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## THE EUROPEAN COMMUNITY AND THE COUNTRIES OF EASTERN EUROPE

### CONTENTS

The common trade policy . . . . .	3
Negotiations in the textiles sector . . . . .	3
Negotiations in the fisheries sector . . . . .	3
Negotiations in the steel sector . . . . .	4
Independent trade policy . . . . .	4
Other Community activities relating to the countries of Eastern Europe . . . . .	5
Cooperation agreements . . . . .	5
Export credits policy . . . . .	5
Generalized preferences and the countries of Eastern Europe . . . . .	6
Community—CMEA relations . . . . .	6
Annex: Trade between the countries of Eastern Europe and the Community . . . . .	9
Imports into the EEC of the Nine from the countries of Eastern Europe . . . . .	9
Exports from the EEC of the Nine to the countries of Eastern Europe . . . . .	10
The trade balance between the EEC of the Nine and the countries of Eastern Europe . . . . .	10
The structure of trade between the Community and the countries of Eastern Europe . . . . .	11

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July 1978

## THE COMMON TRADE POLICY

Since the end of 1969, the Community, and not its Member States, has been responsible for the trade policy relating to third countries. In any case, the bilateral agreements could not have remained in force after the end of the transitional period, that is to say, twelve years from the setting up of the EEC.

Since 1 January 1975, all trade negotiations with State-trading countries have had to be carried out by the Community

For this purpose, the Community Council of Ministers sketched out an agreement in November 1974 setting out the broad outlines of possible trade agreements between the Community and those State-trading countries linked to Member States through agreements which were due to expire.

The outline agreement provides for long-term, non-preferential trade agreements based on the principle of reciprocal advantages and commitments. In these agreements, the parties are to express their resolve to establish their commercial relations on such a basis as to create conditions which would encourage their development. The agreements would naturally take account of the specific trading structures with the various countries and would include provisions for constructively solving any trade problems which might exist between these countries and the Community. In order to encourage the fulfilment of these goals, the Community envisages including in these agreements the granting of the most favoured nation clause in the tariff sphere, subject to the usual exceptions. Provisions for the agricultural sector are not ruled out either. As is normal in these agreements, the outline agreement provides for the setting up of a Joint Committee and an appropriate safeguard mechanism.

### Negotiations in the textiles sector

In the context of this negotiation offer, which covers all areas of trade, the Community has made *an additional proposal for the textile sector*. The arrangement of 20 December 1973 concerning the international textile trade allowed for the possibility of bilateral negotiations between the participants in this arrangement. In the absence of any reaction from the Eastern European countries to the general negotiation offer, the Commission sent a letter on 24 March 1975 to the Eastern European countries which had signed the arrangement (Hungary, Poland and Roumania) including a further invitation to hold negotiations on these products.

Romania was the first to reply positively to the Community's offer, and a textile agreement was consequently initialled with this country on 16 December 1976.

This was the first trade agreement which the Community had concluded with an Eastern European country. It involved products covered by the 'multifibres arrangement' and also flax. The agreement was valid until 31/12/1977.

According to the Community, the extension of the MFA<sup>1</sup> was made subject to the satisfactory conclusion of bilateral agreements with certain supplier countries.

On 16 December 1977, a further agreement was initialled with Romania.

Negotiations have also taken place with Hungary and Poland, but no conclusions have yet been reached.

Imports of textile products from the other State-trading countries, including Hungary and Poland, are subject to the autonomous arrangements established by the Community.

### Negotiations in the fisheries sector

Since countries playing an important role in deep-sea fishing were showing a growing tendency to unilaterally extend their fishing zones up to 200 miles, without waiting for the conclusions of the United Nations Conference on the Law of the Sea, the Member States of the European Community decided in 1976 to take joint action to fix the limits of their fishing zones in the North Sea and the North Atlantic at two hundred miles as from 1 January 1977.

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<sup>1</sup> Arrangement concerning the international textile trade.

On 12 November 1976, the Community informed the third countries involved (including the Soviet Union, the German Democratic Republic and Poland) of its decision and told them that it was prepared to negotiate fishing agreements with them.

These talks began in February 1977. The Community, on the one hand, and the Soviet Union, the German Democratic Republic and Poland, on the other, aim to conclude a framework agreement intended to set down the rules covering fishing rights in their respective exclusive fishing zones. In the meantime, the Community's autonomous interim measures governing the fishing rights granted to these three countries have been extended several times.

The negotiations were suspended at the end of September 1977. As there are no framework agreements on fishing, vessels from the Eastern European countries have not been allowed into Community waters to fish since 1 December 1977. Nevertheless, the commitments which exist within the framework of ICNAF (the International Convention on North-West Atlantic Fisheries) are being respected.

