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REPORT

by the Committee on External Economic Relations

on the Commission proposal for a Council decision concerning the conclusion by the European Economic Community of the Interim Agreement between the European Economic Community and the European Coal and Steel Community, of the one part, and Romania, of the other part, on trade and trade-related matters

(COM(92) 510 final - C3-0043/93 - 4218/93)

Rapporteur: Mr Leopoldo ORTIZ CLIMENT

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PE 203.628/fin.
Or. ES

Consultation procedure requiring a single reading
Cooperation procedure (first reading)

**II Cooperation procedure (second reading) requiring the votes of a majority of the current Members of Parliament
*** Parliamentary assent requiring the votes of a majority of the current Members of Parliament

DA

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By letter of 5 February 1993 the Council consulted the European Parliament, pursuant to the Solemn Declaration on European Union, on the Commission proposal for a Council decision concerning the conclusion by the European Economic Community of the Interim Agreement between the European Economic Community and the European Coal and Steel Community, of the one part, and Romania, of the other part, on trade and trade-related matters.

At the sitting of 8 February 1993 the President of Parliament announced that he had referred this proposal to the Committee on External Economic Relations as the committee responsible and to the Committee on Foreign Affairs and Security for its opinion.

At its meeting of 26 January 1993 the Committee on External Economic Relations appointed Mr Ortiz Climent rapporteur.

At its meeting of 8 February 1993 it considered the draft report.

At the latter meeting it adopted the draft legislative resolution unanimously.

The following took part in the vote: Cano Pinto, acting chairman; Stavrou, vice-chairman; Ortiz Climent, rapporteur; Balfe (for Dido), Benoit, Peijs, Price and Torres Couto (for Sainjon).

The Committee on Foreign Affairs and Security decided not to deliver an opinion.

The report was tabled on 8 February 1993.

The deadline for tabling amendments will appear on the draft agenda for the part-session at which the report is to be considered.

DRAFT LEGISLATIVE RESOLUTION

embodying the opinion of the European Parliament on the Commission proposal for a Council decision concerning the conclusion by the European Economic Community of the Interim Agreement between the European Economic Community and the European Coal and Steel Community, of the one part, and Romania, of the other part, on trade and trade-related matters

The European Parliament,

- having regard to Article 113 of the EEC Treaty,
 - having regard to the draft trade agreement initialled by the Commission (COM(92) 510 final),
 - having been consulted by the Council pursuant to the Solemn Declaration on European Union (C3-0043/93 - 4218/93),
 - having regard to its resolution of 18 April 1991¹
 - having regard to the report of the Committee on External Economic Relations (A3-0045/93),
1. Approves the conclusion and entry into force of the Interim Agreement between the European Economic Community and the European Coal and Steel Community, of the one part, and Romania, of the other part, on trade and trade-related matters, in accordance with international public law and international practice;
 2. Instructs its President to forward this opinion to the Council and Commission, and to the governments of the Member States and of the Republic of Romania.

¹ OJ No. C 129, 20.5.1991, p. 142

EXPLANATORY STATEMENT

1. As a result of the political and economic upheaval in the countries of Central and Eastern Europe since 1989, the Community undertook to support the transition towards pluralist democratic and market economy systems and hence to establish closer trading relations with those countries. At the end of 1990, having concluded trade and trade cooperation agreements, the Community said that it was prepared to negotiate association agreements - referred to as 'Europe Agreements' - on the basis of Article 238 of the EEC Treaty.

The Association Agreements signed with Poland, Hungary and Czechoslovakia¹ on 16 December 1991 constituted the first package of Europe Agreements. Pending ratification of the Europe Agreements², the Community and the three Visegrad countries concluded an interim agreement for the provisional application of those sections of the Agreement for which the Community has responsibility, i.e. trade and trade-related measures. Through its committee responsible for economic and trading relations with third countries, the European Parliament approved the conclusion of the interim agreements concerned, which entered into force on 1 March 1992.

2. The Europe Agreements associating Romania and Bulgaria form the second package of agreements making up the new legal and institutional framework which the Community is setting up in order to incorporate that region into the process of European integration³. In the specific case of Romania, negotiations were concluded in mid-November 1992. The agreements - the Association Agreement and the Interim Agreement on trade - were signed on 1 February 1993. As with the first package of Europe Agreements, this is a mixed agreement which includes matters not falling within the exclusive competence of the Community. The Europe Agreement with Romania must therefore be ratified by the national parliaments of the Member States and of the associated country, as well as by the European Parliament. Given that the procedure for ratification by the national parliaments requires a lengthy period of time (as shown by the experience in connection with the agreements with Poland and Hungary, which are still awaiting ratification by certain Member States), both parties have agreed to put into effect, on a provisional basis, the trade section of the agreement in order to enable Romania to enjoy, as soon as possible, the trading benefits established in the Association Agreement.

