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EC - EAST EUROPE

Relations with Central and Eastern Europe
and the Commonwealth of Independent States

1. OVERVIEW

1. Agreements

- a. The Joint EEC/COMECON* Declaration of 25 June 1988 marked the start of a new era in trade and political relations with the countries of Central and Eastern Europe. Diplomatic relations were established and permanent missions were sent from each of these countries to the Community. Negotiations for bilateral treaties were also initiated.

- b. Trade and cooperation agreements were concluded between October 1988 and March 1991 with all the Central and East European countries. They are to last ten years except in the case of Poland where it is five years.

(More information on the trade and cooperation agreements in annex 1).

- c. Prior to the trade and cooperation agreements, sectoral trade arrangements had been signed between the former COMECON countries and the Community concerning textiles, steel and beef.

- d. In November 1991 Europe or Association agreements between the EC and Poland, Hungary and CSFR** were finalised, and signed in December. On 16 September 1992 the European Parliament ratified the agreements with Hungary and Poland but postponed ratification with CSFR. The Hungarian Parliament ratified the Europe agreement in November 1992. The Europe Agreements still have to be approved by the national parliaments of the Twelve and of Poland, before entering into force.

Interim agreements covering the trade and related questions of the Association agreements have also been signed; these do not require ratification by the Twelve parliaments and therefore became effective on March 1, 1992.

(More information on the Europe agreements in annex 2).

* Council for Mutual Economic Assistance, dissolved early 1991

** Czech and Slovak Federal Republic

A Europe Agreement with Romania was initialled on November 17 and is to be signed by the end of December 1992. It is hoped that negotiations for a similar agreement with Bulgaria will also be concluded in December 1992. The trade aspects of these agreements will be implemented rapidly by an Interim Agreement until ratification of the full agreements is completed by all parties.

2. Assistance

- a. In order to improve market access, the Community decided in 1989 to grant GSP (generalized system of trade preferences) treatment to imports from Poland and Hungary; and to eliminate or suspend quantitative trade restrictions as of 1 January 1990, in all Member States except in Spain and Portugal. These measures were later extended to imports from CSFR, Bulgaria and Romania; Albania, the Baltic States and Slovenia began to benefit from this scheme in 1992.
- b. The Community's PHARE programme is aimed at supporting the process of economic restructuring and encouraging the changes necessary to build a market-oriented economy and to promote private enterprise. The support is mainly in the form of technical assistance and skills transfer. In addition humanitarian emergency aid has been made available to some countries. The high priority sectors include agriculture, industry, energy, financial services, privatisation, investment promotion, environment protection, and training. The Commission's PHARE budget was 500 MECU⁽¹⁾ in 1990; 785 MECU in 1991 and 1000 MECU for 1992. All Community PHARE funding is in the form of non-reimbursable grants to the beneficiary governments. But there is also a small loan-programme for the creation of joint ventures. PHARE assistance was initially intended for only Poland and Hungary but has since been extended to include the CSFR, Bulgaria, Romania and former Yugoslavia⁽²⁾. Albania and the Baltic States became eligible for PHARE assistance in January 1992, which brings the total number of beneficiaries to 10.
- c. Community loans targeted at helping the countries of Central and Eastern Europe overcome their balance of payment difficulties amount to 2090 MECU. The Community contribution is roughly equal to the sum of the contributions from the remaining G-24⁽³⁾ contributors. (see point g. below)
- d. The Community's European Investment Bank (EIB) has extended its investment activities to Poland, Hungary, CSFR, Romania and Bulgaria. The Community guarantees these loans. For the period ending December 1992, the EIB has earmarked a total amount of 1,700 MECU for loans to these five countries.
- e. The European Coal and Steel Community (ECSC) is contributing to the restructuring of the steel and coal industries in Central and Eastern Europe via trade and cooperation agreements and by way of loans.

(1) MECU: one million ECU

(2) See chapter "Yugoslavia" page 13

(3) 24 industrialised market economy countries

- f. The European Bank for Reconstruction and Development (EBRD), under G-24 aegis, officially opened on 15th April 1991. The Community contributes to the capital of the EBRD, and holds a 51% share. It started its activities in September 1991. End 1991, it had approved projects for a total amount of 427 MECU and committed 13 MECU in the framework of the technical assistance.
- g. The Commission coordinates the assistance offered to the countries of Central and Eastern Europe by all 24 industrialised market economy countries, the G-24. Working groups have been set up amongst the G-24 representatives to deal with the coordination of financial and technical assistance in specific sectors.

3. Trade

- a. Both imports from and exports to the Central and Eastern European countries increased considerably during the first six months of 1992/ 19 and 10,5% respectively, but lesser than in 1991: 23% and 52% respectively. The trade balance, in favour of the Central and Eastern European countries is diminishing because of the EC's increasing imports from these countries compared to the exports to those countries.
- b. In 1991, the Community's main imports from East European countries consisted of: agricultural products: 16%, textiles and textile products: 15%, base metals and articles of base metals: 15%, machinery and equipment: 10%.
- c. The Community's principal exports to East Europe in 1991 were machinery and electrical equipment (27% of all EC exports), followed by transport material: 13%, textile products: 10% and agricultural products: 10%.
- d. The imports from and exports to the Central and Eastern European countries represent respectively 4,1% and 3,3% of all the EC exports and imports to third countries.

II. SITUATION BY COUNTRY

POLAND

1. Agreements

- a. A five-year trade and economic cooperation agreement was signed on 19 September 1989. It entered into force on 1 December 1989. This non-preferential agreement which includes the clause of reciprocal MFN (Most Favoured Nation) treatment, foresees the gradual liberalization by 1994 of quantitative restrictions applied by the Community on imports originating from Poland. However, in the framework of PHARE, the Community decided to speed up the process and agreed to suspend non-specific and liberate all specific quantitative restrictions as of 1 January 1990 in all Member States except Spain and Portugal. Moreover, the agreement provides for cooperation aimed at the development and diversification of EC/Polish two-way trade.

The ECSC (European Coal and Steel Community) protocol relating to trade and cooperation in coal and steel products was signed in October 1991.

