, importing twenty five times more from the USSR than the United States and six times more than Japan. The Soviet Union is the Community's fourth largest supplier and export market after EFTA, the United States and Japan. There thus exists a certain degree of commercial interdependence as a foundation for the expansion of reciprocal trade. In the 1990s trade is likely to grow for three principal reasons.

## Perestroika

First, the restructuring process in the Soviet Union should unlock productive resources, hitherto under-utilised, and enable the country to take a fuller part in the world economy. Greater liberty for market forces, price reform, progress towards rouble convertibility and the introduction of a customs tariff with real economic effect should make Soviet commercial policy more transparent and stimulate trade. Comparative advantage, long standing commercial contacts and geographic proximity suggest that trade between east and west Europe could be the major beneficiary of this process.

To enable these reciprocal benefits to be realised, however, restructuring must be carried beyond the important legal reforms which have been enacted to change also the real economic conditions under which trade is conducted. This will require fundamental changes in Soviet trade practices to allow market access on normal competitive terms, enabling businessmen to channel their managerial and technical skills into profitable new opportunities.

### A gateway of opportunity

The achievement in 1992 of the great European market is the second factor which will influence EC-Soviet trade. This unprecedented programme of deregulation and liberalisation was launched in 1985 with the announcement of three hundred proposals to tear down remaining barriers to the free movement of goods, capital, services and persons. With over half the necessary measures already adopted, this programme will be completed and it will be completed on time.

The sheer scale of what the Community is undertaking has captured the public's imagination throughout the world. With more than 320 million consumers, the single market will be by far the largest market in the world, greatly exceeding those of the United States or Japan. More competitive, cost-effective production in a market this size will boost employment and income and generate increased trade.

Products entering one Member State will be marketed throughout the Community without the need to satisfy different standards and tests in each Member State. From 1990 all exchange controls will be eliminated enabling capital to flow freely without internal or external barriers. The Community's increased purchasing power and openness to competition will make the single market increasingly attractive to investors and traders, providing a gateway of opportunity for Soviet enterprises.

Special information services and telephone "hot lines" in the Community are open to enquiries on the practical implications of the single market. The Commission, which is among the most open public administrations in the world, answers hundreds of enquiries every day. A satisfactory two-way flow of information is an essential condition for closer links between our economic operators and other parties interested in making the most of the new climate in east-west relations.

## EC-USSR Trade and Cooperation Agreement

The impact of perestroika and of the great European market on EC-Soviet business will be reinforced by a third, development, the implementation of a far-reaching trade and cooperation agreement between our two sides. Following several rounds of exploratory talks - in which the Community was put on its mettle by Professor Ivanov to whose comments I am looking forward with the greatest interest - I presented draft negotiating directives to the Community's Council of Ministers in Brussels two weeks ago. These will be debated by the Council in Luxembourg next Monday, opening the way to formal negotiations which may well begin before the summer break.

This agreement will mark the culmination of the process of normalisation of the Community's economic relations with east Europe. It will be an ambitious agreement covering trade, commercial and economic cooperation whose scope matches the importance of the two parties, their expectations and the dynamics of their economic systems.

The Community is ready to negotiate an agreement applying initially for ten years, a period which makes full allowance for the impact of perestroika and the single market on reciprocal trade. The agreement should be founded on the principle of non-discrimination to be achieved through appropriate commitments by both sides, including the mutual granting of MFN treatment. Progress towards the market regulation of foreign trade in the Soviet Union will help give economic effect to its granting of MFN treatment to the Community. Our agreement should improve the business environment by cutting red tape and alleviating problems faced by businessmen in the past.

Industrial efficiency and diversification in the USSR should benefit from management training, joint ventures and other forms of business cooperation facilitated by our forthcoming agreement. The Community is the main source of joint venture partners for Soviet enterprises but this form of cooperation is still marginal and could be developed further if the right conditions are created by the Soviet authorities.

Developments within the common market in industrial standards, testing, quality control and certification will be of particular interest to Soviet managers wishing to sell goods with higher added value in competitive international markets. Services now account for over half of value added in most national economies but have much room for development in the USSR, as Soviet analysts agree. Here, too, cooperation can bring considerable mutual gains.

We shall also be looking to this agreement for medium and long term benefits in areas where our peoples are demanding action to improve the quality of life. No single country, however large, no single partner, even on the scale of the Community, can tackle alone problems such as environmental protection, the search for alternative energy sources and nuclear safety which affect our entire continent as well as the wider international system. With the decline of east-west political tensions these areas will rise to the top of the international agenda and remain there until well into the next century. Cooperation in these fields within the framework of our agreement will give a new sense of urgency to international action in areas of considerable public concern.

A new dialogue

The enthusiastic response to this conference, an impressive joint venture on which I wish to congratulate the organisers, indicates the intense interest in east-west cooperation taken not only by politicians and diplomats but also by businessmen and ordinary citizens. For me this conference is of special importance as it has provided the occasion for the first contacts in Moscow between a Member of the Commission and Ministers of the Government of the USSR. Dialogue between us is particularly important today in view of the complex but immensely promising changes underway in Europe. Through dialogue and closer economic links the Community hopes to sustain political reform and economic liberalisation in east Europe and so to fulfill the Single European Act's commitment to the promotion of democracy and fundamental rights on the basis of freedom, equality and social justice.