In this regard, the Commission proposal to conclude an interim agreement constitutes the legal instrument for detaching the trade section of the agreement, for which the Community has responsibility, from the rest of the agreement (which includes political, economic, financial and even cultural provisions) so that the trade provisions can enter into force as soon as possible.

¹ The last-named agreement remains to be modified to take account of the break-up of Czechoslovakia into two independent states

² It should be pointed out that the European Parliament gave its assent to the agreements with Poland and Hungary at the September 1992 part-session

³ The interim agreements lay down rules of origin which are identical to those for Romania and Bulgaria and may be cumulated

3. From the legal standpoint, Article 113 has been chosen as the basis for the interim agreement because its scope is confined to trade and trade-related measures. The request for consultation of Parliament by the Council is therefore based on the Stuttgart Solemn Declaration in accordance with the 'significance' of the agreement in question, i.e. consultation is optional. Nevertheless, the Council must await Parliament's opinion before taking the decision to conclude the interim agreement.

As it pointed out in its reports on the interim agreements on trade with Poland, Hungary and Czechoslovakia (A3-0004/92, A3-0006/92 and A3-0005/92), the European Parliament, by delivering this opinion, is endorsing the provisional 'decoupling' involved in an interim agreement procedure, while stressing that it reserves the right to consider and give its assent to the whole of the European association agreement with Romania in accordance with the provisions of Article 238 of the EEC Treaty.

It should be stressed, however, that the interim agreement voids the trade-related section of the Agreement on trade and commercial and economic cooperation with Romania, which was signed on 22 October 1990 and only entered into force on 1 May 1992. In fact, the Community had to suspend the procedure for concluding that agreement because of the political instability and inadequate democratic credentials which had marked Romania since the overthrow of the Ceauşescu dictatorship.

4. With regard to the substance of the interim agreement on trade, this is a preferential agreement the ultimate aim of which is the gradual establishment of a free-trade area covering most trade between the Community and Romania. In fact, the agreement seeks to establish a free-trade area within a period of nine years by means of an asymmetrical approach:

- . Gradual opening up of the Community's markets over a period of five years from the date on which the interim agreement enters into force. The agreement lays down various timetables for the gradual dismantling of duties on Romanian imports on the basis of product 'sensitivity';
- . Gradual dismantling of customs duties on imports, applied by Romania to the Community's industrial products, over a period of nine years from the date on which the agreement enters into force. For most industrial products, the first reduction of Romanian duties is scheduled to take place three years after the entry into force of the agreement (Article 5(4)).

With regard to new passenger vehicles, the timetable for dismantling is faster in the initial phase, though it too extends over nine years. In fact, the first reduction will take place on the date on which the agreement enters into force. It should be pointed out, however, that in respect of a not inconsiderable number of industrial products (Annex IV), Romania will abolish its customs duties on the date on which the agreement enters into force. In respect of other products in respect of which Romania's competitive capacity is relatively high (Annex V), Romania's market will have been completely opened up five years after the entry into force of the agreement. This applies to certain motor car components: bumpers and seat belts.

The interim agreement also lays down special arrangements for textile products (the Commission explicitly acknowledges that the treatment accorded to Romania is essentially identical to that accorded to the Visegrad countries), ECSC products and processed agricultural products. In this context, it should be

pointed out that, in 1991, EEC-Romania trade in certain 'sensitive' sectors was as follows:

- **Textile products (SITC 65+84):** Surplus for Romania totalling ECU 157 m. This is a fundamental sector for Romania - and not without cause, since it accounts for 25% of its exports to the Community;
- **Agricultural products (SITC 0+1+22+4):** Surplus for the Community totalling ECU 170 m.

Furthermore, as can be deduced from the breakdown of EC-Romania trade by commodity, Romania's trading is geared to the export of ores and metals, semi-processed products, machine tools and certain manufactures (shoes and leather goods, furniture and ceramics).

