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## **REPORT**

drawn up on behalf of the Committee on External Economic Relations

on relations between the European Community and the Council for Mutual Economic Assistance (CMEA) and the Eastern European member states of the CMEA

Rapporteur : Mr H.-J. SEELER

Resolution adopted at the Sitting of 22 January 1987 annexed.

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At its sitting of 15 April 1985 the European Parliament referred the motion for a resolution tabled by Mr EBEL and others (Doc. B 2-49/85) pursuant to Article 47 of the Rules of Procedure to the Committee on External Economic Relations as the committee responsible and to the Political Affairs Committee for an opinion.

At its sitting of 10 July 1985 the European Parliament referred the motion for a resolution tabled by Mr MATTINA (Doc. B 2-558/85) pursuant to Rule 47 of the Rules of Procedure to the Political Affairs Committee as the committee responsible and to the Committee on External Economic Relations for an opinion.

At its sitting of 9 September 1985 the European Parliament referred the motion for a resolution tabled by Mr PORDEA and others (Doc. B 2-643/85) pursuant to Rule 47 of the Rules of Procedure to the Committee on External Economic Relations as the committee responsible and to the Political Affairs Committee for an opinion.

At its meeting of 25 September 1985 the committee decided to draw up a report, and appointed Mr SEELER rapporteur.

At its meetings of 21 January 1986, 26 September 1986 and 19 November 1986 the committee examined the draft report. On 20 November 1986 it accepted the motion for a resolution as a whole by 19 votes in favour and 0 against, with 9 abstentions.

The following took part in the vote: Dame Shelagh ROBERTS, chairman; Mr HINDLEY, vice-chairman; Mr SEELER, rapporteur; Mr AMADEI (deputizing for Mr Massari), Mr BROK (deputizing for Mr van Aerssen), Mr CANO PINTO, Mr CHRISTENSEN, Mr COHEN (deputizing for Mrs Wieczorek-Zeul), Mr FORD, Mr GAUTHIER, Mr GRIMALDOS GRIMALDOS, Mr JANSSEN VAN RAAIJ, Mr KILBY, Mr LUSTER (deputizing for Mr Constanzo), Mr McGOWAN (deputizing for Mr Hitzigrath), Mr MOORHOUSE, Mr MOTCHANE, Mr MÜHLEN, Mr PEGADO LIZ, Mr PONS GRAU, Mr PRANCHERE (deputizing for Mr Galluzzi), Mr ROSSETTI (deputizing for Mrs Castellina), Mr SARIDAKIS, Mr SILVA DOMINGOS, Mr SIMPSON (deputizing for Mr Escuder Croft), Mr TOLMAN (deputizing for Mr Zarges), Mr TOUSSAINT and Mr ZAHORKA.

By letter of 30 April 1985 the Political Affairs Committee informed the Committee on External Economic Relations that it would not deliver an opinion.

The report was submitted on 3 December 1986.

The deadline for tabling amendments to this report will be indicated in the draft agenda for the part-session at which it will be debated.

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The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement

A  
MOTION FOR A RESOLUTION

on relations between the European Community and the Council for Mutual Economic Assistance (CMEA) and the Eastern European member states of the CMEA

The European Parliament,

- having regard to its resolution of 11 October 1982 on relations between the European Community and the East European State-trading countries and COMECON(1),
  - having regard to its resolution of 9 July 1982 on relations between the EEC and the COMECON countries in the field of transport policy(2),
  - having regard to its resolution of 24 September 1985 on relations between the European Community and the countries of Central and Eastern Europe(3),
  - having regard to its resolution of 13 June 1986 on trade relations between the European Community and Hungary(4),
  - having regard to the motion for a resolution tabled by Mr EBEL and others on relations between the EEC and COMECON (Doc. B 2-49/85),
  - having regard to the motion for a resolution by Mr MATTINA on relations between the European Community and the Soviet Union (Doc. B 2-558/85),
  - having regard to the motion for a resolution tabled by Mr PORDEA and others on the resumption of negotiations between the EEC and COMECON (Doc. B 2-643/85),
  - having regard to the report of the Committee on External Economic Relations (Doc. A 2-187/86),
- A. deploring the absence of political freedom which pertains throughout Eastern Europe,
- B. having regard to the Helsinki Final Act and the results of the meetings following up the Conference on Security and Cooperation in Europe held in Belgrade and Madrid,

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(1) OJ No. C 292, 8 November 1982, p. 15 et seq.  
(2) OJ No. C 238, 13 September 1982, p. 96 et seq.  
(3) OJ No. C 343, 31 December 1985, p. 92 et seq.  
(4) OJ No. C 176, 14 July 1986, p. 192 et seq.

- C. stressing that for many years it has wished to contribute towards improving relations between the EC and the Member States of the CMEA, provided that certain preconditions are met,
- D. whereas the improvement of trade and political relations between the EC and the CMEA would help gradually to overcome the problem of the division of Europe and change substantially the spirit of Yalta with regard to the division of zones of influence and control between the two superpowers,
- E. in view of the fact that the partition of Europe is contrary to the tradition of intellectual, cultural and economic ties between Eastern and Western Europe and contributes to the polarization of world politics into a power struggle between the two super-powers, and the aim of our policy is to overcome this division of Europe, reject the lack of freedom experienced by individuals and nations behind the Iron Curtain and strive instead for the achievement of the right to self-determination in all parts of Europe,
- F. conscious that Europe as a whole plays a vital role in maintaining and safeguarding peace in the world,
- G. aware of the legal nature and rules of the CMEA and the extent of its competence to act on behalf of the member states of the CMEA, which is extremely limited in comparison with the competence of the EC,
- H. whereas the USSR is a member of the CMEA and has a powerful influence over this organization, while the USA is not a member of the EC and thus there is no comparable dominant position within the EC, which sees itself as an economic partner with equal rights alongside the USA,
- I. whereas the CMEA includes not only Eastern European countries but also three non-European Member States whose economic and trade interests differ considerably from those of the other CMEA countries,
- J. having regard to the activities and the agreements reached within the framework of the Economic Commission for Europe (ECE) in the sphere of cooperation between the countries of Western and Eastern Europe,
- K. having regard to the recent contacts between the EC and the CMEA and to the mutual interest in taking up and developing relations, including possible recognition of the EC;
- L. having regard to the positive response by all the East European states to the Commission's offer to normalize their relations with the Community,
- M. having regard notably to the special relations obtaining between the Federal Republic of Germany and the German Democratic Republic,
- N. whereas the levels of development and prosperity of the CMEA countries are lower than those of the EC countries, a fact which is largely due to their extensive commercial isolation, their autarkic regime and the rigidity of their economic system,

- O. desiring to improve relations between the EC and the CMEA in all possible areas of mutual benefit, and at the same time to improve and extend trade and economic relations between the EC and the Eastern European members of the CMEA,
- P. whereas the creation of mutually advantageous relations could be a further step towards maintaining peace and overcoming the partition of Europe in the long term and that such a step is now more important than ever, given the emerging trend in relations between the two super-powers,
- Q. deploring the frequent recourse by CMEA countries to the dumping of products on the Community market,

Re relations between the EC and the CMEA and the member states of the CMEA

- 1. Regrets that in the eleven years since the first talks were held between the EC and the CMEA in 1975 neither the CMEA nor any of its member states has formally recognized the EC;
- 2. Supports the Commission for the consistent policy it has adopted towards the CMEA as a result of which the latter has now agreed that the establishment of relations between the two institutions shall not prejudice bilateral relations between the EC and the member states of the CMEA;
- 3. Looks to the European Community and the Council for Mutual Economic Assistance to draw up a common declaration in the near future granting each other mutual recognition under international law and to establish diplomatic ties between the East European countries and the Community;
- 4. Considers that relations between the EC and the CMEA can only be developed and extended if the latter clearly recognizes the existence of the EC under international law as well as its competence to act in economic and trade matters;
- 5. Recognizes that the establishment of official relations between the EC and the CMEA would create a propitious climate for developing relations with individual CMEA countries in the field of foreign trade and cooperation, but considers that it is unnecessary at this stage to lay down the details of cooperation between the EC and the CMEA in the common declaration and that separate negotiations should be held to this end following official contacts;

Re the possibility of reaching agreements between the EC and the CMEA

- 6. Expects the EC to actively consider the possibility of concluding arrangements with the CMEA, if appropriate, on such matters of mutual interest as fall within its sphere of competence;
- 7. Assumes that parallel negotiations will be opened or resumed between the EC and the CMEA and between the EC and the European member states of the CMEA on outstanding matters;
- 8. Considers that, in the event of such developments occurring, the two organizations might then discuss issues such as :

- the approximation of standards,
  - the approximation of the bases of statistical surveys so as to facilitate exchanges and comparisons of data,
  - the approximation of the methods of economic forecasting,
9. Believes that, in addition to these matters on which an agreement in principle had already been reached in earlier EC-CMEA talks, there are further possibilities for mutually advantageous cooperation which, however, will often require more extensive preparatory work before they can be realized;
  10. Considers, in this connection, that the CMEA and the EC might, if appropriate, hold negotiations on environmental protection problems affecting both Western and Eastern Europe with the aim of developing common principles and standards for permissible limit values as regards pollution in the air, soil, in rivers and in the sea, provided that the CMEA has authority for these matters;
  11. Considers that joint negotiations could be held on the development of transport infrastructures in Europe, since the current lack of viable transport links between the two blocs is a serious obstacle to any type of trade or mutual economic relations;
  12. Considers desirable the development of an energy system for the whole of Europe, particularly for the supply of electricity, so as to establish a major inter-European network of energy supplies and mutual services;
  13. Considers that the exploration of new sources of energy, and notably nuclear fusion, but also alternative sources of energy provide ample opportunities for research cooperation;
  14. Is anxious in view of the Chernobyl nuclear disaster that in addition to efforts through the IAEA, cooperation might be established with CMEA States as regards reactor security and mutual aid in cases of reactor malfunctionings, and that there should be a duty to provide information, together with exchanges of information and a joint acceptance of responsibility;
  15. Considers furthermore, that it would benefit both sides if scientific cooperation in precisely defined areas were stepped up, provided that the necessary strategic interests of Western Europe are properly guaranteed;
  16. Believes that the CMEA and its member states are particularly interested in material cooperation with the EC in this area and that this should be borne in mind in future negotiations, and notes in this connection the interest shown by several Eastern bloc countries in the EUREKA research programme, in which not only the Member States of the EC but also other European countries are taking part;
  17. Believes that serious consideration should be given to ways in which the number of products requiring authorization could be reduced, having due regard to the West's security interests - i.e. ensuring civil end-use -, as this might help improve and consolidate relations;

#### Re institutional contacts

18. Desires that, once mutual recognition has been secured and the question of the recognition of the EC by the individual member states of the CMEA has been settled, consideration should be given to the question of how far it would be possible to establish parliamentary contacts and set up European Parliament delegations for relations with the Soviet Union and the Eastern European member states of the CMEA;

#### Re trade and economic ties with the Eastern European members of the CMEA

19. Recalls the very considerable disparity between the economic strength of the Eastern European state-trading countries and of the EC and the effect this will have on the development of trade and economic relations with the EC;
20. Believes that difficult economic problems will arise as a result of the different economic structures and that free reciprocal competition will thus only be possible to a very limited degree so that the EC will receive nothing comparable in return for facilitating access to its markets;
21. Draws attention to the adverse effect of the declining price of oil and the drastic fall in the exchange rate of the dollar on export revenues, and on those of the USSR and Romania in particular, which has markedly reduced their ability to take imports from industrialized countries in the West;
22. Believes, however, that an improvement of economic relations will be politically useful as regards:
  - stability and détente in Europe,
  - the gradual elimination of the partition of Europe,
  - the implementation of the principles of the Final Act of the Conference on Security and Cooperation in Helsinki,
  - and, in the long-term, the strengthening of the role of the whole of Europe as a factor maintaining peace;
23. Believes that an immediate gradual reduction is necessary in compensation trade between the CMEA and the EC;
24. Stresses the need for the European Community to seek and develop new markets;
25. Considers that in the medium term the Eastern European members of the CMEA have considerable potential as an export market for the EC, notably because of their geographical proximity in Europe, their considerable reserves of energy and raw materials, particularly in the USSR and the CMEA countries' great demand for investment and development;
26. Would like the EC to conclude trade and/or cooperation agreements with the European member states of the CMEA and thereby to put an end to a situation which is not governed by treaty and has in several cases lasted for years;



27. Realizes, however, that the EC market will only be able to absorb industrial products from the CMEA states if they are made much more competitive;
28. Notes that Romania is the only CMEA country with which the EC has so far concluded a comprehensive trade agreement on industrial goods and that its agreements with Poland, Bulgaria and Czechoslovakia are limited to steel, textiles and some agricultural products;
29. Welcomes the fact that the Eastern European member states of the CMEA have now all agreed to the Commission's offer to conclude trade and cooperation agreements and recalls that in 1974 Romania alone accepted the EC's offer to conclude a trade agreement;
30. Welcomes the current negotiations between the Commission and Romania aimed at extending the scope of the 1980 agreement so as to extend and develop trade and economic ties between the EC and Romania;
31. Expresses its wish that negotiations between Hungary and other CMEA member states and the Community should commence as soon as possible and hopes that they will lead in the near future to an agreement acceptable to both parties;
32. Considers that fruitful cooperation is only possible if the CMEA states abandon their ideologically based desire for self-sufficiency from imports from the Western industrial nations;
33. Believes that one of the principal means by which foreign trade policy can generate mutual trust and thus influence other areas of policy-making is by strengthening trade contacts and mutual interdependence;
34. Is still concerned at the aggressive prices policy pursued by state transport undertakings in CMEA countries which consists in considerably undercutting the freight rates for road and sea transport and so gradually to exclude EC transport undertakings from the market, and calls on the Commission to bring this matter up notably in future negotiations with the USSR and to press for a solution to this problem;
35. Regrets that the lack of convertibility of CMEA currencies amongst themselves and with the currencies of the Western industrialized nations continues to hinder the development of economic relations;
36. Welcomes Hungary's efforts to make its currency partially convertible;
37. Believes that, in trade with the Eastern European CMEA states, the ECU could prove an advantageous monetary and financial instrument for the financing, invoicing and payment of foreign trade transactions; calls on the Commission to examine how better use might be made of these possibilities;
38. Calls on the Commission to include the intensification of agricultural trade in trade talks with Eastern European CMEA states with the aim of stepping up EC agricultural exports to CMEA states and facilitating the access of agricultural imports from CMEA countries to the EC market;

39. Views the high indebtedness of some CMEA countries as a severe impediment to the development of trade relations;
40. Recognizes Romania's efforts to reduce its debts to the West, which, however, was achieved mainly by means of drastic import restrictions;
41. Is sceptical about Poland's ability to master its worsening debt problem unaided and believes that possible solutions should be considered, taking into account Poland's ability to pay; insofar as its debts exceed its capacity to pay, a study should be made to ascertain the feasibility of collecting the capital and interest payments due in a development fund in Poland and with these resources promoting development projects in the country (the swaps model) until the Polish economy is in a position to service and repay this capital in hard currency;
42. Reserves the right to ratify the arrangements with the CMEA and its member states negotiated by the Commission and concluded by the Council of Ministers on behalf of the Community;
43. Instructs its President to forward this resolution to the Council of Ministers, the Commission, the General Secretariat of the CMEA and the governments of the Eastern European member states of the CMEA.

