

COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION
TO THE COUNCIL AND THE PARLIAMENT

The development of the Community's relations
with the countries of central and eastern Europe

I. Introduction

The Community's relations with the countries of central and eastern Europe are developing rapidly as the pace of their own transition to democracy and market oriented economies quickens. During the first half of 1990, the Community is likely to conclude trade and cooperation agreements with the German Democratic Republic, Bulgaria, Czechoslovakia and Romania in addition to those already concluded with Hungary, Poland and the USSR. The Commission will shortly forward to the Council the necessary draft directives for negotiations with Czechoslovakia and Romania. The GDR, Bulgaria, Czechoslovakia and Romania are expected to submit memoranda setting out their reform plans and requesting that coordinated assistance within the Group of 24 be extended to them. If planned reforms are realised on schedule, the countries concerned will hold free and fair elections during this period and introduce the basic legislation necessary to move towards market-oriented economies. It is also likely that Yugoslavia will approach G-24 for assistance. At the informal Council of Ministers meeting in Dublin on 20 January the Commission pointed out that the German Democratic Republic is to be viewed by the Community as a specific case.

The informal Council reaffirmed the Community's commitment to support the reform process and considered the future shape of Europe, including the question of association agreements. It agreed that a positive response should be given to requests from countries which have embarked on reform for assistance within the G-24 framework and undertook to examine in a positive spirit Commission proposals on assistance, in the light of each country's needs and characteristics. The Council also noted the Commission's views on budgetary resources needed in the context of cooperation with and assistance to countries in central and eastern Europe.

The Commission suggested that the Council consider favourably proposals for adequate multiannual budgetary provisions to enable the Community to contribute significantly to bilateral and multilateral assistance as well as proposals for Community action in such areas as export credit, investment promotion and protection.

The purpose of the present Communication is to provide to the Council further indications concerning the ways in which the Community's relations could develop with the countries concerned and their needs for assistance both in the Community and the G-24 context, taking into account the characteristics of each country. The Communication also outlines the elements which will need to be considered in determining the resources required for this purpose, notably in the context of the revision of the financial perspectives.

II. Conditions for extending assistance

The declaration of the Group of 24 at the Ministerial Meeting in Brussels on 13 December confirmed its willingness to respond positively to other countries in east Europe at the time they put into place political and economic reforms. This approach was taken up by the informal meeting of the Council of Ministers in Dublin on 20 January.

The authorities in the GDR, Czechoslovakia, Bulgaria, Romania and Yugoslavia are preparing memoranda outlining their reform plans and requesting that the benefits of coordinated assistance within the framework of the G-24 be extended to their respective countries. These memoranda are expected to be transmitted to the Commission by mid-February.

These requests raise the question of conditionality, an issue which will also arise at each stage of the development of the Community's relations with these countries. As coordinated assistance is intended to facilitate political reform and economic liberalisation, it would not be reasonable to require the demonstration of success in implementing reform as an initial condition for participation in assistance programmes. It is, however, necessary to require firm commitments to democratic elections and economic liberalisation, preferably within a specified time-table.

The memoranda shortly to be submitted by countries seeking access to assistance coordinated through the G-24 should contain clear commitments regarding :

- the rule of law
- respect for human rights
- the establishment of multiparty systems
- the holding of free and fair elections in the course of 1990

- economic liberalisation with a view to introducing market economies

Progress in implementing commitments in these areas will be followed by the Community and the G-24.

III. Requirements for assistance

- needs

Indications concerning the economic performance of the countries of central and eastern Europe point towards two basic needs. The first is the need for an adequate flow of external finance. This should permit economic growth to continue at a satisfactory rate, while waiting for reform to deliver results in the form of exports or import substitution. The second need is for technical assistance, training, technology transfers, and improved market access, all of which are vital to a better economic performance.

Large scale funding will also be required from G-24, the EIB and the BERD. Inadequate levels of support, especially if predominantly in the form of loans, could be detrimental by increasing debt without creating the means for the countries concerned to achieve a satisfactory economic performance.

Although the Community disposes of a variety of financial instruments which are being employed to good effect with respect to Poland and Hungary, Community funding will not satisfy the bulk of financing needs which are becoming apparent. As demonstrated in the case of Poland and Hungary, however, Community funding, in order to act as a catalyst must reach a certain threshold which will bring forward sufficient support from other sources to stimulate production, exports and growth.

