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TOWARDS A CLOSER ASSOCIATION WITH THE COUNTRIES OF CENTRAL AND EASTERN EUROPE

Communication by the Commission to the Council,
in view of the meeting of the European Council
in Copenhagen, 21-22 June 1993

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I. INTRODUCTION

The Commission submitted to the Edinburgh European Council last December a report entitled "Towards a closer association with the countries of Central and Eastern Europe". This report was a response to a request by the European Council to evaluate progress in the development of the Community's partnership with Central and Eastern Europe and to suggest further steps. It was also a response to suggestions from partner countries.

The European Council welcomed the Commission's report and called on the Council of Ministers to give early consideration to the Commission's recommendations and to promote a wide-ranging debate, involving interested parties in the Community and in these countries. The European Council concluded that at its meeting in Copenhagen in June it "will reach decisions on the various components of the Commission's report in order to prepare the Associate countries for accession to the Union."

Further to these conclusions, and to assist the Council of Ministers to prepare for the Copenhagen European Council in June, the Commission has drawn up the present Communication. This Communication is the result of extensive consultations at all levels of government between the Commission and the countries concerned and of discussions with representatives of Member States. The proposals it contains are primarily directed towards those countries with which the Community has concluded Europe Agreements. Other countries in Central and Eastern Europe will benefit from this approach when they become eligible for Europe Agreements. Meanwhile the Community should support these countries in their participation in regional cooperation initiatives.

Indeed, the Community's partners in Central and Eastern Europe must cooperate closely among themselves, in both the political and economic fields, while developing their relations with the Community. It is encouraging that this process has begun among the four Visegrad countries and the Community should actively promote its further development.

The economic and political transformation now taking place in Central and Eastern Europe is imposing enormous costs on economies weakened by 40 years of central planning. This is hampering the reform process and has led to pressure for a change in policy direction.

The transformation of Central and Eastern Europe has thus reached a new, more difficult, stage. The initial

euphoria has given way to the hard task of making the reforms work. It is of the greatest importance for the Community that they should not fail.

The Community's interlocutors in Central and Eastern Europe all stress how important it is for their countries to gain a clear perspective of their future participation in the process of European Union. This, they are convinced, will strengthen their peoples' determination to press ahead with the reforms, notwithstanding the hardship involved and the rise of political forces opposed to reform in certain countries. This perspective should also provide an element of stability against the background of continuing turbulence in the former Soviet Union and the tragedy unfolding in the former Yugoslavia. It should also diminish tension in a region where confidence and stability are suffering from the absence of a viable security structure.

It is in the Community's interest to respond positively to these aspirations. In the political sphere, the Community should confirm the perspective of future accession to the European Union and should indicate how best to prepare for this. The Community and partners should work together to create a European Political Area, which will provide a framework for continuous dialogue in many fields, including areas where effective action requires cooperation throughout Europe.

The European Political Area should be based on a structured relationship between partners and the institutions of the European Union achieved through closer political dialogue on a multilateral basis and by other means which are outlined in this Communication. The countries negotiating for accession to the Community should also be invited to participate in this relationship in view of their close links with the Union. A greater sense of belonging to the process of European integration will reduce feelings of insecurity and consequent tensions in the region, with gains for overall security and cooperation in Europe.

In the economic sphere, improved market access is the most effective way of encouraging economic growth and the transition to market economies. Better access to Community markets and the more effective use of aid will further improve the purchasing power of these countries and lead to the opening of new markets for Community producers. At the same time the Community will continue to press the countries of Central and Eastern Europe to establish close economic and trade relations among themselves and to deepen the dialogue with the EC on

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The new links which the Community is establishing with Europe agreement signatories form part of the wider network of relations with its neighbours all of whom stand to benefit from increased stability and prosperity throughout Europe.

At a conference in Copenhagen on 13 and 14 April 1993, the Member States and the countries of Central and Eastern Europe noted the important role of liberal trade policies for the transition process and stressed the importance of the progressive opening of markets on a mutually advantageous basis. It was also emphasised that a strong commitment to closer economic links with the countries of Central and Eastern Europe was crucial in assuring investor confidence.

For these reasons, the Commission invites the European Council to take a certain number of decisions, within the framework of its Edinburgh conclusions, in the areas outlined by the present Communication.

II. TOWARDS A EUROPEAN POLITICAL AREA

1. Accession

At its meeting in Edinburgh on 11-12 December 1992 the European Council decided that at its Copenhagen meeting in June 1993 it would "reach decisions on the various components of the Commission's report in order to prepare the associate countries for accession to the Union".