- b. The Europe Agreement between the Community and Poland was signed on 16 December 1991 and was ratified by the Parliament of Poland on 6 July 1992 and by the European Parliament on 15 September 1992. Currently, it is awaiting ratification by the national parliaments of the EC member states. In the meantime, the trade aspects have entered into force on March 1, 1992, by way of an Interim Agreement. The Europe Agreement will replace the trade and economic cooperation agreement of 1989.
- c. A Delegation from the Community was opened in Warsaw on 21 September 1990. The Head of Delegation is Mr Alexander Dijckmeester.
- d. An agreement making it possible to link Poland to BC-net (Business Cooperation Network) has been signed.

2. Assistance

- a. In the two years 1990 and 1991, some 27 projects representing a total amount of about 380 MECU from the Commission's PHARE programme was approved in favour of Poland. These projects which are mainly in support of the economic restructuring benefit i.a. the environment, agriculture, industrial, financial, social and health sectors, as well as the development of small and medium sized enterprises and human resources. On 3 June 1992, the Indicative Programme for European Community Assistance to the Republic of Poland for 1992 (PHARE 1992), involving 200 million ECU (1 ECU = appr. 17.000 Zlotys) in grants, was signed in Warsaw. Whereas in 1990 the priority sector was rapid assistance to agriculture (by supplying plant protection chemicals and animal feed), in 1991 privatisation and economic reform were the central areas. Economic reform is also a key area for attention in the 1992 programme, with special attention for the structural development in selected, less-developed regions (Project "STRUDER", involving 60 MECU). Environment has been a priority area in all three Indicative Programmes signed so far, having received approximately 13% of the resources which were available over the last three years (18 MECU in 1982). Poland also benefits from PHARE programmes destined for several Central European countries.
- b. So far, Poland received five EIB loans for a total value of 240 MECU. The beneficiary sectors include railways, telecommunications, energy and small and medium sized enterprises.
- c. In 1991, Poland benefited from EBRD loans for a total amount of 113 MECU. In June 1992, the EBRD launched an equity subscription of 40 MECU in the Polish Private Equity Fund, a company to be established to invest in small and medium sized private enterprises. Between June and October 1992 Poland received 7 EBRD loans for a total amount of 259 MECU. The beneficiary sectors include telecommunications (188,4 MECU), steel and textile industry (44,8 MECU) and small and medium enterprises (70 MECU).
- d. Poland is entitled to ECSC loans in support of restructuring its coal and steel industries.

3. Trade

- a. Trade between the Community and Poland has increased substantially over the last two years. Total imports into the Community from Poland have increased by 53% since 1988 to just over 5.1 billion ECU in 1990. Exports from the Community to Poland increased by 59% between 1988 and 1990 to 4.4 billion ECU. The 1990 balance of 763 MECU was in favour of Poland. In 1991 the Community became Poland's most important trade partner. Poland applied 39% of all EC imports from Central and Eastern European countries. Its exports towards the EC increased by 20% to reach 6,2 billion Ecus. EC exports towards Poland increased by 79% to total 7,9 billion Ecus. As a result the 1,7 billion Ecus trade balance turned in favour of the Community.

In January–August 1992, EC exports towards Poland decreased by 5,1% totalling 3,6 billion Ecus. In the same period EC imports from Poland increased by 11% for a total of 3,2 billion Ecus. The 360 MECU trade balance turned in favour of the Community.

- b. In the period January–September 1991, the Community imported from Poland mainly base metals and articles thereof: 18%; agricultural products, including processed agricultural products: 16%; textiles and textile articles: 14%; and mineral products: 11%.

The largest exports from the Community to Poland were machinery and electrical equipment: 24%; transport equipment: 15%; agricultural products including processed agricultural products: 14%; and chemical products: 10%.

See also chapter on "Visegrad Three" (page 8).

HUNGARY

1. Agreements

- a. A ten-year trade and economic cooperation agreement was signed on 26 September 1988. It entered into force on 1 December 1988. This non-preferential agreement also included the clause of reciprocal MFN (Most Favoured Nation) treatment and foresees the gradual liberalization by 1994 of quantitative restrictions applied by the Community on imports originating from Hungary. The agreement provides for cooperation aimed at the development and diversification of EC/Hungarian two-way trade. The agreement includes an ECSC protocol relating to trade and cooperation in coal and steel products which was signed in October 1991.
- b. The Europe Agreement which will replace the trade and economic cooperation agreement of 1988 between the Community and Hungary was signed on 16 December 1991. It was ratified by the European Parliament on 16 September 1992 and by the Hungarian Parliament in November 1992. The ratification process in the EC member states is under way. In the meantime, the trade aspects have entered into force on 1 March 1992.

by way of an Interim Agreement, and the first meeting of Hungarian-EC Joint Committee on the Interim Agreement was held in July 1992. By October it became clear that the 12 EC states were unlikely to be able to complete the ratification of the Europe Agreement before the expiration of the Interim Agreement on 31 December 1992. Thus, on 20 October 1992 an agreement was initialled proposing an unlimited extension of the Interim Agreement.

- c. The Community opened a Delegation in Budapest in November 1990. The Head of Delegation is Mr. Hans Beck.
- d. The agreement making it possible to link Hungary to BC-Net (Business Cooperation Network) was signed in November 1992.

2. Assistance

- a. Hungary has benefited from the Community's PHARE programme which was launched in 1989. Up to end 1991 PHARE projects for a total amount of 240 MECU were approved in support of actions in the areas of agriculture, environment, economic restructuring, human resources as well as social and financial sectors and small and medium sized enterprise development. The 1992 programme has an indicative budget of 100 MECU. In addition Hungary benefits from the PHARE projects destined for several Central European countries.
- b. In order to help Hungary overcome its balance of payments difficulties, the Community has granted in 1990 and 1991 two loans with a total value of 1,050 MECU.
- c. Since 1990, Hungary has also had access to loans from the European Investment Bank which are guaranteed by the European Community. The total value of the three loans approved by the EIB is 235 MECU and the money has been targeted at projects in telecommunications, energy and SMEs. On 23 June 1992 the EIB launched a 50 MECU loan for improvement of Hungary's road network.
- d. From 1991 to 15 October 1992, Hungary benefited from EBRD interventions (loans or equities) for a total amount of 825 MECU.
- e. Hungary has access to ECSC loans in support of restructuring its coal and steel sectors.