The Commission will exercise its coordinating function within the G-24 by identifying needs with the potential beneficiaries and competent international institutions, by providing finance and technical assistance to satisfy part of those needs and by inviting its partners to help close the remaining gap.

With respect to technical assistance, operational procedures developed by the Community and G-24 can readily be adapted to cope with additional needs. Special emphasis will be placed on developing joint projects and on co-financing, to ensure that Community funding has the expected multiplier effect.

- absorption capacity

Financial support and technical assistance both require an appropriate framework for implementation in the beneficiary countries. Assistance should be provided in accordance with their absorption capacity and effective needs. For this reason the Commission, in liaison with relevant multilateral bodies, and with the beneficiaries themselves, will continue to follow closely the adjustment process in each country and to tailor assistance accordingly.

IV. From cooperation to association

The point of departure for the Community's future relations with the countries of central and eastern Europe is a network of trade and cooperation agreements, allowing for the normal development of commercial and economic relations. This network will be completed during the first half of 1990.

Already, however, our partners are looking beyond normalisation towards a type of relationship reflecting geographic proximity, shared political, economic, and cultural values and increased inter-dependence. As they advance from the immediate aftermath of revolution to the holding of free and fair elections, market-oriented liberalisation and the establishment of sound constitutional and economic structures, they expect their relations with the Community to become more intense.

They have noted the promising developments in relations between the Community and the European Free Trade Association and seek to create a basis for linking themselves with this process. This aspiration has been expressed by several of them in terms of the subsequent negotiation with the Community of association agreements on the basis of article 238 of the EEC Treaty.

The Strasbourg European Council of 8-9 December 1989 concluded inter alia that the Community will "continue its examination of the appropriate forms of association with the countries which are pursuing the path of economic and political reform". The informal Council in Dublin on 20 January noted in its conclusions that the question of association agreements had been discussed and that the Commission would prepare a paper on this. The following observations are provided as an initial response by the Commission, it being understood that a communication further developing the concept of association as applied to the countries of central and eastern Europe will be forwarded to the Council during the first half of this year.

The Community should respond positively to the interest of these countries in association both as a sign of solidarity with democratic forces in neighbouring states and because it conforms with the Community's own interests.

Early approval of the goal of association will contribute to political stability, encourage the development of new instruments for cooperation and strengthen confidence on the part of economic operators. With respect to the USSR, the Community will seek to obtain the highest level of reciprocal benefits from the new trade and cooperation agreement which will shortly enter into force and should treat constructively any requests for assistance. In the context of association, the scale of the Soviet economy raises specific questions which require further consideration.

At the present stage, it would be premature to fix firm criteria for the passage from cooperation to association. It is already apparent, however, that these criteria will relate to performance as well as commitments and that before considering this move the Community will expect decisive steps to have been taken towards systems based on political and economic liberties.

As indicated above, the Commission will present to the Council a Communication developing further the concept of association in the first half of this year. Already, however, it can indicate that future association agreements will be of special value in themselves and should be distinguished from any commitment concerning the question of accession. These agreements should include the following principal elements :

1. trade
the goal being free trade, when the conditions for this are right, to be approached through progressive liberalisation;
2. cooperation
developing from links established within the framework of the "first generation" agreements but embodying new forms and instruments;
3. technical assistance and financial support
according to the economic profile, needs and absorption capacity of each country;
4. joint projects, notably in infrastructure
5. political dialogue
enabling the Community to exchange views on a regular basis with each partner.
6. Information exchange and cultural cooperation

These elements will create a common framework for association but will be adjusted to the needs and capacities of each country as well as its progress towards open political and economic systems. Association will permit the concentration of support into financial protocols, avoiding dispersion and facilitating the coordination of assistance.

As progress is made towards liberalisation and association with the private sector playing an increasing role there will be a parallel evolution in the forms of assistance deployed by the Community and G-24. Emergency assistance, when necessary, has its place early in the transition to new systems, to cope with sudden drops in domestic supplies. But it should be rapidly replaced by other forms of cooperation and assistance as progress is made towards market-oriented economies.

