

INFORMATION**EXTERNAL RELATIONS****JUGOSLAVIA AND THE EUROPEAN COMMUNITY****100/75**

This note is circulated on the occasion of the visit to Yugoslavia of M. François-Xavier Ortoli, President of the European Commission on June 12 - 14 1975.

1. THE JUGOSLAVIAN ECONOMY AND ECONOMIC CONDITIONS

Jugoslavia has a population of 21 million, and in 1971 its GNP was about 134,200 million dinars, or EUR (1) 6,300 million. The GNP per head was EUR 408 (10,200 dinars).

At the present time Yugoslavia is facing a number of economic difficulties. The chief of these are, the high rate of inflation, the considerable deficit in the trade balance and the shortage of skilled manpower.

The rate of inflation is the primary worry. The cost of living index, based on 1970, was up in the four following years by successively, 16%, 35%, 61% and 95% (2).

(1) 1 EUR = BF. 48; dollars 1.30 = 22.1 dinars.

(2) Eurostat. Index of consumer prices 1975.

Reproduction authorised with or without indication of source. Voucher copies would be appreciated. 6/75.

The inflation was stimulated by large scale imports of goods for intermediate consumption in industry, partly because of the rising prices in world markets and partly through the successive devaluations of the dinar, which have of course made purchases abroad increasingly expensive.

Industrial development has called for more and more imports. This helped to worsen the deficit in a trade balance already bearing the burden of the country's industrialisation.

Moreover Yugoslavia is in rather a difficult manpower position. The emigration of workers has in the past brought material benefits in the form of inward remittances; but the danger is now arising that this may be outweighed by the shortage of skilled workers and kindred inconveniences on the manpower side.

Despite these problems Yugoslavia has kept up a brisk economic expansion, which puts it among the leading countries in Europe.

The index of industrial production jumped 10% in 1971, another 8% in the following year and 6% in 1973 (1) making an advance of almost 26% in three years. The agricultural production indices gained 7% in 1971, receded by 2% in 1972, but recovered this with a 5% advance in 1973, representing a 10% improvement over the three-year period. An exceptional factor in 1972 and 1973 was the improvement in the credit balance in the payments for services (tourist trade, transport, remittances etc) which brought the balance of current payments into surplus.

The scale of Yugoslavia's economic development since the fourth quarter of 1974, is shown in the growth in industrial production. In the first 10 months of 1974 this was higher by 9.9% than in the corresponding period a year earlier.

The 6th edition of the five-year plan (1976-80) is shaped to combat inflation without prejudice to the economic expansion, applying a more effective monetary policy and credit system to avoid economic overheating.

- - - - -

(1) Yugoslavian statistical manual 1974

2. TRADE BETWEEN JUGOSLAVIA AND THE EUROPEAN COMMUNITY

Tendencies. As a buyer from the European Community, Yugoslavia has risen from 23rd to 8th place in order of importance, whereas it has remained in the 21st place as a supplier of goods imported into the Community.

In 1973 more than 36% of Yugoslavia's exports were consigned to the Community and 42% of the country's imports came from the European Community countries.

EEC trade with Yugoslavia 1968/73

	Exports from EEC	Imports to EEC	Balance	I n d e x	
				Exports	Imports
	(m i l l i o n EUR)			(1968 = 100)	
1968	807	479	+ 328	100	100
1969	1,008	614	+ 394	125	128
1970	1,388	677	+ 711	172	141
1971	1,581	750	+ 831	196	157
1972	1,472	955	+ 517	182	199
1973	1,743	1,139	+ 604	216	238

As the table shows, Yugoslavia's trade balance with the Community has consistently shown a big deficit, partly through the growth in the imports from the EEC (consisting largely of equipment for Yugoslavian industry) and partly through the character of the export trade, which still has a 40 % element consisting of basic and agricultural products, such as meat, maize and wine.

Jugoslavia's trade deficit with the Community is more than half the total deficit in its foreign trade.

Jugoslavian exports to the Community are summarised in broad categories as follows :

	<u>Jan-Oct 1973</u>	<u>Jan-Oct 1974</u>
Industrial goods	57.3 %	61.5 %
Agricultural produce	28.5 %	18.3 %
Basic products	14.2 %	20.2 %

The imports from the EEC consist as to nearly 90 % of industrial goods.

The sales of jugoslavian beef to the EEC are still a difficult trading point.

Belgrade is much concerned at the application by the Community of a safeguard clause affecting the beef imports. For Jugoslavia, the exports of beef to the countries of the Community represent 25 % of the country's total exports.

Jugoslavian opinion was, therefore, greatly disturbed by the suspension of beef imports into the Community from July 17 1974 on account of the surpluses existing in Nine-nation Europe. In April 1975 the Commission decided upon a gradual reopening of the Community market to certain imports of beef.

