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**R E P O R T**

of the Committee on External Economic Relations

on the Commission proposal for a Council decision on the conclusion of an Agreement between the European Economic Community and Latvia on trade and commercial and economic cooperation

(COM(92) 176 final - 5917/92 - C3-0228/92)

Rapporteur: Mr Gerd Ludwig LEMMER

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Or. DE

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

**|| 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

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By letter of 13 May 1992 the Council consulted the European Parliament, pursuant to Article 235 of the EEC Treaty, on the Commission proposal for a Council decision on the conclusion of the agreement between the European Economic Community and Latvia on trade and commercial and economic cooperation.

At the sitting of 8 June 1992 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 Committees on Foreign Affairs and Security, Budgets, Energy, Research and Technology, Transport and Tourism, and Culture, Youth, Education and the Media for their opinions.

At its meeting of 31 January 1992 the Committee on External Economic Relations had appointed Mr Lemmer rapporteur.

It considered the draft report at its meetings of 15 July, 14 September and 6 November 1992.

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

The following members took part in the vote: Cano Pinto, acting chairman; De Vries, Miranda De Lage, Moorhouse, Price, Sainjon and Sonneveld (for Peijs).

The opinions of the Committees on Foreign Affairs and Security, Budgets, Energy, Research and Technology, Transport and Tourism, and Culture, Youth, Education and the Media are attached.

The report was tabled on 9 November 1992.

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

A
DRAFT LEGISLATIVE RESOLUTION

embodying the opinion of the European Parliament on the Commission proposal for a Council decision on the conclusion of the agreement between the European Economic Community and Latvia on trade and commercial and economic cooperation

The European Parliament,

- having regard to Article 235 of the EEC Treaty,
 - having regard to the draft agreement initialled by the Commission between the European Economic Community and Latvia on trade and commercial and economic cooperation (COM(92) 176/final),
 - having been consulted by the Council pursuant to Article 235 of the EEC Treaty and to the procedure under Article 228 of that Treaty (5917/92 - C3-0228/92),
 - having regard to the report of the Committee on External Economic Relations and the opinions of the Committees on Foreign Affairs and Security, Budgets, Energy, Research and Technology, Transport and Tourism, and Culture, Youth, Education and the Media (A3-0359/92),
1. Approves the conclusion and entry into force of an agreement between the European Economic Community and Latvia on trade and commercial and economic cooperation, 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 Latvia.

B
EXPLANATORY STATEMENT

I. Introduction

Following the collapse of what used to be the Soviet Union and in particular after the failure of the coup in August 1991, the European Community has been faced with the need to reshape its treaty relations with the independent states that have emerged. The trade and cooperation agreement that had been concluded one year previously and which applied to the entire territory of the Soviet Union had to be replaced by individual agreements: not only with the Commonwealth of Independent States (CIS) and its constituent republics, but also with the three Baltic States.

The latter had decided in 1990 to secede from the former Soviet Union in order to regain the national independence which they had lost in 1939/40. The initial response of the central authorities was one of considerable aggression to these attempts at independence, leading to bloody conflicts with army units in Lithuania and Latvia in particular, but in August 1991 the three Baltic States were able to obtain full independence and international recognition.

II. The economic situation

The economy of the three Baltic States, Latvia in particular, had been fully integrated into the economic structure of the former Soviet Union. This is reflected today in an almost total dependence on supplies of raw materials and energy from the republics of the CIS and other states in Central and Eastern Europe. The latter will now only supply in exchange for convertible currency. Since Latvia scarcely has any convertible currency at its disposal, there are widespread bottlenecks in intermediate products and spare parts. In some sectors, notably oil-processing, there has been a considerable loss of production. In addition to the fact that production is lopsided, Latvia's economy is also faced with the problem that the collapse of the Soviet Union and COMECON has meant a loss of sales markets for its products. Economic policy therefore has to concentrate not only on achieving a transition from a Communist, centrally planned economy to an environmentally compatible social market economy, but also on restructuring its sources of supply and sales markets.

The main legislative steps have already been taken towards introducing a market economy. The statutory basis for private ownership of business enterprises has been created, the privatization of state enterprises, initially in the agricultural sector and subsequently in industry has begun, and rules on competition and laws to protect intellectual property have been enacted. At the same time conditions for foreign investors have been improved to make the country more attractive for Western investment capital.

