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FOR RESEARCH

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The impact of German unification on the European Community

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RESEARCH AND DOCUMENTATION PAPERS

**The impact of
German unification on
the European Community**

PREFACE

On 15 February 1990 the European Parliament established a temporary committee with the task of analysing the impact of German unification on the European Community.

To assist the work of this temporary committee, the Directorate General for Research of the European Parliament has brought out a series of working documents covering various aspects of this process which touch on the competences of the European Community.

It should be underlined that the preparation of studies was not easy because of the lack of complete or comparable statistics for the GDR. It was also difficult to gain access to the files of German ministries and of the Commission of the European Community.

Certain of these working documents have been prepared in collaboration with the Deutsches Institut für Wirtschaftsforschung (DIW) in West Berlin and with the Zentralinstitut für Wirtschaftswissenschaften der Akademie der Wissenschaften of the GDR in East Berlin.

This is indicated accordingly on the cover page of the studies in question.

The work was completed on 8 May 1990, some time before the State Treaty between the two Germanies was signed.

The studies were presented to members of the temporary committee on 23 May 1990 and are published in this form, slightly modified in some cases.

Observations and supplementary information are welcome and should be sent to:

Directorate General for Research
Schuman Building 6/75
European Parliament
L - 2929 LUXEMBOURG

Tel: 00352/4300 3109

Fax: 00352/43 70 71

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EUROPEAN PARLIAMENT

DIRECTORATE GENERAL FOR RESEARCH

Note for the attention of Members
of the Ad Hoc Committee responsible for examining
the impact of the unification of Germany
on the European Communities

WORKING DOCUMENT ON
GERMAN ECONOMIC AND MONETARY UNION (GEMU)
AND ITS CONSEQUENCES FOR THE COMMUNITY

This is one of a series of analyses which will be at the disposal of the Ad Hoc Committee. Reports dealing with other aspects of the German unification will follow.

THE DIRECTORATE-GENERAL

GERMAN ECONOMIC AND MONETARY UNION (GEMU)
AND ITS CONSEQUENCES FOR THE COMMUNITY

I. Immigration pressure

1. The rapidly deteriorating economic situation of East Germany makes the task of creating favourable conditions for the economic development of the GDR urgent. This is the only way to stop the massive outflow of East Germans into the Federal Republic: more than 115,000 so far in 1990 and growing at the rate of 2,000 a day.

2. The immigration flood brings the East German economy closer to collapse as many immigrants have high professional qualifications. It also puts a serious strain on West German housing and financial resources, as the Federal Republic has received in recent months over 600.000 immigrants from the GDR and 350.000 German immigrants from other COMECON states.

3. The major objective of this paper is to offer a tentative analysis of the consequences of the German Economic and Monetary Union (GEMU) for both parts of Germany as well as for the Community. It is assumed that GEMU will be characterized by a complete internal market of both Germanies and the introduction of the DM in the GDR.

II. The GDR economy

4. The most acute problem of the GDR economy¹ is that decades of isolation from world competition has permitted the conservation of an

¹ For a detailed analysis of the East German economy, see Deutsches Institut für Wirtschaftsforschung (DIW): DDR-Wirtschaft im Umbruch- Bestandsaufnahme und Reformansätze - Berlin, January 1990

obsolete capital stock in industry as well as in infrastructure. This is the main reason why, although the East German labour force is relatively well trained, its productivity, however, is estimated to be less than half of that of West Germany. The modernisation of the country's capital stock, the establishment of incentives and the re-employment of the surplus labour force in productive activities are the basic prerequisites for a productivity increase, which is at the very base of any economic improvement.

5. For the transformation of the East German economy into a competitive market one, huge capital imports are necessary since the GDR does not produce modern investment goods, necessary for the restructuring of the country's capital stock. For this, the necessary institutional framework should first be established. The ownership of private property, the privatization of public enterprises, the liberalization of external trade, the necessary guarantees concerning the repatriation of profits, a reform of the money, credit and tax systems and a comprehensive reform of the price system, which is heavily distorted by subsidies, should be among the priorities of the East German Government to be elected on 18.3.1990.

6. However, to attract vital capital imports, the GDR also needs to offer investors production inputs at prices that permit a comparatively high profitability. In fact, labour is currently relatively cheap in the GDR since net earnings average less than half of those of the FRG labour force and other production inputs, such as raw materials, electricity or transport could be bought at a low price by investors, if a realistic DM/Ostmark conversion rate could be established.

III. The unification process

7. Though East Germany is roughly one-eighth of the economic size of the Federal Republic, the pace of the unification process will be of decisive importance. As a group of FRG and GDR economic experts warn: "A too early union of both German states could render the catching-up process extremely

difficult and make it possible only under the condition of very high adjustment costs for the East as well as for the West German economy".²

8. The introduction of a common currency would boost confidence in the GDR but it will eliminate the possibility of it to devalue its currency and give in this way a competitive advantage to its industry. In a monetary union, a region with lower productivity can no longer use the exchange rate adjustment mechanism, but is forced to "pay" for its competitive disadvantage with the closing down of inefficient industries and/or the lowering of its labour costs. Therefore, monetary union could not by itself weaken the motivation for immigration, as it would not remove the productivity difference. The immigration motivation for employment reasons will cease to exist only when real wages in both parts of Germany approach the same level, which will be the case when productivity in East and West Germany converge.

9. The question of the DM/Ostmark conversion rate³ is of decisive importance for the success of the unification process. In general, there are two possibilities: (a) the establishment of a 1:1 rate (more politically motivated) and (b) the establishment of a less than 1:1 rate (more oriented towards the productivity differential between FRG and GDR).

10. A 1:1 conversion rate would mean that the purchasing power of the GDR population would rapidly increase and that less direct transfers to households would be required. However, it would have negative effects on the GDR industry, as imports of Western consumer goods would sharply rise. Special attention should be taken to keep the inflationary impact from the conversion of the East German savings in DM under control (e.g. through gradual conversion). A less than 1:1 conversion rate (for example, 1:2, 1:3, etc.) would come closer to the productivity ratio between FRG and GDR. This ratio would permit East German enterprises to be more competitive, open

² "Reform der Wirtschaftsordnung in der DDR und die Aufgaben der Bundesrepublik". Stellungnahme einer deutsch-deutschen Arbeitsgruppe in Wochenbericht des DIW, 6/90, 8.2.1990, p. 71.

³ On the conversion rate, see: Samuel Brittan, "Politics of the Mark", and D. Marsh-D. Goodhart, "Puzzling out a single Germany" in the Financial Times of 15.2.1990 and 10.3.1990 respectively. See also L. Hoffman, "Wider die ökonomische Vernunft" in Frankfurter Allgemeine Zeitung of 10.2.1990.

unemployment would be lower and labour costs would be attractive for foreign investors. However, households would need more transfers.

11. It should be pointed out that not only the rate, but also the modalities of the conversion are of critical importance. For example, the change of only a certain amount of DM per person could be permitted at a 1:1 rate, while any amount above this would be exchanged at a lower rate or against West German government bonds redeemable some years hence. Or, as is suggested in a first evaluation of German unification by the Commission of the European Communities⁴, a part of the savings stock could be absorbed by privatizing state-owned companies and dwellings at prices that offer the perspective of capital gains and therefore have an incentive effect for East German citizens to stay in the GDR. The conversion of monetary assets could then be spread over several years and some savings could be converted into Federal DM-Bonds.

12. As the political trend tends towards a 1:1 rate, the establishment of certain modalities in the conversion procedure seems to be imperative, so that inflationary pressures can be avoided. According to Prof. Siebert's estimates⁵, a 1:2 conversion rate would lead to a 33% increase in the quantity of money, while the inclusion of the GDR in the unified economic and monetary space would mean only a 6% increase in the supply of goods.

13. An exact assessment of the consequences of the unification process is impossible at this stage as neither the institutional nor the financial and monetary conditions have been settled. However, there are certain implications for the FRG, for the GDR and the Community which can be forecasted.

IV. Likely implications for the FRG

14. Depending on the rate and the modalities (e.g. establishment of a transitional period etc), the conversion of Ostmarks into DM will most probably have an inflationary impact. Estimates raise the inflation rate to

⁴ "Economic Implications of German Economic and Monetary Unification" (A first tentative evaluation) in Europe Documents, No. 1595 of 14.2.1990.

⁵ Horst Siebert, "Ein einheitlicher Währungsraum setzt radikale Reformen Ost-Berlins voraus", in Handelsblatt of 8.3.1990

4% annually (from the current 2.6%) due to growing consumer demand and the growth in the money supply.

15. Strong increases in exports of investment and consumer goods to the GDR will lead to a higher GDP growth trend. It should be noted that the productive capacity of the FRG is currently 90% utilized.

16. Transfers to reduce the FRG/GDR income gap (especially concerning pensions and unemployment benefits) and to improve the GDR infrastructure and environmental protection could reach the order of 4-5% of GDP.^o This would lead to higher budget deficits and possibly to tax increases. However, tax receipts would rise endogenously in response to higher growth.

17. As the demand for money increases, interest rates will probably rise. Interest rates on government bonds recently rose to 9%, up from 7.3% at the beginning of the year, and a further increase cannot be excluded.

18. Through the unification of the German states, the FRG will save the "costs of the division", namely the financial help to West Berlin, the transfer payments to the GDR, the regional aid to the frontier areas etc. These costs are estimated to be about DM 40 billion annually.

V. Likely implications for the GDR

19. Unemployment will rise as ageing industries are modernized. The extent of the labour force unemployed depends on a series of economic factors and mainly on whether a realistic DM/Ostmark conversion rate will be established. It also depends on how fast foreign investment into industry and infrastructure will be realized.

20. National savings estimated at about Ostmark 160 billion could drop in value after the price reform.

21. Prices for goods and services will rise as state subsidies are stripped away.

^o As footnote 4.

22. If export goods are priced in hard DM currency, East Germany's exports to COMECON Members could be jeopardized. 65% of GDR's foreign trade is currently with its financially strapped Eastern partners, who will find it difficult to pay in DM for the East German goods.

VI. Likely implications for the Community

23. Medium-term GDP growth perspectives in the Member States will improve due to increased exports to the FRG and GDR, because of a higher demand due to the modernization of the East German economy.

24. Resources from the Community budget and/or the Member States' budgets will be used for the economic reconstruction of Eastern Germany. If the GDR remains for a transitional period an independent state, it will then profit from a new Eastern Europe Fund, while, as part of an existing Community country, it will qualify for support through the Structural Funds and the Community's Financial Instruments.

25. In the case of immediate German unification, Community legislation will be applied to GDR territory after a negotiated transitional period. According to first estimates of the Commission of the European Communities, a unified Germany would receive a sum of ECU 1.5 to 2.0 billion per annum.⁷

26. The full exploitation of the relatively efficient agricultural production of the GDR could increase the Community's surplus production and create an additional burden to the Community Budget.

27. Should there be a drastic appreciation of the DM, due for example to a rapid increase of interest rates, then tensions will arise in the Exchange Rate Mechanism of the EMS, in the critical, preparatory phase of the European Monetary Union.

28. It should be noted that Monetary Union between the FRG and the GDR will be radically different than that foreseen for the European Community. In the first case East Berlin will immediately transfer its competences in monetary policy to the Bundesbank. In contrast, in the first phase of EMU, as

⁷ See Süddeutsche Zeitung of 10.3.1990.

described in the Delors Report, monetary authorities in the Member States will continue being responsible for national monetary policies and it is only in the later phases of EMU that a gradual transfer of competences to a European Central Bank will take place.

29. It is evident that at the current stage of discussion no reliable conclusion can be drawn regarding the impact of GEMU on the time schedule of the European Monetary Union. However it seems necessary to coordinate the timing of both procedures.

EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR RESEARCH

Notice to members of the Temporary Committee
to Consider the Impact of the Process of German Unification
on the European Community

Please find attached a working document on:

'The consequences of German unification for the European Community's agricultural and fisheries policy'.

This document has been drawn up by the Directorate-General for Research.

The consequences of German unification for the
European Community's agricultural and fisheries policy

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Part A: Agriculture

1. Introduction

The speed at which the process of German unification is progressing by the European Parliament's Temporary Committee and the short deadline given to the Directorate-General for Research to consider the impact of the process of German unification on the European Community have meant that the relevant services have had little time to draw up an in-depth report on the Common Agricultural Policy. It should be pointed out at the outset that this policy - together with the Common Fisheries Policy - is one of the most integrated policy areas in the Community.

Nevertheless, we have attempted, with the limited means at our disposal, to draw up a preliminary survey. In the absence of precise and reliable GDR statistics we have used data provided by various bodies in the Federal Republic of Germany. This document will be supplemented at a later date, as soon as the external research institute which the Temporary Committee has commissioned to draw up a study has returned our questionnaire.

2. Background

Area: 108 333 sq km (10.8 m ha. including East Berlin)

Land used in agriculture: 6.26 m ha. (= 58% of the total area of the GDR)

Population: 16.6 m inhabitants (1988)

- rural population: 23% (according to GDR sources)

- working population (15 - 60 years old): 10.8 m (64.8% of the total population in 1985)

- Distribution by economic sectors (1987):

(a) agriculture, fisheries and forestry:	10.8%
(b) industry:	50.2%
(c) services sector:	39.0%

These statistics show that approximately 10% of the total population is employed in agriculture, which accounts for approximately 7.5% of the GNP. By contrast, approximately 5% of the total working population in the Federal Republic of Germany are employed in agriculture which accounts for 1.5% of the GNP.

This is explained by the fact that the GDR has so far sought to become as self-reliant as possible within a closed economic system, while the Federal Republic of Germany has been integrated with the EC and the world markets from an early stage. Finally, agriculture in the GDR accounted for 8.7% of gross national investments in 1984, compared to 2.6% in the Federal Republic of Germany. This capital expenditure requirement is thus higher than the share of the gross domestic product accounted for by agriculture. This figure and a comparison of the relative number of persons occupied in agriculture show that agricultural productivity in the GDR is, in fact, inferior to that in the Federal Republic of Germany.

3. Area of land used in agriculture

Approximately 6.26 m. ha.¹ are used for agricultural production in the GDR, i.e. approximately 58% of its total territory. As in other industrialized countries, the area of land available for agriculture is declining as more and more potential agricultural land is being used for non-agricultural purposes. Thus, between 1960 and 1982 the area of land used for agriculture fell by a total of 162 091 ha.

By comparison, the area of land used for agriculture in the Federal Republic of Germany in 1987 was approximately 12 million ha. (approximately twice as much as in the GDR), ie 48% of its total territory. In the EEC of the Twelve 57.1% of the total area is used for agriculture.

The area of agricultural land per head of population in the GDR is almost twice as large (0.38 ha.) as in the Federal Republic of Germany (0.2 ha). However, compared with other Socialist countries this is relatively small: the USSR: 0.45 ha.; Poland: 0.53 ha.; Hungary: 0.62 ha.; Rumania: 0.67 ha.; Bulgaria: 0.7 ha. and the USSR: 2.15 ha.

The overwhelming majority (76%) of agricultural land in the GDR is arable land (compared to 61%² in the Federal Republic of Germany and 52.5% in the EEC of the Twelve). 51.4% of arable land is used for grain growing (compared to 65.2% in the Federal Republic of Germany), 50% of the land used for grain growing produces bread grain. Other important crops are forage crops (green maize, alfalfa, etc.) which account for 21.5% of arable land and potatoes which account for approximately 10% (last available data: 1982).

Next in importance after arable land, permanent meadows and pastures accounted for 20% of agricultural land in 1982 (declining since 1960) compared with 37% in the Federal Republic of Germany in 1988. Permanent crops and horticulture accounted for approximately 4% of agricultural land in 1982 (slightly increasing since 1960), compared to approximately 2% in the Federal Republic of Germany in 1988.

4. Crop production

More than 50% of arable land is used for growing cereals and winter grain accounts for approximately four-fifths of this area. The principal crops are barley and wheat, followed by rye and oats; grain maize is hardly grown any more.

Field forage growing accounts for approximately 15% of arable land, followed by potatoes (approximately 10% of arable land and declining). Green maize and maize for silage account for approximately 10% while sugar beet accounts for approximately 5% of arable land. Oil-producing crops (principally winter rape) are grown on approximately 3% of total arable land, ie between 130 000 and 160 000 ha.

Crop yields in the GDR are subject to greater fluctuations than in comparable countries. This is due to the soil and cultivation conditions, greater

¹ This area is three times as large as the agricultural land in the Netherlands, 1.5 times as large as agricultural land in Portugal and one-third of the agricultural land in the UK

² 1988 figures - see table in Annex 1

variations in climate and the fact that sowing, processing and harvesting is not always carried out at the right time. The overall production and the yield per hectare for cereals and field forage crops have increased in the last few years. However, production of roots and tubers (potatoes and sugar beet) has been stagnating and even declining.

Table 1 gives a general picture of the situation:

Crop yields in the GDR and the
Federal Republic of Germany (in 1000 tonnes)

	GDR		Federal Republic of Germany	
	1981-85	1988	1981-85	1988
Cereals	10,388	9,840	24,573	25,577
Potatoes	10,164	11,546	7,096	7,434
Sugar beet	7,233	4,625	20,856	7,587
Oil-producing crops	320	435	592	1,159

Yield per hectare in the GDR and the Federal
Republic of Germany (in 10 tonnes/hectare)

	GDR		Federal Republic of Germany	
	1981-85	1988	1981-85	1988
Cereals	41.3	40.8	49.1	56.4
Potatoes	206.1	261.0	309.7	372.9
Sugar beet	294.1	233.9	503.7	490.8
Oil-producing crops	22.5	27.7	27.0	30.9

Source: GDR Agricultural Information Service Working Document (D2AI) No. 1/2 of 1 February 1990.