3. THE NEW EEC-JUGOSLAVIA TRADE AGREEMENT (1)

The new non-preferential trade agreement between the Community and Jugoslavia was signed in Luxembourg on June 26 1973, and came into operation on October 1 following. It replaces the agreement of March 19 1970, which had expired on September 30 1973. It covers a scheduled period of five years.

The new agreement provides for renewal from year to year. It specifies that the contracting parties shall continue to grant one another most-favoured-nation treatment in all matters relating to customs duties and taxes of whatever kind charged on the import or export of goods.

For various categories of high-quality beef, (the so-called "baby beef") the Community has increased the levy differential granted to Jugoslavia under the earlier agreement. This features as an instrument of permanent co-operation between the parties and is subject to respect for specific price levels. Moreover, the agreement enables the Community to introduce safeguard measures in the event of there being disturbed conditions in the meat market.

(1) O.J. No. L 224 (18.8.73)

A further important factor in the agreement is the task assigned to the EEC-Jugoslavia mixed Committee, which is to meet at least once a year.

The first duty of this Committee is to supervise the right functioning of the agreement; but it is also mandated to investigate the ways and means of promoting economic and commercial cooperation between the Community and Yugoslavia for the purpose of increasing the trade between them.

In the early stages this cooperation seeks to eliminate non-tariff and similar barriers, to encourage trade prospecting and promotion operations and to extend and diversify the trade in line with changes in the economic policies of the EEC and Yugoslavia.

On signature of the agreement the contracting parties exchanged letters regarding jugoslavian workers in Community countries. For the first time the Nine stated their willingness to enter into discussions on this question.

4. JUGOSLAVIA AND THE GENERALISED PREFERENCES

Jugoslavia is one of the countries which has derived most benefit from the system of generalised preferences introduced by the Community as from July 1 1971.

This system provides total customs franchise for all non-agricultural manufactured goods and partial franchise without a quantity ceiling for a number of processed agricultural products.

Buffer-stops, or maximum amounts, are fixed for each of the countries which have the benefit of the system. The effect is to put a specific percentage limit on the maximum extent to which each country is entitled to make use of the ceilings and quotas laid down for different products.

For the "sensitive" products, which are subject to Community tariff quotas, Yugoslavia attained the buffer stop maxima for ten products in 1971, for four in 1972, for nineteen in 1973 and for thirteen in 1974. Among the

quasi-sensitive products which are subject to special supervision, Yugoslavia went beyond the buffer stop in six cases in 1971, thirteen cases in 1972, sixteen in 1973 and seventeen in 1974. Yugoslavia is one of the few cases of beneficiary countries against which customs duties fell to be reimposed because of the buffer stop machinery.

The particular importance of Yugoslavia as a user of the Community generalised preferences raised problems in some of the more sensitive industries.

On December 2 1974 the Community Council of Ministers handed down a general decision on the application of the system of generalised preferences in 1975. In this it decided to make special buffer stop allowances of 15 % on sixteen products from Yugoslavia. This solution helped to diminish the number of products subject to Community tariff quotas, and to balance the preference advantages between the beneficiary countries.

5. EEC-JUGOSLAVIA COTTON AGREEMENT

In the generalised preferences offer, the Community specified that in principle the granting of preferences on textiles of cotton and substitute materials, should be limited to developing countries which are signatories to the GATT long-term agreement on cotton textiles (L.T.A.).

It took the view, however, that preferences in respect of these products could also be granted to countries which were not signatories of the L.T.A., provided they gave undertakings to the Community on the same lines as those laid down in the agreement.

At the meetings of the EEC-Yugoslavia mixed Committee in 1971 and 1972, the Yugoslavian delegation expressed a desire for negotiations for an agreement on the trade in cotton textiles.

These negotiations duly took place, and an agreement was signed on April 18 1973. It was an agreement for one year from January 1 1973 and renewable annually. Among its provisions was an undertaking by Yugoslavia

to apply such measures as might be necessary to ensure that exports to the Community of cotton textiles did not exceed certain specified quantities.

The long-term agreement on the international trade in cotton textiles expired on December 31 1973. Since July of that year negotiations had been in progress in Geneva, resulting by the end of the year in a multilateral arrangement regarding the textile trade. This is known as the M.F.A. (multifibre agreement) and on March 21 1974 it was accepted in the name of the Community by the Council of Ministers.

Jugoslavia exports not only cotton products, but also considerable quantities of textile goods of wool, artificial and synthetic fibres. The exports to the Community of some of these products, all of which come within the new multilateral arrangement, have shown considerable increases during the past few years.