In order to offer concrete perspectives which the associated countries of Central and Eastern Europe can work towards, the European Council should confirm, in a clear political message, its commitment to membership of the Union for Europe agreement signatories when they are able to satisfy the conditions required. The message would further reflect the need for political decisions at the appropriate time which take into account the particular situation of each applicant as well as the following considerations:

- the capacity of the country concerned to assume the obligations of membership (the "acquis communautaire");
- the stability of institutions in the candidate country guaranteeing democracy, the rule of law, human rights and respect for minorities;
- the existence of a functioning market economy;
- the candidate's endorsement of the objectives of political, economic and monetary union;
- its capacity to cope with competitive pressure and market forces within the Union;
- the Community's capacity to absorb new members while maintaining the momentum of European integration.

The European Council could decide to convene an ad hoc Heads of State/Government level meeting, between the Union on the one hand and the associated countries of Central and Eastern Europe on the other, at an appropriate time, to review progress made under the Europe Agreements towards satisfying the conditions for membership of the Union.

2. A structured relationship with the institutions of the European Union

In order to prepare the way for possible future membership in the European Union of partner countries in Central and Eastern Europe, new political links and habits of cooperation with them should be developed. This is also vital in view of the absence of a coherent security structure covering the countries of Central and Eastern Europe and the consequent feelings of insecurity in the region.

With this in mind, the Commission, in its report to the Edinburgh European Council, put forward a number of suggestions intended to lead to the development of a European Political Area, within which like-minded countries would engage in intensive political dialogue and through which the countries of Central and Eastern Europe would participate progressively in the political work of the European Union.

The approach outlined by the Commission was founded on the principle of creating a more intensive relationship on a multilateral basis. The Commission is gratified to note that this approach has been followed to a

considerable extent by the Member States during discussions in the relevant Council frameworks. These discussions have led to a large measure of agreement on the intensification of political dialogue and on the need to give this political dialogue a multilateral character. It has been agreed that closer political dialogue with Europe Agreement signatories should be achieved through more regular meetings on issues of common interest at ministerial, troika and expert level. In addition, consultations should be held between diplomatic missions in third countries and in advance of important meetings of international organisations. (Details of the agreed approach are summarised in annex I.)

3. Further steps to create a European Political Area

While welcoming agreement on these elements, the Commission considers that further steps are needed along the lines of the approach outlined in the Edinburgh report. Political dialogue is important but it rests on the assumption that partners are regarded essentially as third countries, whereas, as indicated in the Edinburgh conclusions, it is a shared goal to work together in order to prepare them for future accession to the Union.

With this in view, a structured relationship between partner countries and the institutions of the Union should be developed. This will give them a greater sense of participating in the process of integration and should reduce feelings of insecurity and tensions in the region. This relationship should be brought about through closer political dialogue but also through

- enlarged meetings of the European Council, the Council of Ministers and where appropriate its subordinate bodies, of a consultative nature on specific, predetermined issues;
- cooperation in the fields of justice and home affairs.

This approach should apply to all Europe Agreement signatories without distinction. For their agreements all have similar provisions with regard to future membership in the Union and all provide for political dialogue. This does not preclude the development of a specific dialogue with such sub-regional groupings as Visegrad, although the tendency should be towards a wider multilateral approach.

Consideration should be given to the participation in

the European Political Area of the countries negotiating for accession to the Community in view of their close links with the European Union.

4. Enlarged meetings

Special extended sessions of the European Council could be held annually, with a view to giving partner countries a greater sense of participation in the work of the institutions of the European Union. These sessions would be prepared by extended meetings of relevant instances of the Council. Regular meetings of this nature would have a considerable political value for the Union and for the associated countries. They would fulfil their aspirations of being involved in regular consultations on matters concerning the Europe Agreements and beyond.

As suggested in the Commission's Edinburgh report, the Community should seek to associate partner countries with Community activities in areas of trans-European interest, such as energy, the environment, transport, telecommunications, science and research. To achieve this objective, enlarged meetings of the Council of Ministers of a consultative nature on specific predetermined issues of common European interest could be held with the participation of representatives of partner countries. In time, this would develop into a structured institutional relationship in diverse areas of common concern.

Arrangements for such enlarged meetings should be initiated simultaneously with the closer political dialogue.

5. Cooperation in the fields of Justice and Home Affairs

Cooperation in these areas is in the interest of the European Union as many of the issues involved can only be tackled effectively on a regional basis.

The signatories of the Europe Agreements have expressed a particular interest in consultations in this field, which is governed by specific institutional mechanisms. The countries concerned can be expected to take a keen interest in the areas covered by Title VI of the Treaty on European Union (e.g. immigration, drugs). It is important, therefore, to establish mechanisms for proper contacts on these subjects. The competent Ministers and senior officials should be encouraged to work out appropriate

consultation mechanisms.