5. Livestock

The present level of livestock in the GDR is the product of a deliberate state policy to achieve a high rate of self-sufficiency of the population in livestock products and is not merely due to successful farming. In order to supply fodder for the large numbers of livestock the GDR has been obliged to buy substantial amounts of fodder from other countries. It has regularly imported over 600 000 tonnes of soya meal from the Federal Republic of Germany and other feed grain, notably from the USA, Canada, France and Austria. The high concentration of livestock has led to considerable air, water and soil pollution in some areas.

In 1987 and 1988 there was a slight decline in total livestock (apart from sheep which have been increasing since 1982).

Table 2 below compares livestock in the GDR and the Federal Republic of Germany in 1981 to 1988.

Table 2

Livestock in the GDR and the Federal Republic of Germany
(in 1000 units)

	GDR		Federal Republic of Germany	
	1981-85	1988	1981-85	1988
Cattle	5,776	5,710	15,391	14,648
including cows	2,097	2,009	5,508	5,034
Pigs	12,834	12,464	23,227	22,693
including sows	1,201	1,089	2,717	2,437
Sheep	2,368	2,634	1,219	1,430
Poultry (million)	52,153	49,430	77,292	72,035
including laying hens	25,605	24,665	45,439	37,931

Source: GDR Agricultural Information Service Working Document (DAI) No. 1/2 of 1 February 1990.

6. Livestock products

The slight decline in livestock has not had an adverse effect on production of livestock products. In fact it has continued to grow as livestock productivity has increased. Table 3 below compares animal production in the GDR and in the Federal Republic of Germany from 1981 to 1988.

Table 3

Livestock production in the GDR and the
Federal Republic of Germany (in 1000 tonnes and kilos per animal)

	GDR		Federal Republic of Germany	
	1981-85	1988	1981-85	1988
Slaughter cattle	2,552	2,801	7,285	5,208
including cattle/calves	676	742	2,859	1,613
pigs	1,600	1,743	3,928	3,250
poultry	245	277	498	344
Milk	7,325	8,053	25,796	23,978
kg per cow	3,495	4,020	4,993	4,752
Eggs (billion units)	5,718	5,720	13,139	12,032
per hen	215	228	251	261
Sheep wool	6,573	8,342	4,000	-
Bee honey	6,753	6,186	17,800	18,000

Source: GDR Agricultural Information Service Working Document (DAI) No. 1/2 of 1 February 1990.

7. Agricultural structures

7.1. Development of agricultural policy since 1945

The socialization of agriculture in the GDR involved two radical developments. Firstly, a reform of land ownership was carried out in 1945/46 in favour of small-scale farmers; part of the nationalized private holdings of large estates and state property and other public holdings were set aside as state-owned estates. Then, from 1952 to 1960 collectivization was introduced. It began with the setting-up of production cooperatives as a sign that the construction of the Socialist State was progressing and came to a temporary conclusion in the spring of 1960 with the forcible inclusion of almost all remaining private farmers in agricultural production cooperatives. At the end of 1955 20% of land used in agriculture was managed by agricultural production cooperatives and by the end of 1959 this figure had risen to 45%. In the first five months of 1960 2.6 million hectares (= 40% of agricultural land) was hastily collectivized, bringing the process to an end. Although agricultural policy was based on the Leninist ideas of cooperatives, at this stage, which the GDR called 'socialist spring in the country' it frequently ignored one of his basic principles, namely voluntary membership.

Until the mid 1970s cooperative production was organized in various types of agricultural production cooperative: Types I and II in which productive

livestock continued to be kept by individuals and Type III in which all resources were managed on a fully cooperative basis. This was the real purpose of collectivization and type III gradually replaced Types I and II. There followed a phase in which on the basis of cooperation between the various holdings, crop and livestock production were separated from one another: arable farming was, for the most part, entrusted to separate subsidiaries, the so-called cooperative crop production departments (KAP). These KAPs resulting from the amalgamation of various holdings gradually became independent and turned into specialized agricultural crop production cooperatives, LPG(P) while the remaining holdings became specialized agricultural livestock production cooperatives LPG(T).

The agriculture structures in the GDR are fundamentally different from those in the Federal Republic of Germany both as regards employment and ownership systems and as regards the size of the holdings. 95% of land used in agriculture in the GDR is managed by the state-owned estates (VEG) and agricultural production cooperatives (LPG) and only 5% is privately owned.

Table 4 below illustrates the fundamental difference between the GDR and the Federal Republic of Germany as regards the number and average size of holdings:

Table 4

<u>1987</u>	<u>GDR</u>	<u>Federal Republic of Germany</u>	
Number of agricultural holdings above 1 hectare	4,650		681,010
Average size of holding in hectares of agricultural land	4,560	LPG-P*	16.6
	30	LPG-T**	
	5,020	VEG-P***	
	165	VEG-T****	

Source: Statistical Year Book of the GDR and the Federal Republic of Germany 1988, pages 181 and 80.

- * Agricultural production cooperatives - crop production
- ** Agricultural production cooperatives - livestock production
- *** State-owned businesses - crop production
- **** State-owned businesses - livestock production

7.2 Systems of farming

The most important system of farming is the agricultural production cooperative (LPG). The aims and working methods of these LPGs are quite different from those of their western counterparts named Raiffeisen and Schulze-Delitzsch after their founders. All members of an LPG work together in the cooperative which is formed by the amalgamation of land, the property of their members. Legally, the land continues to be their private property but the right of usufruct is transferred to the LPG. LPGs today control more than 86% of agricultural land in the GDR.

81% of employees in agriculture are cooperative farmers and they account for 95% of crop and 75% of livestock production.

The second most important form are the state-owned holdings (VEG) which control only approximately 7% of agricultural land. However, their importance as suppliers to the LPGs is much more important than this figure would suggest since they are mainly specialized in animal husbandry and seed and plant production. The VEGs account for over 12% of livestock in the GDR, 20% of seed and plant production and 18% of breeding and productive livestock.

Most agricultural holdings in the GDR today are specialized in crop production (P) and livestock production (T) and these letters are given after their name. However, this specialization has not proved very beneficial either economically or ecologically. Cooperation between these specialized livestock and crop production plants takes place in cooperation councils (KOR) in which between two and four livestock production plants and one crop production unit work out mutual economic arrangements. Cooperation between the specialized agricultural units and their production is for the most part organized by 1200 or so cooperation councils.

Horticulture is primarily organized by horticultural production cooperatives (GPG); however, they only account for 0.2% of agricultural land. A substantial proportion of field vegetable farming is also undertaken by APCs.

Agricultural holdings in the GDR are large by western standards as regards both area and the number of employed. On average, a crop farming unit farms over 4600 hectares, i.e. the territory of approximately seven villages. A large holding of this kind at present employs 240 or so workers and is made up of approximately 500 farms (previously privately run).

20% of all collectivized crop producing agricultural units are between 6000 and 8000 and more hectares in size.

A specialized livestock production unit employs an average of 110 persons, has 1500 head of livestock animals and farms an area of approximately 30 hectares.

Approximately 30 000 hectares of agricultural land are farmed by the Church. In addition there are approximately 30 000 farms which have remained private either because they are highly specialized or because their situation makes membership impracticable.

Table 5 below gives the number of agricultural units, the agricultural land use and the proportion of the total agricultural land:

Table 5

Agricultural units, agricultural land and
proportion of agricultural land in the GDR - Level at 30 September 1988

	No.	ha. agricultural land % of agricultural land (in 1.000 s)	
LPG (crop production)	1,159	5,260	85.1
VEG (crop production)	79	396	6.4
LPG (livestock)	2,696	84	1.3
VEG (livestock)	311	53	0.8
KAP (Cooperative Department and ZBE (inter-unit crop organizations)	4	20	0.2
ZBE (livestock production)	177	- 0.5	
GPG (Horticultural and other PG)	199	15	0.2
Total:	4,625	5,849	94.5
Church and private	-	338	5.5

Source: Statistical Annual of the GDR for 1989, page 180 et seq.

7.3 Employment in the agricultural sector

GDR agriculture has developed differently from agriculture in the western industrialized countries: the number of unemployed in agriculture is high and up to 1979 only declined gradually. Since then a slight growth has been recorded. At the end of 1986 840 000 persons were employed in agriculture.

1984 statistics show that the average number of workers employed per hundred hectares of agricultural land in the Federal Republic of Germany and the GDR was 7.6 and 12.3 respectively. This high labour input is a problem for agriculture in the GDR and the main reason for the productivity deficit both within the GDR economy and compared with West Germany. Despite large-scale methods of production the labour input in the GDR is 60% higher than, on an overall average, in agriculture in the Federal Republic of Germany. If we take into account only large holdings with over 50 hectares of agricultural land in the Federal Republic of Germany, we obtain an average of 3.2 workers per 100 hectares of agricultural land. The GDR figures (12.3 workers per 100 hectares of agricultural land) are puzzling, even given the social conditions of agriculture in the GDR (for instance statutory working hours and holidays). The equivalent figure for the European Community of the Twelve is 7.5 workers per 100 hectares of agricultural land.

Poor productivity in the GDR is due to a number of factors:

- the lack of technology and the low level of automatization (widespread manual work),
- work interruptions due to frequent machine failure,
- owing to statutory working hours and holidays work input is not sufficiently adjusted to the work process,
- compulsory employment,
- lack of motivation in the workforce,
- high sickness rate.

In general it can be said that although the present system apparently provides favourable opportunities for high productivity, these opportunities are not taken advantage of.

7.4 Agricultural incomes

The GDR authorities only publish official statistics concerning the incomes of the workers and employees employed in state agriculture. Only vague information is available concerning the cooperative farmers who account for approximately 70% of agricultural income recipients - from the specialized press, for instance, which suggests an average monthly income of between 800 and 850 marks a month.

The data on workers and employees in this sector indicates that since the mid-1970s the gap between agricultural and industrial workers has been dwindling, as the following table (Table 6) shows.

Table 6

Average monthly income in state holdings between 1955 and 1986 in marks

Year	Agriculture	Industry
	Full-time workers and employees	Full-time workers and employees
	in GDR marks	
1955	306	460
1960	453	571
1965	583	656
1970	676	770
1975	839	895
1980	967	1 022
1985	1 074	1 147
1986	1 105	1 187

Source: Working document of the Gesamtdeutsche Institut, Bundesanstalt für Gesamtdeutsche Fragen - II 2 - 21701 - 15 March 1988

7.5. Production methods

Agriculture is not as mechanized as in the Federal Republic of Germany, for instance. The machines used are required to perform considerably more work. Thus the average area covered by a combine harvester in the GDR is 170 hectares a year; this is approximately six times the West German average. This is because the machines are used for a wider range of activities and operate in shifts and are used on a supra-unit basis. The mechanization of working processes in the GDR takes place in large agricultural units. Traction power (self-powered harvest machines, lorries and tractors) is approximately 250 kilowatts per 100 hectares of agricultural land, i.e. still well below the West German average of 470 kilowatts per hundred hectares.

In the GDR commercial fertilizers and pesticides are applied almost exclusively by agro-chemical centres. Aircraft are widely used in agriculture. The varieties and qualities of the seeds and plants and fertilizers and pesticides available are limited. The concentrated used of production methods aimed at increasing yield is thus only partly successful. Both the application and dosage of pesticides are not sufficiently environmentally acceptable. The level of essential nutrients in mineral fertilizers used in the GDR has been very high for decades, making it one of the most fertilizer-intensive countries in the world.

Agriculture, forestries and the food industry are the third largest energy consumer in the GDR, accounting for 10% of total energy used. The reason for this is the present size of agricultural holdings and the long transport distances which tripled between 1960 to 1984. A further reason for the sharp increase in energy consumption is the subsidization of preliminary agricultural processes which leads to wastage.

Fodder supplies in livestock production are often inadequate. Cooperation between livestock and crop production is patchy and the production and quality of fodder product is inadequate. Imported fodder is not sufficiently geared to individual species and age groups. Where fodder shortages occur, numbers of livestock - in particular pigs - are often reduced. However the priority for dairy cattle is for herds to achieve target sizes. Agricultural units in the GDR are thus often faced with the choice of drastically reducing either production or stocks.

7.6. Rural development

Infrastructures in rural areas in the GDR urgently need to be improved. Poor road and farm road networks, poor communications and inadequate water supplies and sewage purification facilities hamper agricultural production and cause problems for the rural population. The poor quality of rural and farm roads increases the travelling and transport times of vehicles and leads to greater wear and tear. Water supplies do not adequately meet demand since precipitations are inadequate and the water available is often used irrationally. Where sewage purification plants are available they often operate on a purely mechanical basis.

The GDR's agricultural policy is based on large holdings producing a maximum yield per area and per head of livestock etc. Industrial agriculture in the GDR is characterized by the following structural phenomena: the separation of livestock and crop production, the existence of large holdings of several thousand hectares of agricultural land or several thousand head of livestock and the partitioning of the countryside to achieve average plots of between 50 and 70 hectares in size.

The specialized livestock production plants produce enormous amounts of liquid manure. Due to inadequate storage and transport capacity and organizational problems this liquid manure must be disposed of in a concentrated way on conveniently situated agricultural land. This naturally leads to high concentrations of nutrients in the ground - and surface water. Even where adequate liquid manure plants are available they are often not sealed underneath and are situated in the open countryside and this leads to air and water pollution.

Because liquid manure is disposed of the specialized crop production units lack the essential farm manure and soil improvement agents which then have to be replaced by large amounts of mineral fertilizers. The absence of humus-forming farm manure also leads to soil compaction and erosion.

Because plots are often excessively large the agricultural machines which are heavy and often obsolete often have to cross arable land unloaded; this leads to soil compaction, erosion (leading to a loss of soil and aquatic pollution) and above all to the destruction of biotopes and the disappearance of

wildlife. Hedges, marshes and other natural elements of the landscape are eliminated.

The spraying of pesticides from aircraft poses a particularly serious threat to the environment. It is unavoidable that part of the pesticides released drift on to non-agricultural land which leads to undesirable concentrations of toxic substances and a further threat to wildlife. But, due to the obsolete methods used in other forms of spraying, mistakes occur. Pesticides are often used at the wrong time of the year and this leads to additional environmental damage.

8. Supplies, producer and consumer prices

8.1. Supplies

The following Table 7 illustrates the degree of self-sufficiency, the per capita consumption and the foreign trade situation in respect of a number of important foodstuffs.

Table 7

Supply situation for agricultural products in the GDR
(Average 1985/87)

Product	Degree of self-sufficiency	Per capita consumption in the GDR compared with the FRG	Foreign trade
Cereals	under 90%	cereal products overall: considerably higher	Net imports of between 1 and 2 billion tonnes and almost 1 billion tonnes protein feed
Potatoes	100%	twice as high	-
Sugar	probably over 100%	somewhat higher	inconclusive data
Vegetables	under 90%	higher owing to a large proportion of coarse vegetables GDR = 60% FRG = 20%	net imports
Fruit	under 90%	approximately half	net imports
Meat	over 100%	almost as high	net imports in the case of livestock and meat
Milk	over 100%	twice as high in the case of butter, half as much in the case of cheese	net exports in the case of butter, fresh and dried milk
Eggs	over 100%	higher	net exports of eggs and egg products

Source: Statistical Yearbook on Food, Agriculture and Forestries, various years; Statistical Yearbook of the GDR for 1989; FAO Trade Year Book 1987

8. . Producer prices

Until 1983 a complicated price system operated in the GDR: through the subsidization of agricultural ancillary suppliers, agricultural equipment and resources (machines, fertilizers and energy) were made available at reduced prices. With the agricultural prices reform of 1984 this bureaucratic system was abolished and replaced by a system involving very high producer prices and low consumer prices for basic foodstuffs. This led to a 60% average increase in agricultural producer prices. The price equalization between high producer prices and low consumer prices for bulk goods is fixed between the foodstuffs industry and the state. In 1988 the retail trade turnover for foodstuffs amounted to 38 bn GDR marks: price support measures accounted for 83.7% (approximately 32 bn GDR marks). State aid in this system of high producer prices and low consumer prices has increased sixfold since 1971 while the retail trade turnover has only increased by 50% (see Annex 2).

The aim of the agricultural prices system in the GDR with its extremely high producer prices was to achieve a high degree of self-sufficiency in foodstuffs. Since profits are not fully available - they are used to fuel the planned economy - there is little incentive for holdings to produce efficiently.

The tables in Annex III show the average sales proceeds for a number of agricultural products in the GDR and the FRG. Assuming a parity of 1 DM to 1 East German mark, the sales proceeds from crop products in the GDR is between a third and three times as high as in the Federal Republic of Germany and between twice and four times as much for livestock products. It is clear that if producer prices fell too abruptly to EC levels, this would seriously jeopardize the survival of farm holdings in the GDR.

8.3. Consumer prices

Consumer prices for food produce in the GDR can be divided into two categories. For basic foodstuffs (bread, meat, milk, butter and potatoes) consumer prices are relatively low compared with the Federal Republic of Germany, while prices particularly for imported semi-luxury products are very high. This price structure has led to oddities in consumer habits and a negligent attitude to food. The subsidization of foodstuffs has led to enormous wastage so that bread, oats and dairy products for instance have been used as fodder.

This is the reality behind the surprising statistics that daily food wastage in the GDR is 300 grammes per person compared to a mere 100 grammes in the western industrialized countries. Subsidies for agriculture and cheap food amount to over 41 billion marks or 15% of state spending.

The following Table 8 shows the per capita consumption (PCC) and the retail trade consumer prices (RTCP) for specific food and semi-luxury products in both German states. The markedly higher consumption figures for bread and food potatoes in the GDR are due to the fact that considerable quantities are used as fodder. During the last five years alone - since the agricultural price reform of 1984 - the per capita consumption of bread has risen by almost 5 kg whereas it was slowly falling before the reform.