Belgrade is a party to the M.F.A.; and as soon as a Community negotiating mandate has been settled, it is the intention of the EEC to enter into negotiations with Jugoslavia for a bilateral agreement within this context. The purpose would be to secure stability in the EEC market and eliminate any real risk of disorganisation in the jugoslavian market.

The agreement on cotton between the Community and Jugoslavia was extended in 1974. The Community generalised preferences on jugoslavian textiles of cotton and substitute materials, were also renewed for 1975 with a uniform flat-rate increase of 5 % in the 1974 ceilings.

6. JUGOSLAVIA AND SCIENTIFIC AND TECHNICAL COOPERATION (STCO)

Since May 1971, a jugoslavian representative has been present at meetings of the scientific and technical cooperation group (STCO) which acts under the aegis of the EEC Council of Ministers and comprises representatives of the Nine, and also Norway, Austria Finland, Portugal, Sweden, Switzerland, Greece, Turkey and Spain.

Jugoslavia has entered into agreements in regard to telecommunications, metallurgy, nuisances and air and water pollution.

In Brussels, on October 11 1973, Jugoslavia signed a Convention for setting up the European Centre for medium-term meteorological forecasting, to be located at Shinfield Park (Berkshire) in Great Britain.

In July 1974 Belgrade put forward new proposals regarding the European transport system. These related, in particular, to cooperation in regard to the capacity of conventional technical transport equipment, and the process of substitution, systems of programming and organisation of transport during the transition period and when the future systems are in operation.

7. CONTINUING DISCUSSIONS BETWEEN THE EEC AND JUGOSLAVIA

The meetings of the mixed Committee and of experts in various fields, and the visits exchanged between leading European and Yugoslavian personalities, have served to emphasise the importance of maintaining a continued dialogue at various levels between the EEC and Jugoslavia.

Exchanges of views at political levels. Sir Christopher Soames, Vice-President of the European Commission in charge of External Relations, paid an official visit to Jugoslavia April 27 - May 1 1974. He had conversations with several members of the government, including Mrs. Bijedic, President of the Federal Executive Council; and Mr. Ludviger, Federal Secretary for External Trade.

This was the first meeting at the political level between the European Commission and Jugoslavia since the new trade agreement had come into force.

Central features in the talks were Community policy in the Mediterranean, relations with East European countries, the application of the generalised preferences and the development of cooperation.

Dr. P.J. Hillery, Vice-President of the European Commission in charge of Social Affairs, paid a visit to Yugoslavia (October 9 - 13 1974) with a view to securing a full understanding of Belgrade's attitude on the problem of jugoslavian workers.

On November 22 1974 M. Ortoli, President of the Commission, and his Vice-President Sir Christopher Soames, received Mr. Minic, Vice-President of the Federal Executive Council of Yugoslavia and Federal Secretary for Foreign Affairs.

This was the first visit to the Community by so highly placed a jugoslavian politician.

The questions discussed included the possibility of extending the cooperation in scientific and technological research, more especially in relation to steel and energy.

On the question of trade relations, it was agreed on both sides that every effort should be made to facilitate mutual cooperation in overcoming the difficulties arising.

On the invitation of Mr. Minic, President Ortoli visited Yugoslavia June 12 - 14 1975.

The EEC-Yugoslavia mixed Committee met in Brussels on February 3 1975. Its proceedings included a further discussion of the problems arising for Yugoslavia through the growing deficit in its trade balance with the Community.

The Yugoslav delegation called for an examination in depth of the problems of cooperation. This would cover action to secure extended cooperation in the interests of both parties in relation to industry, scientific research, finance, migrant workers, joint action in other countries and in agriculture, more especially in respect of produce for which Community production is insufficient.

The cooperation proposals brought forward at the February meeting of the EEC-Jugoslavia joint Committee, were the main subject matter for discussions in Brussels on April 28 1975 between Sir Christopher Soames, the European Commission Vice-President and Mr. Janko Smolé, member of the Federal Executive Council of Yugoslavia.

They both undertook to accelerate the development and diversification of economic relationships between the EEC and Yugoslavia, so that constructive proposals can be brought before the meeting of the mixed Committee, which is to be held in Brussels at the ministerial level in July 1975.

8. CONCLUSION

As President Ortolí indicated on June 26 1973, the new agreement between the EEC and Yugoslavia "can be regarded against the background of a nascent mediterranean policy". It also shows that the Community, M. Ortolí added, "is ready to cooperate with all countries and to respect the political structure of each".

Sir Christopher Soames, when he visited Belgrade at the end of April 1974, emphasised the political and economic importance of relations between the Community and Yugoslavia, since the latter is at the cross-roads, both between the EEC and Comecon and between the highly industrialised countries and the developing ones.