6. An Action Committee for Central and Eastern Europe

As suggested in its Edinburgh report, the Commission proposes that the European Council establish an Action Committee for Central and Eastern Europe, inspired by the Monnet Committee, and composed of eminent personalities from different parts of Europe with expertise in European integration. The Committee would be invited to report to the European Council on additional means to develop a structured relationship between partner countries and the institutions of the European Union. The goal would be to foster the convergence of policies on issues of trans-European interest and the emergence of a European Political Area.

7. Conclusion

The Commission invites the Council to

- confirm its commitment to the goal of future accession to the European Union by Europe Agreement signatories
- agree to hold a meeting at Heads of Government level between the Union and associates in Central and Eastern Europe, at an appropriate time, to review progress made under the Europe Agreements towards satisfying the conditions for membership in the Union
- endorse the measures for creating a closer political dialogue on a multilateral basis outlined in this Communication
- approve the goal of creating a European Political Area, comprising the Union, associates in Central and Eastern Europe and countries negotiating for accession, through the mechanisms put forward in this Communication
- establish an Action Committee for Central and Eastern Europe to make recommendations on other means to create a structured relationship between partners in Central and Eastern Europe and the European Union

III. IMPROVING MARKET ACCESS

1. Introduction

The first Interim agreements, which implement the trade chapters of the Europe Agreements, have been in operation now for a little over one year.⁽¹⁾ These agreements provide for a considerable measure of trade liberalisation between the Community and its partners, leading to free trade in most industrial products within five years. It is therefore incumbent on the Community to move steadily in that direction.

2. Reasons for improving market access

a) The role of trade in the transition to a market economy

The importance of trade for economic development is well recognised. It is of particular importance in helping former state trading countries to restructure their economies to make them responsive to market signals. While the countries of Central and Eastern Europe will develop their own internal markets and will also develop regional trade links, the main stimulus for such development can only come from the Community. The ultimate goal of the Europe Agreements is the creation of a free trade area between the parties. In preparing their economies for free trade conditions the countries of Central and Eastern Europe need to introduce and apply competition policies in the areas of antitrust and state aid control which guarantee that trade takes place on a fair and undistorted basis.

There has been a rapid expansion of trade between the Community and the countries of Central and Eastern Europe over the past three years; for the latter this represents a major reorientation, following the collapse of trade with the former Soviet Union in 1990. For the Community it has meant the development of new and rapidly growing markets, including high value added products. Nonetheless, Central and Eastern Europe still accounts for only just over three per cent of total Community imports, (somewhat less than

(1) The Europe Agreements still have to be ratified by some Member States' Parliaments. The Commission has requested Member States to do everything possible to accelerate this process.

Norway). Figures for individual Member States range from 7.4 per cent for Germany to 1.4 per cent for Spain and 0.7 per cent for Portugal. The Community, however, now accounts for over 50 per cent of the total trade of our partners in Central and Eastern Europe.

The growth of Central and Eastern Europe economies depends on the expansion of trade. To sustain development and reform they need to generate funds to finance the import of investment goods and to repay their external debt. For some countries the burden of debt repayment will increase significantly in the immediate future as debt previously rescheduled falls due. The main source of such finance can only be export earnings. The other major source of development funds is foreign investment, which itself depends to a significant extent on access to western markets.

b) Regional Cooperation

In addition to opening its own markets, the Community should urge the Central and Eastern European countries to take further measures to stimulate trade among themselves, with the former Soviet Union, EFTA and other trading regions. Dismantling tariff and other barriers between the countries of Central and Eastern Europe would not only contribute to the development of interregional trade, but would also constitute an additional incentive for inward investment. The agreements with countries of Central and Eastern Europe, with EFTA and the agreement between the Visegrad countries to create a free trade area are positive steps in this direction. The Community will reinforce its efforts to support these developments and encourage their extension to other countries in the region.

c) Trade development is mutually beneficial

The Community now benefits from a growing surplus with the whole region. After a deficit of 1 bn ECU in 1990, the Community achieved a positive balance of 1.7 bn ECU for the first eleven months of 1992. This illustrates that the Community will be the main beneficiary among trading partners from the transformation of Central and Eastern Europe, as the region becomes a major market for Community producers. However, this could undermine the Europe agreements' basic principle that the Community, as the stronger partner, should open its market more rapidly on the path to free trade.