EXPLANATORY STATEMENTI. Introduction

In preparing this report the rapporteur started by holding discussions with representatives of the following embassies in Bonn: Bulgaria (Mr Georgi Eftimov, ambassador), Poland (Mr Ryszard Ceglowski and Dr Remigius Rybicki, counsellors), Romania (Mr Ioan Buda, counsellor), the Soviet Union (Mr Valentin Kiporenko, counsellor) and Hungary (Dr Istvan Horvath, ambassador). No discussions were arranged with the Czech embassy in Bonn which found it impossible to designate an appropriate representative.

The rapporteur then visited East Berlin to discuss with, among others, Professor Nitz (IPW) the DDR's attitude towards the development of closer economic contacts between the EC and the CMEA. The rapporteur also visited Moscow and Bucharest and discussed the question of EC-the CMEA relations with representatives of the Secretariat-General, including the Deputy Secretary of the CMEA, Mr Kurovsky, representatives of the Institute for World Economic Affairs and International Relations (Professor Shenayev), the head of the department covering international economic organizations in the Foreign Ministry (Ambassador Makeyev) and the deputy Minister of Foreign Trade of the Soviet Union (Mr Manshulo).

In Bucharest (Romania held the presidency of the CMEA in June 1986) the rapporteur, as the guest of the Romanian group of the Inter-Parliamentary Union, had comprehensive discussions on the subject of this report with, inter alia, the President of the Romanian Parliament, Mr Nikolai Giosan, the chairman of the Romanian group of the Inter-Parliamentary Union, Professor Marin Ivascu, the head of the Western Europe department of the Foreign Ministry, Dr Neagu, representatives of the Ministry of Foreign Trade including Mr Parvutuoiu, and representatives of the National Council for Environmental Protection and the State Planning Committee.

II. The development of the EC's relations with the CMEA

Relations between the European Community and the CMEA can be divided into three phases. The first phase, which lasted until about 1971, was characterized by the total rejection of the European Community as something which could develop into a new subject of international law. At that time, as far as the Soviet Union was concerned the EC was a temporary phenomenon which should be ignored. It was an economic adjunct to American capitalism and was completely disregarded. The 17 theses on the Common Market published in 1957 in the magazine 'Communist' provided ideological justification for this rejection. In the 32 theses on imperialist integration in Western Europe published in 1962, the European Community was again strongly criticized, but it was stated at the same time that its existence did not rule out cooperation between the two blocs in Europe. One of the people to whom the rapporteur spoke in Moscow freely admitted that the Soviet Union had made a mistake by regarding the European Community for many years as a purely temporary

phenomenon; realization had gradually dawned, however, that the EC was an 'objective process' with which agreement should be reached in order to avoid commercial and political disadvantages. This new attitude was first expressed in a statement by the then General Secretary, Mr Brezhnev, in March 1972, and again in December of that year, when he spoke of recognizing 'realities' in Europe. In July 1973 the CMEA approached the EC and indicated its interest in holding talks. In May 1974 the EC Council declared its willingness to negotiate trade agreements with each individual CMEA member state. In the talks which then dragged on for several years, at levels involving Commission Presidents and Vice-Presidents as well as experts, it became clear that the two sides were pursuing different goals. In February 1976, for example, the CMEA tabled a draft treaty for cooperation between the EC and the CMEA which was mainly concerned with commitments by the member states of both organizations as regards reciprocal trade relations. The counterproposal forwarded by the EC to the CMEA on 17 November 1976 provided for working relations to be set up between the two organizations on the basis of exchanges of information on general questions such as economic forecasts, production, consumption, trade statistics, standards and environmental protection. Trade questions, on the other hand, were to be dealt with on the basis of bilateral agreements between the EC and the individual member states of the CMEA. The negotiations continued until October 1980 without achieving any results.

To sum up, it can be stated that in these negotiations the EC refused to settle trade questions in a framework agreement. The CMEA had no common trade policy and it was therefore impossible to negotiate with the CMEA in that respect. The Community also rejected the inclusion of industrial, technological and scientific cooperation in the agreement, the co-signature of the agreement by individual Community Member States, and the establishment, called for by the CMEA, of a joint committee with general authority to consider aspects of mutual relations. It was prepared to make a reference to the importance of trade between the two parties in the preamble to a draft agreement and to include a provision under which both sides would commit themselves to promoting and developing their trade links. It nonetheless insisted that no member country of the CMEA should be obliged to conduct trade negotiations with the Community against its will.

For its part, the CMEA insisted on the inclusion in the agreement of trade policy provisions with clauses on most-favoured-nation status, the removal of 'discriminatory' quantitative restrictions, agricultural policy and the scheme of generalized preferences. The CMEA also demanded the establishment of a joint committee, one of whose responsibilities would be to settle problems which might arise from existing or future trade agreements between the Community and the individual CMEA states. This would have meant, however, that the Soviet Union could intervene directly in bilateral trade relations between the Community and the CMEA member states. Such a state of affairs was not wanted by the Community nor, certainly, by several CMEA countries. In the CMEA's view only 'specific individual questions' should be dealt with in bilateral agreements 'on the basis of the principles of the EC-CMEA agreement'. The agreement between the two organizations would thereby have been given precedence over bilateral agreements, and would have set out the guidelines to be followed by the latter.

The third phase began with the CMEA Summit of 12-14 June 1984 in Moscow. The Summit's Final Declaration expressed a wish for relations to be established between the CMEA and economic organizations of developed capitalist countries. The declaration then went on to state that in this connection they (the CMEA member countries) affirmed their willingness for an agreement to this effect to be signed between the CMEA and the EC with the aim of promoting the further development of existing trade and economic relations between the member countries of the two organizations. After discussing this new development, the Council of Ministers of the Community decided in September 1984 that a reaction on the part of the Community was not called for until it had received a reply to the letter from Mr Haferkamp, Vice-President of the Commission, dating from 1981. In October 1984 Mr Haferkamp received a communication from the CMEA in which it was proposed that negotiations should be resumed with a view to signing an agreement, a declaration or some other document which would cover all economic areas, including trade, and be based on Basket II of the Helsinki Final Act and the Madrid Final Document.

This declaration showed for the first time that the CMEA had adopted a more flexible attitude and no longer insisted on a trade agreement between the two organizations. Early in 1985 Mr Gorbachev himself spoke about the questions associated with relations between the EC and the CMEA. During a visit to Moscow by the Italian Prime Minister, Mr Craxi, he stated that it was time to set up favourable relations between the CMEA and the Community in the economic sphere; insofar as the Member States of the EC acted as a single political unit, his side was prepared to find a common language with the Community in the sphere of specific international problems.

This is a clear signal that the Soviet leadership has grasped that the European Community is in the process of developing into a new political factor in Western Europe. What is not clear is whether the Soviet Union thinks it will be able to use these improved contacts with the EC to drive a wedge between the European Community and the United States. In the rapporteur's discussions in Moscow, the impression was sometimes given that the increasing trade disputes between the EC and the US were being watched with great interest, in the belief that this indicated a weakening of the relationship between the NATO partners. The rapporteur repeatedly made it clear to those he talked to that the European Community and the United States are two independent economic powers between whom disputes might very well arise without, however, having any effect on their close partnership in all matters of security. Some of those with whom discussions were held had clearly not yet realized that the EC is increasingly developing, in the medium term, from an economic community into a political community, which will then take on a different aspect in its relations with both the United States and the Soviet Union. In the long term the Soviet Union must expect that the European Community will increasingly replace its Member States with regard to relations with the Soviet Union, and that the Community of Twelve does not mark the culmination of efforts towards European political and economic integration.

Shortly after the Italian Prime Minister's visit to Moscow it became clear that the CMEA was now keen to transform the Soviet leader's words into action. On 14 June 1985, in a communication from its Secretary, the CMEA proposed opening preliminary negotiations with the Commission. If the Community agreed, the CMEA could table the draft of a common declaration which had already been prepared. One question which still remained unanswered, however, was whether this declaration would allow the Community to conclude

trade agreements with all those CMEA member states who wished to do so. In its answer of 29 July 1985, the Commission proposed setting up relations between the CMEA and the Community through the adoption of a common declaration. The Community once again declared its willingness to resume the dialogue with the CMEA which had been suspended in 1981 and called on the latter to forward to it the draft declaration which it had referred to. The reply from the CMEA Secretary-General on 26 September 1985 included both a statement of position on the question of bilateral relations and a draft declaration on the establishment of official relations between the Community and the CMEA. With regard to bilateral relations it was stated that the signing of a declaration on the establishment of official relations and the development of cooperation between the two organizations could create a favourable climate for the development of bilateral relations between the Member States of the CMEA and the Community.

This repeated the old position of the CMEA and the Soviet Union that relations should first be established between the CMEA and the EC and that relations between the Community and the CMEA member countries could be developed at a later stage. In view of the fact that the Community has already signed trade agreements with Romania and other CMEA countries, this position seems out of date. The fact nevertheless remains that the contracting parties have never reached the point of establishing formal relations. During the initial negotiations, as well, it was never clarified by the CMEA side whether the CMEA states were prepared to normalize relations with the Community after an agreement had been signed. Normalization is taken to mean willingness to negotiate an overall trade agreement with each country, the accreditation of diplomatic missions with the Community and the abandonment of anti-Community disruptive action in international organizations. The Community is willing to enter into new negotiations with the aim of reaching an appropriate form of arrangement with the CMEA. The draft common declaration tabled by the CMEA is intended to skirt around the problems of content on which the negotiations ran aground in 1980. In terms of its political significance the declaration is essentially symbolic.

In February 1986 the Commission responded to the most recent approach from the Secretary-General of the CMEA in letters to the CMEA and the governments of its European member states. The Commission once again indicated to the CMEA its willingness to resume a dialogue, with the aim of establishing official relations between the CMEA and the EC. Every avenue, including the possibility of a common declaration, should be explored to this end. For its part the Commission set no preconditions for these talks, nor priorities as between the normalization of bilateral relations between the EC and the CMEA member states, on the one hand, and the common declaration on the other. The Commission envisaged, however, that the development of closer relations between the two organizations would be pursued parallel to the normalization of relations between the EC and the seven European CMEA member states. The adoption of a common declaration could thus serve both purposes. In its separate letters to the governments of the European CMEA member states the Commission proposed a normalization of official relations with the Community. Various developments could subsequently be envisaged in this context, such as the negotiation of an overall agreement with Romania, the opening of trade negotiations with Hungary and Czechoslovakia (both countries have indicated their interest in this) and, to start with, simply the establishment of normal diplomatic relations with the other CMEA states.

The CMEA and its European member states have now replied to these letters and, in varying ways, indicated their agreement with the Commission's proposals. In the rapporteur's discussions with representatives of the Eastern European member states of the CMEA it became clear that Poland and Bulgaria are also interested in consolidating and developing trade relations with the EC. In the longer term the Soviet Union, too, is open to such trade agreements with the EC. In view of its special relations with the Federal Republic of Germany, particularly as regards trade, the interests of the GDR are somewhat different from those of the other East European members of the CMEA when it comes to trade and economic relations with the EC.

The rapporteur's discussions in Moscow made it clear that the CMEA is prepared, without further preconditions, to sign a simple declaration with the EC on the normalization of relations between the two organizations which would leave all other questions concerning their relations and the relations between individual CMEA member states and the EC to be covered in separate arrangements.