### **Negotiations in the steel sector**

During its meeting of 19 and 20 December 1977, the Council of Ministers decided to propose that all countries exporting steel to the EEC should conclude bilateral arrangements with the Community to impose price discipline in order to prevent a disruption of the Community market which is based on guide prices and the Community minimum prices. Traditional trade patterns with respect to 1976 would be maintained.

On 12 April 1978, Czechoslovakia became the first Eastern European country to conclude a steel arrangement with the Community. As with other third countries, the Community has granted Czechoslovakia a certain margin of market penetration. Czechoslovak special steels will benefit from a maximum 4% reduction with respect to the delivery prices applied in the Community. In the case of ordinary steels, this penetration margin will be 6%.

On 1 May 1978, an arrangement was reached with Hungary. Negotiations are still underway with Poland and Romania.

## **INDEPENDENT TRADE POLICY**

Whilst awaiting the negotiation of trade agreements between the Community and the various State-trading countries in question, on 27 March 1975 the Council adopted autonomous import arrangements with respect to these same third countries in order to ensure the continuity of trade with them.

On the one hand, the decision of 27 March 1975 established the quotas and other import facilities to be opened in 1975 by the Member States with respect to the various State-trading countries for the products subject to quantitative restrictions, and on the other hand, it set out the rules and procedures for possible modifications to these aforementioned import arrangements.

On 20 December 1977, the Council fixed the quotas to be opened in 1978. On average, they have been increased by 5% compared with 1976, except for the case of certain sensitive products for which smaller increases were allowed.

Although quota measures still play a certain role in trade with the State-trading countries, substantial progress has been made in the liberalization of trade. (Thus, out of the 1 098 headings in 1977 CCT, the list of liberalized products which the Community has drawn up with respect to these countries now covers 772 full headings and 95 part-headings).

As regards tariffs, as it stated on 12 November 1974, the Community continues to apply the most-favoured-nation treatment to the State-trading countries because it is concerned not to jeopardize the development of trade.

## OTHER COMMUNITY ACTIVITIES RELATING TO THE COUNTRIES OF EASTERN EUROPE

### Cooperation agreements

Following a proposal from the Commission, on 22 July 1974 the Council decided to establish an information and consultation procedure for the cooperation agreements between the Member States and third countries. Since most of the Member States have concluded such agreements with the various Eastern European countries, the abovementioned Council decision is of particular interest as regards relations with these countries.

This procedure enables the Commission and the Member States to obtain information not only of the contents of the cooperation agreements in the strictest sense of the word, but also of the commitments and measures planned in the framework of these agreements. Consultations are carried out either at the request of a Member State, or on the initiative of the Commission.

The objectives are threefold: to make sure that the cooperation agreements conform with the common policies, particularly the common trade policy; to improve reciprocal exchanges of information and coordination of the actions of the Member States; and to assess the value of measures which the Community might adopt to encourage cooperation agreements.

### Export credits policy

The export credit (and insurance credit) <sup>1</sup> policy will be of decisive value for the future of the Community trade policy. In 1976, the number of credits which received public support for a period of more than five years and which were granted to the Comecon countries by the countries of THE OECD <sup>2</sup> accounted for USD 5 376 million. In 1964, these credits totalled only USD 223 million. More than half of the credits were granted to the Soviet Union.

During the last decade, the uninterrupted expansion in world trade which characterized the first few years has been accompanied, and to a certain extent sustained, by a parallel growth in the volume of export credits. As competition in world trade was becoming fiercer and the nations were endeavouring to maintain or improve their export figures, competition also extended to the sphere of export credits.

On 4 April 1978, the Council adopted a decision concerning the application, on an experimental basis, of guidelines for export credits for third countries. The export credits in question are those which have the support of the public authorities and which cover a period of two years or more. These guidelines are applied within the framework of a consensus by the EEC and the OECD countries, in particular the United States and Japan; they fix:

- the minimum payments made up to delivery, including those made on delivery, in relation to the per capita GNP figure for the country receiving the goods;
- the minimum interest rate;
- the maximum duration of the credit.

The Council decision of 4 April 1978 stipulates that if any Member State of the Community or any third country granting a credit which observes similar guidelines intends to waive these rules, then the members of the consensus must be informed. Such notification will make it possible to carry out, within the Community framework, regular and on-going assessments of the way in which the Member States and third countries are respecting the guidelines.

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<sup>1</sup> The insurance credit is intended to insure the exporter against the possibility of non-payment of a credit sale. In particular, it covers political and commercial risks.

<sup>2</sup> OECD: Organization for Economic Cooperation and Development. Members: Australia, Canada, the European Economic Community, Finland, Greece, Japan, Norway, Portugal, Spain, Sweden and the United States.