3. Trade

- a. Total Imports into the Community from Hungary have increased annually by 12% since 1986 to just over 2.9 billion ECU in 1990. Exports from the Community to Hungary have increased annually by 4% since 1986 to just under 2.9 billion ECU in 1990. However EC exports to Hungary were decreasing in 1990 (-4%). The balance of trade at the end of 1990 was 59 MECU in favour of Hungary. The Community became Hungary's most important trade partner in 1991, buying almost half of Hungary's exports and supplying over one third of its imports. End 1991, the balance of trade was 140 MECU in favour of Hungary, but 1 MECU in favour of the Community in the first six months of 1992.
- b. The Community's main imports from Hungary in the period January-September 1991 consisted of agricultural products, including processed goods: 24%; textiles and textile articles: 16%; machinery and electrical equipment: 15%.

The largest exports from the Community to Hungary were machinery and electrical equipment: 28%; chemical products: 13%; and textiles and textile articles: 13%. Almost 60% of these textile exports will be reimported following processing in Hungary.

See also chapter on "Visegrad Three" (page 8).

CZECH AND SLOVAK FEDERAL REPUBLIC (CSFR)

1. Agreements

- a. An agreement between the CSFR and the Community on the trade of Industrial products was signed on 19 December 1988.
- b. A ten-year trade and economic cooperation agreement was signed on 7 May 1990. It came into effect on 1 November 1990. This non-preferential agreement also included the clause of reciprocal MFN (most favoured nation) treatment. It foresees the gradual liberalization by 1994 of quantitative restrictions applied by the Community on imports originating from the CSFR. The agreement provides for cooperation aimed at the development and diversification of EC/CSFR two-way trade. It covers industrial and agricultural goods. Trade in coal and steel products is governed by a ECSC protocol signed in February 1992.
- c. Since 1 January 1991 the CSFR has benefited from GSP (Generalised System of trade Preferences) and the lifting or suspending of quantitative restrictions.
- d. The Europe Agreement with the CSFR was signed on 16 December 1991. In the meantime, the trade aspects have entered into force on 1 March 1992 by way of an Interim Agreement. The Europe Agreement will replace the trade and economic cooperation agreement of 1990. Just as is the case with Hungary and Poland, the Agreement with the CSFR also has not yet entered into force either due to ratification delays. A difference with Hungary and Poland is that the European Parliament recently decided not to continue its own ratification procedure for the CSFR Agreement. However, it looks likely that once two new republics are in place, each of them will conclude a separate Europe Agreement with the Community. Such agreements will be virtually identical to the present one concluded between the Community and the CSFR.
- e. A Commission Delegation has been opened in Prague. The Head of Delegation is Mr. Leopoldo Glunzl.
- f. The agreement making it possible to link the CSFR to BC-Net (Business Cooperation Network) was signed in October 1992.

2. Assistance

- a. From September 1990, when the CSFR became eligible for PHARE funding by the Community, up to November 1991, some 10 PHARE projects for a total value of 133 MECU were approved for the CSFR. Priority areas include environment, training, energy,

restructuring and the privatisation of state owned properties and development of SMEs as well as human resources development. In addition, Czechoslovakia benefits from the PHARE projects destined for several Central European countries. For 1992, the likely financial requirements total 96 MECU.

- b. The Community extended in May 1991 a 375 MECU medium term loan in order to help support the CSFR's balance of payments.
- c. The Community has agreed to extend its guarantee of EIB loans in Central and Eastern Europe to the CSFR, Bulgaria and Romania. The credit line for these three countries is 700 MECU over a 2 year period (1991-1992).
- d. In 1991, the CSFR benefited from EBRD interventions (equities) for a total amount of 31 MECU.
- e. Czechoslovakia is also eligible for ECSC loans in support of its coal and steel industries.
- f. On 18 June 1992 the European Investment Bank has decided to grant overall loan of 85 MECU to the Central Bank of the Czech and Slovak Federal Republic.

3. Trade

- a. Total imports into the Community from the CSFR have increased by 22% since 1988 to almost 2.7 billion ECU in 1990. Total exports from the Community to the CSFR have increased by 17% since 1988 to just slightly over 2.6 billion ECU in 1990. The balance of trade at the end of 1990 was 81 MECU in favour of Czechoslovakia. The Community became Czechoslovakia's most important trade partner, with in 1991, buying over 40% of its exports and supplying about one third of its imports. The 245 MECU balance remains in Czechoslovakia's favour.

- b. The Community's most important imports from the CSFR in the period January-September 1991 were base metals and articles of base metals: 15%; textiles and textile articles: 12%; machinery and electrical equipment: 11%; and transport equipment: 10%.

The largest exports from the Community to the CSFR were machinery and electrical equipment: 37%; transport equipment: 11%; and chemical products: 10%. In 1991, the Community's exports to the CSFR increased considerably: +46%.

The "Visegrad Three"

On 15 February 1991 a Hungarian-Polish-Czechoslovak summit attended by the three countries' prime ministers and presidents was held in Visegrad (a small town at the Danube bend in Northern Hungary). Hungarian Prime Minister Jozsef Antall, Polish President Lech Walesa and Czechoslovak President Václav Havel signed a comprehensive cooperation statement in which they set down the basic principles of cooperation between the three countries. The main goal of this cooperation was that the "Visegrad Three" co-ordinate their efforts at European integration.

This group composed of the three most economically advanced Central-European countries constitutes the most consolidated cooperation system in the region. The Visegrad countries are establishing a free trade zone and are concerting their action in the international political arena. They hope to be admitted to the EC simultaneously. In the framework of the political dialogue with the EC, the Visegrad countries submitted a Joint Memorandum in September 1992 stating their intention to strengthen the cooperation with the Community. As an example of the increasing influence of the EC within the Visegrad countries, Hungary and CSFR asked the EC to mediate on the issue of the Gabčíkovo-Nagymaros system of locks in their common border region along the Danube. (More information on this matter in annex 3)

B U L G A R I A

1. Agreements

- a. The ten-year trade and economic cooperation agreement between the Community and Bulgaria was signed on 24 September 1990 and came into force on 1 November 1990. The first meeting of the Joint Committee was held in Sofia on 30 November 1990.