### III. The EC and the CMEA: a comparison of their constitution and legal powers

The European Community is an association of states with a particular legal character. Its Member States are united more closely than in the traditional form of international cooperation between states. As a supra-national Community the EC admittedly still counts as a community under international law, but it already has substantial 'national' characteristics. The main difference between it and other international associations of states is that the Member States of the Community have transferred to it some of their national rights of sovereignty which are exercised by the Community in its own right, with the result that Community laws and regulations are directly applicable in law vis-à-vis those subject to its authority and no longer require conversion into national law through ratification by the national parliaments. These transferred sovereign powers include the field of foreign trade and the right to conclude trade agreements with third countries. The Council for Mutual Economic Assistance (CMEA), on the other hand, is an international organization of the classic type and comparable with international associations of states such as the United Nations, the Council of Europe etc. The member states of CMEA have not transferred to it any sovereign rights and the CMEA does not exercise any legislative authority directly applicable to the citizens of the member countries.

According to its statutes the CMEA has the right to conclude treaties; however, such treaties are not directly binding on the member states: their express agreement is required. Internally the CMEA can adopt recommendations and resolutions for its member states, but unanimity is required in every case. The CMEA has concluded various agreements, such as cooperation agreements with Yugoslavia (17.9.1964), Finland (16.5.1973), Iraq (4.7.1975), Mexico (13.8.1975), Nicaragua in 1982 and Mozambique in 1985.

The creation of a common market or internal market between its member states is not one of the aims of the CMEA. Its member states' markets are national and clearly separate from each other. There is no restriction on the right of member states to conclude treaties with other states and groups of states. In doing so the member states must comply with the commitments they have entered into under CMEA arrangements. In this connection, Article 3(1d) of the statutes states that the Council for Mutual Economic Assistance will support

the Council's member states in preparing, coordinating and implementing common measures relating to the development of the exchange of goods and services between member states of the Council and between them and other countries.

The CMEA therefore does not have the right to conclude binding trade agreements or economic cooperation agreements on behalf of its member states; only the member states have this right. The CMEA can coordinate the foreign trade policy of its members but the assent of each CMEA member country is required for agreements to be binding.

In the rapporteur's discussions with representatives of the CMEA secretariat and in Bucharest with Romanian representatives, it became clear, with varying degrees of emphasis, that the CMEA member states jealously protect their right to reach trade agreements appropriate to their individual economic interests and capabilities.

Two other factors must also be taken into consideration: unlike the European Community the CMEA also includes non-European states, namely Cuba, Mongolia and Vietnam. The trade and economic interests of these countries, particularly their opportunities to trade with the European Community, are quite different from those of the Eastern European CMEA member states. The projected common declaration, by means of which the two organizations will establish official relations with each other in international law, also includes these non-European CMEA member states. In the subsequent talks on specific areas requiring agreement, however, it will be necessary to differentiate between the Eastern European and non-European CMEA member states, and not just for geographical reasons.

A further difference between the EC and the CMEA should be stressed: while one superpower, the United States, does not belong to the European Community, the Soviet Union, the other superpower, is the leading member of the CMEA. It is both a European and an Asiatic state. As the rapporteur repeatedly stressed in his discussions in Moscow, for this reason alone the European Community must make a clear distinction between trade, economic, cultural and other relations with the Eastern European CMEA countries on the one hand and with the Soviet Union on the other.

#### IV. The development of EC-CMEA relations: the basis and the potential

##### (a) The common declaration

There is now wide agreement that relations between the EC and the CMEA should be established on the basis of international law by means of a common declaration. This declaration should be brief and succinct and be limited to the main aspects of mutual relations. It should contain provisions for normalizing relations between the CMEA and the EC. Parallel to this the member states of the CMEA would regulate their economic and trade relations on the basis of agreements, and be invited to appoint diplomatic representation accredited to the Commission. The usual arrangement for this should be that the diplomatic representation to the Kingdom of Belgium should simultaneously be accredited to the Commission. Conversely, the European Community should envisage official representation accredited to the CMEA either through the embassy of the Member State holding the Community Presidency, in the initial states, or through the establishment of a separate Community delegation in Moscow. Finally, this common declaration should express the willingness of both sides to enter into negotiations on matters which lend themselves to an agreement between the two organizations, with the aim of reaching agreements thereon.



The rapporteur's discussions in Moscow and with the representatives of the other Eastern European states revealed that the CMEA side is willing to reach agreement on this common declaration at an early date. It may therefore be assumed that any controversial matters which might arise would be speedily dealt with and resolved, and so there should now be nothing to prevent it being signed, especially since both organizations have repeatedly announced their willingness to sign such a declaration.

(b) Possible areas of EC-CMEA cooperation

This section considers the possible content of mutually advantageous cooperation between the EC and the CMEA, starting with areas for which both the CMEA and the EC are responsible. The rapporteur is aware that in some of these areas thorough preparatory work is still needed before such cooperation projects can be tackled.

The following four areas emerged from the EC-CMEA negotiations between 1978 and 1980 as possible areas for cooperation between the two organizations:

- Economic forecasts
- Statistics
- Norms and standards
- Environmental protection.

At the time agreement was reached between the parties involved in the negotiations on these points. The measures relating to trade cooperation which were called for by the CMEA at that stage have now been dropped by the CMEA as areas for cooperation between the two organizations and relegated to the level of bilateral agreements.

Cooperation on economic forecasts and statistics would essentially involve the exchange of information. Moving beyond that, further steps could be considered, however, such as the exchange of information about economic forecasting methods used, discussions of different statistical techniques and the development of harmonized statistics techniques with the aim of achieving and subsequently improving comparability between the statistics published by both organizations. The starting-point for cooperation on norms and standards is the fact that uniform norms and standards are applicable within the CMEA, especially where industrial products are concerned, and that attempts are also being made in the Community to harmonize norms and standards. Possible cooperative projects include a systematic comparison of standards applicable in the CMEA with those in the Community and/or the member states, and the harmonization of norms and standards with the aim of removing possible barriers to trade.

With regard to environmental protection, as early as November 1979, on the basis of the Helsinki Final Act, the relevant ministers from Eastern and Western European states held a first meeting in Geneva, where a convention on long-range transboundary air pollution was drawn up. This could be used as a starting-point for EC-CMEA cooperation on environmental protection. There could be cooperation on joint research projects to establish the extent, sources and causes of large-scale cross-border pollution of the air and rivers, exchanges of information on environmental protection measures to reduce or prevent pollution caused in industry, transport and the home, and a comparative study of environmental legislation in the Community and the CMEA.

In addition, agreement should be sought on common standards for permissible levels of discharges and emissions of pollutants into the air, rivers and sea. This should include, in particular, a common European standard for limit values for industrial, transport and domestic exhaust gas emissions.

Such programmes for cooperation between the two organizations would initially have to be agreed at political level. Discussions would involve the Commission and the CMEA Secretariat: with the possible establishment of a joint committee to prepare and implement such programmes. The detailed planning of such projects would be handled by groups of experts.

In seeking further areas for cooperation the obvious starting-point is those areas of activity in which the member states of both organizations cooperate or which will be pursued jointly by the two organizations. Possibilities to be considered are basically those areas common to both organizations. Conversely, those areas which fall outside the terms of reference of one or both organizations have to be ruled out. From the list of the CMEA activities which meet these requirements the following could be considered for possible cooperation: scientific and technical cooperation, transport, energy policy and agriculture. The areas of scientific and technical cooperation between the CMEA member states tally to some extent with the main aims of Community research projects. In the rapporteur's discussions it was repeatedly indicated that EUREKA is one area in which such cooperation is conceivable. This also reveals one of the main motives for developing closer relations between the CMEA and the EC; the new five-year plans, which will run from 1986 to 1990, have, on the whole, ambitious aims with regard to growth and the expansion of production. Since the input of additional capital, raw materials and labour to achieve these objectives is very limited, productivity must increase substantially. This requires a substantial degree of technological know-how, which the CMEA member states do not have available, at least at present, on the requisite scale.

In deciding which areas of research may be considered for cooperation, a clear distinction should be made between projects with strategic or military significance and civil projects. Those with strategic or military significance or usefulness cannot be considered for cooperation, but technologies and research areas with purely civil applications should be included in such cooperation. The end result of the previous refusal by the Member States of the Community and its western partners to deliver such products to the CMEA states has been to force the latter to develop the appropriate technologies, such as offshore drilling technology or robots for car production, themselves and thus become independent of Western supplies. One of the areas in which cooperation can benefit both sides is that of fusion research. Moreover, within international organizations such as the IAEA in Vienna there is already cooperation between the Community and the CMEA member states with regard to the peaceful use of nuclear energy. Since this type of cooperation has proved its worth, it makes sense to encourage it in the context of cooperation between the two organizations.

Mainly as a reaction to the American SDI programme, but also as a result of the imposition of economic sanctions on the Soviet Union and Poland, following the declaration of martial law in Poland, by the United States and most EC countries, efforts are being made in Eastern Europe to develop the CMEA more as a technological community. The outcome of these moves is the combined programme for scientific and technical progress in the CMEA member states by the year 2000, which was adopted by the CMEA in December 1985. This programme sets out the following five areas for development:

1. Increased use of electronics in the economy
2. Increased automation of mass production
3. Use of nuclear energy
4. New materials and technologies and their production and processing
5. Biotechnology.

The special feature of these programmes is supposed to be that they cover the entire cycle of innovation, from research to the large-scale application of proven research results in production. This addresses a serious shortcoming of the process of innovation seen hitherto in the state-trading countries. The conversion of research results and new technical knowledge into new and efficient production techniques and products which increase productivity is inadequate. This is why the state-trading economy continues to achieve only about half the level of productivity of the EC member states and other western industrialized countries. As a result, the fact that the Soviet economy can already point to the achievement of 'firsts' in certain key technological areas is often overlooked. Its achievements in space, for example, are certainly comparable with those of the United States and the Community. The Soviet economy also has notable achievements to its credit in the fields of metal processing and materials manufacture. This also applies to theoretical mathematics. In the field of energy research the Soviet Union is a world leader in nuclear fusion technology. Its capabilities as regards laser research are on a par with those of the western industrialized countries.

There is still, however, a considerable gap with regard to computer technology. It is however by no means the case that technological cooperation would merely benefit the CMEA states; there are many areas of peaceful technologies and their applications in which such an exchange of research results, and even cooperation, would produce benefits for both sides and could be a fruitful development.

Following the recent developments connected with the safety of nuclear reactors, there should be cooperation on this subject, too, with the aim of developing optimum common safety standards applicable on both sides for as long as nuclear energy is used to produce electricity in East and West. In the rapporteur's discussions space research, where this is for peaceful purposes, was mentioned as a further area for cooperation. Both sides can benefit considerably from cooperation because the CMEA states have already achieved notable research results in some fields. In the event of increased trade between the CMEA and the EC, questions relating to transport infrastructure may become increasingly important. Transport infrastructure planning should therefore be a subject of EC-CMEA cooperation.

The price of transport services offered by the CMEA countries, however, is also a topical transport issue. For years the Community has complained about a deliberate policy to eliminate competition based on price dumping. The undercutting of freight rates applicable in the Community has meant that an increasing proportion of both exports to and imports from the CMEA countries is carried by ships and lorries belonging to the CMEA member states. A solution to these problems should be sought both between the two organizations and also in bilateral negotiations.

In the energy sector the possibilities for cooperation between the EC and the CMEA include the extension of energy supply networks such as gas and oil pipelines and the development of an electricity grid system. Energy research, i.e. the development of new, alternative sources of energy, is another area in which the CMEA and the EC can cooperate.

In the areas mentioned, and certainly in other areas as well, practical projects could be put forward which could be implemented on a cooperative and basis which could benefit both sides. There is, however, a major obstacle to closer cooperation between the EC and the CMEA in the conflicts of ideology and power politics.

In the EC trade within the Community, but also the development of world trade under GATT rules, has made a major contribution to the substantial increase in standards of living and prosperity over the last few decades. The further development of these economic relations is one of the main aims of the European Economic Community. Cooperation among the CMEA member states, on the other hand, is essentially aimed at gradually reducing dependence on supplies, particularly of advanced technology but also of agricultural products, from the Western industrialized nations. One of the objectives of developing closer relations with the EC is to achieve this aim more quickly with the help of Western technology. However, this is not a good basis for long-term cooperation between the EC and the CMEA in Europe. To this extent, long-term, fruitful cooperation also requires a rethink on the part of the CMEA. There is another factor to be considered: while the United States, i.e. one of the superpowers, is not a member of the EC, the CMEA is orientated internally towards the dominating superpower, the Soviet Union. Industrial cooperation and specialization are organized with little regard for the law of comparative cost benefits, but rather according to the basic rule that the Soviet Union supplies raw materials and energy in exchange for high quality industrial products. This orientation of economic structures is also aimed at making the CMEA independent of the rest of the world economy. Rational long-term cooperation between the CMEA and the EC can only develop in the long run to the benefit of both sides if they both intend to regard it, inter alia, as a means of bringing the European states together.

(c) Trade and economic relations between the EC and the Soviet Union and the Eastern European member states of the CMEA

There have naturally been differing reactions to the Gorbachev initiative from the European CMEA states. All of them, without exception, are interested in improving their trade and economic relations with the Community. The Polish response has been particularly positive. This is probably connected with underlying expectations of major political, economic and financial benefits. Bulgaria has also reacted very positively; in conversations with the rapporteur both Bulgarian and Polish representatives expressed the hope that economic and trade negotiations with the Community could start immediately the joint declaration was agreed. The comparatively reticent reaction of Hungary and Romania is also understandable; there has for some time been a flourishing exchange of views between both states and the European Community. Romania has already formalized its economic relations with the EC in a trade agreement. Both countries are primarily concerned that the improvement in relations between the EC and the CMEA should not be to the detriment of their bilateral relations and negotiations with the Community. For its part, Czechoslovakia hopes that the improvement in relations between the two organizations will enable it to improve its own economic relations with the EC. Finally, there is a plausible reason for the very reticent attitude of the GDR; the special nature of trade between the GDR and the Federal Republic of Germany would be bound to be discussed in the event of negotiations on improving relations between the CMEA and the EC. Consequently, the GDR is particularly keen on the solution which has now been found of holding parallel negotiations between the two organizations and, on a bilateral basis, between the individual Eastern European states and the Community.