Table 8

Per capita consumption (PCC) and retail trade consumer prices (RTCP) in the Federal Republic of Germany and the GDR in 1988 (PCC in unit quantity per head; RTCP in West and East German marks per unit)

	quantity unit	PCC FRG	ETCP FRG	ETCP GDR	PCC GDR
Food					
Meat					
Pig	1 kg	62.2	10.00	7.00	64.2
Cattle	1 kg	22.0	14.00	9.00	25.6
Poultry	1 kg	11.2	5.30	8.70	10.4
Eggs	per unit	260.0	0.25	0.34	305.0
Butter	1 kg	8.3	8.60	9.60	14.9
Margarine	1 kg	7.4	3.40	2.00	10.7
Drinking milk	1 kg	92.3	1.20	0.66	111.1
Wheat and rye bread	1 kg	74.6	3.10	0.52	93.2
Wheat flour	1 kg	53.2	1.25	1.32	58.6
Fresh potatoes	1 kg	71.5	0.94	0.17	147.2
Fresh vegetables	1 kg	76.8	2.00	0.80	68.7
Semi-luxury products					
Coffee	1 kg	6.5	25.00	70.00	3.7
Tea	1 kg	0.2	2.04	24.00	0.1
Cigarettes	per unit	1919.0	0.22	0.16	1854.0
Spirits (100%)	0.7 l	7.7	12.69	14.50	5.2
Beer	0.331	144.0	.70	0.48	143.0

Source: DDR Year Book for 1989, p. 282 et seq. and 292; State Year Book of the Federal Republic of Germany for 1989, p. 474 et seq.; Annual Year Book on ELUF 1987, p. 228

9. The food industry

The food industry in the GDR is predominantly organized in state-owned collective combines made up of a number of individual state plants under a collective management; employing an average of approximately 20 000 persons each; they usually specialize in a particular product.

Foodstuffs, supply position statements are drawn up by the combines for each of the 15 GDR districts. These statements are intended to coordinate supply and demand. Each district is intended to be self-sufficient as far as possible, taking into account the 10% levy which each district has to provide for East Berlin.

The food industry is urgently in need of modernization. The machine plants and buildings are obsolete; the overwhelming majority of slaughter houses were built before the Second World War. Machinery in other food industry sectors

is often over 20 years old so that productivity is often substantially below western standards.

The GDR will have to make considerable efforts to bring its food industry up to the standard required by European Community food law, an essential component of the internal market due to be created in 1993.

10. Trade in agricultural products

10.1 Foreign trade

The GDR has attempted to be self-sufficient in food as far as possible. Only the most essential articles are imported (animal feedingstuffs, raw sugar from Cuba, vegetables, tropical and sub-tropical fruit and wine); the only other products imported are high-grade food for the intershops, hotels, etc.

The GDR generally has a slight trade surplus. 70% of GDR exports go to COMECON and other Socialist countries; 15-20% (a tenth of which is made up of agricultural and food products) go to the Federal Republic of Germany.

The foreign exchange situation in the GDR is determined by its close links with COMECON. The western industrialized countries only account for approximately 30% of the GDR's total foreign trade (including domestic German trade). On the other hand, these countries are its main agricultural trading partners for the bulk of GDR exports go to the FRG and the GDR imports most of its animal feedingstuffs from the USA.

The table in Annex 4 illustrates the exports and imports situation for the principal agricultural products.

10.2 Domestic German trade

The bulk of GDR exports go to the Federal Republic of Germany. A special arrangement exists within the European Community under which domestic German trade is exempted from the provisions of the EC Treaty and other Community legislation.

In 1988 the Federal Republic of Germany imported goods worth DM 6.79 billion from the GDR, while the GDR exported DM 7.23 billion DM from the Federal Republic of Germany. Agricultural, and semi-luxury foodstuffs products accounted for 9.7% of West German imports and 8.4% of East German imports.

Over a period of several years cereals, slaughter animals and meat products have accounted for an average of 50% of the GDR's agricultural and food exports to the Federal Republic of Germany: The bulk of these exports were raw materials for further processing.

In view of the difficult situation in the European Community's agricultural markets 80% or so of agricultural imports are subject to quotas. For the time being, the rules governing German domestic trade will continue to apply unchanged. However, the process of reform in the GDR will undoubtedly lead to substantial changes in this area too.

11. Weaknesses of, and prospects for, GDR agriculture

The GDR's agricultural and food industry is able to ensure basic supplies of foodstuffs. An acute supply crisis is not in the offing. However, such a crisis could be triggered by external factors, for instance a shortage of energy due to a severe winter or a further deterioration of the general economic situation.

The standard of food supplies is the main problem: food is not continuously available in the shops, the quality is poor and variety is limited. It is the food industry rather than agriculture which is mainly to blame for this situation.

These shortcomings are due principally to the system. Far-reaching social and economic reforms are therefore necessary before any improvements can be made in agriculture, forestry and the food industry: these would have to include the introduction of free market principles, a reduction in the high producer prices and a reduction in the level of subsidies for consumer prices. In addition, agriculture and the food industry in particular, need to be comprehensively modernized, i.e. an enormous injection of capital and technical and business management know-how is needed. A more streamlined food industry would, moreover, improve the quality and increase the diversity of agricultural products.

Many of the shortcomings of agriculture are due to the system and considerable modernization measures are required. The following measures alone would lead to an increase in productivity and improved quality of products:

- more independence for plants and, in particular, closer coordination with the market and a stronger emphasis on quality,
- an agricultural prices system based on supply and demand,
- own responsibility for using profits to improve mechanization,
- measures to overcome the shortage of spare parts,
- the elimination of plant equipment shortages,
- more attention to environmental considerations, and
- an end to the separation of livestock and crop production units.

Furthermore, if more capital is spent on equipment and buildings and if management is made more effective, production can be substantially increased even if the size of holdings remains practically unchanged. However, this might lead to considerable surpluses, an undesirable situation given the GDR's limited export capacity. If the present gap between the Federal Republic of Germany and the GDR as regards yield per hectare and livestock production were reduced by 50% this would lead to the following surpluses for important products:

Cereals:	1 m.t.	i.e. in good years no need for imports
Sugar:	300 000 t.	domestic requirements are already fully met
Milk:	1 m.t.	domestic demand is already met, butter consumption twice as high as in the Federal Republic of Germany
Eggs:	30 000 m.t.	domestic consumption already higher than in the Federal Republic of Germany

Since the GDR is also self sufficient in all these products except for cereals, the surpluses would be entirely available for export. Meat exports would probably increase as well.

Agricultural production must be made more environmentally acceptable: the use of chemicals must be adapted to the state of the soil and plant requirements and generally reduced so as to prevent pollution of the ground water. The ruthless exploitation of the soil should be stopped. Intensive agricultural methods should be reintroduced in protected areas.

Infrastructures in rural areas need to be improved. The main problems are caused by the poor quality of the road and farm road network and shortcomings in the water supply situation and in sewage disposal.

PART B: FISHERIES

1. INTRODUCTION

The speed at which the process of German unification is progressing and the short deadline given by the European Parliament's Temporary Committee to the Directorate-General for Research to consider the impact of the process of German unification on the European Community have meant that the relevant services have had little time to draw up an in-depth report on the Common Fisheries Policy. It should be pointed out at the outset that this policy-together with the Common Agricultural Policy - is one of the most integrated policy areas of the Community.

Nevertheless, we have attempted, with the limited means at our disposal, to draw up a preliminary survey.³ In the absence of precise and reliable statistics we have used Commission data. We should like to take this opportunity to thank the services of DG XIV and in particular the cabinet of Vice-President Marin for their generous assistance in this matter.

2. ECONOMIC IMPORTANCE

Fisheries are a relatively important activity both in the GDR and in the FRG, as the following figures show (the FRG figures are given in brackets for comparison)⁴:

2.1 Production:

(1988, live weight)	<u>GDR</u>	<u>FRG</u>
	+/- 265,000 t	(184,000 t)
high-sea fishing:	+/- 180,000 t	(88,000 t)
inshore fishing:	+/- 60,000 t	(95,000 t)
aquaculture:	+/- 25,000 t	(24,000 t)

2.2 Resources:

Sea fish production comes from the following sources:

- 1/3 from Baltic Sea fishing areas
- 1/3 from fisheries outside the 200 mile limit
- 1/3 within the framework of fisheries agreements with third countries.

Aquaculture products are produced in breeding plants in fresh and brackish waters covering an area of approximately 135,000 hectares.

³ This document will be fleshed out at a later stage when we have received the answer to a questionnaire we forwarded to the foreign research institute which the Temporary Committee has commissioned to draw up a study on this subject.

⁴ Data received from the Commission services

<u>2.3 Number of vessels</u>	<u>GDR</u>	<u>(FRG)</u>
high-sea fishing: (> 26 m long)	40 including 9 transport vessels and 8 special vessels (squid and prawn fishing)	(10)
inshore fishing (12 m to 26 m long)	225	(613)
small-scale inshore fishing	800	

High-sea fishing vessels and in-shore fishing vessels which are 26 m long have a gross register tonnage of 92 000 GRT (FRG: 54 621 GRT).

2.4 Per capita consumption: +/- 8.0 kg gross weight

The market in fisheries products consists principally of processed or semi-processed products. There is almost no market in fresh products due to a lack of appropriate infrastructures (absence of cold storage facilities and retail shops).

2.5 Trade:

<u>(a) German domestic trade:</u>	<u>1988</u>	<u>1989</u>
GDR exports to FRG:	Quantities: 1,354 t	1,071 t
Value:	DM4.7 m	DM 3.9 m
FRG exports to GDR:	Quantities 378 t	428 t
Value:	DM4.1 m	DM 4.5 m

(b) Trade with the European Community

	<u>1986</u>	<u>1987</u>	<u>1988</u>
Imports (notably squid and shrimps)			
Value (m ECUs)	6.7	7.9	7.0
Quantities (t)	5.215	5.839	6.391
Exports (notably fresh mackerel and herring)			
Value (m ECUs)	11.7	11.5	8.2
Quantities (t)	41,340	47,174	31,834

(c) Trade balance
(M ECUs)

5.0 3.0 1.2

2.6 Number of persons employed in the fisheries sector: +/- 16,000 (FRG: 16,500)

2.7 Marketing and processing structures

The bulk of fisheries production in the GDR (> 85%) is integrated in the fisheries collective combines in Rostock and Saßnitz which are run by the state. These organizations also control all the high-sea fishing fleet, the processing industry and the marketing network.

Apart from these two fisheries combines there are 27 inshore fishing cooperatives engaged in both production and processing. These cooperatives are integrated in the state annual market supply plan. Membership is compulsory and the cooperatives own the fishing vessels (except for the offshore fishing cooperatives). Aquaculture is entirely in the hands of fifteen state undertakings and thirty cooperatives.

3. PROBLEMS

The integration of the GDR in the Common Fisheries Policy through German unification is a sensitive issue and poses a number of complex problems. An assessment of the impact on the main sectors is given below.

3.1 Internal resources (Regulation (EEC) No. 170/73)

Unification will considerably increase the capacity of the Community fleet although resources are already very limited. Indeed, the GDR fleet is disproportionately large given the resources to which it has access at present. Unification may thus aggravate existing problems in the Community as regards the management of resources. The following points in particular should be stressed:

- (a) As regards the species covered by TACs and quotas distributed among two or more Member States the present formulae do not need to be revised. However, if the new Member State introduces new assets (relatively modest in the case of the GDR in the Baltic Sea), a new formula should be drawn up;
- (b) As regards precautionary TACS which are not divided among the Member States the arrival of the GDR fleet flying the German flag may, given its size and the fact that it concentrates on certain types of fish (whiting, blue whiting, horse mackerel, etc.), upset the present balance in fisheries capacities and indeed the internal balance between Member States;
- (c) As regards species not covered by TACS and quotas, the 'free' access of this additional fleet, notably to the North Sea, Western Scotland, the Irish Sea and the Bay of Biscay may pose an additional threat to the biomass.

Furthermore, the automatic access to Community waters of the GDR's existing fishing fleet flying a German flag will inevitably raise a number of political problems, especially since the Spanish and Portuguese fleets enjoy no right of access even though they are covered by certain fisheries quotas by virtue of the 1985 Treaty of Accession (restrictions in the Atlantic, prohibition in the Channel and the North Sea).

Appropriate measures - similar to those taken in respect of Spain and Portugal - will have to be taken to restrict the supplementary fishing capacity of a United Germany in respect of stocks covered by TACs and quotas as well as other species. In the absence of such measures the present internal arrangements governing fleet capacities could well be called into question.

It is therefore necessary that the implications of the German unification for the internal resources of the Community be subjected to a comprehensive and far-reaching scrutiny taking into account the legal, technical, economic, social, political and other aspects.

3.2 External resources (international fisheries agreements)

The Community will have to take over the bilateral fisheries agreements concluded by the GDR and ensure that the commitments they entail, notably as regards the allocation of fisheries assets, are respected in accordance with the principle of relative stability. This could lead to very difficult intra-Community negotiations.

According to the information available, the GRD has concluded agreements with a number of third countries; these are different in content from those concluded by the Community. The integration of these agreements in the common fisheries policy will raise a number of technical problems which will take time to solve.

The integration of these agreements in the Community agreements will only be possible if the cost is covered by the Community budget (the amount is not yet known).

Moreover, the Community can only take over these agreements if the third countries in question wish to become trading partners of the European Community. In some cases, notably, Canada the Community may encounter a number of difficulties (in this case due to the crisis in fisheries relations between the European Community and Canada).

It should be noted in this context that the increase in the Community market due to unification may soon increase the Community's overall shortfall in fisheries products, given its limited resources. A Community policy governing access to the market and to resources would then be needed increasingly to deal with this increase in demand.

All these problems show that the external relations aspect of the common fisheries policy needs to be examined in detail: the technical, financial and political implications of unification will then become clearer.

3.3 Markets (Regulation (EEC) No. 3796/81)

Far-reaching measures to adjust existing structures in the GDR are necessary if the GDR's fisheries market is to be integrated into the Community system.

'Free' price formation as provided for in Community legislation does not exist at present at the various selling stages in the German Democratic Republic. The various production and marketing prices are fixed by the State which has created artificial price levels based on a system of deficiency payment⁵. Furthermore, the State has ensured the 'profitability' of the fleet by injecting subsidies.

The fisheries collective combines in Rostock and Saßnitz and the compulsory state cooperatives are incompatible with the 'acquis communautaire'. For the common organization of the market in fisheries products presupposes the existence of producers organizations set up on a voluntary basis by producers and fishermen.

⁵ For example, for carp the producer price is 15 M/kg and the consumer price is 4.40 M/kg: State aid therefore amounts to 10.6 M/kg(!)

For all these reasons a free market and free undertakings are essential if the GDR market is to be integrated into the Community system. Only when these conditions are met will it be possible to study the implications for prices and other instruments of the common organization of the market in fisheries products. It is therefore still too early for a detailed study of a topic as important as this. Furthermore, given the present level of prices in the GDR, the introduction of Community prices may cause serious social and economic problems in that country (fall in producers' incomes, increase in consumer prices) unless appropriate counter-measures are taken. The detailed study referred to above should therefore also investigate the consequences of applying Community prices in the GDR; this would allow a realistic assessment of the budgetary consequences for each side.

3.4 Structures (EEC) No. 4028/86 and No. 4042/89 (a) Production structures

An extension of the 'acquis communautaire', and notably the common structures policy, to the GDR would primarily affect the united German state. The interests of the other Member States would not be directly affected except possibly, as regards the overall budget and the apportionment of the budget between the Member States): this should also be examined in detail at a later stage, as the necessary data is not yet available.

The structural arrangements in question provide, in the first place, for Community aid for the restructuring, renewal and modernization of the fishing fleet submitted by the Member States for inclusion in the Multiannual Guidance Programmes adopted by the Commission at the end of 1987.

The objectives of the Multiannual Guidance Programme in respect of Germany will have to be completely revised and adjusted in the light of the integration of the GDR fleet in that of the FRG.

The same applies to aquaculture, since Community financial aid is only granted for projects listed in the MGPs.

Similar problems also arise in connection with other titles of Regulation (EEC) No. 4028/86, and notably the adjustment of capacities, exploratory fishing, joint ventures, facilities at fishing ports, etc.,.

If the coherence of the structural measures introduced by Regulation (EEC) No. 4028/86 is not to be jeopardized by an immediate extension of Community structural measures to the GDR, the objectives of the MGPs implemented by the FRG will have to be reconsidered.

The fact that certain undertakings in the GDR are state-controlled does not necessarily mean that they are beyond the scope of the structural regulations, for the latter provide that Community aid may be granted to legal or natural persons or groups of such persons who are responsible for investments and these may be public, semi-public or private in character.

b. Marketing and processing structures

The Regulation (EEC) No. 4042/89 on the improvement of the conditions under which fishery and agriculture products are processed and marketed lays down that Member States must submit to the Commission a specific plan regarding individual sectors. This plan will have to be adjusted in respect of a united Germany, taking into account the need to maintain the balance between the Member States - if the GDR's fisheries sector is to be integrated immediately in the Community system.

The budgetary implications cannot be calculated at this stage due to a lack of data. However, Community structural measures need to be taken immediately to tackle certain persistent difficulties facing marketing and processing undertakings in the GDR.

All these problems show that a thorough examination of structural aspects of the common fisheries policy is necessary in order to evaluate the technical, economic, social and budgetary implications in a pragmatic manner.