A ECSC protocol on trade and cooperation in coal and steel products is in preparation.

- b. On 1 January 1991, the Community extended its GSP (Generalised System of trade Preferences) to imports from Bulgaria, and eliminated or suspended the quantitative restrictions it applied on imports from Bulgaria.
- c. Negotiations with Bulgaria with a view to concluding a Europe Agreement started on 14 May 1992. The 6th session of negotiations took place on the 10-11 November 1992. A further meeting is planned for December 3-4 at which it is hoped to settle remaining points concerning textiles and steel, and to initial the overall agreement.

A Commission Delegation opened in Sofia in June 1992. The Head of Delegation is Mr. Thomas O'Sullivan.

2. Assistance

- a. In September 1990, the Community's PHARE programme was extended to Bulgaria. Up to November 1991 some 11 PHARE projects for a total amount of 100 MECU were approved in agriculture, environment, health, energy, economic restructuring, and human resources development. Total allocations of PHARE funds to Bulgaria in 1992 Indicative Programme is foreseen to be 96 MECU, of which 41 million is for restructuring of Bulgarian agriculture. In addition Bulgaria benefits from the PHARE projects destined for several Central European countries. Bulgaria also received together with Romania part of 100 MECU humanitarian aid programme in the form of emergency food and medical aid.

- b. The Community decided in June 1991 to extend a 290 MECU loan to Bulgaria in support of its balance of payments, as part of a coordinated effort within the G-24. A first instalment of 150 MECU was disbursed in July 1991; a second instalment is expected to be paid soon. On 5 June 1992 the Commission proposed to the Council a decision on additional financial assistance for Bulgaria (110 MECU medium-term loan).
- c. The Community has extended its guarantee of EIB loans in Central and Eastern Europe to include Bulgaria. The credit line for Bulgaria, Romania and Czechoslovakia together is 700 MECU over the two years 1991-1992.
- d. Bulgaria is also eligible for loans from the European Coal and Steel Community (ECSC) in support of its coal and steel industries.

3. Trade

- a. Total imports into the Community from Bulgaria have increased by 26% since 1988 to almost 0.6 billion ECU in 1990. Total exports from the Community to Bulgaria have decreased by 35% since 1988 to 0.9 billion ECU in 1990. The balance of trade at the end of 1990 was 317 MECU in favour of the EC. In 1991, EC imports from Bulgaria increased significantly by 29%, while our exports grew 15%, thus further diminishing the EC trade surplus to 281 MECU. For the first 6 months of 1992, EC trade surplus dropped to 71 MECU marked by -5,1% drop in exports and imports of 21,5%.
- b. The largest imports into the Community from Bulgaria in the period January-September 1991 were: agricultural products including those already processed 25%; textiles and textile articles: 15%; and base metals and products of base metals: 13%.

The largest exports from the Community to Bulgaria were machinery and electrical equipment: 26%; transport equipment: 17%; and agricultural products, including those already processed: 16%.

- c. The Council authorised the European Commission in early October to negotiate with Bulgaria the amending of the textile agreements in force. The EC is willing to increase up to 8% the quota allotted to Bulgaria, for products covered by the Multifibre Arrangement. During negotiations that took place in October 1992, discussion on textile and steel protocols blocked the signing of the Europe agreement. It is hoped, however, that after the completion of the December talks, an agreement will be reached.

ROMANIA

1. Agreements

- a. Since 1974 Romania has benefited from GSP treatment and in 1980 an agreement was signed concerning trade of industrial products. This 1980 agreement was to have been replaced by an agreement of greater scope. However negotiations on this were suspended in April 1989.

- b. Community relations with Romania were reactivated after the revolution of December 1990 and a trade and economic cooperation agreement was concluded on 5 March 1991, and entered into force on 1 May 1991.
- c. Negotiations with Romania with a view to concluding a Europe Agreement began in the spring of 1992 and on 17 November 1992 the agreement was initialled.

2. Assistance

- a. Before its full inclusion in the PHARE programme, Romania received 60 MECU worth of humanitarian and emergency aid in 1990. Of this, 11 MECU was for medical aid, 41 MECU for agriculture and 7 MECU for orphanages and Romanian children.

The European Council of 14 and 15 December 1990 decided on new emergency aid equalling 100 MECU to be shared by Romania and Bulgaria. 80 MECU of this is allocated to food aid and 20 MECU supplied by PHARE to medical aid.

- b. The Community's PHARE programme was extended to Romania in September 1990 but was suspended until January 1991 for political reasons. In 1991 Romania received 100 MECU in the framework of PHARE programme and in 1992 the amount was 130 MECU. Romania also benefits from the PHARE projects destined for several Central European countries.
- c. In order to help Romania overcome its balance of payments difficulties the Community and Romania signed in November 1991 an agreement for a 375 MECU loan. On 9 June 1992 the Council decided on additional financial assistance for Romania (medium-term loan of 80 MECU), and it is currently under discussion in the European Parliament. The European Council of 26-27 June 1992 expressed its willingness, within the framework of the G24, to pursue joint international action to assist the balance of payment of Romania as well as other East European countries.
- d. The Community has extended its guarantee of EIB loans in Central and Eastern Europe to Romania. So far a loan of 25 MECU has been approved in favour of the electricity company.
- e. In 1991, Romania benefited from EBRD loans for a total amount of 165 MECU. On 30 July 1992 the EBRD approved a loan of \$70 million for agribusiness development as a part of coordinated support for the agricultural sector from the World Bank, EC PHARE and the EBRD.
- f. Romania can also obtain ECSC loans in support of its coal and steel sectors.

3. Trade

- a. Total imports into the Community from Romania have decreased by 29% since 1988 to 1.4 billion ECU in 1991. Exports from the Community to Romania have almost doubled to 1.3 billion ECU in 1991. The trade balance in 1991 was 137 MECU in favour of Romania, but 16 MECU in favour of the Community in the first six months in 1992.

- b. The largest imports into the Community from Romania in the period January-September 1991 were: textiles and textile articles: 25%; mineral products: 19%; base metals and articles of base metals: 9%.