Another reason for the different reactions of the Eastern European CMEA states is the enormous differences in their economic power and economic structure. They all expect that the common declaration on the establishment of relations between the EC and the CMEA will give them the requisite elbow room to make the most of their national economic interests in bilateral negotiations.

Over the past 25 years exports from the Community to the European CMEA states and Albania have increased from 1 367 million ECU (1960) to 22 505 million ECU (1985). Imports into the Community from the CMEA states increased from 1 504 million ECU to 33 122 million ECU over the same period. The EC had a trade deficit with Eastern Europe in the 1960s which improved at the beginning of the 1970s, became a surplus between 1972 and 1978 and reverted to a deficit in 1979. The size of the deficit has steadily increased since then, reaching a record 13 600 million ECU in 1984. Last year imports declined by 5.2% to 33 100 million ECU. Exports increased at the same time by 5.5% to 22 500 million ECU, so that the Community's trade deficit with Eastern Europe fell to 10 600 million ECU. One major reason for these changes is the development of energy prices. The Soviet Union, in particular, supplies considerable quantities of oil and natural gas to the Community. On the other hand, several CMEA countries have huge hard-currency debts and are seeking to use exports not only to cover their interest payments but also to reduce their level of indebtedness. In the last four years the GDR and Romania, in particular, have managed to reduce their debts to the West significantly.

The fall in the volume of foreign trade accelerated further in the first half of 1986: EC imports from the USSR dropped by 19% (January-May), and EC exports to the USSR also fell by 21%. EC imports from the Eastern European states taken as a whole showed a decline of 14%, while EC exports to those countries were 11% down on the same period in 1985. The CMEA states affected by the fall in energy prices clearly prefer to adjust those of their imports from the Western industrial countries which must be paid for in foreign exchange to the reduced level of income from exports, rather than make up for this discrepancy through new hard currency debts. This means that the prospects for East-West trade are, for the time being at least, not very good.

Over the years trade with Eastern Europe has becoming increasingly important for the Community. While it only accounted for 5.3% of the Community's foreign trade in 1960, in 1975 the figure was 8.3% and in 1984, 7.7%. It thus comes ahead of Community trade with the ACP States (5.6%), but is considerably less important than Community trade with the other European states (27.5%).

For the CMEA countries the most important trading partner within the EC is the Federal Republic of Germany. Last year nearly 43% of all the goods exported from the Community to the CMEA states came from the Federal Republic, which in turn accounted for about 31% of all imports from the CMEA states. The Federal Republic's trade balance with the CMEA states has only shown a sizeable deficit since 1984, when it was almost 1 100 million ECU. In 1985 it declined to 657 million ECU.

Other important trading partners for the CMEA countries within the EC are Italy (18%), France (15%) and the Netherlands (10%). Italy and the Netherlands have the largest trade deficits with Eastern Europe (3 000 million ECU and 3 400 m ECU respectively in 1985).

The most important trading partner within the CMEA is, of course, the Soviet Union. Last year it accounted for 61% of all the CMEA exports to the Community and for just on 53% of all Community exports to the CMEA. However, in relation to its share of Eastern Europe's gross domestic product, which was about 73% in 1984, the Soviet Union's trade with the EC is not as important as, for instance, Hungary's, which accounted for 3% of Eastern Europe's GDP in 1985 and about 8% of EC-CMEA trade, Poland's (7% of GDP, 11% of trade) or Romania's (3% of GDP, 7% of trade).

Trade with Eastern Europe is far more important for the Community than it is for the other Western industrialized countries. In 1983, for example, it accounted for only 1.1% of the total foreign trade of the United States, and 1.7% in the case of Japan. The greater importance of the CMEA states as trading partners for the Community can be explained in terms of both their greater geographical proximity, compared with the United States and Japan, and the structure of foreign trade. The Community is far more dependent on energy imports than the United States and the Soviet Union supplies a substantial proportion of these. Although the United States is one of the main exporters of agricultural products to the Soviet Union, the latter's chief imports are of industrial products and finished goods, and the range available from the EC offers a better deal.

The huge hard-currency foreign debts of a number of the CMEA member countries constitute a particular problem. At the end of 1985 the CMEA foreign debt stood at about US \$ 72 500 million, compared with US \$ 79 200 m in 1981. The creditworthiness of most CMEA states, especially the GDR, has thus improved on the international finance markets. On the other hand, however, the CMEA states' ability to import continues to be strictly limited, because export earnings have to be used mainly to service foreign debts and not to pay for imports of products which are often urgently needed. Poland, whose debt increased from US \$ 24 500 million in 1980 to US \$ 27 800 million at the end of 1984, continues to be a special case. Its hard-currency export earnings are still not enough to service its debt. A further increase in Polish indebtedness, which even in 1984 accounted for 42% of the total the CMEA debt, can therefore be expected. This constitutes a huge drag on Poland's economic recovery and development. In addition to these debt problems the Community market's ability to absorb imports and, in this connection, the CMEA countries' competitiveness in this market, set clear limits to any rapid increase in the volume of trade. The Community's ability to import agricultural products from the CMEA states is relatively limited because of the particular effects of the Community's agricultural policy on its own food production. It can take industrial products, machinery and the like provided that the exporting countries are able to meet the high quality standards demanded by the Community market. In overall terms, the development and expansion of trade between the CMEA states and the EC will mainly depend on improved competitiveness and ability to supply with regard to these products.

#### (d) The role of GATT in EC-CMEA economic relations

The General Agreement on Tariffs and Trade (GATT) can at best be a stop-gap as far as the development of closer economic relations between East and West is concerned. Cooperation between the western industrialized nations and the CMEA states within GATT is mainly detrimental to the former, owing to the different structures of the free market economy, on the one hand, and the state-planned economy, on the other. On joining GATT the CMEA countries

cannot be offered the same legal basis as other members, and they in turn cannot grant their trading partners full most-favoured-nation status. This follows from the differences between the two economic systems, which are essentially as follows: the principle, fundamental to GATT, of most-favoured-nation status (non-discrimination against trading partners) and the principle of reciprocity, which is not explicitly referred to in GATT, but which is nonetheless of fundamental importance. In a state based on a planned economy, with a foreign trade monopoly, it is in the nature of things that it will constantly violate the ban on quantitative import restrictions. Strictly speaking, the principle of reciprocity cannot be applied, because in most Communist countries there are no customs tariffs as defined by GATT. Consequently, there can be no quid pro quo for the tariff preferences granted under GATT. Before joining GATT, Poland, Romania and Hungary therefore had to negotiate special accession terms to balance the concessions they gained. This also applied to Czechoslovakia, despite the fact that it was a founding member; other countries wanted to be able to protect themselves against its export dumping. Finally, despite the special rules thus negotiated (which do not, however, balance out the trade benefits gained), the Communist members of GATT enjoy virtually unlimited room for manoeuvre, which they are unable to grant their trading partners. Within GATT the western countries forgo many instruments for regulating their trade with the CMEA countries, while the latter, when it comes down to it, retain all their previous decision-making powers. GATT membership on the part of state-trading countries therefore presupposes that the western member countries are prepared to accept compromises which favour one side more than the other.

The refusal of the GATT signatories at their recent ministerial conference in Punta del Este, Uruguay, to allow the USSR observer status at the coming round of multilateral trade negotiations has shown once again that the inclusion of such a large state-trading country as the USSR in the GATT world trade order is at present viewed by many states as impossible or undesirable.

(e) The agency of the International Monetary Fund

The International Monetary Fund has hitherto, given its terms of reference, been unable to make any contribution to improving trade relations between East and West. Nor was it in a position to prevent the decline in trade with Romania and Hungary. However, these two CMEA countries are also the only ones whose development can be pointed to as an example of the IMF's effectiveness, because Poland and Czechoslovakia left the IMF at the beginning of the 1950s, although Poland has now rejoined. The Soviet Union never became a member, although it took part in the negotiations leading to its establishment.

Why do the GDR and the Soviet Union seem so disinclined to join the IMF? (This has been true of the latter at least in the past.) Apart from the negative attitude of the United States, fundamental reservations about the requirement to disclose information about the gold and currency sector and the current policy on reserves, which guarantees domination by the Western states, militate against the accession of the Soviet Union, and probably the GDR as well. In addition, the Soviet economy's susceptibility to disruption (large raw materials reserves, limited foreign trade, etc.) is relatively small so that it has - at least in the past - had little need of international cooperation. The same is true of the GDR, which regards its trade and credit relations with the West as so stable that it does not need the IMF. Now, however, the USSR is showing increasing interest in strengthening international economic ties. It remains to be seen what the consequences will be.

The conditions enforced by the IMF, which even at the beginning of the 1980s were often criticized as being too rigid, may have a negative effect on the economy of a country accepting IMF loans. With the loan policy implemented hitherto the conditions attached to the loans may not only restrict trade in the short term, but also serve as a long-term brake on economic growth.

Romania's and Hungary's membership of the IMF was useful when they were undergoing major crises, in that it reduced the financial pressure and created conditions in which (in the case of Hungary) the flow of private capital also resumed. However, Romania would have come through its crisis without IMF pressure. Its adjustments with regard to foreign trade would have been virtually the same even without the IMF. The measures aimed at the domestic market did not work. This also applies to Hungary. The reason for this failure on the part of the IMF is that loans are not made available as long as a country has no acute balance-of-payments problems. In this situation, however, even without pressure from the IMF countries which need loans are forced to make adjustments, i.e. to curb East-West trade at least in the medium term. Since the IMF can therefore only intervene when the situation has virtually reached breaking-point, it is often so late that the measures taken no longer really work.

It would therefore make sense to strike a balance between taking the requisite action to reduce deficits and keeping the economy of the country concerned going. Closer cooperation between the IMF and the World Bank would therefore be appropriate in future, because the IMF is now moving more towards longer-term financing and is less concerned with short-term measures to correct balance-of-payments problems. The IMF could contribute to the development of East-West trade if its instruments were improved, i.e. if its measures took effect sooner.

(f) The task of the World Bank with regard to EC-CMEA economic relations

Membership of the World Bank, unlike that of the IMF and GATT, contributes to the development of East-West trade. As the only Communist members so far, Romania and Hungary, for example, are classed by the IMF (membership of which is a precondition for membership of the World Bank) and the World Bank as developing countries, and are therefore able to obtain World Bank funds for long-term finance for specific projects and structural adjustment loans. Not least because of their long-term basis (up to 20 years) these loans are an ideal source of capital and give the countries obtaining them more latitude in East-West trade.

The favourable relationship between the capital to be paid in and the loans obtained have benefited both countries; the boost provided to East-West trade goes far beyond the financial input from the World Bank. It has been calculated that every dollar it makes available actuates another two dollars.

For Hungary, however, the World Bank's co-financing programmes are even more important. The World Bank participates in development projects in which the bulk of the loans comes from private bank consortia, so that the World Bank's small share generates a large amount of credit. In practice this has meant that on average credit amounting to eight times the sum given by the World Bank has been made available.



(g) The role of the Economic Commission for Europe (ECE) in East-West cooperation

The Commission, which was set up by the Economic and Social Council of the United Nations in 1947, comprises all the European countries, the USA and Canada. Its task is to maintain and promote economic ties among the European states and between them and the rest of the world. The ECE meets at one annual plenary conference.

Its most important spheres of action are analyses and forecasts of economic development in the member states, energy questions, environmental problems and transport matters. These reports are prepared in the relevant specialized committees. Conventions are drawn up on important areas and submitted to the members of the ECE for signing and ratification. Thus at the beginning of the 1980s, for example, a convention was agreed on combating long-range trans-frontier air pollution. In the sphere of transport a study was recently drawn up on general European transport infrastructure needs up to the year 2000.

The ECE's activities can be seen as an important contribution to building confidence and promoting cooperation between the states of Eastern and Western Europe. The ECE was given the political impetus it needed by the Helsinki Final Act and the decisions of the follow-up conferences. The ECE has also been a valuable forum for discussion in times of tension between East and West. Future cooperation between the EC and the CMEA and its member states can build on the work of the ECE, while the efforts of the ECE should also be stimulated in the process.

V. The individual CMEA countries

(a) Bulgaria

Bulgaria's economy has experienced continuous growth over the past few decades, but this development began from a very low starting-point in the mid-1940s. Since then, Bulgaria's gross domestic product has increased 14-fold, industrial output 84-fold and agricultural production has tripled. In 1984 20% of the working population was employed in agriculture and 36% in industry. The shift from extensive to intensive economic growth has been the main aim of economic policy in Bulgaria. The 'new economic mechanism' which was introduced in 1979 for agriculture and in 1982, somewhat modified, for the economy as a whole, is intended to ensure greater flexibility in central planning. The aim is to improve the quality of goods and services through limited decentralization and provide greater freedom to take decisions at the level of undertakings. Prices, wages, investment decisions and export relations, however, continue to be under central control.