The Bank of Latvia was set up in 1990. It was initially engaged in private transactions but after the introduction of a separate Latvian currency it has taken over the role of a central bank. There are 21 commercial banks currently active in Latvia, roughly half of which have entered into cooperation agreements with Western banks in order to offer foreign investors the services they require.

Latvia has a balanced budget. A new tax system has been introduced, the main objectives of which are to create a sound fiscal basis for economic activities, to stimulate the reinvestment of profits and to offer inducements to foreign

investors. At the same time it is intended to provide the state administration at all levels with the revenue it requires.

In its future economic development Latvia has to take account of the fact that it is dependent on the republics of the former Soviet Union. At the same time, however, it intends to diversify its economic and trade relations, particularly in the Baltic with its immediate neighbours, the Scandinavian countries and the EEC. Initial progress has also been achieved in economic cooperation between the three Baltic States. On 26 March of this year an agreement largely based on the Benelux model was concluded with Estonia and Lithuania on the creation of a Baltic free trade zone.

III. Substance of the agreement

The main objective of the agreement which was initialled in February 1992 and signed in May is to improve economic and trade relations between the EEC and Latvia. Before the negotiations started, the Commission had entered into exploratory talks at expert level with Latvia last November. Following these talks on 11 November 1991 the Council forwarded to the Commission guidelines on negotiating a trade and cooperation agreement.

Future cooperation between the EC and Latvia is to be based on respect for the democratic principles and human rights established by the Helsinki Final Act and the Charter of Paris for a new Europe (Article 1). It also involves a guarantee of the rights of ethnic and national groups and minorities, as set out in the preamble to the agreement. The clauses on trade policy provide for the Community and Latvia granting each other most-favoured-nation treatment in accordance with GATT rules (Article 5), although this does not apply to agricultural products, coal and steel or textile products. The Treaty provides for a separate agreement to be negotiated between the two sides for textiles and clothing (Article 3). While the Community has undertaken to eliminate the specific quantitative restrictions applying to Latvia (Article 8), for its part Latvia undertakes to grant imports of Community products treatment which is non-discriminatory as regards the application of quantitative restrictions, the granting of licenses and access to foreign currency (Article 7). Goods are to be traded between the parties at market-related prices (Article 10). In the event of a substantial increase in imports threatening a serious disruption of the market in the importing country, Article 11 provides for a consultation mechanism. If no agreement can be reached, or if urgent action is required, either party is free to take measures needed to reduce imports.

The main purpose of economic cooperation is to create economic links in all areas of mutual interest and all areas where the two sides have separate responsibilities in order to stimulate trade between the two. Hence, this cooperation may help support the structural change in Latvia's economy. Article 15 of the Agreement provides a non-exhaustive list of areas of such cooperation, ranging from industry via agricultural and fisheries to science and technology, telecommunications, energy, transport and tourism.

Finally, the Community undertakes to support any application by Latvia to accede to international organizations and agreements (Article 17). A Joint Committee is to be set up to implement the agreement and in particular the specific details of economic cooperation (Article 18). The Joint Committee is intended to ensure the proper functioning of the agreement and to make such recommendations which seem appropriate to achieve the objectives of the agreement. It is to meet once

a year, alternatively in Brussels and Riga. The agreement is concluded for a period of ten years and can be extended automatically by one-year periods.

IV. Evaluation

This non-preferential trade and cooperation agreement is concluded on the basis of Article 235 of the EEC Treaty, which means that Parliament has to be consulted. The legal basis adopted is the appropriate one, since the agreement is non-preferential in nature and it involves no financial commitment on the part of the Community. It therefore differs substantially from the association agreements negotiated with the countries of Central and Eastern Europe. Essentially, the agreement replaces the provisions of the old trade and cooperation agreement between the EC and the former Soviet Union.

The agreement will quite clearly be able to help in overcoming the economic problems in the transition to a market economy and the restructuring of Latvia's economy. It remains to be seen, however, whether this standard agreement is sufficient or whether there is not a need to grant trade preferences, for example through the creation of a free trade zone and a stronger financial commitment on the part of the Community.