If Europe Agreement countries are to participate successfully in European economic integration, they need growth rates considerably in excess of those in the Community. Such growth depends to a considerable extent on trade among themselves and with the Community. Moreover, opportunities to trade with the Community will provide a further incentive for diversification away from over-specialisation in sectors which are sensitive for the Community.

3. A horizontal approach to improving market access

Nonetheless, recent meetings under the interim agreements demonstrate how difficult it is to negotiate improvements in access for specific products. The Commission, therefore, proposes that improvements in access be horizontal in nature, rather than product specific, and should consist mainly on an acceleration of the provisions of the Europe Agreements. The burden of acceleration will fall in two to three years' time. The proposals set out below represent a worthwhile improvement in market access which also takes into account the problems caused by the current recession in the Community.

The weighted average of the Community's tariff protection vis-à-vis the countries of Central and Eastern Europe for industrial goods is of the order of four per cent. Shortening the dismantlement period by two years would only imply the anticipation of an average two per cent. In the textiles area, the proposed liberalisation of OPT is already under discussion.

None of these measures imply major shifts in market share for the countries of Central and Eastern Europe, especially when their severe supply constraints are taken into consideration. However, they would be an important confirmation of support by the Community at a crucial time in the reform process.

4. Conclusions

For these reasons the Commission suggests that:

- a) customs duties on imports to the Community on sensitive basic industrial products originating in associated countries (annex IIB of the interim agreements) will be abolished at the end of the second year after the entry into force of the agreement (instead of the end of the fourth year).

- b) customs duties on the imports of the industrial products concerned by the consolidation of GSP (annex III of the Interim Agreements) will be abolished at the end of the third year (instead of the end of the fifth year).
- c) the amounts of the quotas and the ceilings of the above annex III (consolidation of GSP) will be increased by 30% (Poland, the Czech and Slovak Republics, Bulgaria, Romania), 25% (Hungary) per year starting from the second half of the second year after the entry into force of the agreement (instead of 20% for Poland, Czechoslovakia, Bulgaria, Romania and 15% for Hungary). Consideration should be given to the conversion of quotas into ceilings.
- d) levies/duties within the quotas for agricultural products will be reduced by 60% six months earlier than foreseen in the Agreements. The 10% increase in the quotas, foreseen from the third year onwards, will be applied six months earlier than foreseen.
- e) the exemption from customs duties as from the beginning of 1994 for all textiles and clothing concerned by outward processing operations will be extended in conformity with Community regulations duly modified for this purpose.
- f) customs duties on imports in the Community of textile products will be reduced in order to arrive at their elimination at the end of a period of five years starting from the entry into force of the agreement (instead of six years).
- g) customs duties on imports applicable in the Community on ECSC steel products originating from associated countries will be abolished at the latest at the end of the fourth year after the entry into force of the agreement (instead of the end of the fifth year), subject to respect of specific decisions relating to trade in steel products.
- h) In addition, and in order to strengthen regional economic cooperation, the Council should invite the Commission to prepare directives to conduct negotiations to provide for cumulation of rules of origin for all products from associated countries in Central and Eastern Europe and EFTA.

IV. MAKING ASSISTANCE MORE EFFECTIVE

Community assistance is wide-ranging, covering macro-economic support, through the Group of Twenty Four, food and emergency aid, nuclear safety and loans from EURATOM and the ECSC. The main vehicle for support focused directly on economic reform is PHARE. The Community undertook a thorough review of PHARE in the last quarter of 1992 to ensure that it can respond to the changing requirements of beneficiaries. The changes mainly concern multiannual programming, concentration and integration of PHARE resources, support for investment, conditionality, active monitoring and faster disbursement. (Further details of these modifications are set out in Annex II.)

A further step could now be taken to assist the reform process and stimulate investment by using existing resources more flexibly to fund key areas such as industrial restructuring, energy, environment and infrastructure (see below).

1. The Growth Initiative and Trans-European Networks

At the Edinburgh European Council, the Community decided on a Growth Initiative to stimulate recovery. The 5 bn ECU lending facility which was approved is intended to support capital investment in Trans-European Networks and "may include projects involving the countries of Central and Eastern Europe to the extent that they are of mutual interest and ensure interoperability of networks with the Community". The need for the Community to act in favour of these Networks is given further force by the Council's call both for "the Associate countries' links with the Community" to be strengthened, and for a start to be made on preparing those countries for accession to the Union.

a) the mutual interest in extending Trans-European Networks to the countries of Central and Eastern Europe

The development of high quality networks in Central and Eastern Europe is important to Community exporters and investors and is vital to the integrated economic development of the whole region. For these reasons the Community has already undertaken in the Europe Agreements to provide financial and other assistance for the development of transport infrastructure.