## **Generalized preferences and the countries of Eastern Europe <sup>1</sup>**

As a follow-up to the letter dated 31 January 1973 from the Romanian Government to the Council of the European Community, the Council decided that, as from 1 January 1974, this country should be included amongst those to benefit from the generalized preferences granted by the Community, on the understanding that adequate provisions would be made to take account of the conditions particular to this country.

The criteria taken into consideration relate to Romania's level of development and economic structure in comparison with the similar criteria which characterize the economies of other countries granted generalized preferences.

Since 1975, the Community has made constant improvements to the preferential treatment applied to Romania. In 1976, this country occupied third place in the list of beneficiaries of the Community GSP.<sup>2</sup>

In its application of 19 September 1977, addressed to the President of the Council of Ministers of the European Community, Bulgaria has also made it known that it would like to take advantage of the Generalized System of Preferences. This application is still being examined.

## **COMMUNITY—CMEA RELATIONS**

The first talks between the Community and the CMEA<sup>3</sup> (also known as Comecon) took place from 4 to 6 February 1975, when a delegation of Senior Commission Officials met a delegation of the CMEA Secretariat to discuss relations between the two organizations.

Following this meeting, on 16 February 1976, Mr Gaston Thorn, who was President of the Community Council of Ministers at that time, received Mr Gerhard Weiss, the then President of the CMEA, who gave him a message from the CMEA to the EEC which proposed the conclusion of an agreement covering relations between the two organizations.

On 18 November 1976, the Council replied to the CMEA's February proposal by sending a letter containing a preliminary draft agreement setting out the forms and procedures of the relations to be established between the Community and the CMEA. These could take the form of working relations aimed at exchanges of information and contacts in the spheres of statistics, economic programming and the environment. At the same time, the Council stressed the importance which it attached to the development of Community relations, not only with the CMEA, but also with each of its member countries.

On 18 April 1977, Mr K. Olszewski, the President of the CMEA Executive Committee at that time, proposed that an exchange of ideas should take place between the President of the CMEA Executive Committee and the President of the EEC Council on the way in which subsequent negotiations should develop. Mr Simonet, the then President of the Community Council replied to this on 25 July 1977 by accepting the idea of this meeting. He pointed out that it would be his duty to introduce Mr Haferkamp, the Commission Vice-President with special responsibilities for negotiations, to the CMEA representatives.

The planned meeting took place on 21 September 1977 in Brussels. The CMEA representative was Mr Marinescu, the Roumanian Deputy Prime Minister and President of the CMEA Executive Committee at that time. The two parties agreed to think in terms of beginning the negotiations leading to an agreement between the two organizations during the first half of 1978.

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<sup>1</sup> Since 1 July 1971, the Community has applied a system of customs exemptions called 'generalized preferences' for the benefit of exports of manufactured and semi-finished products from developing countries.

<sup>2</sup> GSP = Generalized System of Preferences.

<sup>3</sup> Council for Mutual Economic Assistance.

On 29 and 30 May Mr Haferkamp met Mr Faddeyev, Secretary of the CMEA (Comecon), in Moscow. In the course of these negotiations, which were conducted in a good atmosphere, both sides showed a willingness to reach an agreement and a wide-ranging exchange of views enabled the participants to acquaint themselves with one another's positions. It was agreed to hold another meeting; to prepare for this, discussions at the level of experts will take place in Brussels as soon as possible. Their task will be to define more precisely, on the basis of considerations already agreed, the means of arriving at an agreement between the Community and Comecon, and the scope of such an agreement.

In a written reply to a question raised by the German Parliamentarian, Mr Jahn, during the debates of the European Parliament on 14/3/78, the Commission explained the Community position in the context of the forthcoming negotiations with the CMEA.

'In developing Community relations with the various States of Eastern Europe, the Community is guided by the facts of the situation. In this context, consideration must be given to the aims of all those concerned, and also their actions, particularly in the sphere of external relations, together with the rules and procedures actually implemented within the Community and the CMEA.

On this basis of this principle, the Community believes that contractual links in the trade sector should be established between the Community and each of the various countries of Eastern Europe.

In fact, a common trade policy has been created in the Community, whilst the State-trading countries of Eastern Europe still handle their external policies independently.

As regards the future establishment of relations between the Community and the CMEA, the Community believes that there are good prospects for cooperation, particularly in the realm of the exchange of information covering the economy, environment protection and standardization.

The CMEA has much experience in these fields and the Community has a real interest in working relations being established in this context.'

ANNEX

**TRADE BETWEEN THE COUNTRIES OF EASTERN EUROPE AND THE COMMUNITY**

Trade between the Community and the rest of the world <sup>1</sup> totalled 246 663 million EUC <sup>2</sup> in 1975, 300 889 million EUC in 1976 and 335 370 million EUC in 1977.

Trade between the Community and the State-trading countries of Eastern Europe increased from 20 196 million EUC in 1975, to 23 835 million EUC in 1976 and to 25 450 million EUC in 1977.