It needs to be borne in mind that as one of the group of 24 western industrialized states the EC is already providing financial support to the three Baltic States. On the other hand, time will tell to what extent this agreement represents only the first step towards closer relations between the two parties. For example, there is the possibility of an association of the three Baltic States. Compared with other states of Central and Eastern Europe, such as Bulgaria and Romania, Latvia and the other Baltic States satisfy the appropriate political and economic conditions.

The only matter of concern is the problem of the Russian minority in Latvia. Over the last 50 years many citizens of the former Soviet Union settled in Latvia, not least because the economic potential and standard of living were better than in the other parts of the former Soviet Union. Today they account for just on 40% of the total population. Efforts by Latvian politicians to marginalize this ethnic group, for example in respect of the legal definition of Latvian nationality which states that Latvian citizenship can only be enjoyed by people who have been resident in Latvia since at least 1940, have merely served to aggravate this problem. The Community should bring its influence to bear so that the principles of Helsinki and Paris are applied to the rights of minorities.

The offer to negotiate European agreements in the near future with the three Baltic States would also mean opening up the prospect of EC membership for these states, too. In a pan-European context this would certainly be a welcome move. Together with applications for membership from Sweden and Finland, both EFTA states, the Community enlarged in this way would comprise almost the entire Baltic region and could therefore build on the historic traditions of economic cooperation as they have developed over the centuries.

OPINION

(Rule 120 of the Rules of Procedure)

of the Committee on Foreign Affairs and Security
for the Committee on External Economic Relations
Draftsman: Mr Ib CHRISTENSEN

At its meeting of 19 February 1992 the Committee on Foreign Affairs and Security appointed Mr Ib Christensen draftsman.

At its meeting of 14 September 1992 it considered the draft opinion.

At the meeting of 1 October 1992, it adopted the conclusions as a whole unanimously.

The following were present: Baron Crespo, chairman; Ib Christensen, draftsman; Avgerinos, Canavarro, Cheysson, Fernandez Albor, Langer, Lenz, Llorca Vilaplana, Onesta, Penders, Planas, Sakellariou and Triveill.

The Committee on Foreign Affairs and Security is considering the general question of relations between the Community and the Baltic States in the FERRER report.

The committee considers that the Baltic States' cultural links with the rest of Europe, and their historic relationship with the Nordic countries in particular, form an important basis for future links with the EC.

The agreements on which Parliament has been requested to deliver an opinion were signed on 11 May 1992.¹

These are agreements of the conventional type, non-preferential and with provision for future developments. They are scheduled to last for ten years, with a possibility of tacit renewal each year.

They are aimed at developing and diversifying commercial relations and promoting economic and commercial cooperation.

Respect for democratic principles and human rights, as defined in the Charter of Paris, is expressly cited and constitutes an essential element of the agreements.

The committee has considered the state of civil rights for minorities in the three Baltic States and has noted the limited rights accorded to the Russian minorities in Estonia and Latvia.

The committee fully understands the problems brought about by 50 years of enforced russification in the Baltic countries, and realizes that they need a transitional period, particularly in view of the fact that there are still Russian troops stationed on their territory.

The committee firmly believes, however, that full democratic rights must also include minorities, and expects the Baltic States to work actively to achieve this in future.

The provisions on trade allow for most-favoured-nation treatment and the abolition of quantitative restrictions by the Community. Other provisions are aimed at ensuring the development of economic and commercial cooperation.

The working of the agreements will be monitored by Joint Committees, which are responsible for periodically reviewing the development of commercial relations.

When the agreements were signed, a joint declaration was also adopted on instituting political dialogue. This is a legally non-binding act but its political significance is beyond question. The declaration opens the way for closer relations between the Community and these countries.

The political declaration is aimed at:

- consolidating the principles of democracy, including respect for the rights of minorities;
- encouraging the transition of the Baltic States towards a market economy;
- facilitating the full integration of those countries into the international community;
- encouraging mutual understanding on international policy issues;

¹ A similar agreement with Albania was also signed on that date.

- ensuring that the parties are aware of each other's position and interests when taking decisions;
- supporting the Baltic States' efforts at achieving inter-regional cooperation;
- strengthening peace and security on the whole continent.

