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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,

(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