3.5 The harmonization of legislations

Another fundamental problem raised by the extension to the GDR of the 'acquis communautaire' in the fisheries sector which should also be considered in detail at a later stage is the entire body of legislation - either adopted or about to be adopted - on the completion of the internal market for fisheries products: for example, Regulation (EEC) No. 33/89 amending Regulation (EEC) No. 103/76 laying down common marketing standards for certain fresh or chilled fish; the proposal for a Regulation (EEC) laying down health conditions for the marketing of fish and fish products concerning nematodes (COM(89) 428 final); the proposal for a Regulation (EEC) laying down the health conditions for the production and placing on the market of fishery products (COM(89) 645 final); the proposal for a Regulation (EEC) laying down the health conditions for the production and the placing on the market of live bivalve molluscs (COM(89) 648 final); the proposal for a Regulation (EEC) concerning the animal health conditions governing the placing on the market of aquaculture animals and products (COM(89) 655 final);

There will also inevitably be problems in transforming a planned economic system in the GDR to a free market economy (EEC).

4. CONCLUSIONS

Superficially, the integration of the GDR in the Community is comparable with Spanish and Portuguese accession: they too had substantial fishing fleets whose production capacities far outstripped their own fishing resources. In fact, however, the situation is much more complex and unforeseen complications may arise since the process of unification entails the immediate integration of the GDR's fleet in that of a Member State.

If the 'acquis communautaire' were immediately extended to the GDR this would pose considerable technical, economic, social and even political problems concerning various aspects of the common fisheries policy: it is too early to assess the budgetary obligations at this stage. The GDR could expect serious socio-economic problems, notably as regards prices and incomes. All these problems are essentially due to the Marxist economic system on which the East

German fisheries sector has been based since the Second World War. The integration of the GDR in the European Community through the process of German unification thus poses a new challenge to the Community.

It therefore seems prudent to prepare this integration thoroughly by adopting a transitional adjustment period; the conditions could be negotiated following a thorough study by the Commission services of the GDR fisheries, the same procedure as was adopted in respect of Spain and Portugal when they submitted their applications for accession.

Subsidies and retail trade turnover in foodstuffs
in the GDR

Year	Retail Trade turnover	State Price support	Price support compared with retail trade turnover
	in billion marks		%
1971	24,607	5,492	22.3
1975	27,949	7,178	25.7
1979	31,487	7,722	24.5
1980	32,125	7,848	24.4
1981	32,872	11,156	33.9
1982	33,491	11,668	34.8
1983	33,882	12,095	35.7
1984	34,811	20,630	59.3
1985	35,589	27,561	77.4
1986	36,439	30,859	84.7
1987	37,458	31,419	83.9
1988	38,159	31,948	83.7

Source: GDR Annual Yearbook

EUROPEAN PARLIAMENT

DIRECTORATE GENERAL FOR RESEARCH

**Note for the attention of Members
of the temporary Committee on
the impact of the unification process of Germany
on the European Community**

The Members will find annexed a working document on:
"The Structure of GDR Industry and Problems of Transition and Integration in
the Common Market".

This document has been produced by the Directorate General for
Research in cooperation with the Deutsches Institut für Wirtschaftsforschung,
Berlin.

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SUMMARY

In the coming 18 months, industry in the GDR will be under severe economic strain due to economic restructuring and the effects of economic reform. Catchwords for this economic reform are: privatisation, decentralisation of decision making, introduction of the social market economy and price mechanism to allocate resources. Predictions about job losses in GDR industry vary between 900.000 and 1.5 million. On the other hand, there will also be job creation, particularly in those sectors where supply has been restricted (e.g. services, construction). Most of the powerful, vertically and horizontally integrated Kombinate, which guaranteed a high degree of self-sufficiency of the GDR economy, will be split up into independent enterprises, which will be exposed to international competitiveness, productivity and profitability criteria. It is estimated that one third of present GDR industrial production is up to international standards, one third has to be abandoned, and the rest can be saved through restructuring, but only in cooperation with international help. Labour and capital productivity of GDR industry is about half of W. German levels, although optics, some parts of mechanical precision engineering and porcelain meet western standards of competitiveness. Other sectors with lower productivity levels (e.g. shipbuilding, electronics, motor vehicles) have long-term contracts with other CMEA countries which will allow them more time for restructuring. Other sectors will undergo shock treatment because of foreign competition and indigenous demand and expectations (building sector, services). The Community has indicated that it will apply its state aid rules with sensitivity, accepting the principle of special help if GDR industry is to catch up in those sectors where adjustment will be very difficult (textiles, steel, consumer goods, shipbuilding). In the transition phase towards full economic integration into the Community, GDR industry will be granted special temporary exemptions from Community rules and it will be eligible for Community help from the Community programmes for Eastern Europe.

The German economic miracle may be reproduced in the GDR because of: its skilled labour force; its export position to other East-European countries; the hitherto suppressed domestic demand and, last but not least, its integration into the Community which by itself has proved to be a major growth factor.

INDUSTRIAL STRUCTURE

Industrial production in the GDR achieved about one quarter of the West German level of production in 1983, but for this it needed twice as much labour as in the FRG(1).

Because of the weak service sector, the industrial sector accounted for around **two thirds of the GDR national product** in 1988 and this share has even increased over the years. In West Germany, industry accounts for about 40% of value added(2). The value of comparing these percentages is limited because of the price mechanisms in both states. In the GDR, for example, industrial prices are fixed by the state which contain relatively high transfers to the state. It is better to look at employment figures. In 1988, **37 per cent** of employed persons in the GDR worked in **industry**. This share has not changed fundamentally over the years and means that the GDR has not experienced the typical trend of western countries towards a service economy. The Deutsches Institut für Wirtschaft (DIW) predicts 900.000 job losses in GDR industry, 250.000 in agriculture and 170.000 in state administration. On the other hand, 300.000 new jobs are likely to be created in the construction and service industries(3). According to the Institut für Internationale Politik und Wirtschaft more than 1.5 million jobs in East German industry are in jeopardy (4).

INTER-SECTORAL DEVELOPMENTS

Also within the industry, structural change was minimal. The largest industrial sector is mechanical engineering and construction of motor vehicles with a constant share of about 30% of industry workers. Electronics (precision engineering) follows with about 15% Annex I gives the distribution of employment in the different industrial sectors of the GDR economy for 1970, 1980 and 1988, in comparison with the FRG. Sectors which have declined in western countries, such as clothing and textiles, have kept their share in the GDR. This is the result of a central structural policy aimed at **self-sufficiency and conservation**.

Comparison between West and East-German industry also shows **similarities**, as shown graphically in Annex II, which compares both production value and employment sectoral distribution in the GDR and the FRG. Both in the GDR and FRG, mechanical engineering, construction of motor vehicles, precision engineering, electronics are the core of industrial activity. Within each industrial sector, the structural differences between the two economies are

considerable. Apart from domestic self-sufficiency and conservation motives East Germany's industry's structure has been influenced by the division of labour among the countries of the Council for Mutual Economic Assistance (CMEA) which has resulted in inter-industry trade specialisation. W. German industry has used the increasing division of labour within the European Community with the accompanying phenomenon of intra-industry trade and specialisation of investment goods, durable consumer products and chemicals. Because of security and self-sufficiency, the GDR produces 50 per cent of the world product range in investment goods, whereas W. German industry only produces 17 per cent. The FRG can acquire its investment goods more cheaply and more reliably on the W. European or world market. Without any major consideration of on productivity, profitability and international competitiveness, GDR industry has had to continue to make products, as long as they could be exported to the West or CMEA countries or as long as imports could be avoided.

SIZE AND EFFICIENCY

Almost the entire industrial production comes from collective combines ("Kombinate"), in which a large number of industrial businesses are combined. About 130 national combines are under control of ministries, while 95 smaller ones fall under the responsibility of the administrative districts(5). The combines consist of 15 to 30 enterprises (VEBs) and they have on average 20.000 employees. Combines dominate 85% of East Germany's economy and they are likely to be broken up and privatised, as many managers want. The organisation of combines is linked with production units/plant size, which is considerably larger than in the FRG.

Economic reform in GDR industry will be characterised by:

- . Privatisation and decentralisation of decision-making;
- . Reliance on the price mechanism to allocate resources and determine production and trade;
- . Reliance on market forces to determine those prices.

Robotron the electronics group, and the optics group Carl Zeiss Jena have announced they are abandoning the combine form. It is likely that companies with the best chances of survival will be bought up by West German industrial groups or will be privatised, with the shares being divided between the workers, domestic investors and foreign (Western) investors. The expansion of

East German small and medium sized businesses is crucial for industrial take-off; they will help soak up the unemployment created by the collapsing combines.

In the GDR, 3526 industrial enterprises had an average of about 900 employees (1988). The 47826 W. German enterprises had an average of 190 employees(6). In other words, small and medium sized enterprises are less developed in the GDR. The share of small and medium sized enterprises, i.e. having less than 800 employees, is 25% in the GDR, whereas in the FRG this share is about 67% of enterprises. In addition, **concentration** in the GDR has constantly increased from 1965 to 1980.; industrial concentration in the FRG has remained constant. The objective of self-sufficiency hindered sub-contracting. The development of a differentiated innovative subcontracting industry was substituted by a high degree of **vertical and horizontal concentration** in the combines. The largest combines/enterprises in the GDR and the FRG are listed in Annex III. It should be noted that a comparison between combines and large western enterprises is problematical, because the Kombinate represent a level of hierarchy in a centrally planned economy.

LABOUR PRODUCTIVITY AND CAPITAL PRODUCTIVITY

The technological underdevelopment and the out dated production facilities in the GDR are fundamental reasons for the **productivity gap** between the GDR and the FRG. Growth in GDR industry was based on export needs of investment goods for other CMEA countries, thereby neglecting consumer goods and modernisation of its production apparatus. Technological progress and the improvement of labour productivity were less prominent. In previous research (5), productivity levels in the GDR were calculated at round **47% of the W. German level** for 1983, with adjustment being made for the shorter working week in the FRG. Annex III highlights the differences in labour productivity between GDR and W. German industry in the different branches of industry. In DDR industry 43 1/2 working hours are the norm (for a 5-day working week), whereas recent collective agreements in certain sectors of the W. German economy now have a 35 work-week clause. In 1983, DDR industry workers worked 164 hours more than the 1828 hours of a worker in W. German industry. At the moment, industry workers in the GDR work more hours than their W. German colleagues did fifteen years ago. In the meantime, the difference in labour productivity between the FRG and GDR may have increased¹.

¹ According to Wharton Economic Forecasting Associates labour productivity in

The average **capital productivity** in the GDR is also lower. The ratio between net investment and output in the GDR is 4.5, in the FRG it is 8.4(8). In general terms, GDR industrial products are **energy and raw-material intensive**, they are mass products not the research intensive specialty products prevalent in W. German industry. This applies in particular to chemical and metallurgical products. The needs of the Soviet Union and the division of labour in the CMEA have determined to a large extent the type of export products. The insertion of the GDR industry into the W. German and Community industry will entail radical structural change.

GDR industry is about 40% of W. German levels(8).

FACTS AND DEVELOPMENTS OF GDR INDUSTRY IN VIEW OF UNIFICATION

Almost 85 per cent of the total industrial production in the GDR is accounted for by the seven most important industrial sectors(9).

a) Mechanical engineering and construction of motor vehicles (21% of production)

Because of the division of labour within CMEA, the mechanical engineering industry mainly supplies the Soviet Union; the product range thus corresponds to the needs of that country (agricultural machinery, rail cars, earth-moving equipment, etc.). This gearing of exports to a large market enables mass production of goods. The construction of heavy machinery and machine tools is particularly pronounced. The proportion of computer-controlled-numerical machinery, however, is markedly below that of the Western industrial countries. The technology used in the automobile sector has become outdated. That used for car manufacturing has fallen below even that of the other East European countries. Although robots have already been introduced into a few plants, productivity is still only 40% of that in West Germany. Shipbuilding, which in the GDR belongs to this industrial sector, is very important. The shipbuilding combine in Rostock and the shipyard in Stralsund, the biggest fishing boat yard in the world, likewise utilise the advantages of mass production with regard to the Soviet Union buying in such bulk. Considerable cost-savings can be made by producing, for example, 30 similar ships. The shipyards which export 90% of their products, have large orders until 1993. The shipyards also profit from extensive Soviet repair contracts. They have an excellent labour force, among which there are 10 000 university graduates and an eminent position on East European markets(10). The overall sector productivity level is around 55% of that in West Germany.

b) Electronics, dataprocessing, precision engineering and optical goods (9%)

This sector is quite mixed in terms of the degree of modernisation. Thanks to high levels of investment, the GDR has made up considerable ground in the area of micro-electronics. But even so, the Robotron combine, the only manufacturer of dataprocessing systems in the GDR, has problems because it

has to manufacture all the components which it requires. The area of telecommunications is particularly weak (mechanical terminals and switching still predominate).

The GDR industry has not been able to produce digital switches and the COCOM list has prevented import. It is estimated that it will take five to seven years and cost DM 30 bn to raise the GDR to W. German levels. There are only eleven telephone lines per 100 inhabitants in the GDR compared with 45 per 100 in W. Germany. The backwardness of GDR telecommunications is according to Mr. Schwarz-Schilling, the West-German Post Minister, the most important bottleneck in the way of rapid modernisation of the GDR economy. Siemens and Standard Elektrik Lorenz are competing for this market; Alcatel has set up a joint-venture with VEB Kombinat Nachrichtenelektronik; The public network operators in East and West Germany have taken a first step towards merging their operations, in line with the Post Union agreement concluded, in March 1990 between the two countries telecommunications ministers. Mobile telephones are likely to be in wider use quickly, since it is the best temporary solution to expand fast telecommunications between West and East Germany.

Lack of capital, combined with the ineffective attempt to achieve self-sufficiency, prevents any increase in the transfer of technology and shorter renewal cycles. But optical devices made by the Carl Zeiss Jena Kombinat, such as binoculars and space cameras, still manage to achieve first-class quality. All in all, productivity is half that of West Germany.

It is expected that the sectors mentioned in a) and b) will have the **largest opportunities** of adjustment and productivity gains when inserted into the Community industry. For example, East Germany's machinery industry should be able to double or triple its annual output of between DM 20 bn and DM 25 bn in the next few years, according to the West German mechanical engineering industry Association (VDMA)(11).

There are several indications for this potential:

- The willingness of the Community industry to invest particularly in these GDR industries(12). There are numerous examples of investment, cooperation agreements, joint-ventures recently concluded or in the process of being negotiated(13);

- East German specialisation in these sectors offers immediate competitiveness advantages on **East European markets**, notably when western technology and management techniques are combined with the GDR expertise on East European markets (and languages);
- There is considerable potential for **intra-industry specialisation** between East German and Community enterprises, given the presence of training, research institutes and a developed service and distribution network in the GDR.

c) **Chemicals** (20% of total production)

The structure of the East German chemical industry - in the Western nations the chemical industry is one of the high-growth sectors - is in part outdated. Alongside modern petrochemical plants there are many plants dating back to the pre-war era (primarily in the production of synthetic fibres). This branch of industry is concentrated in the Halle/Leipzig area (Leuna, Buna, Bitterfeld). The majority of the products manufactured are those that require little processing, basic and mass products (processing of brown coal to chemical raw materials) and few high value-added products ("high-chem"). So, for example, the proportion of plastic production in the GDR is around 12%, as compared to 26% in West Germany. Processing of plastics in East Germany is, of all the sectors, that which gets closest to the West German productivity level (about 75%). In the sector as a whole, **productivity per worker is around 55% of the level in West Germany**. The fact that large parts of the GDR chemical (and fuel and energy) sectors are based on **(brown) coal** as a raw-material, may cause severe adjustment problems to compete with the more efficient Community industry, which is gradually complying with increasingly **higher EC environmental standards**.

d) **Steel industry, non-ferrous metals** (9% of production)

The steelworks in the GDR are outdated. Less than half (38%) of the plants are able to employ high-technology methods of production. In contrast, the proportion of low-cost continuous casting technology used in West Germany is around 90%. A good 40% of steel produced in East Germany is manufactured by the open-hearth (Siemens-Martin) process - this process has not been used at all in the Federal Republic since 1983. Unlike the West German companies which concentrate on higher grade steel products, the East German steel industry, lacking the finishing capacities required, mainly produces simple products. In contrast to the Member States of the Community, the

number of employees in the East German steel industry has increased significantly. The high surplus capacity in the Community was unimportant to the steel industry in the GDR; the predominant motive was the desire to be independent. **Productivity** is **45%** of the West-German level. Adjustment problems are likely to be accentuated in the transition period. The crisis-regime for the Community steel industry has expired and special transitional rules for state aid in the East German steel industry could alleviate some of the adjustment burden. The Commission has already indicated that it will apply its state aid rules with "sensitivity" while at the same time preventing either part of Germany from getting unfair advantage over other Community countries(14).

e) Textiles (6%)

Production is overwhelmingly geared towards mass production goods; competition from the developing countries has a significant influence on export markets. The rigidity inherent in the system makes it difficult to shift production to high-quality goods. Lack of capital prohibits the introduction of any automated, flexible production methods. Many factories date back to before the war when the German textile industry was concentrated in Sachsen/Thüringen. In this sector as a whole the **per-capita output** is some **55%** of the West German textile industry. Employment in the textile, clothing and in general the entire consumer goods industry is expected to fall. The rate of decrease will depend on the relative wage level, which these industries will have after the monetary union, and on how rapidly they will adjust to market-economy conditions. Community state aid-rules under Art. 92 of the Treaty are evidently of direct relevance for this sector, but they will be applied with sensitivity and take account of temporary derogation rules (during the transition phase).

f) Food industry (15%)

The foodstuffs available are of poor quality and limited in variety. In the past 20 years the quality of supply has worsened, especially with regard to high-quality products. The negative effects of the bid for self-sufficiency and the unwillingness to import goods are particularly striking in this area. The sector **productivity** is, in parts, only **40%** of that of the West German food industry.

g) Construction materials (2%)

The industry supplying the construction industry is one of the weakest sectors in the GDR. The inflexibility of the combines structure prevents the introduction of higher quality building materials. In view of the low, subsidised rents, there has been little incentive on the part of the housing builders. The structure has become even worse over recent years. Two-thirds of the housing in East Germany was built before the war. The production share of this branch of industry within industry as a whole has decreased since the seventies; at the same time, the number of employees has risen. In view of unification, and the suppressed demand for renovation, new buildings and infrastructure, the construction activities in the GDR are bound to grow very fast. This means that not only Community contractors will benefit but that also the East German construction industry will receive financial and technology impulses. This will enable the indigenous industry to catch up in a relatively short period. Productivity at the moment corresponds to 40% of that of West Germany.