Three quarters of Bulgaria's foreign trade is with other CMEA states; the main trading partner is the Soviet Union, which has accounted for 53.5% of exports and 59.7% of imports over the last five years. Only 7.9% of exports went to Community countries, which provided 9.5% of Bulgaria's imports. Bulgaria buys mainly chemical products, finished goods, machinery and vehicles from the Community, and exports mainly oil, agricultural products and finished goods to the Community. In overall terms Bulgaria's exports have increasingly developed away from agricultural products and raw materials towards products

with a greater added value. Machinery and equipment currently account for more than 50% of Bulgaria's exports. Bulgaria traditionally has a trade deficit. In 1985 the deficit was US \$ 245 million. The cumulative deficit with the Soviet Union for 1981-1984 was 3 100 million transferable roubles (TRbl) and was US \$ 1 700 million with the OECD countries. Even so, Bulgaria has substantially reduced its foreign debt over the last few years. It is estimated that at the end of 1985 it owed western banks less than US \$ 100 million. Its total debt is probably about US \$ 1 300 million.

In the new five-year plan, in addition to the energy sector, the emphasis will be on modernizing industry. This should generate an increased demand for western technology, but also for foreign capital.

#### (b) Poland

Poland's economy continues to be under great strain. The country is trying to drag itself out of the (mainly self-inflicted) economic crisis that developed after 1979 as a result of its irresponsible accumulation of debts with the West. Since 1982, when a three-year plan was introduced, output in all sectors of the economy has admittedly increased substantially, but it is still below the 1979 level. A large proportion of investments is still going to projects which were started in the 1970s but have not yet been completed. This further limits the resources available for important new investment projects for modernization and rationalization.

Poland is attempting to exert a positive influence on developments through various economic reforms. The aim is that the basic units of the Polish economy, for example, should be independent, self-financing and self-administered undertakings. Direct, binding state planning is to be limited to a few key areas, namely infrastructure, social policy, defence and security and the CMEA cooperation. In addition, the state only intends to intervene indirectly, using instruments of the market economy such as interest rates, taxes, prices, credit and exchange rates. The implementation of these reforms is proving very slow.

Poland has had a small balance-of-trade surplus since 1982. This results from trade with the western industrialized nations and developing countries, but not from trade with its eight CMEA partners, although they are Poland's most important trading partners. The Soviet Union, for example, accounts for about a third of Poland's foreign trade, while the Community's share is about 20%. Poland has succeeded in increasing exports of coal, its most important export product, but it has so far failed to develop any significant export markets in the West for its machinery and electrical goods. Despite an export surplus of some US \$ 281 million in 1985 Poland's hard-currency debt has increased to just on US \$ 29 000 million at the end of 1985. Debt rescheduling negotiations with western creditors are proving difficult because Poland is frequently not even able to clear outstanding interest payments from previous rescheduling agreements. Poland's new five-year plan also prescribes an increase in labour productivity and lower consumption of energy and raw materials. The planned growth rate of 3.5% on average, however, will not be enough to get back to the output level of 1978. It is planned to use a quarter of the hard currency earned from exports to the West to service Poland's debt. This will not be enough, however, to meet its annual commitments. As a result, the unpaid interest payments will add further to Poland's indebtedness. Virtually no western capital is available for Poland's development.

(c) Czechoslovakia

Unlike most CMEA member states Czechoslovakia is an industrial country through and through. Industrial production accounted for about 63% of economic output in 1982; over the last few years labour shortages and energy bottlenecks have slowed down the growth of the Czech economy to a marked extent. Manufacturing activities only picked up again in 1983. In 1984 gross domestic product increased by 3.2%.

In Czechoslovakia, as well, the shift from extensive to intensive economic development is one of the main aims of economic policy. In 1984, for example, there was a substantial increase in productivity and a substantial fall in consumption of energy and raw materials. The efficiency of the Czech economy is to be increased through improvements in central planning methods. One key aspect of this is close links between undertakings and their export customers. Since 1981 export undertakings have had more say in foreign trade; they can now influence selling and prices to a greater extent. In Czechoslovakia, as in the other CMEA member states, however, foreign trade is mainly slanted towards fellow CMEA members. More than three-quarters of all its foreign trade takes place within the CMEA, the dominant trading partner being the Soviet Union with a 45% share. Over the last five years the EC's share of Czech export trade has averaged about 10%. For years Czechoslovakia's imports and exports have approximately balanced. In 1985 there was a deficit of US \$ 77 million.

The Community mainly supplies machinery, vehicles, finished goods and chemicals to Czechoslovakia, purchasing in return raw materials, energy and, in particular, finished goods. As a proportion of Czech foreign trade, trade with the West has declined over the past ten years. One of the reasons for this is the increasingly stringent conditions attached to the purchase of modern technology from the West. This has led Czechoslovakia, in turn, to develop advanced technologies for its CMEA partners and to assume the role of main supplier of such products within the CMEA.

Since 1980 Czechoslovakia has not taken up any further credit from the West. As a result of the surplus earned on its trade with the West, by the end of 1985 Czechoslovakia had succeeded in reducing its debt to US \$ 2 100 million. This process will probably continue, so that Czechoslovakia does not face any problems in this area. For this reason, and also because Czechoslovakia offers a very wide range of industrial products which certainly have a good chance of being competitive in western markets, there are good prospects for trade between the EC and Czechoslovakia expanding in the years ahead.

(d) Romania

Romania's economy, which used to be based mainly on agriculture, forestry and energy production, has undergone rapid industrialization in the last 15 years. The industrial sector now accounts for about 60% of output. The growth rate of industrial production, which in the 1970s reached an annual average of over 11%, has declined to an average of 4% in recent years. Romania, too, has allowed the management of undertakings greater flexibility by relaxing central controls, but the central planning system continues to be strictly adhered to. The bureaucracy is too bloated for far-reaching reforms in this respect to be implemented in the short term. Very recently economic growth has picked up again to some extent, but the standard of living

continues to be very low and the economy suffers from raw materials and energy shortages. Foodstuffs are rationed, as is fuel outside Bucharest, when it can be found at all. In 1984 real average incomes even declined by 0.5%.

Romanian foreign trade is divided almost equally between Communist and western countries. The Soviet share is about 20%, while the Community accounts for 17% of Romanian foreign trade. About half of the Community's imports from Romania are in the form of energy. The main products exported from the EC to Romania are chemical products, machinery, vehicles and other finished goods. By drastically cutting its imports Romania has achieved an increasing trade surplus since the beginning of 1980. A surplus of US \$ 1 400 million was achieved in 1985 alone. The main aim of this policy has been to secure hard-currency surpluses to meet its debt servicing commitments without further debt rescheduling.

In this way Romania succeeded in reducing its hard-currency foreign debt from US \$ 10 000 million in 1981 to some US \$ 6 100 million at the end of 1985. Romania is seeking to reduce its foreign debt over the next few years to a point where a substantial proportion of export earnings can be used to pay for the imports, especially technological products, which it needs. This is essential if the aims of the new five-year plan, namely the rapid introduction of advanced electronic and robot technology, are to be achieved.

Romania constantly stresses its independence as regards its foreign trade links. This is clearly indicated by the proportion of Romanian foreign trade accounted for by western countries, which is high compared with other CMEA states. Romania is the only CMEA country to have an agreement with the Community, signed in 1980, on the exchange of industrial products and the creation of a joint committee at ministerial level. Since then both sides have sought to develop these formal links. There is a wish to include the agricultural sector and extend economic and trade cooperation. The Romanian economy's efficiency and ability to deliver will probably set fairly low limits to any rapid expansion in economic relations between the Community and Romania.

The European market is largely saturated with Romania's traditional exports such as agricultural products, textiles and steel, and scarcely able to absorb new products. Developing cooperation between Romanian and Community undertakings will also not be easy, because interest on both sides is necessary for this. The rigid Communist planned economy in Romania limits the prospects of such cooperation being worthwhile for Community firms.

#### (e) Hungary

Since the beginning of the 1970s Hungary's economic development has revolved around a new system of economic management, the 'new economic mechanism'. This is intended to reconcile state planning and market trends. In some sectors industry has been decentralized; the establishment of private undertakings is encouraged. These are mainly small private firms or cooperatives which are able to lease machinery and equipment from the state. Improvements in the conditions applicable to joint ventures are aimed at attracting more foreign capital to Hungary. Banking has also been decentralized; the Hungarian National Bank has transferred its operations to two new banks. The country is also trying to improve the efficiency of the Hungarian economy through a new pricing system. Domestic price structures are being brought into line with prices on world markets.

With regard to industrial cooperation with western companies, in 1984 alone 20 new agreements were signed, thereby bringing the number of joint ventures with firms from 23 countries to 46. Half of these were with companies from the Federal Republic of Germany, followed by partners in France, Italy and the United Kingdom. Most cooperative ventures are in the engineering industry, which accounts for some 5% of Hungary's exports to the West.

Since the beginning of the 1980s Hungary has had a growing foreign trade surplus. In 1985 the trade surplus was US \$ 791 million. Its main trading partner is the Soviet Union, whose share in the total volume of foreign trade has recently fallen slightly to 32%. Machinery and equipment are the main exports to the Soviet Union, while the main imports from that country are energy and raw materials. Almost 20% of Hungarian foreign trade is with the European Community, half of it with the Federal Republic of Germany. Hungary purchases mainly machinery, vehicles, finished goods and chemical products from the Community, and in return supplies agricultural products and finished goods.

At the end of 1985 Hungary's hard-currency debt amounted to about US \$ 8 300 million; the hard-currency trade surplus means that servicing this debt presents no major problems for the Hungarian economy. Hungary would like to formalize its economic relations with the Community in a trade agreement. Under the new five-year plan Hungary is aiming for an annual increase in production of 3-4%. The foreign trade objectives are balanced imports and exports with the CMEA states and an annual surplus of US \$ 600-700 million with the West. Hungary is seeking to increase its trade with the Community by 10-20%, which it also regards as achievable in view of market opportunities in the Community.

#### (f) The Soviet Union

Since the mid-1970s the Soviet economy has been faced with a noticeable slow-down in the rate of economic growth. This reflects the shrinking opportunities for extensive economic development. The labour market potential is virtually static and raw materials and fossil fuels are becoming more expensive as their exploitation becomes more difficult. In overall terms the increase in productive resources has slowed down appreciably. The rate of economic growth actually achieved continues to be based mainly on an increase in employment, the expansion of manufacturing capacity and increased consumption of energy and raw materials. If a steadily higher rate of growth is to be achieved it is essential to increase productivity. With the limited resources available in terms of labour, energy and raw materials, however, it is imperative to modernize and automate production methods, in particular. This is one of the main reasons for the Soviet Union's efforts to develop closer economic and trade relations with the West.

The Soviet Union traditionally has a trade surplus (US \$ 4 000 million in 1985, for example), which comes not only from trade with other the CMEA members, but also from that with the industrialized West and developing countries. In 1984 the overall trade surplus was about TRbl 9 000 million. Of this figure the Communist countries accounted for TRbl 3 900 million, the western industrialized countries for TRbl 1 800 million and the developing countries TRbl 3 400 million. About half the Soviet Union's foreign trade is with other CMEA countries. Between 1981 and 1985 the European Community accounted for 17% on average. The Federal Republic of Germany is the main

trading partner in the West, accounting for 5.8%, ahead of Finland (3.6%), Italy (3.2%) and France (3.1%). The Soviet Union mainly exports energy. Machinery, vehicles and other finished goods represent only 6% of its exports to the West. The Soviet Union imports finished goods, machinery, vehicles, foodstuffs and chemicals from the European Community.

The Soviet Union's hard-currency debt was about US \$ 19 000 million at the end of 1985; as a result of its trade surplus, servicing this debt has not proved a problem hitherto.

The main aim of the new five-year plan is to speed up scientific and technical progress. This means concentrating resources on the development of electronics, nuclear energy, automation and technologies for the production and processing of new materials. The level of automation in the national economy is to be doubled and the introduction of modern data-processing equipment speeded up considerably. The relationship between science and production is to be improved, mainly by developing closer links between research institutes and undertakings. It is hoped that in this way research results will find their way into actual production more quickly, thereby ensuring that research and development work is guided more by practical needs. Existing manufacturing capacity is to be modernized more quickly than hitherto; the proportion of total investment channelled into modernization and equipment replacement is to increase from about a third to 50%.

Despite the present fall in export trade between the EC and the USSR, in the long term there are good opportunities for a considerable expansion of economic and trade relations. The Soviet Union represents a market of 250 million people; it has substantial raw materials and energy resources, some of which have scarcely been tapped, if at all. There is wide scope for industrial cooperation. If they are successfully pursued the measures introduced by the new leadership to increase individual responsibility, and thereby the involvement of undertakings and employees in decisions on production, will create a solid basis for improved cooperation between the Community and the Soviet Union in the economic sphere. Released from the shackles of bureaucratic state planning, which often ignores reality, in the years ahead the Soviet Union can develop into one of the strongest economic powers in the world and thus become an important economic and trading partner of the European Communities.

#### (g) German Democratic Republic

At the beginning of the 1980s the GDR was faced with two serious foreign trade problems: as a result of unexpectedly large repayments on loans from western banks it had to consolidate its trade with the West, and at the same time the GDR was being pressed by the Soviet Union to reduce its trade deficit with that country. By achieving a substantial increase in its exports to the West, coupled with slower growth in imports, the GDR succeeded in recording a surplus in its trade with the West. Between 1980 and 1984 its exports doubled while imports increased by only 25%. Energy and mineral raw materials account for a high proportion of exports, while exports of machinery and consumer goods have achieved only a modest success. The trade deficit with the Soviet Union was only reduced by choking off imports. The nominal increase in imports from the Soviet Union between 1981 and 1984 of about 50% is solely attributable to price increases at the time, particularly for oil. In real terms imports have stagnated.