The largest exports from the Community to Romania were: machinery and electrical equipment: 21%; agricultural products including processed products: 20%; and textiles and textile articles: 16%. Almost 80% of these textile exports will be re-imported into the Community following processing in Romania.

ALBANIA

1. Agreements

- a. In February 1991, the Commission received official requests from Albania for the establishment of diplomatic relations, the negotiation of a trade and cooperation agreement, and for food aid.
- b. Multiparty elections took place for the first time in Albania on March 31 1991 with some EC Member States sending observers. This led to official relations being established between the EC and Albania; the Albanian Deputy Prime Minister on June 24 visited the Commission.
- c. On 20 June 1991, Albania was welcomed as the 35th member of the CSCE (Conference for Security and Cooperation in Europe).
- d. In October the Council authorized the Commission to negotiate a trade and cooperation agreement with Albania, which was signed on 11.5.1992. This non-preferential agreement is conditional upon respect for human rights as defined in the final Helsinki Act and the Charter of Paris. The agreement is for ten years, renewable annually, and could become the basis for a future Europe Agreement.

2. Assistance

- a. On 5 September, 1991, the G-24 decided to extend their assistance to Albania, which has also been eligible for Phare assistance since January 1992.
- b. Emergency and humanitarian aid to Albania amounted to 9 MECU in 1991, while another 16 MECU is allocated for 1992. Food aid of 15 MECU was granted in 1991, and for 1992 another 120 MECU has been allocated. Technical assistance totaled 1.15 MECU in 1991, while another 25 MECU was given in 1992, as well as 5 MECU development aid for enhancing democratic pluralism within the country. Another 30 MECU is being provided by the Community towards incentives for industrialization.
- c. Albania is also the recipient of Community aid for its balance-of-payment deficit in 1992. Financial assistance came in the form of a 70 MECU grant which covers more than 50% of the FMI estimated deficit of 165 million US \$.

- d. On October 29 Albania became a member of the EBRD (European Bank for Reconstruction and Development). Until end 1991, it already benefited from EBRD's intervention in bank restructuring techniques.

3. Trade

- a. In 1990 the Community imported 80.7 MECU worth of goods from Albania and total exports to that country amounted to 117.8 MECU. In 1991 these figures were 35 MECU (imports) and 78 MECU (exports).
- b. On March 11, 1991 the Commission approved the liberalization of several Albanian imports from Italy, (chemicals, leather and fur, glass products...) with immediate effect.
- c. 1 January 1992 the EC removed all quotas on imports from Albania, except for textiles and some agricultural goods.
- d. The Council decided on 3.2.1992 to include Albania in the generalized system of preferences (GSP).
- e. In September of 1992, taking note of Albania's severe economic conditions, the EC decided to include Albania in the list of countries eligible for participation in the "European Community Investment Partners scheme".
- f. The largest imports into the Community from Albania in 1990 were chrome, nickel, medicinal plants and refined oil. The principal Community export products to Albania were food products, oils (such as sunflower), tobacco, thin iron sheets and carded cotton.

THE BALTIC STATES

1. Agreements

- a. In September 1991 the European Community announced its intention to negotiate trade and cooperation agreements with Estonia, Latvia and Lithuania.
- b. Directives were for trade and cooperation agreements between the EC and each of the Baltic States approved by the EC Council of Ministers in November 1991. The three agreements were signed in Brussels on 11 May 1992. Entry into force of all three agreements has been delayed by the European Parliament's reservations over minority rights in Estonia and Latvia, they are yet to give an opinion (probably during November). They are regarded as "first generation" agreements, given the present situation in the Baltic States, but with the possibility of replacing them later with European (association) agreements. The agreement with Lithuania (the only Baltic State with nuclear facilities) also covers relations with EURATOM.

During a visit by EP members in early November 1991, Lithuanian President Landsbergis stated he considered a form of association with the EC to be the logical course to industrial reorganisation and diversification of trade.

- c. The Community's delegation in Stockholm was also accredited to Estonia and Latvia at end April and will be accredited to Lithuania in due course.
- d. Estonia and Lithuania now have Ambassadors to the EC in Brussels, and Latvia is soon expected to follow suit. Mr. Ivo Dubois recently presented his credentials as Head of Delegation to each state, acting from Stockholm.

2. Assistance

- a. The Council decided in early October that the three Baltic States would remain beneficiaries of the Programme of technical assistance to the USSR until end 1991, with 15 MECU reserved for them. Latvia, Estonia and Lithuania have become beneficiaries of the PHARE programme from January 1992. PHARE assistance for these countries amounts to 45 MECU in 1992. (Lithuania 20 MECU, Latvia 15 MECU, Estonia 10 MECU). According to IMF estimates, the financial needs total about \$600 million, with the rest coming from the other group of 24 countries.
- b. The Community is likely to grant about 220 MECU to the three Baltic States as balance of payments support. The EC is already supporting membership of the three Baltic States in the IMF and the World Bank in the near future.
- c. Food aid to the value of 45 MECU commenced on 4 February 1992 with several deliveries to Estonia.

3. Trade

- a. Since January 1992, the Baltic republics are among the beneficiaries of the Community generalised system of preferences.
- b. In mid-October 1991, six weeks after independence, Lithuania, Latvia and Estonia declared their intention to create a Baltic States Common Market at the earliest opportunity. They have agreed on the creation of a free trade zone with no customs duties, the eventual objective being no controls on goods at their frontiers. The three countries intend to establish their own currencies and Estonia expects to do so very shortly.
- c. The Baltic States, which are seeking a certain division of labour among them, also signed in October a "charter of Development Strategy". A more specific division will be difficult due to the transition from a centralized economy to a market economy. At present, the Baltics export over 60% of their net production to the C.I.S. republics and depend on the former USSR for energy supplies, raw materials and spare parts.
- d. The Baltic States are included in the list of potential exporters of agricultural products to the other republics of the former Soviet Union within the framework of the triangular operations envisaged as part of the 1250 MECU credit loan, of which the details are still being finalised.