BUSINESS COOPERATION AND STATE AIDS

For all the serious problems in changing the industrial structure of the GDR, however, it is important not to lose sight of the fact that the GDR is by far the most attractive eastern (or central) European location for capital investment by Community companies(15). The double effect of investment by western companies in the GDR and extra spending by 17 million East Germans, is likely to exert not only a significant growth impulse in the GDR, but also in the Community, as a whole, by an extra 0.5% next year and a full percentage point in 1992, according to press reports of Commission estimates (16). West-Germany's five Economic Institutes predicted in April 1990, a DM 35 bn to DM 40 bn order boost for West-German industry next year as a result of economic union (17). Despite the emigration of skilled workers, the GDR still has an impressive reserve of well-trained workers and may be still attractive as a production location, even with an exchange rate of 1:1 (DM:Mark) and lower productivity, supposing that wages are not fully adjusted to the W. German level(18). Obsolete and neglected as it is, the infra-structure still works better than in other eastern European countries. The GDR's "secret membership" in the EC has meant that contacts between Community companies and the GDR go beyond pure trade relations. According to research carried out by DIW, 140 West German Companies were involved (end 1989) in a total of 1,100 cooperation projects with the GDR(19). For example: Volkswagen AG, which has

been receiving parts from East Germany since the beginning of the seventies, has enabled the GDR to manufacture engines for the Wartburg and Trabant cars within the framework of a licensed production agreement. Salamander shoes have been made in the GDR under West German license for years.

Despite the initial euphoria of Western investors for take-overs, joint-ventures, there has also been hesitation on the part of manufacturers (apart from the car industry) to commit themselves fully to take over and renovate the combines. Mr. Herbert Henzler, chairman of McKinsey Germany, reckons that in 10 years time East Germany will boast **leaders in optics, printing machinery and porcelain(20)**. Between 50 and 70 of the existing combines will be efficient performers on the world market, with the help of business partners in the West. A further 50 combines will have survived in some form through their own restructuring efforts and 20 or 30 will have closed down. According to Directors General of the combines, one third of industrial production is up to international standards, one third has to be given up, and the rest can be saved through restructuring, only in cooperation with international help.

The fast growing West-German participation in the East-German economy has led to the involvement of the Federal Cartel Office in Berlin to consider the competition aspects. Sir Leon Brittan (21) has already indicated that the Commission will watch mergers, financial link-ups and state aids (granted to firms seeking to invest in the GDR), even though East Germany will not become part of the Community until after unification. This is to prevent either part of Germany gaining an unfair advantage over the other countries of the Community. Of course, the Community has no control over what subsidies the GDR now gives to its companies, but the Community will handle the transitional phase with sensitivity accepting the principle of special help if East Germany is to catch up notably in those sectors where adjustment will be painful (e.g. textiles, steel, consumer goods, shipbuilding).

The Dublin Summit in April 1990 agreed on the two phases of East Germany being fitted into the Community: stage one would run from German monetary union, until full constitutional union; the second transitional stage would continue until East German territory no longer needs special temporary exemptions from Community rules, including those for industrial sectors in difficulties. The GDR will be eligible for Community help from the Community programmes for Eastern Europe.

CONCLUSION

The competitiveness situation of GDR industry can no longer be based on figures which date before November 9, 1989. Many enterprises can now discard unprofitable products and activities; they can decentralise. Export obligations exist only towards partners in the CMEA and industry can concentrate on indigenous demand. After German monetary union, possible external economic problems will become obsolete since the foreign trade balance surplus of the FRG will provide immediate relief.

The German economic miracle may be reproduced in the GDR because of:

- the solid basis of skilled workers (and their flexibility);
- the advantage of being a traditional exporter to East-European countries;
- internal demand for those goods and services for which supply has been restricted;
- the integration into the Community which by itself has proved to be a major factor of growth for the Member Countries of the Community(22).

However, two thirds of East German industry, will be under severe strain in the coming 18 months, when major restructuring will take place. The success of this depends not only on indigenous potential and flexibility, but also on the commitment of the Community.

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EMPLOYEES, WORKERS IN INDUSTRIAL SECTORS¹

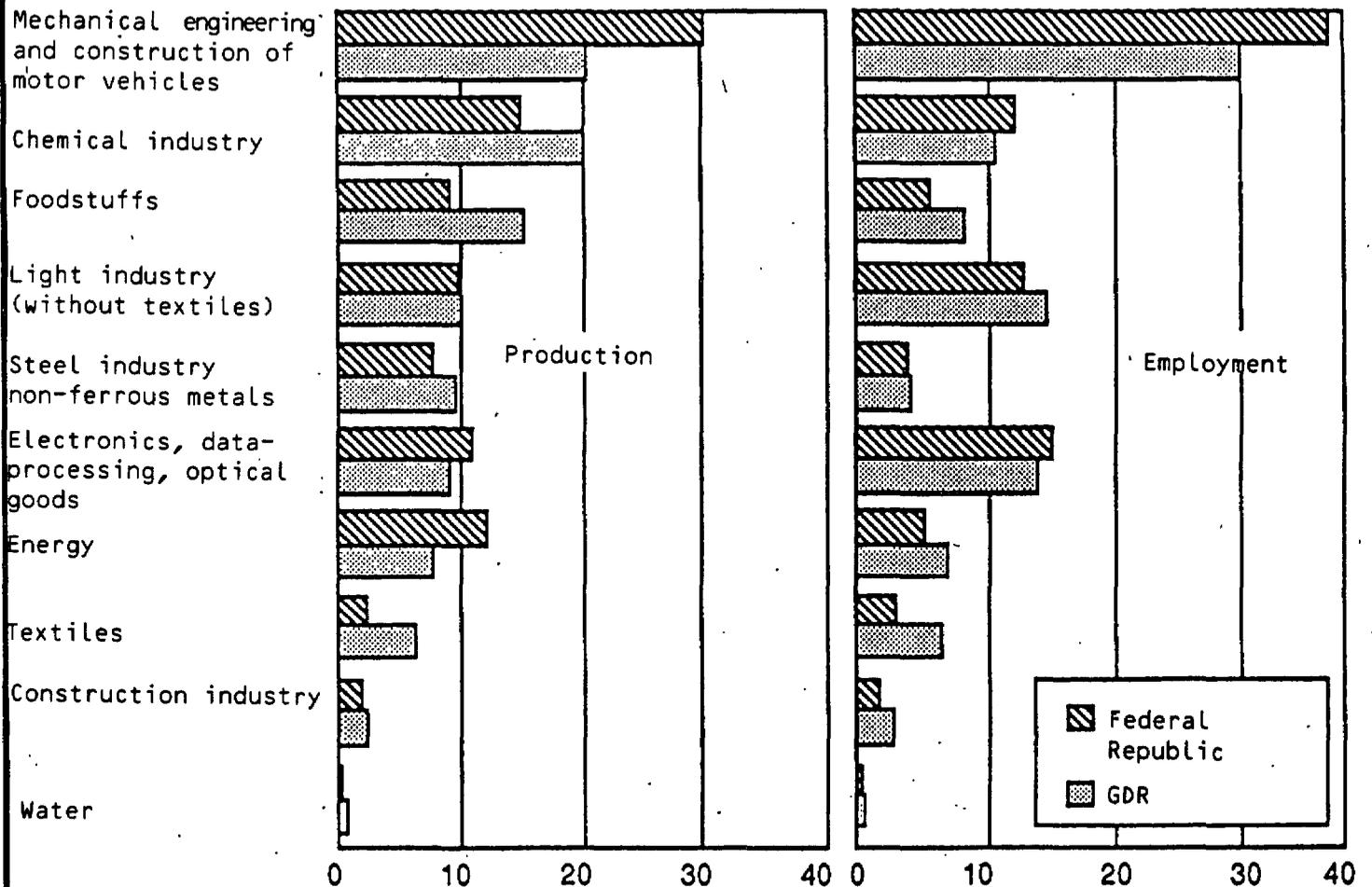
Industry	1970 1980 1988 1000 persons			1970 1980 1988 % (total = 100) DDR			1988 % BRD
	Total	2823	3153	3240			
Fuel and Energy	174	210	229	6.2	6.7	7.1	14.5
Chemicals	328	340	335	11.6	10.8	10.3	
Steel Industry, non-ferrous metals	120	131	138	4.3	4.2	4.2	4.6
Construction material	92	95	94	3.2	3.0	2.9	2.0
Mechanical Engineering and Construction of motor vehicles	809	927	970	28.7	29.4	29.9	36.9
Electronics, data processing, precision- engineering, optical goods	364	432	463	12.9	13.7	14.3	18.7
Consumer goods (without textiles)	450	490	492	16.0	15.5	15.2	13.3
Textiles	249	229	216	8.8	7.2	6.7	3.3
Food industry	217	276	277	7.7	8.7	8.5	6.8

¹ Without apprentices, annual average.

Source: - DIW Kurzexpertise, January 1990
- IFO Schnelldienst 34/89.

INDUSTRY-STRUCTURE COMPARISON FRG - GDR

(Share in production value and employment 1987)



Source: WestLB - Handelsblatt, March 1990, No. 48.

THE LARGEST KOMBINATS/ENTERPRISES IN THE GDR AND THE FRG

Enterprise	Turnover Mark/DM billion	Employees in 1000	Industry
DDR			
Petrochemisches Kombinat, Schwedt	28	30	Mineral oil
Leuna-Werke "Walter Ulbricht", Leuna	12	30	Petrochemicals chemicals
Robotron, Dresden	11	69	Electronics dataprocessing
Fortschritt Landmaschinen, Neustadt in Sachsen	8	58	Agricultural machines
Baumwolle, Karl-Marx-Stadt	8	70	Textiles, clothing
Gaskombinat "Scharze Pumpe"	8	37	Energy
Chemiekombinat Bitterfeld, Bitterfeld	8	30	Chemicals
Mansfeld-Kombinat "Wilhelm Pieck", Eisleben	7	47	Metalworking/Steel
Mikroelektronik, Erfurt	7	59	Electronics
Qualitäts- und Edelstahl-Kombinat Brandenburg	7	34	Steel
Federal Republic of Germany			
Daimler-Benz, Stuttgart	73	339	Cars, electronics defence industry
Siemens, München	59	353	Electronics dataprocessing
VW, Wolfsburg	59	252	Cars
Veba Düsseldorf	42	85	Energy, chemicals
BASF, Ludwigshafen	42,4	135	Chemicals
Hoechst, Frankfurt	41,0	165	Chemicals
Bayer, Leverkusen	40,5	166	Chemicals
Thyssen, Duisburg	29,2	129	Steel, mechanical Engineering
Bosch, Stuttgart	27,7	168	Electronics
RWE, Essen	25,6	76	Energy

Source: Handelsblatt, March 1990, No. 48, West LB.

LABOUR PRODUCTIVITY
(GDR INDUSTRY IN % OF W.GERMANY = 100)

INDUSTRY	Comparable levels		Adjusted for differences in working hours	
	1970	1983	1970	1983
- Energy	66	48	61	41
- Chemicals, plastic, rubber	35	50	34	47
- Steel Industry, non-ferrous metals	39	47	41	45
- Mechanical engineering, construction of motor vehicles	43	56	44	53
- Electronics, precision engineering and optical goods	40	52	38	48
- Textiles	52	56	53	57
- Food industry	57	43	60	41
- Construction industry	39	41	44	41
Total Industry	48	52	48	47

Source: Kurzexperteise Deutsches Institut für Wirtschaftsforschung, Berlin, for the European Parliament, May 1990.

EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR RESEARCH

Notice to Members of the Temporary Committee to consider the impact of the process of German unification on the European Community

Please find attached a working document on:

'The social situation in the GDR (income, employment, unemployment, migration etc.) and problems of transition and adaptation for the Community'.

This document was drawn up by the Directorate-General for Research.

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A. The social situation in the GDR

1. The social security system

The social security system in the GDR is governed by the former SED's guiding principle of 'unity of economic and social policy'. This means that, as is usually the case in a planned economy, social benefits are determined arbitrarily without reference to the economic resources actually available.

The principle of a single compulsory insurance scheme, which is not divided up into pension, sickness and unemployment schemes, continues to apply in the GDR. Workers and employees (91% of the active population) belong to the social insurance scheme administered by the Free German Confederation of Trades Unions (FDGB), while members of cooperatives (7%) and the self-employed (2%) belong to the GDR's State-administered insurance scheme.

Wage earners pay compulsory social insurance contributions amounting to 10% of standard earnings. No contribution is deducted from premiums and bonuses. The maximum amount on which contributions are payable is M 600 which means that the maximum monthly contribution is M 60. The self-employed contribute 20% of their income to a maximum of M 120. In addition to compulsory insurance, a voluntary supplementary insurance scheme exists providing higher pensions, sickness benefits and maternity benefits. 80% of those eligible, that is to say those whose monthly income exceeds M 600, subscribe to such schemes.

Social insurance expenditure has risen considerably faster than revenue particularly as a result of increased cost of sickness and welfare benefits. Since the State has accepted responsibility for payment of benefits, social security revenue is being increasingly subsidized from public funds. Those subsidies, which amounted to 20% in 1960, have now risen to 50%, that is to say 7% of total public spending in the GDR.

Social security benefits for workers and employees consist mainly of pensions (44%) and sickness benefits (35%). In 1989 the total cost of social security benefits was M 35 billion.

There is no system of tribunals for the pursuit of claims.

The social security system is on the verge of collapse as a result of both the uncontrolled spiralling of costs which can only be met from public funds and the large number of people leaving the country.

2. Emigration

As a result of emigration the DDR lost 35 000 mainly young people of working age in 1989 and a further 180 000 up to the first week of May in 1990, adversely affecting the age structure of the GDR population. 76.6% of the emigrants are less than 40 years of age and 23.2% are children.

This means that, within a short period, the number of social insurance contributors has dropped by 400 000.

Since the elections of 18 March 1990, the weekly emigration figures have dropped considerably from 10 000 - 12 000 to approximately 4 000. However, a further increase in the number of emigrants is feared, given the impatience being manifested by the GDR populace with the slow improvement in living standards.

The emigrant workers are mainly well trained skilled workers who have a very good chance of finding work in the Federal Republic of Germany; therefore also many university graduates, in particular doctors.

All branches of the GDR economy are affected by the loss of approximately 5% of the working population. However, the health and transport sectors and skilled trades are, with regional variations, particularly hard-hit.

3. The employment situation

(a) General observations

Under Article 24 of the GDR Constitution, the right to work is still guaranteed and every citizen is still free to select his own job. The latter right has been restricted by State planning and control of human resources with massive pressure being brought to bear on the choice of jobs and binding schemes being imposed on undertakings. However, this has also resulted in a highly-trained workforce. 85% of all workers have completed vocational training courses, a percentage which cannot be matched by any EC Member State.

In addition, a comprehensive system of training and further training provides a possibility of obtaining additional qualifications in the course of one's working life, which frequently leads to people becoming overqualified for their occupation.

Of the 16.2 million inhabitants of the GDR, 10.5 million are of working age (men from 15 to 65, and women from 15 to 60). 8.8 million people are actually employed of which 49% are women, resulting in an employment level of 91% among women.

Broken down by sector, 11% of the active population is employed in agriculture and forestry, 50% in the manufacturing industries, 18% in trade and transport and 21%, including State employees, in the services sector.

Workers and employees are, through their compulsory social insurance scheme, automatically members of the FDGB, the umbrella organization to which all sectoral and company trade unions are affiliated. The FDGB which is regarded as an extension of the old SED and has thereby been considerably discredited, is showing signs of decay. An increasing number of new individual trade unions are being created. The West German Trade Union Confederation (the DGB) recently refused to join forces with the FDGB because of its tarnished reputation and, instead, plans to extend its own field of activities into the GDR.

(b) Unemployment

The theoretically guaranteed right to work is currently being increasingly undermined in practice. As companies are beginning to modernize they are becoming overmanned and are starting to dismiss workers, with the result that the previously hidden underemployment, is now being transformed into open unemployment, despite the fact that workers are still more or less completely protected by law against wrongful dismissal.

Since 26 February 1990 job seekers have for the first time been able to register for unemployment benefit at the approximately 200 employment offices. The unemployed receive 70% of their net average earnings over the previous 12 months.

By the end of April, 54 000 applicants had registered for unemployment benefit which has been paid in 20 000 cases. 42% are women. The number of unemployed is currently estimated to be 80 000, compared with for 79 000 jobs advertised as vacant.

Increasing complaints are being heard from the newly-founded association for the unemployed in the GDR to the effect that company managements are taking advantage of the existing legal vacuum (at least in respect of implementation of legislation) to ignore the rules which still exist prohibiting wrongful dismissal, thereby affecting categories of workers, such as the handicapped or future mothers who are, in principle, protected from dismissal.