With respect to trade, first generation agreements lay the foundation for progressive liberalisation and the removal of obstacles which have hampered commercial exchanges in the past. Association should bring progress towards free trade as the economies of partner countries adjust to competitive conditions on international markets. The pace of liberalisation will depend on progress made and will vary country by country. The goal of free trade will give a positive impulse to restructuring without forcing the pace.

With respect to cooperation, agreements of the first generation specify the fields in which partners perceive reciprocal interests. As cooperation in these fields goes ahead, strengthening contacts between the two sides, new priorities, e.g. culture, information and research, emerge. Already considerable stress is placed by our partners on training, environmental protection, infrastructure and agro-industry.

With respect to technical assistance and financial support, association agreements will consolidate the Community's role in restructuring and economic stabilisation. The negotiation of financial protocols will provide a transparent instrument for support, allowing multiannual programmes and projects to be developed within a firm institutional framework. This will give the Community a sound basis for contributing, together with the multilateral financial and economic institutions, to the economic reform process.

For this purpose the Community will be able to draw on its experience with overcoming problems of uneven economic development. The Community will contribute to coordinated assistance in the field of training notably through the European Training Foundation and the Tempus scheme to promote mobility among students, teachers and trainers. The European Investment Bank and the European Bank for Reconstruction and Development will provide finance for joint ventures and other forms of productive investment.

The Community will also need to develop new instruments to complement existing forms of assistance. Export credit and export credit insurance are types of finance which promote trade and which can help satisfy demand for consumer and capital goods during the transition to market economies. Community instruments in these areas could fill certain gaps in existing coverage by export credit agencies in the Community while building up the capital stock which is necessary for improved production in the countries concerned.

Full use should be made of Community agreements to reinforce the efforts of Member States to secure adequate protection for Community investors. Technical assistance in framing suitable legal safeguards may be useful in this context. In the field of investment promotion the Community is well placed to cooperate in setting up business information centres and data bases accessible to the countries of central and eastern Europe and to the 24 and in encouraging industrial cooperation.

With respect to joint projects, association will facilitate the development of major investments in infrastructure which serve the needs of both parties.

With respect to political dialogue, association agreements will create an institutionalised framework for regular exchanges of views on bilateral and wider international issues and will strengthen confidence. This will take on particular significance as previous divisions in Europe are overcome and the Helsinki process enters a new phase. This will reinforce the essential role played by the Community in creating a political environment conducive to peaceful change and stability in Europe.

V. Budgetary implications

The above analysis carries clear implications for the Community budget. In view of the rapid development of events in Poland and Hungary, the launching of coordinated assistance by the Commission in the G-24 framework and the need to move ahead rapidly with concrete programmes in 1990, the budgetary authorities approved 300 MECU in non-disassociated credits for the current year. This, together with support through the EIB and the ECSC (respectively 1 billion ECU over three years and 200 MECU) as well as a 1 billion ECU adjustment loan for Hungary, will enable the Community to make a key contribution to economic stabilisation and liberalisation in these two countries this year.

Recent developments in central and eastern Europe now require, however, an adequate multiannual basis for support in the Community budget to take into account :

- the impending conclusion by the Community of trade and cooperation agreements with additional countries in central and eastern Europe;
- the probable admission of these countries to the benefits of coordinated assistance within the framework of G-24;
- the likely evolution of the Community's relations with the countries concerned towards association;

Against this background, the revision of the financial perspectives should fully reflect the above-mentioned needs for Community assistance to the countries of central and eastern Europe during the coming years. This revision, shortly to be proposed by the Commission, will establish ceilings for funding until the end of 1992 on the basis of presently available information. As the reform process advances and further information becomes available, specific figures for Community assistance can be established within these ceilings.

Provision should be made for multiannual funding, the credits for which should increase with the evolution of the needs and absorption capacities of our partners. Additional support may be needed, in the form of EIB and ECSC loans, with guarantees through token entries in the Community budget.

Following the revision of the present financial perspectives running until 1992 further consideration will need to be given to the funding of assistance for the countries concerned within the future limits of the Community's own resources. For this purpose criteria should be developed related to direct assistance so as to increase the potential for economic growth in the countries concerned and encourage private sector investment in particular, taking account of relevant macro-economic factors.