5. In the rapporteur's opinion, there is not the slightest doubt that the content of the agreement with Romania takes account of the specific characteristics of that country, though it is substantially based on the agreements which have already been negotiated with the Visegrad countries. Some of the differing points are as follows:

- (a) A democracy clause is included as one of the articles of the interim agreement as an essential component of trade cooperation. Respect for the principles of democracy and human rights forms the basis for trade and cooperation between the parties. Likewise, the principles of the market economy (economic requirement) are to guide Romania's domestic and external policies.
- (b) The agreement with Romania lays down a slower time table for dismantling Romania's tariff barriers affecting the Community's products. By comparison with Poland, in fact, efforts to eliminate barriers will be less intensive over the first five years (60% in the case of Poland as opposed to 40% in the case of Romania), the reduction taking place over a longer period (nine years in the case of Romania as opposed to seven in the case of Poland). Obviously, this concession takes into account the fact that the productive apparatus in Romania is more obsolescent and more under-capitalized than in the Visegrad countries. A further difference is that, regard to industrial structure, as a factor, is also reflected in greater in connection with the special provisions required to take into account the measures adopted in the Acts of Accession by Spain and Portugal to the Community, special rules for Romanian industrial products are not necessary, since the transitional period for Spain and Portugal ended in 1992 and both countries have been applying the Common Customs Tariff and the ECSC unified tariff in full since 1 January 1993.
- (c) With regard to ECSC products, the agreement with Romania includes important new features. Firstly, the Community has introduced the possibility of applying specific and immediate safeguard measures (Article 5 of Protocol No. 2), which are not in line with the procedure laid down in Article 28(3) of the Agreement. These measures were not included in the agreements with the Visegrad countries and undoubtedly constitute a defence mechanism for dealing with the tensions caused on the Community's steel market in recent months by imports of certain steel products originating in Czechoslovakia.

In return, the Community will accord Romania special treatment by permitting it - the only Eastern European country to be in this position - to extend, by way of exception, the period of five years during which it may grant subsidies for the restructuring of its steel industry. This exception is warranted in the light of Romania's special difficulties in restructuring the steel sector and the fact that the process was started very recently.

6. According to the latest data available (see annexed tables), the trade between the EEC and Romania has developed lopsidedly since 1989. Between 1989 and 1991, Community exports rose by 78% while Romanian exports fell by 44% to a level equivalent to that at the end of the seventies. Obviously, this phenomenon reflects the radical shift in the pattern of external trade which had been imposed by the Ceauçescu dictatorship in the 1980s, i.e. that exports should be promoted at any price (even at the cost of depriving the domestic market of supplies) and that imports should be mercilessly restricted (even at the risk of under-capitalizing the productive apparatus). The objective of that strategy was no less than the total repayment of Romania's external debt. Given the circumstances, Romania traditionally ran a trade surplus. Since 1989, however, the Community's deficit has been slashed, and, in the first half of 1992, the Community's trade surplus was already some ECU 155 m.

CONCLUSION

7. The rapporteur believes that there is considerable potential for the development of reciprocal trading relations between Romania and the Community. Romania needs external trade - as do other Eastern European countries - to continue its process of economic restructuring, technological modernization and raising competitiveness. More than any other country in the region, consequently, it needs to improve its access to the Community's markets and hence to boost its international market penetration to a significant extent⁴. In this context, the Committee on External Economic Relations believes that the tariff and trading concessions included in the interim agreement on trade should enable Community demand for Romanian products to rise as soon as reciprocal industrial trade begins to be liberalized. In the rapporteur's opinion, the key question is to what extent the concessions in question will promote Community market penetration by the products in which Romania enjoys a real comparative advantage. In other words, will the formal asymmetrical arrangements sought by this agreement not mean, in practice, a genuinely lopsided setup favourable to Romania's trade balance?

At all events, the Committee on External Economic Relations takes the view that trade is one of the key factors in promoting Romania's economic conversion. Applying the provisions of this agreement, and a broad interpretation thereof, should help to consolidate political stability in Romania and to adapt and modernize its economy.

Lastly, the interim agreement will cease to apply when the Europe Agreement (Association Agreement) enters into force.