In 1985 the GDR achieved a trade surplus of about US\$1 700 million; in the same year the trade surplus with the West was about US\$1 300 million. The most important trading partner within the CMEA continues to be the Soviet Union, which accounts for almost 40% of the GDR's foreign trade. Its main imports from the Soviet Union are oil, iron and steel products, while it exports machinery and vehicles to the Soviet Union.

At the end of 1985 the GDR's hard-currency foreign debt was still US\$6 800 million. The rate at which trade with the Community countries increases is likely to be slow. For the GDR, the shortage of energy, raw materials and capital goods is a major factor affecting future development. Consequently, like most other CMEA countries the GDR will have to give priority to boosting productivity and at the same time reducing consumption of energy and raw materials.

Trade between the Federal Republic of Germany and the GDR is on a special footing. The protocol on German internal trade and connected problems provides that the application of the Treaties of Rome shall have no effect on the special nature of this trade. Even after the signing of the 'Grundlagenvertrag' (Basic Treaty) and its recognition by the other Community Member States, the organization of German internal economic relations thus remains the exclusive responsibility of the Federal Republic of Germany. In economic terms the result of this special status is that goods from the GDR have preferential access to the West German market (exemption from duties and levies, reduced value added tax, separate and liberal quota policy), which boosts trade considerably. The GDR, on the other hand, has not covered its special relations with the Federal Republic of Germany by formal arrangements within the CMEA. The rapporteur's discussions in East Berlin clearly revealed, however, that while the GDR supports closer relations between the CMEA and the EC and is itself prepared to develop economic and trade relations with the Community on the basis of reciprocity and non-discrimination, it is keen to ensure that these relations do not disrupt or even affect its special economic ties with the Federal Republic.

## VI. Conclusions

Even if there appears to be limited scope at present for any rapid and comprehensive expansion of economic relations between the Community and the the CMEA member states, the opportunity to improve relations with the Eastern European states and the Soviet Union in the economic sphere should nonetheless be taken. Closer relations in all the areas mentioned can be a major European contribution to detente between East and West. Economic interdependence in Europe, generated by more joint ventures, licensing agreements, easier arrangements for reciprocal investment and, above all, a narrowing of the technology gap, can lead to a more permanent stabilization of detente and peace between East and West within Europe. The structural changes brought about by technology which are now taking place in Western Europe set new tasks for East-West cooperation. They may lead to new openings for a division of labour between Western and Eastern Europe. In addition, the economic situation in Central and South America and in Africa makes any appreciable expansion of economic relations between the Community and these parts of the world highly improbable in the foreseeable future. The development regions of the world are the Pacific Basin, Southern Asia, and also the European CMEA states in the Soviet Union. Since European exporters still find it difficult to gain a foothold in markets in the Pacific Basin, Eastern Europe offers them

the greatest opportunities in the foreseeable future. It is therefore also in the interests of the development of the European Community to help ensure that technological change makes good progress in Eastern Europe, because economic and trade relations will only really flourish if Western and Eastern Europe reach a comparable level of economic achievement.

The first cautious attempts to release undertakings from the rigid planning bureaucracy and give them more organizational freedom can be perceived in all the CMEA countries. This will certainly be a long-term process. Only when industries in the CMEA states are forced to face up to competition in the world market will the much-needed influence from abroad on the economies of the CMEA countries help bring about long-overdue structural reforms.

In the long term, the process of improving relations between East and West in Europe in economic and related areas which has now begun may mark the start of a process of bringing the two separated halves of Europe together. A process of political cooperation may develop out of economic cooperation. Just as a partnership on an equal footing is increasingly developing between the European Community and the United States, these closer East-West relations may also lead to a partnership between the whole of Europe, on one hand, and the Soviet Union, on the other, which is absolutely essential for lasting peace in Europe and the long-term prevention of East-West conflict.



SUMMARY OF TRADE WITH THE EEC BY COUNTRY  
 Figures in million ECU

IMPORTS

Country	1958	1970	1975	1980	1981	1982	1983	1984	1985
Yugoslavia	186	710	1062	2172	2211	2763	3530	4310	4326
Soviet Union	472	1543	3899	11214	13541	17045	18615	22430	20266
GDR	61	225	494	911	1158	1293	1414	1636	1745
Poland	219	667	1624	2723	2062	2256	2415	3290	3426
Czechoslovakia	139	466	851	1505	1564	1751	1873	2115	2222
Hungary	70	366	702	1415	1461	1534	1662	1864	1996
Romania	72	449	892	1767	1829	1770	1819	3003	2846
Bulgaria	33	185	204	478	555	589	529	514	550

EXPORTS

Country	1958	1970	1975	1980	1981	1982	1983	1984	1985
Yugoslavia	228	1431	2840	4199	4360	4278	4555	5048	4999
Soviet Union	383	1410	4989	7583	7886	8984	12022	11985	11858
GDR	57	211	479	842	1048	710	792	855	810
Poland	189	586	2677	2841	2307	2051	2074	2380	2681
Czechoslovakia	133	551	1045	1368	1385	1399	1451	1625	1926
Hungary	71	406	968	1592	1959	1962	1957	2159	2429
Romania	56	487	1070	1708	1699	1060	885	1017	1123
Bulgaria	30	224	678	774	963	1023	1095	1190	1575

Source: EUROSTAT

FOREIGN TRADE INDICATORS

BULGARIA

Source: DIW (German Institute for  
Economic Research)

	1971/75	1976/80	1981/85
1) REGIONAL STRUCTURE IN %			
TOTAL EXPORTS	100	100	100
SOCIALIST COUNTRIES	79.0	76.2	73.4
CMEA COUNTRIES	76.3	73.9	71.9
SOVIET UNION	54.0	52.6	53.5
NON-SOCIALIST COUNTRIES	21.0	23.8	26.6
<u>COMMUNITY COUNTRIES</u>	<u>7.7</u>	<u>6.0</u>	<u>7.9</u>
FRG	2.4	2.0	1.9
USA	0.3	0.4	0.3
TOTAL IMPORTS	100	100	100
SOCIALIST COUNTRIES	74.9	79.8	78.2
CMEA COUNTRIES	72.8	78.0	76.8
SOVIET UNION	49.7	57.6	59.7
NON-SOCIALIST COUNTRIES	25.1	20.2	21.8
<u>COMMUNITY COUNTRIES</u>	<u>12.9</u>	<u>10.4</u>	<u>9.5</u>
FRG	5.2	4.8	4.2
USA	0.3	0.6	0.9
2) BALANCE OF TRADE (CUMULATIVE VALUES)			
WITH SOVIET UNION, IN BILLION TRBL	+0.17	-1.10	-3.10
WITH OECD COUNTRIES, IN BILLION US\$	-1.46-	-0.99	1)-1.74
WITH FRG, IN BILLION US\$	-0.55	-1.03	1)-1.10
3) HARD-CURRENCY DEBT; SITUATION AT END OF EACH PERIOD IN BILLION US\$			
GROSS	2.6	3.5	2) 2.9
NET	-	2.7	2) 1.3
1) 1981-1984.-2) OECD estimate			

	1971/75	1976/80	1981/85
1) REGIONAL STRUCTURE IN %			
TOTAL EXPORTS	100	100	100
SOCIALIST COUNTRIES	59.7	59.3	52.4
CMEA COUNTRIES	57.2	56.5	49.0
SOVIET UNION	32.4	32.6	29.4
NON-SOCIALIST COUNTRIES	40.3	40.7	47.6
<u>COMMUNITY COUNTRIES</u>	<u>20.2</u>	<u>19.9</u>	<u>22.5</u>
FRG	6.3	7.3	9.0
USA	2.7	2.8	2.2
TOTAL IMPORTS	100	100	100
SOCIALIST COUNTRIES	51.3	52.8	61.3
CMEA COUNTRIES	49.0	50.5	57.0
SOVIET UNION	26.4	30.0	36.3
NON-SOCIALIST COUNTRIES	48.7	47.2	38.7
<u>COMMUNITY COUNTRIES</u>	<u>26.4</u>	<u>22.4</u>	<u>18.4</u>
FRG	9.5	7.2	7.2
USA	3.8	4.5	2.6
2) BALANCE OF TRADE (CUMULATIVE VALUES)			
WITH SOVIET UNION, IN BILLION TRBL	+0.34	-0.97	-4.37
WITH OECD COUNTRIES, IN BILLION US\$	-6.96	-9.98	+2.78
WITH FRG, IN BILLION US\$	-0.55	-1.03	+1.07
3) HARD-CURRENCY DEBT; SITUATION AT END OF EACH PERIOD IN BILLION US\$			
GROSS	8.1	25.1	30.5
NET	-	24.5	28.9

	1971/75	1976/80	1981/85
1) REGIONAL STRUCTURE IN %			
TOTAL EXPORTS	100	100	100
SOCIALIST COUNTRIES	70.2	72.3	73.9
CMEA COUNTRIES	65.1	67.4	68.7
SOVIET UNION	32.0	35.0	41.0
NON-SOCIALIST COUNTRIES	29.8	27.7	26.1
<u>COMMUNITY COUNTRIES</u>	<u>13.4</u>	<u>12.1</u>	<u>10.4</u>
FRG	5.7	5.7	5.2
USA	0.6	0.4	0.4
TOTAL IMPORTS	100	100	100
SOCIALIST COUNTRIES	68.5	70.6	77.3
CMEA COUNTRIES	63.8	66.4	72.2
SOVIET UNION	31.1	34.8	44.3
NON-SOCIALIST COUNTRIES	31.5	29.4	22.7
<u>COMMUNITY COUNTRIES</u>	<u>14.5</u>	<u>13.1</u>	<u>9.7</u>
FRG	6.3	5.9	4.6
USA	1.6	1.9	0.7
2) BALANCE OF TRADE (CUMULATIVE VALUES)			
WITH SOVIET UNION, IN BILLION TRBL	-0.05	-0.79	-1.40
WITH OECD COUNTRIES, IN BILLION US\$	-1.45	-3.36	-0.26
WITH FRG, IN BILLION US\$	-0.23	-0.29	1)+0.43
3) HARD-CURRENCY DEBT; SITUATION AT END OF EACH PERIOD IN BILLION US\$			
GROSS	1.1	4.9	2) 3.1
NET	-	3.6	2) 2.1
1) 1981-1984.-2) OECD estimate			

	1971/75	1976/80	1981/85
1) REGIONAL STRUCTURE IN %			
TOTAL EXPORTS	100	100	100
SOCIALIST COUNTRIES	49.3	46.3	45.3
CMEA COUNTRIES	41.9	39.1	39.8
SOVIET UNION	21.5	18.3	19.6
NON-SOCIALIST COUNTRIES	50.7	53.7	54.7
<u>COMMUNITY COUNTRIES</u>	<u>24.3</u>	<u>21.7</u>	<u>21.6</u>
FRG	9.2	8.4	6.6
USA	1.6	4.1	4.5
TOTAL IMPORTS	100	100	100
SOCIALIST COUNTRIES	45.6	42.2	50.0
CMEA COUNTRIES	39.0	35.9	45.6
SOVIET UNION	18.5	16.3	22.1
NON-SOCIALIST COUNTRIES	54.4	57.8	50.0
<u>COMMUNITY COUNTRIES</u>	<u>27.7</u>	<u>18.9</u>	<u>11.8</u>
FRG	11.5	7.5	4.1
USA	3.5	5.1	4.0
2) BALANCE OF TRADE (CUMULATIVE VALUES)			
WITH SOVIET UNION, IN BILLION TRBL	+0.43	+0.18	+0.55
WITH OECD COUNTRIES, IN BILLION US\$	-1.28	-1.35	1)+6.57
WITH FRG, IN BILLION US\$	-0.46	+0.08	1)+1.36
3) HARD-CURRENCY DEBT; SITUATION AT END OF EACH PERIOD IN BILLION US\$			
GROSS	2.9	9.6	2) 6.9
NET	-	9.3	2) 6.1
1) 1981-1984.-2) OECD estimate			

	1971/75	1976/80	1981/85
1) REGIONAL STRUCTURE IN %			
TOTAL EXPORTS	100	100	100
SOCIALIST COUNTRIES	69.5	59.0	56.2
CMEA COUNTRIES	65.5	54.2	51.9
SOVIET UNION	35.1	29.6	32.4
NON-SOCIALIST COUNTRIES	30.5	41.0	43.8
<u>COMMUNITY COUNTRIES</u>	<u>15.0</u>	<u>18.8</u>	<u>16.1</u>
FRG	5.7	9.0	7.8
USA	0.5	1.2	2.5
TOTAL IMPORTS	100	100	100
SOCIALIST COUNTRIES	63.4	52.4	53.1
CMEA COUNTRIES	60.7	49.6	48.9
SOVIET UNION	33.1	28.0	29.2
NON-SOCIALIST COUNTRIES	36.6	47.6	46.9
<u>COMMUNITY COUNTRIES</u>	<u>18.3</u>	<u>22.5</u>	<u>21.0</u>
FRG	7.9	11.5	11.1
USA	1.9	0.3	2.6
2) BALANCE OF TRADE (CUMULATIVE VALUES)			
WITH SOVIET UNION, IN BILLION TRBL	-0.01	-0.77	+0.65
WITH OECD COUNTRIES, IN BILLION US\$	-1.66	-3.82	-1.71
WITH FRG, IN BILLION US\$	-0.56	-1.31	-1.38
3) HARD-CURRENCY DEBT; SITUATION AT END OF EACH PERIOD IN BILLION US\$			
GROSS	3.1	9.5	1) 10.1
NET	-	8.1	1) 8.3
1) OECD estimate			