(c) Anticipated trends on the labour market

Predictions in this area differ wildly, the most alarmist - generally ideologically motivated - quoting figures of over 2 million and possibly even 4 million unemployed within a year. On the basis of surveys carried out in 52 manufacturing plants, GDR sociologists fear mass dismissals of up to 60% of the total workforce or closures of total undertakings, either because they are insufficiently competitive or because of the lack of market openings for many GDR products once the market is opened up (for example, Trabant cars, chocolate, radios, televisions and clothing).

More realistic forecasts put the unemployment level at between 500 000 and 1 million for the coming transitional period. It is scarcely reasonable to assume that this will escalate into mass unemployment, since an economic upturn is expected to follow hard on the heels of this transitional period bringing unemployment figures back down to a very low level (stabilizing at approximately 200 000 - 500 000).

While a loss of approximately one million jobs is expected in industry, particularly in the energy, mining and chemical sectors, together with a loss of approximately 250 000 jobs in agriculture and a further 170 000 in the State administration, investment in the private sector and the development of infrastructures will have a favourable effect on the employment situation, particularly in the construction and private services sectors and skilled employment in the electrical engineering, automobile and mechanical engineering sectors. It is estimated that, in the immediate term alone, an additional 500 000 vacancies will need to be filled. In the building sector there is a genuine shortage of manpower with approximately 80 000 jobs to be filled, partly as a result of the emigration to the West of approximately 35 000 skilled workers from this sector.

It is certain that there will be an immediate need for major retraining and further training programmes, probably affecting 20 to 30% of the labour force. Trainee and further training programmes for GDR workers are being offered by West German private companies and West German chambers of industry and commerce. Since the GDR does not have an up-to-date retraining system and is unable to provide it with its own resources, the West will have to make a major effort, at considerable expense.

It is very probable that foreigners will be the first to be hit by the unavoidable wave of dismissals, particularly in view of a growing wave of xenophobia in the GDR. Most of the 190 000 foreigners are employed in State undertakings mainly on the basis of agreements with their governments. They come from countries such as Vietnam, Cuba, Angola and Poland. They were employed partly to compensate for the shortage of labour caused by the mass emigration in 1989. They are mainly employed in less-skilled jobs.

It is also to be feared that women and younger workers will be the first to be dismissed.

University graduates, who account for 21% of the working population, will encounter greater difficulties on the future labour market. Certain graduates will need totally new training and further training courses geared to the requirements of a market economy; for example in the GDR the legal profession is being extended to include new sociological disciplines and occupational categories. Here especially there is a need for cost-intensive retraining. Under the new unemployment regulations, graduates are required to accept initial employment in jobs which are considerably beneath their qualifications and are eligible for unemployment benefit only if such jobs are unavailable.

Finally, the FRG Government has intimated that, in the treaty to be concluded with the GDR, it is not prepared to include the latter's provisions on protection against wrongful dismissal or, for the transitional period at least, the provisions of the West German Act governing co-determination in the coal and steel sector, the social plans incorporated in the Labour-Management Relations Act and the lockout ban laid down in the GDR Trade Union Act.

(d) Individual provisions of the Labour Code (AGB)

Under paragraphs 223 et seq. of the AGB, companies have wide-ranging responsibilities for the welfare of their workers including the provision of cultural, youth and sports facilities, daily meals, childcare etc.

(aa) Sickness benefits: Under paragraph 282(1) of the AGB, sickness benefits amounting to 90% of average net earnings shall be paid from the first to the sixth week of incapacity, and between 50% and 90% from the seventh week until the seventy-eighth week, paid on a sliding scale depending on the number of children and gross earnings. Workers are entitled to 100% benefits following an industrial accident.

(bb) Protection against wrongful dismissal: Workers may be dismissed with adequate notice if production methods change or if the workers concerned are unsuitable; in this case, however, the company must prove that it has offered the workers a new contract for work which they could reasonably be expected to perform.

Absolute protection against dismissal is given to pregnant women, young mothers, single parents until the child is three years old, those doing military service and those persecuted under the Nazi regime.

(cc) Working hours: The average working week in the GDR is 42 hours. The statutory working week is 43 3/4 hours.

Apart from university staff (who work six days per week) the standard working week has been five days since 1967. Shift workers, young workers and mothers with two or more children are entitled to work shorter hours (42 or 40 hours). Only women are authorized to work part-time (30 hours per week).

(dd) Holidays The statutory minimum holiday entitlement is 18 days. Shift workers receive up to 28 days and young workers 21 days. In addition, most workers (particularly women) are given one free day a month for work in the home.

Women are entitled to maternity leave commencing 6 weeks prior to confinement and ending 20 - 22 weeks afterwards. In addition, under paragraphs 244 et. seq. of the AGB and paragraph 47 of the Social Insurance Regulation (SVV), until the child is 12 months old (or in the case of a third child, until it is 18 months old) mothers are entitled to special leave with a minimum monthly maternity benefit of M 250 (one child), M 300 (two children) or M 350 (for three or more children). Such special leave may now be granted either to the father or the grandmother.

Under Paragraph 210 of the AGB, women and young workers are not allowed to carry out heavy physical work or work which is dangerous to their health.

4. Income

(a) Wages and salaries, general

In assessing income, account must be taken of the heavily subsidized rents, food and energy prices etc. To take the rent situation, although there has been a partial price increase, rents are still situated between M 0.8 and M 1.9/m², which means that rents, including domestic energy consumption, account for only 5% of available net income per household in the GDR (compared with 21% in the Federal Republic of Germany). Even before 2 July 1990 the GDR Government plans to increase prices progressively. The funds made available as a result of the removal of subsidies will be used for additional wage costs.

Free collective wage bargaining is still unknown in the GDR. Wage structures are based on political decisions and are supplemented by premiums, particularly in the form of individual or collective productivity bonuses, financed from company funds set aside for this purposes. Gross average earnings (official pay scales) amount to approximately M 1075 from which about M 65 is deducted for social insurance contributions and M 85 in income tax (on a sliding scale to a maximum of 20% on monthly earnings of M 1260). If tax-free premiums and bonuses are included, average net earnings amount to M 1025 (excluding child allowances).

In view of the large number of women employed, 60% of all households enjoy a net monthly income of between M 1200 and M 2400 and 22.7% of households receive a large income. Since economic and monetary union will mean disproportionately more unemployment for women than men, the income situation of GDR households is likely to become significantly worse.

(b) Child allowances and special family benefits

Child allowances amount to M 50 per month for the first child, M 100 per month for the second child and M 150 per month for the third and any additional child. In connection with the progressive phasing-out of subsidies for children's clothing and shoes, an additional monthly allowance of M 45 for children up to the age of 12 and M 65 per month for children aged 13 and over was introduced on 1 January 1990. Child allowances are paid up to the age of 16 or until the usual end of schooling after the tenth year of education.

All young people in their eleventh and twelfth year of education attending an upper school and studying for their 'Abitur' receive non-repayable schooling grants of M 100 - M 150 per month. All students in higher education receive non-repayable grants of M 200 per month (a place in a student hostel costs only M 15).

The State grants young families interest-free and only partially repayable family start-up loans of M 5000, together with a furniture loan of the same amount.

Young mothers receive a maternity premium of M 1000 on the birth of a child, provided that they regularly visit pre-natal counselling centres and the child is then regularly examined. The success of this measure is reflected in the extremely low rate of infant mortality. In addition, family benefits have encouraged the present high birth rates (14 births per 1000 inhabitants) in the GDR, which once had to contend with one of the lowest birth rates in the world.

(c) Pensions, early retirement

The income situation of pensioners (men retire at the age of 65 and women at the age of 60) is problematic. Even with supplementary pension schemes, average pensions in the GDR are only M 480 after at least 15 years of compulsory contributions.

On 2 July 1990 it is planned to restructure pension schemes in the GDR along the lines of the West German compulsory pension scheme. Pensions will be indexed to earnings in the GDR and, as in the Federal Republic, after 45 years of employment will be approximately 70% of previous net earnings. This means that pensions will rise on average by 40%.

Early retirement arrangements were introduced on 1 February 1990. Under these arrangements, those who lose their jobs in the last five years before retirement age are entitled to 70% of their most recent net earnings and a minimum of M 500. In order to be eligible, women must have paid social insurance contributions for twenty years and men for twenty-five years.

5. Women in the GDR

91% of women are employed in the GDR (43% in the FRG) and one-third of all women are employed part-time. In principle, women earn the same as men. The integration of women in the labour market has been one of the chief policy objectives to date. The high rate of employment among women has been made possible by a very comprehensive system of all-day childcare centres. As a result, 80% of all children between one and three years of age, 94% of all children between three and six years of age and 95% of all school children attend day nurseries, kindergartens and day centres respectively (opening times 6 a.m. to 7 p.m.). It is feared that, in this particular respect, the union between the FRG and GDR will have unfavourable consequences for women at work. Despite considerable demand, the West German system of childcare centres is inadequate and as a result many women are bound to 'hearth and home'.

Despite the equality achieved in absolute terms, the high rate of employment among women has disadvantages. As in the West, 75% of women are employed in jobs which are typically reserved for women, for example in the textile industry, and belong almost without exception to the lower-paid categories which means that women's average earnings are considerably lower than men's.

Women are relegated to subordinate positions in practically all areas of society. As in the West, women only seldom occupy leading business or political positions.

Finally, because of the family's low income, both parents are frequently obliged to work in order to achieve a certain standard of living, with the double stress of domestic and professional work.

Despite these disadvantages, it should not be forgotten that, through their work, many women in the GDR have achieved a certain level of financial independence and self-assurance, which may be endangered by German economic and monetary union, since it is expected that a disproportionate number of women will be unemployed.

Mention should also be made of existing reductions in working hours to 40 hours per week for mothers with at least two children of less than 16 years of age, special leave arrangements and simplified notification procedures in the event of illness. Single mothers are given preference in the allocation of housing.

A further issue of relevance to women is that of future abortion legislation in both the German States. Many women fear that the application of West German legislation will mean the loss of women's self-determination rights and a tightening-up of the liberal provisions which currently apply in the GDR concerning the maximum length of time for the termination of pregnancy.

B. Problems of transition and adaptation for the Community

General Outlook

The effects of German unification on European integration and, more particularly, social questions arising in this connection, may be broken down as follows:

- the problem of employment of women
- European Social Fund intervention
- Community legislation
- anticipated effects in other Member States

Generally speaking, the implications for the Community cannot be assessed exclusively from the moment when the two Germanies have been reunified. The pre-unification period, which may be defined as the period of economic and monetary union, from 2 July 1990 until a date as yet undecided (probably 1 January 1992), should be considered as a step towards union between the territories of the GDR and the FRG, with the resulting entity forming part of the European Community. The structural modifications which will inevitably be necessary during this period cannot be regarded as the exclusive responsibility of the two German States. The implications of unification for the Community are such - as will be seen respect of social issues - that the Community institutions must be able to intervene in order to ensure that the necessary arrangements are favourable to the Community. On the other hand, Community measures with legal implications can be adopted only after unification. Use of the interim period to settle these problems will mean that the transitional period will be easier and shorter.

A second general consideration arises from the fact that the legal system of the GDR will be brought more closely into line with that of the FRG. This legislative alignment corresponds to the economic and social reforms envisaged for the progressive introduction of a social market economy in the GDR and means that the procedures for Community assistance (Community contribution to welfare benefits for example) could be modelled on the tried and tested West German procedures.

1. Issues concerning women

The situation of women in the GDR is quite remarkable and could in certain respects make a positive contribution to the general condition of women in the Community Member States. Two points must be stressed: the high proportion of women in employment and the facilities provided which enable them to pursue such employment.

In this context it might be appropriate to consider Community legislation on equal pay adopted since 1975. The two directives of 1975 and 1976 on equal pay and equal treatment with regard to access to the labour market, vocational training and working conditions do not appear to pose any problems of implementation. In the classification of professions - which is still at the preparatory stage - account can be taken of the actual situation in the GDR. The third social security directive (1978) could pose a number of problems (and indeed already does in certain Member States) in view of the differences in the social security arrangements). During the unification process, the German States will doubtless require a more detailed definition

of the scope of this directive, which does not apply as yet to family benefits. A certain level of discrimination against women still exists in the Community (for example, concerning the treatment of women in their own right for the purposes of social security and taxation). Certain sectors (the fashion sector for example) are deliberately excluded by the Member States. Unless the drafting of these provisions is tightened up sufficiently early, the problems of implementation can only increase in the twelve Member States. The same applies to the second Directive on social security.

In connection with the Council recommendation on the promotion of positive measures (December 1984), the EP had proposed that the European Social Fund be used as an instrument to promote equal treatment in respect of employment. German unification provides a unique opportunity of reviewing these arrangements, one possibility being to provide systematic incentives for the promotion of equal treatment. Compared with the high level of employment of women in the GDR, it must be expected that the new conditions created by a free labour market will be less favourable.

Among the texts still under consideration in the Council, the proposal for a directive on parental leave should be given particular consideration. Such arrangements already exist in the GDR and there is an increasing tendency to introduce them in the FRG. This would bring greater pressure to bear on those Member States - particularly the United Kingdom - which still oppose Community rules in this area. In addition, the proposal for a directive on reversing the burden of proof in cases of discrimination could be modified to take account of the legal system applicable in the GDR.

Within a certain age group, the employment of women is largely conditioned by the allocation of work within the family and by the availability of childcare infrastructures. The Commission has launched a number of studies and announced measures in this connection. The progressiveness of the GDR in this area could have provided an opportunity for speeding up the necessary procedures. It appears, however, that the Commission has modified its attitude, taking the view that this would be too great a commitment in the field of family policy, which remains within the competence of the Member States. (Even in the United States a bill has been tabled in Congress for the development of day nurseries in order to improve employment opportunities for women).

2. The European Social Fund

In this particular case, the difficulty of setting out possible conditions for Community aid in a country whose precise social situation is unclear, is exacerbated by the fact that the new Structural Fund rules are now coming into force. However, three types of problem can be expected to arise:

(a) The timing of aid

The new Structural Fund procedure basically consists of 'globalizing' and channelling investments and defining more closely the development objectives of a given region. Instead of supporting 10 000 different projects, it is now intended that the national authorities should draw up development programmes, on the basis of which Community framework programmes can be adopted which, in turn, should lead to operational programmes.

As regards the GDR, the dialogue leading to operational decisions should be launched at the beginning of intra-German economic and monetary union, leading to operational programmes when unification is achieved. Obviously, the right to financial aid (under the normal rules governing the use of Community instruments) cannot be recognized until immediately after unification.

(b) The total amount of aid

Given that there are 8.8 million workers, a pessimistic prediction would put the number of unemployed at any given time at 1 million, that is approximately 12% of the working population.

Second premise: aid for the redeployment of workers would amount to three months earnings on average (DM 4500).

Third premise: the redeployment possibilities would represent 25 000 jobs, that is 100 000 workers redeployed per year (one-tenth of the unemployed).

If 100 000 persons received DM 4500, of which 50% is met by the ESF, it would be necessary to earmark for this purpose an annual amount of DM 225 m, or 120 m ECU at a rate of 1 : 1).

This premise is based on the fact that, in 1988, ESF expenditure amounted to 2870 m ECU. The number of beneficiaries was 2.7 million, which gives an annual per capita amount of approximately 1 100 ECU. The population of the GDR (16.2 million) is one-twentieth of that of the Community (320 million). One-twentieth of 2899 m ECU amounts to an annual amount of 145 m ECU. Therefore, the minimum annual amount which should be earmarked is between 120 m ECU and 150 m ECU for a period of four years, giving a total of between 480 m ECU and 600 m ECU spread over the period 1992 to 1996. This should not cause any major difficulties and would be added to the appropriations already earmarked for the Structural Funds taking due account of the allocation agreements.

(c) Aid during the transitional phase

Pending unification, it is possible that special financial assistance may be provided in accordance with a political agreement to assist the GDR to prepare for accession to the European Community. Neither the form which such assistance would take, nor the cost of it, can be predicted. The Community might, for example, provide direct assistance to alleviate the cost of unemployment which could no longer be met, given the balance between resources and expenditure. It has already been announced that, under the Treaty for German economic, monetary and social union, the FRG will grant the GDR DM 5 billion for the launching of the new social security system, which will enter into force on 2 July 1990. This new system will be based on the separation of the social security sectors and, leaving aside the initial injection of funds, could in principle be financed by workers' and employers' contributions. Under this arrangement, the unemployment sector could be expected to go into deficit when the number of unemployed exceeds 600 000.

A special effort should also be made to:

- obtain statistical information with the help of Eurostat
- set up training structures in line with Structural Fund rules.

3. Community legislation

This is a general heading covering all Community social security provisions for workers.

These Community rules will apply through West German legislation to the whole of Germany as soon as unification has been achieved. In principle, no transitional period is currently envisaged. In order to ensure that Community law is properly applied, measures should be taken during the period preceding unification and, in certain cases Community law could already be applied.

Numerous contacts have already been established between undertakings in the Member States and East Germany which are likely to provide a good economic start for the five new Länder. German unification should not take place at the expense of workers in the form of social dumping maintaining less favourable employment conditions on one side to make them competitive in respect of working conditions on the other side.

Three directives were adopted between 1975 and 1980 on the protection of workers against collective dismissal, the retaining of workers rights and benefits in cases of transfers of undertakings and establishments or the loss of establishments and the protection of workers in case of employer's insolvency. The Commission should ensure that the proper implementation of these directives which has been somewhat forgotten in the climate of vigorous economic growth.

Community provisions to protect the health and safety of workers will also apply in the unified Germany. The Commission should ensure that they will be properly applied in the present GDR as soon as unification has occurred.