Political dialogue will take the form of meetings at ministerial level, meetings between senior officials, exchanges of information and contacts at parliamentary level. These provisions may be reviewed depending on any future requirements.

The Committee on Foreign Affairs and Security welcomes the agreements on trade and commercial and economic cooperation as they lay the foundations for the further development of cooperation over the next few years. This is a development which could well lead to the Baltic States being treated on a par with Poland, Czechoslovakia and Hungary.

The explicit reference to respect for the principles of the CSCE and the declaration on political dialogue testify to the desire of the Community and the Baltic States to place their relationship on a higher footing which is not confined to commercial relations alone.

For some time now, Estonia, Latvia and Lithuania have participated in the proceedings of the Parliamentary Assembly of the Council of Europe owing to their 'special guest' status. They are expected to become members of the Council of Europe in the near future.¹ This confirms these countries' return to the European and international political stage. The conclusion of the agreements, backed up by the development of political dialogue, represents a suitable response to the current situation pending future developments which may lead to association and, ultimately, membership of the European Community.

¹ See the Parliamentary Assembly's report on the enlargement of the Council of Europe - Doc. 6629 of 16 June 1992

O P I N I O N

of the Committee on Budgets

Letter from the chairman of the committee to Mr Willy De CLERCQ, chairman of the Committee on External Economic Relations

Luxembourg, 24 June 1992

Subject: Opinion of the Committee on Budgets on the proposal for a Council decision on the conclusion of an Agreement between the EEC and Latvia on trade and commercial and economic cooperation
(COM(92) 176 final - C3-0228/92)

Dear Mr De Clercq,

At its meeting of 23 and 24 June 1992 the Committee on Budgets considered the above proposal.

The Committee on Budgets noted that the aim in concluding this agreement is to provide support for the structural adjustment of the Latvian economy. It also noted that the agreement involves neither a financial commitment nor a financial protocol, and that Latvia will be granted most-favoured-nation status in accordance with the GATT rules.

In view of the above, the committee unanimously approved the proposal

Yours sincerely,

(sgd) Thomas von der Vring

The following were present for the vote: von der Vring, chairman; Böge, De Giovanni (for Napolitano), Elles, Isler, Kellett-Bowman (for Cassidy), Langes, Theato and Wynn

OPINION

(Rule 120 of the Rules of Procedure)

of the Committee on Energy, Research and Technology

for the Committee on Budgets

Draftsman : Mrs Jessica LARIVE

At its meeting of 10 June 1992 the Committee on Energy, Research and Technology appointed Mrs Jessica LARIVE draftsman.

At its meeting of 14 September 1992, it considered the draft opinion,

At the same meeting it unanimously adopted the conclusions as a whole.

The following took part in the vote: Desama, chairman; Quisthoudt-Rowohl and Adam, vice-chairmen; Larive, draftsman; Bettini, Brayer, Hervé, Linkohr, Pompidou, Regge, Sanz Fernandez and Seligman.