FORMER YUGOSLAVIA

1. Agreements - Recognition of independent republics

- a. Official EC relations with Yugoslavia began with the signature of a non-preferential agreement in 1970, followed by an updated agreement in 1973, later completed by an additional clause covering progressive cooperation in the development field. Following this strengthening of ties, a cooperation agreement was concluded in 1980 for an indefinite period. This agreement which grants preferential treatment for trade, includes detailed clauses on economic, technical, financial and social cooperation. A Commission Delegation was opened in Belgrade at the end of 1980.
- b. In view of the present civil war in Yugoslavia the EC Council of Ministers decided on November 11, 1991 to suspend and denounce the application of the agreement with Yugoslavia; assistance under the PHARE programme has also been blocked. On December 2 the Ministers agreed that trade preferences equivalent to those in the suspended agreement, and PHARE assistance, would be made available to the 4 Yugoslav republics of Bosnia-Herzegovina, Macedonia, Slovenia and Croatia. On the 11th of May, the Community and its member states decided to recall their Ambassadors for consultations.

1st of June 1992, the Community decided to apply an embargo against Serbia and Montenegro in line with UN Security Council Resolution 757.

The Belgrade delegation still has legal responsibility for EC relations with the whole of ex-Yugoslavia. Although all ambassadors of the CSCE countries have been withdrawn, the Belgrade delegation has not been closed, though its future competences are unclear.

Co-operation is continuing with the four other republics but, apart from a new agreement with Slovenia, no new actions are foreseen for the moment. The EC-Yugoslavia Trade and Co-operation Agreement of 1980 was cancelled and for the present will be replaced with a similar agreement with Slovenia alone.

2. Assistance

- a. EC loan finance has been made available under a protocol to the cooperation agreement, and Yugoslavia became eligible for economic assistance in autumn 1991, receiving PHARE grants totalling 35 MECU that year to support the restructuring of enterprises and the financial sector. In 1991 political developments made it impossible to continue cooperation under the PHARE programme (except Slovenia which was reintegrated in August 1992), no grants have therefore been made since then. Between September 1991 and June 1992, the EC granted the republics of former Yugoslavia (with the exception of Serbia and Montenegro) an emergency aid of 49 MECU.

- b. On October 16, 1992, at the Birmingham Summit, the European Council agreed that immediate and decisive action was needed in the face of the impending major human tragedy in former Yugoslavia as winter approached. It decided that:
- the Community will speed up EC assistance, for which 213 MECU is ready for immediate disbursement, including 120,000 tons of foodstuffs, and medicines, shelter and 40 trucks;
 - member states will provide further staff and resources, practical and financial, to strengthen UNHCR's capacity;
 - the Community and its member states will establish a task force to support the efforts of the UNHCR to deliver humanitarian aid to the former Yugoslav republics.

SLOVENIA

Slovenia was recognized on January 15, 1992, early March 1992 the Commission started talks on a transportation co-operation agreement, similar to the cooperation agreement EC/Yugoslavia of 1980. In August 1992, Slovenia was integrated into the EC's PHARE programme.

On the 5 November 1992, the EC-Slovenia trade and cooperation agreement was initialled. Almost all industrial products originating in Slovenia will enter the Community duty-free and almost one-third of its agricultural exports will enjoy preferential access. A separate protocol will deal with textiles. In addition, a financial protocol will authorize EIB loans totalling 150 MECUS earmarked for transport infrastructures of common interest. By the end of 1992, the agreement is scheduled to be signed, and an EC delegation in Ljubljana is scheduled to open. This agreement opens up the prospect of subsequent development towards a Europe Agreement.

CROATIA

Croatia was recognized as an independent republic on January 15, 1992. After a meeting between EC President Delors and the Croatian President Tudjman on 6 May 1992 the Commission planned to send an exploratory mission to Zagreb, but has postponed it because of the Croatian military involvement in Bosnia.

BOSNIA - HERZEGOVINA

Bosnia-Herzegovina was recognized on 7.4.1992. President Delors has written to Bosnian President Izetbegovic about the Commission's willingness to strengthen relations, and invited a government representative to discuss the establishment of contractual relations.

MACEDONIA

The recognition of Macedonia is still under discussion. The EC has accepted the principle of recognizing the republic, but first wants to solve the denomination problem. On October 16, 1992 at the

Birmingham Summit, the European Council recognized the deteriorating economic situation in Macedonia, and stressed the need for appropriate measures to prevent this republic from bearing the unintended consequences of UN sanctions against Serbia and Montenegro.

EC PEACEKEEPING IN FORMER YUGOSLAVIA

The European Community has embarked on playing a peacekeeping role regarding the civil war in this region. In 1991, the Community agreed to send EC monitors to the troubled region. Under the leadership of Lord Owen and Cyrus Vance, the EC and the UN are jointly heading the peacekeeping process as defined by the joint EC-UN London conference in August 1992.

COMMONWEALTH OF INDEPENDENT STATES (CIS) and GEORGIA (former USSR)

1. Agreements

- a. A ten-year trade and economic cooperation agreement was signed in December 1989. Economic cooperation aimed at strengthening and diversifying economic ties between the two sides and encouraging economic operators, promoting investment and encouraging joint ventures, licensing agreements and other forms of industrial cooperation. The areas of economic cooperation included mining, agriculture, environmental protection, energy and the service industries (banking, insurance, transport, etc.). EURATOM was a party to this agreement, given the EC's close interest in matters relating to nuclear research and safety in the USSR.
- b. At the end of 1990 the EC and the USSR had planned to renegotiate and broaden the agreement, but these talks could not begin due to the events in 1991, which resulted in the disintegration of the USSR as such, and its replacement in December 1991 by a Commonwealth of Independent States (C.I.S), formed by eleven former Republics of the Union, with the exception of Georgia and the Baltic States. This wholly new situation has incited the Commission to envisage a new type of agreement, somewhere in between the normal trade and economic cooperation agreement and the Association or Europe agreements signed with Poland, Hungary and CSFR.
- c. On 6 October 1992 the General Affairs Council authorized the European Commission to open negotiations with a view to concluding partnership and cooperation agreements with the independent states of the former Soviet Union. Negotiations will begin initially with Russia, Ukraine, Belarus, Kazakhstan, Kyrgyzstan and Uzbekistan.
- d. The Community opened a Delegation in Moscow in 1991; the Head of Delegation is Mr. Michael Emerson. On 10 September 1992 the Commission informed the Council of its intention to open new delegations inter alia in capitals of Ukraine, Kazakhstan and Georgia.