It is difficult within the framework of this memorandum to analyze each of the 47 proposals contained in the programme of action for the implementation of the Community Charter of fundamental social rights and to compare them with a text of the 'Sozialcharta' adopted in the form of a solemn declaration by the government of Mr Hans Modrow on 2 March 1990. However it should be stressed that the government formed by the elections of 18 March 1990 has announced its intention of establishing various social rights (right to work, training and accommodation) as inalienable rights - but without legal redress - either in a new East German Constitution or in the amended Constitution of the FRG. In general, a unified Germany will be able to participate on an equal footing with other Member States in the implementation of the proposals contained in the action programme.

4. Repercussions in other EC Member States

Following the democratic rounds in last year in the former 'East bloc countries', the Member States of the Community, aware of the difference in economic development, have expressed fears that investment in undertakings in the FRG will be diverted towards Eastern Europe. In Portugal particularly it is feared that German unification may have unfavourable effects on the labour market. These fears are apparently justified in certain cases, for example the Volkswagen undertakings which reflect the interest being shown in German economic quarters in Eastern Europe and particularly the GDR. The Volkswagen

Polo project in Portugal and possibly Spain has been replaced by an agreement concluded with the Zwickau IFA Kombinat (Trabant). As a result, approximately 5 000 - 6 000 jobs have been lost in Portugal. In total, investment by the Community Member States and Portugal increased by 132% in 1989, while the FRG share in these investments over the same period increased by only 38%. Similar effects are being noted in other Member States in the Mediterranean area.

On the other hand, the estimates submitted by the Belgian government are less clear-cut. They show that while the public debt burden would be increased by increasing the interest rates on the capital market, where the necessary funds for investment must be sought, on the other hand the resulting economic recovery which is expected could lead to the creation of approximately 50 000 jobs in Belgium between now and 1993.

EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR RESEARCH

Notice to Members
of the temporary committee
to consider the impact of the process
of German unification
on the European Community

Please find attached a working document on the environmental protection situation in the GDR and problems concerning adjustment to European Community provisions. This document was drawn up by the Directorate-General for Research.

The environmental protection situation in the GDR
and problems concerning adjustment
to European provisions

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1. Introduction

The opening of the frontier in November 1989 and the opportunities created for collecting environmental data have highlighted two facts: firstly, the GDR is suffering a severe environmental crisis and secondly, it needs external help to overcome the most urgent problems in the environmental sector. Such assistance is all the more essential as, because it is not halted by frontiers, air and water pollution in the GDR affect the Community Member States both directly and indirectly¹.

2. Basis for environmental protection legislation in the GDR

The legal basis for environmental protection is the 1970 land improvement law with several implementing regulations and provisions. By 1974 environmental protection had been included in the constitution in Article 15. There are also various specific laws which will be referred to individually in the description of the GDR's environmental problems (see 3 below).

Although environmental protection laws have been in existence for some time, measures governing permissible imissions concentrations and penalties for infringements and failure to comply with prescribed environmental protection measures were only introduced a few years ago². Furthermore, key industries in the economy such as the energy industry are exempted from existing standards by special provisions. In addition there are a number of problems with regard to monitoring, implementation and compliance with legislation which have previously undermined the aims of the legislation.

The Ministry for Nature and Environmental Protection and Water Resources which was set up in 1971 is responsible for environmental policy at government level.

3. Environmental pollution and environmental problems in the GDR

Environmental pollution and the resulting environmental problems have increased dramatically in the GDR in recent years. Air, water and soil have become heavily polluted and endanger general health and the natural environment. According to the most recent report from the GDR's Ministry for Nature and Environmental Protection and Water Resources of March 1990, which was available to the authors³, the causes of this environmental situation are:

¹ Air pollution by industry and power plants in the GDR (and also Poland and Czechoslovakia) affects the quality of the environment in the Federal Republic, Austria and the Scandinavian countries and is ultimately a potential risk for the whole of Europe. See Umweltbundesamt Berlin, Ökologischer Europaplan - Vorstudie, Umweltbundesamt Berlin, I 2.2. - 90 507/14, 1990, p. 3

² DDR Handbuch, Vol. 2, published by the Federal Ministry for inner German relations, Verlag Wissenschaft und Politik, January 1985, p. 1373

³ Konzeption für die Entwicklung der Umweltpolitik, GDR Ministry for Nature and Environmental Protection and Water Resources, Berlin, 19.3.1990, p. 8

- many years of maintaining an energy and structural policy characterized by large-scale use of brown coal, heavy industry involving intensive use of energy and raw materials, high energy consumption and outmoded production processes,
- long-term neglect of environmental precautions and excessively low funding for environmental protection measures,
- an underdeveloped industry for the development and production of environmental technology which cannot meet demands.

3.1 Air

3.1.1 Legal basis

The legal bases for the prevention of air pollution include the 1968 air pollution regulation, the road traffic registration regulation and maintenance regulation for motor vehicles (1973) and the provisions on the limitation, monitoring and reduction of emissions from combustion engines (1983). In order to monitor and reduce air pollution imission limit values were laid down by law, with a fine being imposed if they were infringed. Industry is required to carry out constant emission monitoring⁴.

3.1.2 Current situation

The trend in emissions of the substances causing the most air pollution in the GDR can be seen most clearly from the following figure:

Fig. 1: Emissions of air pollutants*

Year	Emission				Emission density	
	Dust	Sulphur Dioxide	Nitrogen Oxide	Carbon Monoxide	Dust	Sulphur Dioxide
	1 000 tonnes				Tonnes/km ²	
1980	2 456.1	4 264.3			22.7	39.4
1985	2 335.1	5 339.7	383.6	2 948.1	21.6	49.3
1986	2 322.7	5 358.3	416.4	2 830.9	21.4	49.5
1987	2 335.2	5 559.5	400.7	3 032.3	21.6	51.3
1988	2 198.5	5 208.7	408.2	2 854.6	20.3	48.1

* fixed plants and domestic fuel

Source: Federal Statistical Office, GDR 1990 - facts and figures

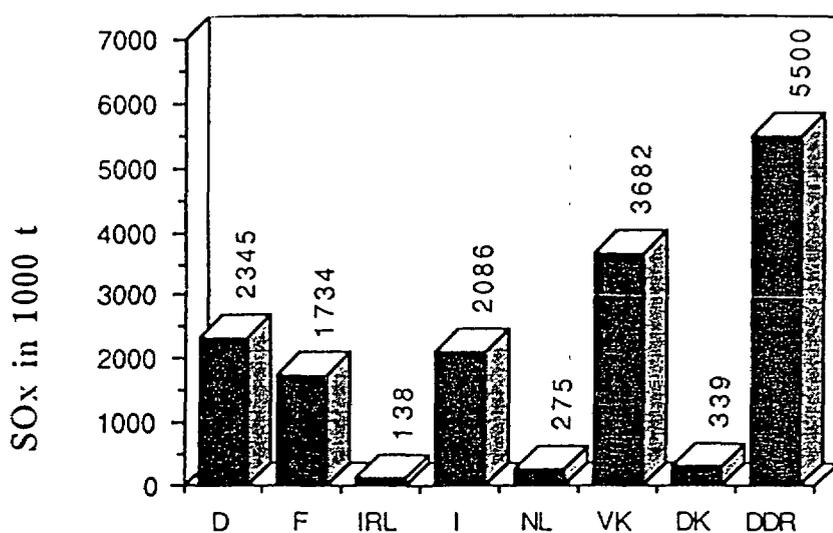
⁴ Both short and long-term imission limit values are laid down. See DDR Handbuch, Vol. 2 op. cit., p. 1375 foll.

Air pollution is mainly a result of the GDR's energy policy:

- the GDR's primary energy consumption of 220 GJ/person is the third highest in the world (25% higher than the Federal Republic of Germany),
- brown coal accounts for about 70% of the energy sources used,
- outmoded and inefficient energy conversion technologies (50% of steam generators and 36% of steam turbines are over 20 years old),
- a high percentage of energy-intensive production (aluminium products, etc.).

The figure below shows SO_x emissions in the GDR by comparison with some Community Member States:

Fig. 2: SO_x emissions in selected EC countries and the GDR



Sources: EEC/Statistical Office of the European Community, 1989, DDR/Schreiber, H. 1989

- the GDR has the highest emission levels in Europe given the pollution by SO₂ per unit area,
- while the Federal Republic of Germany has reduced SO₂ emissions by more than half since 1980, they have increased in the GDR by about 20%,
- since 1980 dust pollution has risen in certain areas by up to 10%,
- the GDR has the highest levels man-made CO₂ emissions in the world⁵
- however, the level of nitrogen oxide (NO_x) emissions in the GDR has fallen by comparison with the Federal Republic of Germany (GDR 6.6 tonnes/km², Federal Republic of Germany 11.9 tonnes/km²). This is due to the fact that, since the beginning of the 1980s, goods transport has been shifted from the roads to the railways or waterways⁶.

⁵ Konzeption für die Entwicklung der Umweltpolitik, op. cit., p. 18

⁶ Institute for International Politics and Economics, Ecology and Economy Research Group, Berlin, April 1990

With emissions of SO₂ and dust effecting 36.1% and 30.7% of citizens respectively, pollution levels can be classified as high, very high or extremely high. In certain areas with high levels of air pollution the number of respiratory diseases among children has risen constantly between 1974 (100%) and 1989 (211%). Whereas in the past every fourth or fifth child was affected, every second child now has such an illness. The number of children suffering from endogenous eczemas has also risen sharply and about 30% of children in heavily polluted areas are affected⁷.

Air pollution is derived mainly from the energy sector, the chemical industry and the transport sector. 58% of the sulphur dioxide emissions, and also the dust emissions, are derived from the coal and energy sectors and 12% from the chemical sector⁸. The exhaust emissions from the 3.5 million motor vehicles produced in the GDR (Trabant, Wartburg) also contribute to air pollution. A 2-stroke vehicle of this type emits 100 times more carbon dioxide than 100 cars of West European manufacture equipped with catalysers⁹.

Such pollutant emissions also indirectly cause the death of forests. Estimates indicate that 54.3% of the GDR's forests are already severely damaged¹⁰.

3.2 Water

3.2.1 Legal basis

The legal basis for the prevention of water pollution is provided by the water law (1963), which covers the maintenance and use of water and protection against flood danger, supplemented by the 1982 water law, the implementing provisions for the water law, dealing with effluent and water use charges and the regulation on the effluent discharge fee¹¹.

In order to reduce water pollution a new effluent charge was laid down in 1982 in the second implementing regulation for the water law. If an undertaking exceeds effluent limits (limit values are prescribed) in the effluent treatment carried out by itself or on its instructions, then an effluent charge must be paid¹².

3.2.2 Current situation

Apart from air pollution, water pollution is the most significant transfrontier environmental problem facing the GDR and the Federal Republic of Germany. Of the approximately 17.7 billion m³ of water which is available each year, about 19% cannot be used for drinking water or irrigation because of pollution¹³. Moreover, large sectors of the classified waters in the GDR have been placed in the unusable grades (see Fig. 3).

⁷ see footnote 6

⁸ Ökologischer Umbau in der DDR, Institute for Ecological Economic Research, IÖW series 36/90, Berlin, March 1990, p. 36

⁹ See chapter 4, Ökologischer Umbau in der GDR, op. cit., pp. 26-36

¹⁰ Damage to forests rose by 10% in 1989, Süddeutsche Zeitung, 28.2.1990

¹¹ See DDR Handbuch op. cit., p. 1375

¹² See DDR Handbuch, op. cit., p. 1375

¹³ Konzeption für die Entwicklung der Umweltpolitik, op. cit., p. 27

Figure 3: Pollution of classified areas of water

Grade 1 (suitable for all purposes)	1%
Grade 2 (suitable for drinking water and water for industrial use after simple treatment)	14%
Grade 3 (suitable for use as drinking water or for industrial use after complex treatment procedures)	38%
Grade 4 (unusable for drinking water and only usable in part for industrial purposes)	47%

Source: Ministry for Nature and Environmental Protection and Water Resources, GDR, 1990

The areas worst affected by water pollution in the GDR are the lower reaches of the Schwarze Elster, the Mulde and the Saale with the Unstrut and Weiße Elster¹⁴. There has also been a deterioration in the water quality of lakes and groundwater. Nitrate pollution in particular has increased in this sector.

In 1988, about 450 000 inhabitants of the GDR were drinking water with a nitrate content above the limit value over long periods. The figure has now risen to a total of 1.2 million inhabitants¹⁵.

The main causes of water pollution are:

- inadequate retention measures for certain components in the effluent from key industries,
- the lack of, or inadequate treatment capacity for, industrial and domestic waste water¹⁶,
- the discharge of organic waste products from agriculture,
- the discharge of various pollutants (acid rain)¹⁷,
- uncontrolled dumping of domestic and special waste (see 3.3.2 below).

A further problem is that it is estimated that the already high water consumption in the GDR will increase by an average of about 4% each year.

3.3 Waste

3.3.1 Legal basis

The legal basis for the removal and disposal of waste is provided by the regulations on the utilization and safe disposal of waste (1969) and the radiation protection regulation of 1969¹⁸.

¹⁴ See footnote 12. For a survey of the ecological condition of the Elbe with reference to the pollution in the catchment area and the results and objectives of the Elbe clean-up operation see: Die Bewirtschaftung des Flußgebietes der Elbe in der DDR published by the Ministry for Nature and Environmental Protection and Water Resources of the GDR, February 1990.

¹⁵ See footnote 6

¹⁶ Konzeption für die Entwicklung der Umweltpolitik, op. cit., p. 28

¹⁷ ÖIW, series 36/90, op. cit., p. 54

¹⁸ Informationssystem für Abprodukte und Sekundärrohstoffe (1976), regulation on the safe disposal of toxic waste and other pollutants (1977); see DDR Handbuch, op. cit., p. 1373 ff

3.3.2 Current situation

In 1988, 91.3 m tonnes of industrial waste and secondary raw materials were produced; 36.4 m tonnes were processed, representing a processing level of 39.9%. The byproducts from the refuse provide about 13% of the GDR's raw material requirements. The remaining 54.9 m tonnes (60.1%) are not fed back into the economic process but are disposed of directly or by stages in the environment¹⁹.

Plants to reduce the volume of waste or to provide preliminary treatment to eliminate pollutants hardly exist and do not meet international standards²⁰. The pollution of the environment by uncontrolled and inappropriate dumping of waste occurs mainly through contamination of the groundwater. According to information from the 'round table', at present there are 121 regulated dumps, 4870 registered tips and 7437 unregistered tips²¹.

The problem of waste is further exacerbated by the fact that over the last ten years the GDR has imported annually about 5 m tonnes of waste including 650 000 tonnes of toxic waste and more than 200 000 tonnes of sewage sludge from the Federal Republic alone²². Waste is also imported from Switzerland and the Netherlands.

3.4 Nature protection

3.4.1 Legal basis

The legal basis for nature protection is provided by the land improvement law, with several implementing regulations and provisions. Apart from the limited legal provisions on land use and the fact that they have not been implemented satisfactorily, there have also been problems with regard to responsibilities for environmental protection. There was not a sensible division of responsibilities between the ministries, which also led to negligence because of lack of cooperation. Until now, central state management of nature protection has been carried out by the Ministry for Agriculture, Forestry and Food. The Ministry for Environmental Protection and Water Resources was chiefly responsible for the direction and supervision of local environmental bodies in technical environmental protection work.²³

3.4.2 Current situation

The ecological dangers to the natural environment, in particular the pollution of ground and water, are the result of past pollution, unregistered tips, waste products from agriculture, untreated domestic and industrial effluents and the sources of air pollutants. This has caused a major crisis in

¹⁹ See footnote 6

²⁰ See footnote 16, p. 32

²¹ Quoted from: ÖIW series 36/90, op. cit., p. 54

²² Ebda, P. 44

²³ Konzeption für die Entwicklung der Umweltpolitik, op. cit., p. 58

agriculture and has led to the extinction of plant and animal species. The number of animal species threatened with extinction has increased between 1970 and 1985 from 203 to 296 and the number of endangered species has risen from 347 to 619.²⁴

The consequences of the development of brown coal mining should also be borne in mind. Each year open-cast brown coal mining involves about 3000 hectares of new ground, with a period of 5 to 7 years elapsing between clearance and re-use. The problems with opening up new mining areas are also growing because mining operations are increasingly encroaching into heavily populated areas and intensively used agricultural land.²⁵

4. Estimate of the economic costs for environmental protection measures in the GDR

4.1 General

Scientists in the GDR estimate that annual environmental damage costs about 30 bn M each year and that environmental investments are about 1 bn M.²⁶ This level of investment for environmental protection measures is well below what is required objectively. In 1988 the GDR's environmental investments were equivalent to about 0.4% of its gross domestic product, whilst the ten major western industrialized countries used an average of 0.7% of their gross national product for this purpose (USA 0.9%, Federal Republic 1.1%).²⁷

Precise figures on the costs of dealing with environmental pollution cannot yet be given. According to a report from the Institute for German Economics, a sum of DM 130 - 220 bn must be allowed for environmental management and energy supplies over the next ten years.²⁸

Scenarios for the implementation of future environmental policy objectives depend on the basic assumptions made. Individual studies indicate, for example, that environmental improvements can be achieved at no cost. A study from the chemical industry points out that the GDR would have to stop using more than 25% of its capacity in the short term if it were to produce a 50% reduction in overall pollution.²⁹ The actual shutdown would not cause any additional environmental protection costs. However, if production from these plants is not to be forfeited completely, and if the environmental standards of the Federal Republic of Germany and the Community are to be kept, then it will be essential to re-equip with new environmentally acceptable technologies.