⁴ Romania is possibly the country to have suffered most as a result of the collapse of COMECON and the disintegration of the former Soviet Union

Community trade with Romania, 1981-1991

1000 ECU

	EC-imports (cif)	EC-exports (fob)	Balance
1981	1,963,477	1,765,180	-198,297
1982	1,891,149	1,103,413	-787,736
1983	1,904,679	913,957	-990,722
1984	3,059,896	1,058,431	-2,001,465
1985	2,910,405	1,157,097	-1,753,308
1986	2,482,771	986,894	-1,495,877
1987	2,428,955	651,433	-1,777,522
1988	2,233,905	614,520	-1,619,385
1989	2,548,405	689,054	-1,859,351
1990	1,603,882	1,227,071	-376,811
1991 (1)	1,427,615	1,223,833	-203,782
1991: average 1980/81/82=100	75.4	79.1	-----
1991 (2)	1,466,099	1,330,480	-135,619

Sources: CRONOS-FRIC and COMEXT, EUROSTAT

Production: European Parliament/Statistical Service

(1) including D (W) only

(2) including D (E)

Community trade with Romania by commodities, 1991

EC-imports (cif)

	SITC rev. 3	1000 ECU	- % -
Total		1,466,099	100.0
All food items	0+1+22+4	68,108	4.6
Meat and meat preparations	01	24,060	1.6
Vegetables and fruit	05	18,714	1.3
Beverages and tobacco	1	7,238	0.5
Agricultural raw materials	2-22-27-28	26,790	1.8
Fuels	3	203,632	13.9
Ores and metals	27+28+67+68	111,824	7.6
Manufactures	5+6+7+8-67-68	1,037,642	70.8
Textiles and clothing	65+84	371,856	25.4
Chemicals	5	72,420	4.9
Machinery	7-78-79	105,793	7.2
Transport equipment	78+79	25,337	1.7
Other manuf. products	6-65-67-68+8-84	462,236	31.5

EC-exports (fob)

	SITC rev. 3	1000 ECU	- % -
Total		1,330,480	100.0
All food items	0+1+22+4	238,302	17.9
Cereals and cereal preparations	04	67,630	5.1
Dairy products	02	30,793	2.3
Vegetables and fruit	05	28,094	2.1
Beverages and tobacco	1	33,620	2.5
Agricultural raw materials	2-22-27-28	30,891	2.3
Fuels	3	68,563	5.2
Ores and metals	27+28+67+68	66,897	5.0
Manufactures	5+6+7+8-67-68	862,456	64.8
Textiles and clothing	65+84	215,293	16.2
Machinery	7-78-79	291,012	21.9
Transport equipment	78-79	53,714	4.0
Chemicals	5	139,631	10.5
Other manuf. products	6-65-67-68+8-84	162,806	12.2

Source: COMEXT, EUROSTAT

Production: European Parliament/Statistical Service

Community trade with Romania by Member States

EC-imports (cif) 1,000 ECU

	1991		January-August:		
	1,000 ECU	-%-	1991	1992	Index 92/91
Total	1,466,099	100.0	981,763	872,914	88.9
of which:					
Belg.-Luxbg	49,380	3.4	30,351	28,539	94.0
Denmark	4,420	0.3	2,864	6,786	236.9
Fr Germany	578,590	39.5	382,955	376,502	98.3
Greece	73,774	5.0	29,782	26,878	90.2
Spain	79,306	5.4	58,615	37,903	64.7
France	239,882	16.4	161,561	124,913	77.3
Ireland	1,450	0.1	1,184	348	29.4
Italy	274,800	18.7	200,260	182,356	91.1
Netherlands	75,396	5.1	55,096	31,501	57.2
Portugal	3,442	0.2	2,824	1,264	44.8
Utd. Kingdom	85,658	5.8	56,271	55,926	99.4

EC-exports (fob)

	1991		January-August:		
	1,000 ECU	-%-	1991	1992	Index 92/91
Total	1,330,480	100.0	891,744	1,028,158	115.3
of which:					
Belg.-Luxbg	51,645	3.9	32,330	32,494	100.5
Denmark	11,308	0.8	7,353	10,224	139.0
Fr Germany	593,891	44.6	406,138	381,726	94.0
Greece	68,475	5.1	42,322	59,285	140.1
Spain	14,603	1.1	11,306	13,012	115.1
France	212,328	16.0	161,339	191,488	118.7
Ireland	3,764	0.3	2,344	1,481	63.2
Italy	211,309	15.9	130,299	217,926	167.3
Netherlands	79,602	6.0	48,920	66,153	135.2
Portugal	814	0.1	541	3,314	612.6
Utd. Kingdom	82,741	6.2	48,851	51,055	104.5

Source: COMEXT, EUROSTAT

Production: European Parliament/Statistical Service