2. Assistance

- a. The EC agreed in December 1990 to help the authorities of the former Soviet Union. The TACIS Programme (Technical Assistance to the Commonwealth of Independent States and Georgia) is the European Community's particular effort to support the ongoing process of economic reform and development recovery in the New Independent States (NIS).
- b. Food aid to a value of 250 MECU was approved in March 1991. Deliveries began in June and have been largely completed; the food is for the most deprived sectors of the Soviet population, and internal distribution is mainly in hands of non-governmental organisations. A further 200 MECU of food aid was decided in December 1991 by the Maastricht European Council for urgent delivery to Moscow and St. Petersburg. But food aid should not become a systematic feature of the Community's support for the independent states. It should be replaced, to the greatest extent possible, by commercial operations to reestablish trade flows and to strengthen the market mechanism. In addition the EC has provided a guarantee of a loan of 500 MECU taken by a Soviet bank from a consortium of EC banks, and approved an EC loan of 1,250 MECU. The money made available will be used to buy food supplies and medical products from the Community and the countries of Central and Eastern Europe, including the Baltics. The total amounts thus to 2,000 MECU, as the EC contribution to a total food and medical aid package of around 6,000 MECU from the G-7 group of industrialised countries.
- c. The Community provided 400 MECU for technical assistance under the 1991 EC Technical Assistance Programme, mainly in the fields of training, transport, food distribution, energy and financial services. A technical assistance budget of 450 MECU is provided for 1992. Building on the five priority areas identified under the 1991 programme, the Commission aims to provide assistance under the 1992 programme in several additional fields, namely food production, telecommunications and the conversion of defence-related industries. In the Ukraine, the Commission has provided 1.8 MECU for technical assistance project within the privatization sector.
- b. The Commission and the governments of Russia, Ukraine and Belarus signed a cooperation agreement on the repercussions of the accident at Chernobyl. The cost of the programme is estimated at 10 MECU, of which 6 MECU are provided by the Community, 2 MECU by Russia, 2 MECU by Ukraine and 2 MECU by Belarus.
- c. During 1991, the USSR benefited from EBRD interventions for a total amount of 20,7 MECU, of which 14 MECU in loans and 6,7 MECU in the framework of technical assistance. The EBRD approved on 27 May 1992 a strategy for the Bank's operations in the Russian Federation. The strategy places priority in the areas of privatization and enterprise promotion, military conversion, financial sector development, energy, nuclear safety, agriculture and agro-business. The total commitment of the Bank in the framework of technical assistance was 17 MECU by the end of March 1992. On 29 May 1992 the Board of Directors has recommended to the Bank's Governors that they approve Georgia's participation in the Bank. All other countries previously forming the USSR were accepted in early 1992.

- d. Coordination of aid for the newly independent states: the Portuguese Presidency hosted the Lisbon conference in May 1992, follow-up of the January Washington conference, where the Community, as by far the largest donor, played an important part. The Commission coordinated the preparatory work in the five substantive areas: food, shelter, medicines, energy and technical assistance.

In its conclusions, the Presidency gave the guidelines for aid in the future, underscoring following aspects: the need for the new States to develop their capacity to meet their food requirements (while recognising that humanitarian aid is still needed); the key role of technical assistance; the usefulness of triangular operations (notably with Central and Eastern European countries); the priority nature of nuclear safety; and specific cooperation with the EC.

- e. It should be recalled that on 2 March the EC Council of Ministers confirmed its will to contribute to the political, economic and social stability of the republics, and its support for prompt membership of the republics which have applied to the Bretton Woods monetary institutions. It requested the Ecofin Council to examine the possibilities of a more flexible application of the conditions of the mid-term loan of 1,250 MECU to the republics, confirmed the Community's participation in the International Centre for Science and Technology, aimed at slowing the nuclear "brain drain", on the basis of an appropriate financial contribution, to be proposed soon by the Commission.

The European Council of 26-27 June 1992 agreed that urgent action must be taken in order to provide emergency medical assistance using a suitable portion of the 1.250 MECU loan.

- f. The medium-term loan agreements representing a total amount of 499 MECU with eight republics of the former Soviet Union were signed in July 1992. This sum was a part of the 1.250 MECU loan decided by the European Council on 16 December 1991 and concern Ukraine: 130 MECU, Belarus: 102 MECU, Georgia: 70 MECU, Tadjikistan: 55 MECU, Turkmenistan: 45 MECU, Armenia: 38 MECU, Kyrgyzstan: 32 MECU and Moldavia: 27 MECU.

3. Trade

- a. In 1991, EC imports from the Soviet Union reached 18.5 billion ECU. The main items were: energy products (8.7 billion), manufactured goods (2.4 billion), mineral products (1.27 billion), and chemical products (0.75 billion); EC exports to the Soviet Union reached 14.4 billion ECU, resulting in a deficit of 4 billion ECU for the Community. The main items were machinery and transportation equipment (7 billion), manufactured goods (2.7 billion), foodstuffs (1.9 billion), and chemical products (1.4 billion).
- b. USSR exports to EC increased by 14.3% in 1991, because of Germany's reunification. Excluding the corresponding flow to East-Germany, USSR exports decreased by 7%. The main industrial products imported in EC from former USSR are petroleum, gas, wood, gold, diamonds, aluminium, nickel, cars, cotton, copper, etc.

TRADE AND COOPERATION AGREEMENTS

The acceptance in 1986 by the USSR and the Central and East European countries that they all could deal bilaterally with the EC opened the way for the Community to negotiate general agreements with these countries. Before then, only sectoral trade arrangements existed with some of them. An exception was Romania, which concluded a trade agreement with the EEC in 1980. Mutual recognition between the European Community and the Council for Mutual Economic Assistance - CMEA (COMECON) was formalised in June 1988 with the signing of the EC-CMEA Joint Declaration.

Within the two years following this Joint Declaration, the EC concluded bilateral agreements for trade, commercial and economic cooperation with Hungary, Poland, the Czech and Slovak Republic, the USSR, Bulgaria and Romania.