The proportion of trade between the Community and the State-trading countries of Eastern Europe, in terms of the Community's total world trade, has decreased slightly.

In 1976 and 1977, the figures were 7.9% and 7.6%, compared with 8.2% in 1975.

**Imports into the EEC of the Nine from the countries of Eastern Europe <sup>1</sup>**

Millions of EUC <sup>2</sup>

Country	1975	1976	1977	% variation compared with previous year	
				1976	1977
USSR	3 816	5 522	6 155	+ 45	+ 11
GDR <sup>3</sup>	463	583	590	+ 26	+ 1
Poland	1 593	1 976	2 123	+ 24	+ 7
Czechoslovakia	826	988	1 069	+ 20	+ 8
Hungary	692	851	1 001	+ 23	+ 18
Romania	868	1 092	1 003	+ 26	- 8
Bulgaria	191	256	261	+ 34	+ 2
Albania	21	24	28	+ 14	+ 17
<b>TOTAL</b>	<b>8 470</b>	<b>11 291</b>	<b>12 230</b>	<b>+ 33</b>	<b>+ 8</b>

<sup>1</sup> Sources 1975-1976: SOEC Monthly Bulletin on External Trade, No 4/6 1977.  
(Statistical Office of the European Communities).

<sup>2</sup> 1 EUC = USD 1.23.

<sup>3</sup> Inter-German trade is not included in these figures.

<sup>1</sup> Sources 1975-1976: SOEC Monthly Bulletin on External Trade, No 4/6 1977 (Statistical Office of the European Communities).

<sup>2</sup> 1 EUC = USD 1.23.

**Exports from the EEC of the Nine to the countries of Eastern Europe <sup>1</sup>**

*Millions of EUC*

Country	1975	1976	1977	% variation compared with previous year	
				1976	1977
USSR	4 918	5 164	5 851	+ 5	+ 13
GDR <sup>2</sup>	459	557	475	+ 21	- 15
Poland	2 649	2 836	2 552	+ 7	- 10
Czechoslovakia	1 021	1 237	1 235	+ 21	- 0
Hungary	958	1 055	1 336	+ 10	+ 27
Romania	1 036	1 095	1 192	+ 6	+ 9
Bulgaria	651	574	542	- 12	- 6
Albania	31	27	38	- 13	+ 40
<b>TOTAL</b>	<b>11 726</b>	<b>12 544</b>	<b>13 220</b>	<b>+ 7</b>	<b>+ 5</b>

<sup>1</sup> Sources 1975-1976: SOEC Monthly Bulletin on External Trade, No 4/6 1977.  
(Statistical Office of the European Communities).

<sup>2</sup> Inter-German trade is not included in these figures.

**The trade balance between the EEC of the Nine and the countries of Eastern Europe <sup>1</sup>**

*Millions of EUC*

Country	1975	1976	1977
USSR	+ 1 102	- 358	- 304
GDR <sup>2</sup>	+ 5	- 26	- 115
Poland	+ 1 056	+ 860	+ 429
Czechoslovakia	+ 195	+ 249	+ 166
Hungary	+ 266	+ 204	+ 335
Romania	+ 169	+ 3	+ 189
Bulgaria	+ 461	+ 318	+ 281
Albania	+ 10	+ 3	+ 10
<b>TOTAL</b>	<b>+ 3 256</b>	<b>+ 1 253</b>	<b>+ 990</b>

<sup>1</sup> Sources 1975-1976: SOEC Monthly Bulletin on External Trade, No 4/6 1977.  
(Statistical Office of the European Communities).

<sup>2</sup> Inter-German trade is not included in these figures.

**The structure of trade between the Community and the countries of Eastern Europe**

Imports	1975 <sup>1</sup>	1976 <sup>1</sup>	1977 <sup>1 2</sup>
Food products, beverages, etc.	11.4%	9.2%	7.7%
Energy products	33.0%	36.5%	34.8%
Raw materials	15.1%	14.9%	14.3%
Chemical products	5.3%	5.2%	6.8%
Machines and transport equipment	7.6%	7.0%	7.3%
Other manufactured products	26.3%	25.9%	27.4%

Exports	1975 <sup>1</sup>	1976 <sup>1</sup>	1977 <sup>1 2</sup>
Food products, beverages, etc.	3.7%	5.0%	5.1%
Energy products	0.9%	0.9%	0.7%
Raw materials	2.5%	2.6%	3.0%
Chemical products	13.3%	14.2%	17.3%
Machines and transport equipment	41.0%	40.3%	38.1%
Other manufactured products	37.5%	35.9%	34.2%

<sup>1</sup> Source: SOEC, Bulletin Nos 5/76, 9/77 and 2/78.

<sup>2</sup> First 9 months.