1. When the three Baltic Republics, which in some respects share a common history but are linguistically different ethnic groups, declared their independence from the already disintegrating former Soviet Union on 20 August 1991, they reached the culmination of a process of long-standing efforts, the last stage of which lasted nearly ten years, to regain the political identity enjoyed by the region during the inter-war period.
2. This return to their original status could nevertheless give new impetus to sources of instability observed in their recent past, since these new democracies have to confront complex problems owing to their lack of first-hand experience of democracy (it should be remembered that all three countries were ruled by dictatorial regimes even before the German and Soviet occupations). These problems include the presence of Soviet army units on their territory - a matter recently examined by the plenary committee of the Conference on Security and Cooperation in Europe; the transition to market economies on the basis of outmoded production methods; and the prevailing hostility among the Russian-speaking people of the three republics, the Polish in Lithuania and natives of the region, except with regard to independence, which is an aspiration shared by all the nationalities involved.
3. These three republics, whose standard of living was comparatively high in relation to the other former Soviet republics and which were seen as a promised land by tens of thousands of Soviet citizens, are currently showing a clear tendency to redirect their sights towards the West. Thus, as the European Parliament delegation was able to ascertain, future association with the European Community is seen as a means and an obvious path towards industrial reorganization and diversification of commercial structures, not to mention the considerable importance attached to Community aid and assistance - assistance from the PHARE programme, agricultural and in some cases humanitarian aid agreements - and the possibility of moves to harmonize legislation, thereby smoothing the way to future membership of the Community.
4. Looking at the scientific situation, we can now expect a revitalization of activity, which has so far been led by the respective scientific academies. On the other hand, although these republics were previously of crucial importance to gas and electricity distribution to the north and west of the former USSR, they now find themselves dependent on outside sources, regardless of the fact that Estonia possesses deposits of oil shale and peat which have given rise to substantial production of artificial gas and other fuels. Latvia, which was one of the former Soviet Union's most industrialized republics, now has to import half its electricity supply, even though its hydroelectric plants and thermal power stations are still operating. Lithuania has two RPKM-type nuclear reactors on its territory, which have been declared unsafe by experts from the International Atomic Energy Agency.
5. The Committee on Energy, Research and Technology, having considered the texts of the agreements proposed by the Commission, which are virtually identical except with regard to the reference to the Euratom Treaty in the case of Lithuania, and markedly commercial in tone, can

only uphold the view repeatedly expressed by the European Parliament in its resolutions on the events surrounding developments in the Baltic Republics, the specific aspects of cooperation addressed by the PHARE programme, and in a more general manner with regard to scientific and technological cooperation between the European Community and non-member European states. (Rapporteur: Mrs LARIVE). Our committee is particularly interested in the aspects of economic cooperation described under Title III of the agreements, concerning the encouragement of scientific and technological progress in energy, including energy conservation and the development of new energy sources, the development of human resources and training and nuclear safeguards.

6. In this context, the Committee on Energy, Research and Technology :

- stresses the importance of this new cooperation becoming a step towards establishing relations similar to those between the Community and the EFTA countries, subject to the rule of mutual benefit in the context of an approach based on an overall balance of advantages so as to favour the liberalization of markets.
- notes with satisfaction that the Commission's proposals are in line with Parliament's demands on this subject, since they will undoubtedly help to free the economic structures and prepare the way for the transition to a market economy, with respect for human rights - particularly those of minorities - and democratic principles;
- encourages the extension of cooperation to the field of research and development as part of the proposal to establish the International Science and Technology Centre in the independent states of the former Soviet Union, which was considered by the Research Council on 29 April 1992, and as part of the COST programme on behalf of the three Baltic countries;
- recalls the continuing relevance of the conclusions of the G-24 high-level meeting of 30 January 1991 with regard to the framework areas for cooperation in the energy sector with the countries of Eastern and Central Europe, which included aid to energy policy definition and planning, as well as restructuring programmes, price studies and long-term forecasts; matters relating to energy demand and supply, including energy efficiency and conservation studies, improvements in production and distribution and the diversification of long-term energy supply sources; and finally, problems connected with the assessment of risks associated with energy use, with respect to the environment and nuclear safety, particularly in the case of Lithuania;
- views with great interest the possibility of extending the scope of energy cooperation within the context of the Energy Charter;
- considers that, as with other cooperation agreements between the European Communities and non-member states, participation by these countries in research and technical and energy development programmes should not lead to a reduction in the budgetary allocations to universities, laboratories and research centres in European Community Member States which also participate in Community RTD programmes;

- recalls the need to encourage the adoption of common rules and standards, particularly in the development of computer technology and communications systems;
- recommends to the committee responsible, the Committee on External Economic Relations, that, having taken these considerations into account, it approves the cooperation agreements addressed by this opinion.

OPINION

of the Committee on Transport and Tourism

Letter from the chairperson of the committee to Mr De Clercq, chairman of the Committee on External Economic Relations

Brussels, 13 July 1992

Subject: Proposal for a Council decision on the conclusion of agreements between the European Economic Community and each of the three Baltic republics, Latvia, Estonia and Lithuania
(COM(92) 176 - C3-228/92, COM(92) 177 - C3-227/92 and
COM(92) 178 - C3-229/92)

Dear Mr De Clercq,

The Committee on Transport and Tourism has been requested to deliver an opinion on the proposal for a Council decision on the conclusion of agreements between the European Economic Community and each of the three Baltic republics, Latvia, Estonia and Lithuania, on trade and commercial and economic cooperation. Negotiations led in January and February 1992 to the initialling of these agreements.