Trade and commercial and economic cooperation agreements aim at a substantial and harmonious development and diversification of trade and at the promotion of commercial and economic cooperation in areas of mutual interest. They are based on principles of equality, non-discrimination and reciprocity. They are specific for each country and include:

- trade provisions aiming at promoting mutual trade, including most-favoured nation treatment, mutual trade concessions, the lifting of the Community's specific quantitative restrictions on imports from the partner countries and provisions for possible further trade liberalisation;
- commercial cooperation provisions concerning exchanges of commercial and economic information, contacts between business and professional associations, cooperation between customs departments and the promotion of investment;
- economic cooperation in areas of industry, mining, agriculture, energy, research, environment, financial services, training, standards, statistics, and other matters of common interest;
- the establishment of a joint committee as a forum for regular consultation.

These agreements thus allow for normal development of the commercial and economic relations between the European Community and the Central and Eastern European countries.

Negotiations for similar agreements with Albania and with the three Baltic countries are to begin shortly.

EUROPEAN AGREEMENTS WITH CZECHOSLOVAKIA, HUNGARY and POLAND⁽¹⁾

These are joint agreements which have an indefinite period of validity and cover Community and national spheres of competence. For the first time, in addition to the aspects concerning commercial and economic cooperation, the political dialogue dimension and a cultural cooperation component are taken into account. The agreements also provide for the setting-up, at a later stage, of a free trade area. They are geared to the possibility of these three countries' future membership of the Community. In the preamble to the agreements, the parties recognize that the ultimate objective of the associated countries is to become members of the Community, and association should help them attain this objective.

The agreements have an identical structure for all three countries and the main aspects are listed below.

Political dialogue. It introduces and institutionalizes regular meetings at the highest political level on all topics of common interest and is aimed at achieving convergence in the parties' positions on foreign policy matters.

General principles. The transitional period is ten years broken down into two stages of five years each. The breakdown into two stages does not apply, however, to the trade component of the agreement (free movement of goods). Reference is also made to the process of establishing a market economy in the associated countries.

Free movement of goods. The agreements are preferential and aimed at establishing free trade arrangements between the Community and Czechoslovakia, Hungary and Poland. The concessions granted for liberalizing trade in industrial products are reciprocal but weighted in favour of the three countries, which generally have a longer period than the Community for liberalizing their markets.

Certain sensitive products form the subject of special protocols, in particular textiles and ECSC products. Textile products will be liberalized by the Community in accordance with a special timetable which is nevertheless in line with this general dismantling of industrial tariffs. Similarly, reciprocal concessions are made for processed agricultural products, agriculture and fisheries. The rules on origin and customs cooperation are also dealt with in separate protocols. There are special safeguard clauses for the three countries (balance of payments and infant industries).

Movement of workers, establishment and services. With regard to workers, the Agreements are aimed primarily at improving the situation of workers legally established in the Community. With regard to the right of establishment, the agreements provide for full application of national treatment for the establishment and operations of all firms

(1) Similar agreements are currently being concluded with Bulgaria and Romania.

and all professions throughout the Community and Czechoslovakia, Hungary and Poland. National treatment will be granted by the Community as soon as the agreements enter into force and there will be transitional periods for the application of this principle by the three countries. National treatment will also apply fully to public procurement.

Payments and capital, competition, approximation of legislation. Freedom of financial transfers arising from commercial transactions, the provision of services, investment operations, repatriation of capital invested and the gains from this capital, and also from the movement of persons, is guaranteed.

Rules on competition based on the Community's rules are to be applied. The three associated countries will endeavour to adapt their legislation to Community legislation.

Progressive approximation of legislation is one of the prerequisites for the successful economic integration of the associated countries into the Community.

Economic cooperation covers all the sectors in which the Community and the associated countries have a mutual interest (industrial cooperation, investment promotion and protection, standards, scientific and technological cooperation, training and education, cooperation on social affairs, regional development, small and medium-sized enterprises, statistical cooperation, money laundering, drugs, environment, transport, telecommunications, etc.). One of the objectives of economic cooperation is to enable the three associated countries to meet the challenge of restructuring their economies and making them competitive by the end of the transitional period.

Promotion of cultural cooperation.

Financial cooperation. The associated countries will be able to receive grants (under PHARE until the end of 1992, and under PHARE or a new multiannual framework after that) and loans from the European Investment Bank. In certain circumstances, the Community may be able to examine the possibility of granting macroeconomic financial assistance.

The final provisions provide for an association council, which will meet at ministerial level at least once a year. It will ensure that the agreement is implemented and may in certain spheres take decisions binding the parties. An association parliamentary committee, which has an advisory role, has also been set up.

Before they can be concluded, the European agreements will have to be ratified by the parliaments of the three associated countries and of the Member States and obtain the assent of the European Parliament in accordance with Article 238 of the EEC Treaty. Interim agreements relating only to those parts of the agreements which come solely under the Community's powers and require a shorter procedure, have come into effect on 1 March 1992 and have been extended beyond December 31, 1992 until the ratification of the Europe Agreements.

The CSFR decision splitting the country into independent Czech and Slovak republics from 1 January 1993 means that ratification of the Europe Agreement with the CSFR will not proceed. Once the two new republics are in place, each of them will probably conclude a separate Europe Agreement with the Community. Such Agreements are likely to be virtually identical to the present one concluded between the Community and the CSFR.

GABCIKOVO-NAGYMAROS SYSTEM OF LOCKS

On 28 October 1992 representatives of the CSFR, Hungary and the European Commission met in London to discuss the Gabčíkovo-Nagymaros system of locks in the CSFR-Hungarian border region along the Danube. The meeting took place in the context of the CSFR and Hungarian request to the EC to contribute to a solution of their dispute over the project and was held "en marge" of the Community-Visegrad Summit. It was a follow-up to the first trilateral meeting of 22 October last.

The parties, agreed on the following 3-phazed solution to the issue and it was initialled by the heads of delegation.

1. A fact-finding mission, composed of one expert from each side (Commission, CSFR, Hungary) will examine, the immediate consequences of the existing structures.
2. An expert group, consisting of three experts nominated by the Commission, and one expert appointed by Hungary and the CSFR respectively, examine in more detail the above questions.
3. In case of disagreement at the level of experts the CSFR and Hungarian delegations will submit the issue to binding international arbitration or to the International Court of Justice.