	1971/75	1976/80	1981/85
1) REGIONAL STRUCTURE IN %			
TOTAL EXPORTS	100	100	100
SOCIALIST COUNTRIES	59.7	56.8	56.4
CMEA COUNTRIES	54.2	52.0	51.3
SOVIET UNION	12.1	10.6	10.1
NON-SOCIALIST COUNTRIES	40.3	43.2	43.6
<u>COMMUNITY COUNTRIES</u>	<u>13.4</u>	<u>17.7</u>	<u>19.9</u>
FRG	3.3	4.9	6.0
USA	0.7	0.6	0.4
TOTAL IMPORTS	100	100	100
SOCIALIST COUNTRIES	57.7	55.5	56.3
CMEA COUNTRIES	53.5	51.1	50.8
SOVIET UNION	12.5	10.1	10.6
NON-SOCIALIST COUNTRIES	42.3	44.5	43.7
<u>COMMUNITY COUNTRIES</u>	<u>14.6</u>	<u>15.7</u>	<u>13.2</u>
FRG	6.0	6.5	5.1
USA	4.3	4.9	3.7
2) BALANCE OF TRADE (CUMULATIVE VALUES)			
WITH SOVIET UNION, IN BILLION TRBL	-1.03	+5.35	+9.61
WITH OECD COUNTRIES, IN BILLION US\$	-7.08	-10.69	+0.26
WITH FRG, IN BILLION US\$	-3.05	-3.05	+6.19
3) HARD-CURRENCY DEBT; SITUATION AT END OF EACH PERIOD IN BILLION US\$			
GROSS	10.6	18.6	1)30.0
NET	7.4	10.0	1)19.0
1) OECD estimate			

	1971/75	1976/80	1981/85
1) REGIONAL STRUCTURE IN %			
TOTAL EXPORTS	100	100	100
SOCIALIST COUNTRIES	72.7	72.6	64.9
CMEA COUNTRIES	68.9	68.9	62.3
SOVIET UNION	36.6	35.2	36.2
NON-SOCIALIST COUNTRIES	27.3	27.4	35.1
<u>COMMUNITY COUNTRIES</u>	<u>16.3</u>	<u>16.0</u>	<u>16.6</u>
FRG	9.4	8.6	8.5
USA	0.1	0.2	0.2
TOTAL IMPORTS	100	100	100
SOCIALIST COUNTRIES	64.9	65.9	66.9
CMEA COUNTRIES	62.1	62.8	64.1
SOVIET UNION	33.9	35.2	40.4
NON-SOCIALIST COUNTRIES	35.1	34.1	33.1
<u>COMMUNITY COUNTRIES</u>	<u>17.4</u>	<u>14.9</u>	<u>14.4</u>
FRG	9.5	8.1	8.2
USA	0.2	0.2	0.1
2) BALANCE OF TRADE (CUMULATIVE VALUES)			
WITH SOVIET UNION, IN BILLION TRBL	+0.26	-1.95	-1.30
WITH OECD COUNTRIES, IN BILLION US\$	-3.60	-7.81	+2.49
WITH FRG, IN BILLION US\$	-0.24	-0.38	+0.42
3) HARD-CURRENCY DEBT; SITUATION AT END OF EACH PERIOD IN BILLION US\$			
GROSS	1) 7.7	13.3	2) 12.2
NET	6.8	11.1	2) 6.8
1) 1977	2) OECD estimate		



## EC EXPORTS TO EASTERN EUROPE BY COMMODITY CLASSES IN 1985

- in percentage -

	Eastern E.	USSR	DDR	Poland	Czechoslovakia	Hungary	Rumania	Bulgaria	Albania
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
of which									
Food, beverages and tobacco	11.8	14.8	16.5	12.5	6.4	3.2	4.9	10.6	-
Raw materials	2.8	1.7	9.4	2.2	5.7	3.7	4.7	2.8	9.4
Energy	1.7	0.8	8.1	1.0	0.8	2.6	7.9	2.2	-
Animal and vegetable oils and fats	0.6	0.6	-	1.6	0.3	0.2	0.5	0.2	2.9
Chemicals	15.8	13.3	14.8	19.7	18.7	19.7	21.1	15.8	-
Machinery and transport equipment	27.2	24.8	19.7	29.7	34.1	30.4	19.2	37.0	-
Other manufactured goods	34.0	39.1	23.5	26.2	26.2	34.0	33.2	24.4	-

Source: External Trade, Monthly Statistics, No. 3, 1986, EUROSTAT.

MOTION FOR A RESOLUTION

tabled by Mr EBEL, Mrs BOOT, Mr ZAHORKA, Mr RAFTERY, Mr van AERSEN, Mrs van ROOY, Mr POETSCHKI, Mr SCHON, Mr SPATH and Mr KLEPSCH

on behalf of the Group of the European People's Party pursuant to Rule 47 of the Rules of Procedure on relations between the EEC and COMECON (Doc. B 2-49/85)

The European Parliament,

- A - alarmed at the growing competition in virtually all sectors of Community trade from COMECON, which is unfairly exploiting the advantages it derives from the international coordination of economic planning,
- B - concerned at the resulting critical state of the Community labour market in this sector,
- C - convinced that the regressive measures hitherto considered by the Commission are impracticable and ineffective,
- D - concerned at the unnecessary build-up of the potential for conflict between the two European economic areas,
- E - alarmed at the continuing lack of formal agreements with the COMECON countries except Romania,
- F - anxious to prevent the further isolation of COMECON, which would be extremely detrimental to our own economy,
- G - seeking to counteract a drifting apart of the two economic areas, and thereby to help to overcome the partition of Europe; wishing also to secure greater freedom of action for the COMECON countries of eastern Central Europe vis-à-vis the USSR and to make a contribution of its own to overcoming the 'bloc mentality' in the economic sphere,

Calls on the Commission

1. To resume forthwith talks to establish formal relations between the EEC and COMECON which broke down at the beginning of the 1980s because both parties irresponsibly engaged in petty bureaucratic wrangling over terms of reference;
2. To take steps to conclude a framework agreement with COMECON - in compliance with long-standing appeals from the business and scientific communities - which will serve the interests of both the eastern Central European states and of our own economy;
3. To incorporate in this agreement a goodwill or competition clause obliging the COMECON countries - on the GATT model - to refrain from any further unfair exploitation in certain economic sectors of their dominant market position, which is the result of the international coordination of economic planning within COMECON and is clearly akin to the formation of an international cartel;
4. Instructs its President to forward this resolution to the Commission of the European Communities.

MOTION FOR A RESOLUTION (DOCUMENT B 2-558/85)

tabled by Mr MATTINA  
pursuant to Rule 47 of the Rules of Procedure  
on relations between the European Community and the Soviet Union

The European Parliament,

- A. having regard to the ideas on relations between the Soviet Union and Comecon and the European Community expounded by the new General Secretary of the Soviet Communist Party, Mikhail Gorbachev, at his recent meeting with the Italian Prime Minister, Bettino Craxi, President-in-Office of the Council,
  - B. whereas it is necessary to sound out the new Soviet leadership's willingness to establish economic relations with the European Community, in order to put an end to the diplomatic silence between the two halves of Europe,
  - C. whereas the institution of formal relations between the European Community and Comecon is an essential precondition for consolidating Europe's role in the preservation of world peace, as a pivot of détente between East and West and North and South,
  - D. warmly applauding the Italian Presidency for the commitment it has shown to enhancing the Community's image abroad at the very highest levels, by bringing the negotiations on Spanish and Portuguese accession to a successful conclusion and consolidating economic and political relations with third countries,
1. Expresses keen interest in the possibility of establishing formal relations with Comecon and the Soviet Union;
  2. Welcomes the diplomatic overtures made by the Soviet General Secretary, Mikhail Gorbachev, and the firm pledge by the Italian Prime Minister, Bettino Craxi, to encourage this process of rapprochement;
  3. Calls on the Council of Ministers and the Commission to open a regular and fruitful dialogue with Comecon and the Soviet Union;
  4. Instructs its President to invite, on behalf of Parliament, the General Secretary of the Soviet Communist Party, Mikhail Gorbachev, to Strasbourg for an official visit to the European Parliament;
  5. Instructs its competent committee to draw up a report on the state of the European Community's relations with Comecon and the Soviet Union;
  6. Instructs its President to forward this resolution to the Council and Commission of the European Communities and the Government of the Soviet Union.

## MOTION FOR A RESOLUTION (DOCUMENT B 2-643/85)

tabled by Mr PORDEA, Mr DE CAMARET and Mr ROMUALDI  
pursuant to Rule 47 of the Rules of Procedure

on the resumption of negotiations between the EEC and Comecon

The European Parliament,

- A. noting the moves made by the Soviet Union to resume negotiations aimed at establishing 'normal' relations between the Council for Mutual Economic Assistance and the European Community and having regard to the Declaration of 12.2.1985 by the Foreign Ministers of the Member States of the EEC concerning the strengthening of relations with the countries of Eastern Europe,
  - B. noting that Comecon's official request mentions 'pan-European' cooperation consequent upon the signature of the Final Act of the Helsinki Conference and that the USSR at this juncture seems ready to consider the European Community as a 'political entity' and discuss the world's 'concrete problems' with it,
  - C. recalling the stalemate reached in previous contacts between the EEC and Comecon in 1974 and 1978, which became even more evident at the Geneva meeting in 1980 and was indirectly confirmed by the Haferkamp letter of 1981,
  - D. aware that the Comecon initiative comes after something of an improvement in the current accounts balance of the Eastern bloc countries - which is reflected in a slight decrease in their foreign debt - and that whilst wishing to exploit its advantages in certain economic sectors, the USSR's main aims are, firstly, to soothe the growing irritation felt by its 'satellites', by adopting a favourable overall attitude towards the West, which would thus no longer be tempted to impose economic sanctions; secondly, to forestall the inevitable protectionist measures on the Community market, which would harm exports from the East to the Community and, finally, to try to steer Comecon towards competitiveness with the EEC, by making it catch up in various fields, including the field of high technology,
  - E. considering that any organized expansion of East-West trade would be hampered by the ideological, political and military substructure of this economic alliance, in which the allegiance of the 'people's democracies' to the dominant super-power is practically unquestioning and whose network of interdependence includes Mongolia, Vietnam and Cuba (there are also cooperation agreements with Iraq, Mexico and Finland), whilst its main (European) sector is the scene of internal strife resulting from conflicting national interests; a further hindrance would be the inflexibility of the whole Comecon machinery, which is due to the fact that in the member countries the State and the Communist Party are one and the same and that instead of the supranational framework necessary for true economic integration, there is a transnational system characterized by Socialist internationalism, centralized planning, artificially fixed prices and exchange rates and non-convertible national currencies,
1. Endorses the European Community's favourable response to the overtures from Comecon (USSR), but urges that renewed dialogue and any mutual recognition in principle between the two bodies should not induce the EEC to make any one-sided concessions and that the political significance, and consequent humanitarian implications of such moves should be stressed unambiguously;

2. Stresses that the resumption of these negotiations offers an opportunity for the European Community to express its disapproval of the Soviet Union's despotic domination of Comecon and to persuade the Soviet Union to abide by its undertakings concerning human rights, slacken its hold on the countries of Eastern Europe and improve the living conditions and quality of life of the peoples of these countries;
3. Believes that the form of economic agreement to be negotiated should be confined to bilateral agreements drawn up with the USSR and its European 'satellites', ruling out the possibility of an actual fundamental compromise consisting in conducting formal relations with Comecon as such - although this organization has just been made a 'legal entity' at the Warsaw summit in June 1985 - since without creating any major economic advantages, such a compromise would constitute another form of recognition for the régime imposed in Eastern Europe by the Soviet Union;
4. Suggests that the contacts envisaged should largely be modelled on the positive results of the EEC-Yugoslavia Co-operation Council, on the outcome of the meetings of experts of the Community and the United Nations Economic Commission for Europe, which were aimed at strengthening industrial cooperation between East and West, especially through joint ventures, and on the relations between the EEC and Romania, the only Eastern bloc country which has officially recognized it, concluding an agreement on industrial and agricultural trade with it in 1980, which should soon be followed by a cooperation agreement;
5. Instructs its President to forward this resolution to the Commission of the European Communities.

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## PART II

## Texts adopted by the European Parliament

## 1. Relations between the European Community and the CMEA

— Doc. A2-187/86

## RESOLUTION

on relations between the European Community and the Council for Mutual Economic Assistance (CMEA) and the Eastern European member states of the CMEA

*The European Parliament,*

- having regard to its resolution of 11 October 1982 on relations between the European Community and the East European State-trading countries and COMECON <sup>(1)</sup>,
  - having regard to its resolution of 9 July 1982 on relations between the EEC and the COMECON countries in the field of transport policy <sup>(2)</sup>,
  - having regard to its resolution of 24 October 1985 on relations between the European Community and the countries of Central and Eastern Europe <sup>(3)</sup>,
  - having regard to its resolution of 13 June 1986 on trade relations between the European Community and Hungary <sup>(4)</sup>,
  - having regard to the motion for a resolution tabled by Mr EBEL and others, on behalf of the EPP Group, on relations between the EEC and COMECON (Doc. B2-49/85),
  - having regard to the motion for a resolution by Mr Mattina on relations between the European Community and the Soviet Union (Doc. B2-558/85),
  - having regard to the motion for a resolution tabled by Mr Pordea and others on the resumption of negotiations between the EEC and COMECON (Doc. B2-643/85),
  - having regard to the report of the Committee on External Economic Relations (Doc. A2-187/86),
- A. deploring the absence of political freedom which pertains throughout Eastern Europe,
- B. having regard to the Helsinki Final Act and the results of the meetings following up the Conference on Security and Cooperation in Europe held in Belgrade and Madrid,
- C. stressing that for many years it has wished to contribute towards improving relations between the EC and the Member States of the CMEA, provided that certain preconditions are met,
- D. whereas the improvement of trade and political relations between the EC and the CMEA will help gradually to overcome the problem of the division of Europe and change substantially the spirit of Yalta with regard to the division of zones of influence and control between the two superpowers,

<sup>(1)</sup> OJ No C 292, 8. 11. 1982, p. 15.