The agreements, which follow the same lay-out for each of the three republics, are considered jointly in this opinion. They are aimed at fostering relations on the basis of equality, non-discrimination, mutual benefit and reciprocity between the Community and the three Baltic republics and to create the conditions necessary for the conclusion of association agreements with those three countries.

The agreements contain no financial undertakings or financial protocols.

Transport, the management of ports and tourism are areas in which the contracting parties seek to foster cooperation (Article 15(2)).

Respect for democratic principles and human rights are an essential feature of each of the agreements (Article 1), to the extent that if policy is incompatible with such principles and human rights the agreements can be suspended with immediate effect.

As far as economic cooperation is concerned, the objectives of the agreements include:

- opening up new markets;
- supporting structural changes in the economy of the three countries as a means of increasing and diversifying trade in goods and services with the Community;
- encouraging joint ventures, licensing agreements and other forms of scientific and industrial cooperation and technological progress;
- strengthening economic cooperation in respect of environmental protection, including protection from water and air pollution and industrial accidents and the management of natural resources, taking into account environmental requirements in other policy areas such as industry, agriculture, the energy sector and transport.

To give effect to the objectives of economic cooperation the parties are also to create a favourable climate for investments and the exchange of commercial and economic information.

Article 18 of the agreements also states that Joint Committees are to be set up to ensure the proper functioning of the agreements and to recommend appropriate measures for achieving the objectives of the agreements.

The Committee on Transport and Tourism is of the opinion that:

Estonia, Latvia, Lithuania and their peoples have a great need of Community aid to establish and develop a market economy. The Community should therefore do everything in its power to implement these agreements as rapidly as possible.

Transport, the management of ports and tourism in particular must be recognized as prime targets for economic cooperation.

Trade is a means of increasing the movement of goods and persons and, in all likelihood, new forms of transport. Transport relations therefore need to be reviewed.

The development of new transport and port infrastructures needs to be coordinated at the European level to ensure integration of the different transport systems.

Any improvements to infrastructure must take account of the development of environmentally friendly forms of tourism. Public transport must also be encouraged.

Bearing in mind the above mentioned remarks, the Committee on Transport and Tourism welcomes closer trade, economic and commercial cooperation between the Community and Estonia, Latvia and Lithuania. It recommends that the Committee on External Economic Relations approves the agreements; this letter should be regarded as its opinion¹.

Yours sincerely,
(sgd) Nel van DIJK

¹ The following took part in the vote: van Dijk (chairperson); Dinguirard, Herman (for Bourlanges), McIntosh, Megahy (for Brian Simpson), Porrazzini, Sarlis, Schodruch (for Tauran), Visser, de Vitto and Wijzenbeek.

O P I N I O N

(Rule 120 of the Rules of Procedure)

of the Committee on Culture, Youth, Education and the Media
for the Committee on External Economic Relations

At its meeting of 21 May 1992 the Committee on Culture, Youth, Education and the Media appointed Mrs André draftsman.

At its meeting of 18 June 1992 it considered the draft opinion.

At the latter meeting it unanimously adopted the conclusions as a whole.

The following took part in the vote: La Pergola, chairman; Larive (for Mrs André, draftsman), Barrera i Costa, Coimbra Martins, Fremion, Galle, Gröner, Høppenstedt (for Mrs Paek).

The fact that respect for human rights and the principles of democracy is one of the basic features of the agreement between the EEC and Latvia is to be welcomed. In pursuit of these principles, Latvia, like Estonia and Lithuania, should be able to exercise its sovereignty to the full, in particular by securing the withdrawal of the Russian troops who are still stationed on its territory.

However, the Committee on Culture, Youth, Education and the Media regrets that the agreement contains nothing relating to culture or education, whereas programmes such as Tempus are enjoying increasing success.

The committee hopes that, in future, matters relating to education and culture will form an integral part of any subsequent agreement on social and economic exchanges or be covered by an ad hoc EEC-Latvia cultural cooperation agreement.