<sup>(2)</sup> OJ No C 238, 13. 9. 1982, p. 96.

<sup>(3)</sup> OJ No C 343, 31. 12. 1985, p. 92.

<sup>(4)</sup> OJ No 176, 14. 7. 1986, p. 192.

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- E. whereas the partition of Europe is contrary to the tradition of intellectual, cultural and economic ties between Eastern and Western Europe, whereas it contributes to the polarization of world politics into a power struggle between the two superpowers, and whereas the aim of Community policy is to overcome this partition of Europe and strive for the achievement of the right to self-determination in all parts of Europe,
- F. conscious that Europe as a whole plays a vital role in maintaining and safeguarding peace in the world, whereby Europe can act as a bridge between the two superpowers and, at the same time, must strive for greater independence vis-à-vis those superpowers,
- G. aware of the legal nature and rules of the CMEA and the extent of its competence to act on behalf of the member states of the CMEA, which is extremely limited in comparison with the competence of the EC,
- H. aware also that the CMEA is fully entitled to conclude framework agreements by virtue of the powers attributed to it,
- I. whereas, unlike the European Community, the CMEA has one of the two superpowers as a member, and the USSR therefore has a powerful influence over this organization, while the USA is not a member of the EC and thus there is no comparable dominant position within the EC, which sees itself as an economic partner with equal rights alongside the USA,
- J. whereas the CMEA includes not only Eastern European countries but also three non-European member-states whose economic and trade interests differ considerably from those of the other CMEA countries, but whereas, on the other hand, the European Community has many more preferential agreements with developing countries, so that the three non-European CMEA countries referred to cannot constitute an obstacle to closer cooperation,
- K. having regard to the activities and the agreements reached within the framework of the Economic Commission for Europe (ECE) in the sphere of cooperation between the countries of Western and Eastern Europe,
- L. having regard to the recent contacts between the EC and the CMEA and to the mutual interest in taking up and developing relations, including possible mutual recognition by the two organizations,
- M. having regard to the positive response by all the East European states to the Commission's offer to normalize their relations with the Community,
- N. having regard notably to the special relations obtaining between the Federal Republic of Germany and the German Democratic Republic, and having regard also to the 'Berlin' clause, desired by the 12 Member States of the Community and specifying that West Berlin enjoys Community status,
- O. whereas the levels of development and prosperity of the CMEA countries are lower than those of the EC countries, a fact which is largely due to their extensive commercial isolation, their autarkic regime and the rigidity of their economic system,
- P. whereas the Eastern European member states of the CMEA, and particularly the USSR, are putting forward plans aimed at integrating their economies in the international market circuit and liberalizing certain sectors of the economy, as a vital precondition for improving the internal economic situation of these countries,
- Q. desiring to improve relations between the EC and the CMEA in all possible areas of mutual benefit, and at the same time to improve and extend trade and economic relations between the EC and the Eastern European members of the CMEA,
- R. whereas the creation of mutually advantageous relations could be a further step towards maintaining peace and overcoming the partition of Europe in the long term and that such a step is now more important than ever, given the emerging trend in relations between the two superpowers,

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- S. believing that by securing agreements between the EEC and the CMEA their member states will make a decisive contribution towards overcoming dumping and anti-dumping practices in their trade relations and expanding trade,
- T. having regard to the fundamental differences existing between our democratic societies, which are based essentially on the guarantee and enjoyment of individual rights, and the totalitarian regimes of the Eastern bloc countries, and whereas these differences are a source of genuine incompatibility and as a result efforts should be concentrated on the rights and freedoms of the citizens of those totalitarian countries,

*Re relations between the EC and the CMEA and the member states of the CMEA*

- 1. Regrets that in the eleven years since the first talks were held between the EC and the CMEA in 1975 neither the CMEA nor any of its Member States has formally recognized the EC;
- 2. Takes the view that the climate of genuine trust, which is required for the achievement of better economic relations, can only be created if measures are taken which lead to mutual disarmament;
- 3. Supports the Commission for the consistent policy it has adopted towards the CMEA as a result of which the latter has now agreed that the establishment of relations between the two institutions shall not prejudice bilateral relations between the EC and the member states of the CMEA;
- 4. Looks to The European Community and the Council for Mutual Economic Assistance to draw up a common declaration in the near future granting each other mutual recognition under international law and to establish diplomatic ties between the East European countries and the Community;
- 5. Believes that mutual recognition under international law and the establishment of diplomatic ties will contribute decisively to the development of both multilateral and bilateral relations between the Member States of the two organizations;
- 6. Considers that relations between the EC and the CMEA can only be developed and extended if the latter clearly recognizes the existence of the EC under international law as well as its competence to act in economic and trade matters;
- 7. Recognizes that the establishment of official relations between the EC and the CMEA would create a propitious climate for developing relations with individual CMEA countries in the field of foreign trade and cooperation, but considers that it is unnecessary at this stage to lay down the details of cooperation between the EC and the CMEA in the common declaration and that separate negotiations should be held to this end following official contacts;

*Re the possibility of reaching agreements between the EC and the CMEA*

- 8. Expects the EC to consider actively the possibility of concluding arrangements with the CMEA, if appropriate, on such matters of mutual interest as fall within its sphere of competence;
- 9. Assumes that parallel negotiations will be opened or resumed between the EC and the CMEA and between the EC and the European member states of the CMEA on outstanding matters;
- 10. Considers that, in the event of such developments occurring, the two organizations might then discuss issues such as:
  - the approximation of standards,
  - the approximation of the bases of statistical surveys so as to facilitate exchanges and comparisons of data,
  - the approximation of the methods of economic forecasting;



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11. Believes that, in addition to these matters on which an agreement in principle had already been reached in earlier EC-CMEA talks, there are further possibilities for mutually advantageous cooperation which, however, will often require more extensive preparatory work before they can be realized;
12. Considers, in this connection, that the CMEA and the EC might, if appropriate, hold negotiations on environmental protection problems with the aim of developing common principles and standards for permissible limit values as regards pollution in the air, soil, in rivers and in the sea, provided that the CMEA has authority for these matters;
13. Considers that joint negotiations could be held on the development of transport infrastructures in Europe, since the current lack of viable transport links between the two blocs is a serious obstacle to any type of trade or mutual economic relations;
14. Considers desirable the development of an energy system for the whole of Europe, particularly for the supply of electricity, so as to establish a major inter-European network of energy supplies and mutual services;
15. Considers that the exploration of new sources of energy, and notably nuclear fusion, but also alternative sources of energy provide ample opportunities for research cooperation;
16. Is anxious in view of the Chernobyl nuclear disaster that in addition to efforts through the IAEA, cooperation might be established with CMEA States as regards reactor security and mutual aid in cases of reactor malfunctionings, and that there should be a duty to provide information, together with exchanges of information and a joint acceptance of responsibility;
17. Considers furthermore, that it would benefit both sides if scientific cooperation in precisely defined areas were stepped up, provided that the necessary strategic interests of Western Europe are properly guaranteed;
18. Believes that the CMEA and its member states are particularly interested in material cooperation with the EC in the development of scientific cooperation and that this should be borne in mind in future negotiations, and observes the interest shown by several Eastern bloc countries in the EUREKA research programme, in which not only the Member States of the EC but also other European countries are taking part;
19. Believes that serious consideration should be given to ways in which the number of products requiring authorization could be reduced, having due regard to the West's security interests — i.e. ensuring civil end-use —, as this might help improve and consolidate relations;

#### *Re institutional contacts*

20. Desires that, once mutual recognition has been secured and the question of the recognition of the EC by the individual Member States of the CMEA has been settled, the European Parliament delegations for relations with the Soviet Union and the Eastern European member states of the CMEA should become operational;

#### *Re trade and economic ties with the Eastern European members of the CMEA*

21. Recalls the very considerable disparity between the economic strength of the Eastern European state-trading countries and of the EC and the effect this will have on the development of trade and economic relations with the EC;
22. Believes that difficult economic problems will arise as a result of the different economic structures and that free reciprocal competition will thus only be possible to a very limited degree so that the EC will receive nothing comparable in return for facilitating access to its markets;

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23. Draws attention to the adverse effect of the declining price of oil and the drastic fall in the exchange rate of the dollar on export revenues, and on those of the USSR and Romania in particular, which has markedly reduced their ability to take imports from industrialized countries in the West;
24. Believes, however, that an improvement of economic relations will be politically useful as regards:
- stability and détente in Europe,
  - the gradual elimination of the partition of Europe,
  - the implementation of the principles of the Helsinki Final Act of the Conference on Security and Cooperation,
  - and, in the long-term, the strengthening of the role of the whole of Europe as a factor maintaining peace;
25. Believes that an immediate gradual reduction is necessary in compensation trade between the CMEA and the EC;
26. Notes with interest the USSR's declaration of intent to join GATT and believes that the negotiation to this end should be pursued constructively, a prospect which will have a positive impact on international trade and, notably, on the Community's trade interests;
27. Stresses the need for the European Community to seek and develop new markets;
28. Considers that in the medium term, the member states of the CMEA have considerable potential as an export market for the EC because of their considerable reserves of energy and raw materials, particularly in the USSR, because of the CMEA countries' great demand for investment and development and, particularly in the case of the Eastern European member states, because of their geographical proximity;
29. Would like the EC to conclude trade and/or cooperation agreements with the European member states of the CMEA as soon as possible and thereby to put an end to a situation which is not governed by treaty and has in several cases lasted for years;
30. Realizes, however, that the EC market will only be able to absorb industrial products from the CMEA states if they are made much more competitive;
31. Notes that Romania is the only CMEA country with which the EC has so far concluded a comprehensive trade agreement on industrial goods and that its agreements with Poland, Bulgaria, Czechoslovakia and Hungary are limited to steel, textiles and some agricultural products;
32. Welcomes the fact that the Eastern European member states of the CMEA have now all agreed to the Commission's offer to conclude trade and cooperation agreements and recalls that in 1974 Romania alone accepted the EC's offer to conclude a trade agreement;
33. Welcomes the current negotiations between the Commission and Romania aimed at extending the scope of the 1980 agreement so as to extend and develop trade and economic ties between the EC and Romania;
34. Expresses its wishes that negotiations between Hungary and other CMEA Member States and the Community should commence as soon as possible and hopes that they will lead in the near future to an agreement acceptable to both parties;
35. Considers that fruitful cooperation is only possible if the CMEA states abandon their ideologically based desire for self-sufficiency from imports from the Western industrial nations;
36. Believes that one of the principal means by which foreign trade policy can generate mutual trust and thus influence other areas of policy-making is by strengthening trade contacts and mutual interdependence;

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37. Is still concerned at the aggressive prices policy pursued by state transport undertakings in CMEA countries which consists in considerably undercutting the freight rates for road and sea transport and so gradually to exclude EC transport undertakings from the market, and calls on the Commission to bring this matter up notably in future negotiations with the USSR and to press for a solution to this problem;

38. Regrets that the lack of convertibility of CMEA currencies amongst themselves and with the currencies of the Western industrialized nations continues to hinder the development of economic relations;

39. Welcomes Hungary's efforts to make its currency partially convertible;

40. Believes that, in trade with the Eastern European CMEA states, the ECU could prove an advantageous monetary and financial instrument for the financing, invoicing and payment of foreign trade transactions; calls on the Commission to examine how better use might be made of these possibilities;

41. Calls on the Commission to include the intensification of agricultural trade in trade talks with Eastern European CMEA states with the aim of stepping up EC agricultural exports to CMEA states and facilitate the access of agricultural imports from CMEA countries to the EC market;

42. Views the high indebtedness of some CMEA countries as a severe impediment to the development of trade relations;

43. Recognizes Romania's efforts to reduce its debts to the West, which, however, was achieved mainly by means of drastic import restrictions;

44. Is sceptical about Poland's ability to master its worsening debt problem unaided and believes that possible solutions should be considered, taking into account Poland's ability to pay; insofar as its debts exceed its capacity to pay, a study should be made to ascertain the feasibility of collecting the capital and interest payments due in a development fund in Poland and with these resources promoting development projects in the country (the swaps model) until the Polish economy is in a position to service and repay this capital in hard currency;

45. Considers that the normalization of the Community's relations with the Eastern European countries must involve the recognition by these countries of the role and the place of the Community as such in multilateral bodies;

46. Reserves the right to ratify the arrangements with the CMEA and its member states negotiated by the Commission and concluded by the Council on behalf of the Community;

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47. Instructs its President to forward this resolution to the Council of Ministers, the Commission, the General Secretariat of the CMEA and the governments of the Eastern European member states of the CMEA.

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