²⁴ Ebda, op. cit., p. 56

²⁵ 'Die Energieversorgung in der DDR' Info-Brief, Reg. Nr. WF V G - 161/89, Deutscher Bundestag, February 1990

²⁶ Ökologischer Europaplan, Vorstudie DDR, I 2.2 - 90 507/14, Federal Environment Office, Berlin, January 1990, p. 3

²⁷ See Footnote 6

²⁸ Quoted from Frankfurter Allgemeine Zeitung of 30.3.1990, p. 14

²⁹ See Footnote 25

4.2 Prevention of air pollution

If the air pollution problems referred to above are to be solved, wide-ranging investments are needed primarily in the area of energy technologies. The costs of desulphurization at the two large-scale power plants at Boxberg (3520 MW) and Jäntschwalde (3000 MW) would be about DM 5 - 6 bn.³⁰ Investments in new equipment must, however, also be seen in relation to a comprehensive energy policy as the reequipping of small and older power stations is no longer viable. Investments will also be needed in environmentally acceptable technologies in order to reduce emissions into the air. The Ministry for Nature and Environmental Protection and Water Resources in the GDR estimates that up to the year 2000 the following sums must be allocated:

Reduction of SO ₂	approximately 25 - 35 bn M (GDR)
Reduction of NO _x	approximately 2 - 3 bn M (GDR)
Dust reduction	approximately 3 - 4 bn M (GDR) ³¹

Investment will also be needed in research and development.

In the nuclear energy sector a reequipping of nuclear power plants in line with western safety standards and technologies is essential. At present four reactors with a total of 1760 MW are in use and provide about 10% of the GDR's power requirements. The plants are from the USSR which supplies the nuclear material and also has a contractual obligation to undertake the final storage of highly radioactive waste. The Commission estimates that the costs for reequipping nuclear power stations to meet western safety standards would amount to about DM 20 m per power station.

4.3 Measures to combat water pollution

Measures to clean up water, including both industrial effluent and domestic waste water, will require the construction or refurbishing of 180 treatment plants. The Federal Environmental Office estimates the cost at DM 30 bn.³² However, if all areas of water in the GDR are to be cleaned up, experts estimate that DM 100 bn will be needed.³³

4.4 Disposal of waste

In view of the uncontrolled dumping of household and special refuse in over 7000 unregistered dumps and the additional imports of waste from western countries, the costs for safe disposal (incineration and dumping) must be set at tens of billions. The creation of a comprehensive waste disposal system will require further massive investment.

30 ÖIW, Series 36/90, op. cit., p. 14 ff.

31 Konzeption für die Entwicklung der Umweltpolitik, op. cit., p. 22

32 'Rauchende Ungeheuer', Der Spiegel, 48/1989, p. 50

33 'Das Land der 1000 Vulkane', Der Spiegel, 2/1990, p. 30

5. Effects of the incorporation of the GDR into the Federal Republic with regard to environmental policy and in relation to the Community

5.1 Political consequences

At the meeting of Foreign Ministers on 21 and 22 April 1990 the ministers agreed the three-stage plan for the incorporation of the GDR into the Community. The three stages are as follows:

- Preparatory stage: during this period the GDR will bring its legislation into line with existing Community law within the German economic and monetary union;
- Adaptation stage: from the date of German unification, the former GDR will already belong to the Community; during this stage transitional provisions will apply for certain areas, such as environmental protection;
- Final stage: all Community legislation will enter into force.

5.2 Legal consequences

As the incorporation of the GDR into the Federal Republic of Germany does not create a new Member State, no amendment of the EEC Treaty is required. After unification the primary Community legislation should be directly applicable in the former territory of the GDR. However, a transitional period will be required for secondary legislation, which plays a particularly important role in environmental protection. By 7 May 1990, 191 directives, 38 regulations and 113 resolutions had been adopted at Community level.

In the case of provisions on emissions, in general a distinction should be made between new plants, for which Community limit values must be observed immediately, and old plants for which costly reequipment will be required before the limit values can be satisfied. In the latter case, transitional periods will be needed. Changes will have to be made in some regulations (for example, the basic figures in the directive on large combustion plants for the reduction of SO₂ emissions will have to be changed when the territory of the GDR is added to the Federal Republic. It is important that the 'polluter pays' principle is applied in the GDR's environmental policy as soon as possible.

It is significant that environmental impact assessments for certain public and private projects, as laid down in Community Directive 85/337/EEC are already applicable in the GDR.

Adjustments are needed in the following areas:

- Water: accession to international agreements; Community regulations for the discharge of pollutants into the sea or fresh water (waste, chromium, nitrates, titanium dioxide), bathing waters, surface water, drinking water;
- Air: accession to international agreements; Community regulations on large combustion plants (the brown coal power plants are particularly important), exhaust gas levels from motor vehicles and emissions of pollutants;
- Noise (in particular noise from jet aeroplanes);

- Chemical industries: accession to the protocols and agreement on CFCs; Community regulations on chemical substances, the dangers of serious accidents in certain industrial sectors, the classification, packaging and labelling of dangerous substances and on the export and import of certain dangerous chemical products.

5.3 Economic consequences

It is estimated that the investments needed to clean up the environment and energy supplies over the next ten years will be DM 130 - 220 bn.³⁴ The GDR will require support from elsewhere.

5.3.1 Support from the European Community

It would be possible to provide financial support from the structural funds set aside for underdeveloped regions. About 38 billion of the 72 billion ECU available for all the Community's structural funds for 1989 to 1993 are set aside for regions in which the per capita income is at least one quarter lower than the Community average (Objective 1 of this fund). According to a Commission study, more than half of this funding would not be available to the GDR as the Commission considers that the GDR does not constitute an Objective 1 target.³⁵ However, if a different approach is taken, according to the Commission's reasoning, there would be considerable structural deficiencies, in particular with regard to housing, infrastructure and environmental protection. If such an approach were adopted it would seem reasonable for areas in need of support to be categorized differently.³⁶ However, this money will be available to the GDR only after formal unification. If funds are to be granted during the transitional period, this will require a decision from the Council of Ministers.

A report on the setting up of an environment fund (Rapporteur: Mr Muntingh, Socialist/NL) being prepared in the Committee on the Environment, Public Health and Consumer Protection on the basis of a motion for a resolution (B 3-0467/89) could make provision for funds which could benefit the GDR's environmental activities.

At the Summit of Heads of State and Government on 28 April 1990 it was made possible for the GDR to obtain low interest Community loans from the EIB before unification and to take advantage of the opportunities offered to it by the Coal and Steel Community and the EURATOM Treaty. In addition, the GDR already has access to Community financing from the Fund for Eastern Europe (group of 24 industrialized countries) which has 500 m ECU for 1990. It is assumed that about 15% will be available to the GDR.³⁷ In addition, the GDR is already able to take part in the EUREKA project.

5.3.2 Support from the Federal Republic

Although state aid currently earmarked for cleaning up environmental damage in the GDR should not fall under the provisions of Article 92 and following of the EEC Treaty as the GDR is not yet part of the Federal Republic, there is

³⁴ See Footnote 28

³⁵ Süddeutsche Zeitung of 24.4.1990, p. 15

³⁶ Frankfurter Allgemeine Zeitung of 28.4.1990, p. 13

³⁷ See Footnote 36

agreement that such aid should be granted only in agreement with the Commission.³⁸

As part of the economic and ecological cooperation between the Federal Republic and the GDR, six environmental projects have been agreed since April 1990:

- setting up of a smog early warning system;
- setting up of a heating plant for untreated brown coal in Magdeburg;
- construction of a small heating plant in Staaken;
- creation of plants to recover chlorohydrocarbons and mercury in Buna;
- incineration of pharmaceutical residues at high temperatures in Dresden;
- establishment of a plant for the production of chlorine in Buna.

Bonn is providing funding of about DM 300 m for these projects. Fifteen additional projects which are to receive funding of about DM 600 m are at the planning stage. The Federal Republic is thus making about DM 1 bn available.

6. Conclusion

Environmental pollution and the resulting environmental problems have increased dramatically in the GDR in recent years. Air, water and soil have become heavily polluted and endanger general health and the environment. The causes of this environmental situation are:

- many years of maintaining an energy and structural policy characterized by a large-scale use of brown coal, heavy industry involving intensive use of energy and raw materials, high energy consumption and outmoded production processes;
- long-term neglect of environmental precautions and excessively low funding for environmental protection measures;
- an underdeveloped industry for the development and production of environmental technologies which cannot meet demands.

When Community law is applied in the territory of the GDR, care must be taken to ensure that the emission limit values for new plants are immediately those which apply in the Community. Transitional periods will be necessary for old plants.

Cautious estimates suggest that, in forthcoming years, investments of DM 130-220 bn will be required to clean up the environment and provide energy and the GDR will require help from abroad. The Community has already expressed its willingness to provide the GDR with low interest loans. Further financial aid from the Community could be provided under the structural fund or through a separate environment fund which could be set up. Economic and ecological cooperation already exists with the Federal Republic of Germany and six projects under the scheme are being supported by the Federal Republic at a cost of DM 300 m. Fifteen further projects requiring support amounting to DM 600 m are in preparation.

³⁸ Agence Europe of 20.4.1990, p. 8

EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR RESEARCH

NOTICE TO MEMBERS

of the Temporary Committee to consider the impact
of the process of German reunification on the
European Community

Please find enclosed a working document on:

'Energy in the GDR: The situation now and in the future'

This document has been prepared by the Directorate-General for Research

Energy in the GDR:
The situation now and in the future

C O N T E N T S

1. Introduction

2. Energy in the GDR: The situation today

3. Main problems

4. The future: Energy supplies in the GDR and
energy cooperation with Western Europe

5. Summary and prospects

Energy in the GDR: The situation now and in the future

1. Introduction

In the light of the moves towards creation of a single German economic space comprising what is now the current Federal Republic of Germany (FRG) and the German Democratic Republic (GDR), the energy sector in the GDR will be of particular importance. It is important not simply because it is the sine qua non of all economic activity in developed, industrialized nations, but more importantly because in the past it has proved to be the one factor inhibiting further economic development in the GDR. As the two Germanys grow together, the energy sector could easily prove to be the Achilles heel of the hoped for economic revival of the GDR, not least because:

- the process of bringing the two Germanys together will doubtless involve considerable problems of adaptation and readjustment. It is to be feared that these problems will be most pronounced in the sensitive energy sector and will therefore tend to inhibit or even counteract the desired goal of economic revival in the GDR.
- the economic revival itself will inevitably lead to greater demand for energy. If the energy sector is unable to satisfy this increased demand, the revival will prove limited or illusory.

This paper is a brief attempt to analyze the situation today in the GDR's energy sector and to venture a look into the future. It goes without saying that, not least because of the lack of adequate data, the comments below are to some extent subjective.

2. Energy in the GDR: The situation today

To minimize import risks and to save scarce foreign currency, the GDR leadership has pursued the objective of 'relative autonomy' since the early 1950s¹ and since then has been relatively consistent, despite the high cost involved, in developing energy supplies of its own. Although this has resulted in energy supplies which, relatively speaking, are independent of imports in recent years it has meant drastic cuts in the investments outside the energy industry (processing industry, agriculture, transport and trade sector) needed to modernize and improve competitive ability.² Hitherto more than a quarter - some authors suggest roughly a third - of all industrial investments in the GDR have been in the energy economy³.

¹ See: Peter Palinkas, Outline of the energy situation in Eastern Europe (CMEA countries), EP, Luxembourg 1988 (PE 126.129).

² See: R Kowalski et al, Die marktwirtschaftliche Integration der DDR, Startbedingungen und Konsequenzen (Integrating the GDR in a market economy: Prerequisites and consequences), Institute für Internationale Politik und Wirtschaft (IPW), Berlin, April 1990.

³ See: Wolfgang Stinglwagner, Die Energiewirtschaft der DDR, Unter Berücksichtigung internationaler Effizienzvergleiche (The energy economy of the GDR, in the light of international efficiency standards), Bonn 1985.

Energy consumption of the economy	Unit	GDR		FRG	
		1970	1988	1970	1989
Total	Mn tce	-	130	-	384
Per capita	tce	6.03	7.68	5.52	6.32
Per energy source, of which:					
Brown coal	%	75.9	71.7	9.1	8.5
Hard coal	%	10.6	4.2	28.8	19.2
Oil	%	12.6	8.7	53.1	40.3
Natural gas	%	0.6	10.8	5.5	16.9
Nuclear energy	%	0.2	4.0	0.6	12.5

Source: Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung, Sondergutachten zur Wirtschaftsreform in der DDR, Januar 1990; (Experts' report on the development of the economy as a whole, special report on economic reforms in the GDR) ZfK (Zeitschrift für kommunale Wirtschaft), April 1990.

A glance at energy consumption itself shows clear structural differences between consumption in the FRG (roughly the same as in the EEC), and in the GDR. The above table on energy consumption in the FRG and GDR shows:

- For a total of 384 million tce in the FRG (in 1989) the per capita consumption was circa 6.3 tce.
- In the GDR total consumption in 1988 was circa 130 million; the per capita consumption was roughly 7.7 tce.
- Per capita consumption in the GDR was therefore 1.6 tce or circa 26% above the FRG's per capita consumption.
- The GDR's energy efficiency balance is even worse if we look not only at per capita consumption but also at specific energy consumption per unit social product. Because of different methods of calculating social product - Standard National Account System in the FRG (as in other OECD countries), Material Product System in the GDR (as in other CMEA countries) - and because the DM/Mark exchange rates are rather artificial, it is difficult to determine precisely the specific energy consumption per unit social product, but since labour productivity in the GDR is significantly lower than in the FRG (the DIW estimates the level at circa 52%) energy consumption in the GDR per output unit is roughly twice as high as in the FRG. This is why the GDR is often referred to as the country with the least favourable energy consumption and energy efficiency structures in the world. It has been estimated⁴

⁴ See: Zeitschrift für kommunale Wirtschaft, April 1990

that 1000 DM goods produced in the GDR requires 414 tce.- compared with only 217 KG in the West.

- The table also shows that a large proportion of energy consumption in the GDR is accounted for by brown coal (71.7%). In the Federal Republic, by contrast, the main source of energy is still oil (40.3%) despite a declared policy of 'Away from oil'.

The other principle supply structure data can be summarized as follows:⁵

- Hard coal mining was stopped in 1977 because of exhaustion of deposits, and the GDR now imports 8-9 million tonnes (6%) annually - mainly from the CMEA countries.
- Most of the demand for mineral oil of 24 million tce (18%) and natural gas of 11 million tce (8%) is supplied by the Soviet Union. Own production of oil is insignificant and own production of natural gas covers roughly one third of consumption.
- In 1988 brown coal accounted for circa 85% of electricity and nuclear energy for 10%. Net imports amount to 2% of consumption.

Although there are considerable differences in supply structure between the GDR and the FRG and the EEC as a whole, the differences are even greater with regard to the way the energy industry is organized. The main features are as follows⁶:

- Hitherto (up to April 1990) responsibility for coal and energy has rested with the Ministry of Heavy Industry.
- The energy collectives report to the Ministry. These are 9 supraregional collectives specializing in particular areas, e.g. the brown coal plant construction collective; in addition there are 15 area energy collectives supplying firms and private individuals with electricity, gas, heat and solid fuels. These 15 regional energy collectives have recently come together as the Energy Supply Federation to provide their interests.

To this extent the organization of the GDR's supplies of grid-based energy (natural gas, electricity and district heat) is structured quite differently to the FRG. On the one hand there is far-reaching organizational separation of responsibility for (major) power stations and the extra-high voltage grid while, on the other hand, transport of electricity and gas (supraregional extra-high voltage and high-pressure grids) is largely integrated). The power stations and the grids are each controlled by a peak load distributor for electricity and for gas. Crude oil is processed in the Schwedt collective and at the Leuna plants.

⁵ See: Arbeitskreis Energiepolitik (AKE), Bericht an die Wirtschaftsministerkonferenz (Report to the Conference of Ministers of Economic Affairs), 3 and 4 April 1990.

⁶ See: AKE, loc cit.

3. Main problems⁷

The lower energy efficiency referred to above is due to the relatively high demand - given the level of production and standard of living - for consumer energy in industry, commerce, crafts and households and to the high losses in energy conversion.

An absence of energy cost-consciousness in the centrally controlled firms, and obsolete plant as a result of inability to invest, have led to some of the highest energy consumption values in the world.

The high demand by private consumers, in particular for domestic heating, is due not only to inadequate heat insulation of buildings, the lack of measuring and control devices and the use of obsolete equipment but also to the massive level of subsidies for energy prices. Because they are considered to be basic necessities, fuels and electricity are supplied to homes at prices which are estimated as being only approximately one third of production costs and which are scarcely an incentive to save energy. For example, households pay 8 pfennigs per kwh for electricity, and the subsidy is 16 pfennigs. Total energy price subsidies amount to 8 billion Mark annually; they account for roughly one sixth of all subsidies.

To some extent the heat generated in the power stations is also used inefficiently, particularly in the summer months. In many cases heating systems in buildings supplied with district heat cannot be properly regulated, the only way to regulate the temperature being to open the windows.

The high energy conversion losses, particularly in heat and electricity generation, are mainly due to the fact that the energy plants are technically obsolete. Since, as mentioned above, insufficient capital has been available for new investment, energy production plants are extremely out of date. This in turn contributes to the low energy efficiency of the GDR⁸. This obsolescence is one of the main causes for the GDR's low energy efficiency. This is reflected particularly clearly in the specific fuel consumption for generating 1 kwh electricity; taking into account own-consumption of power stations it is 25 to 75%(!) higher in the GDR than in the FRG. In addition, transport and distribution losses are almost twice as high as in the FRG: 6.5% compared with 3.8%. High conversion losses also result from the use of obsolete plant for the conversion of circa 100 million tonnes of crude lignite to 50 million tonnes of brown coal brignettes and 7 billion m³ of town gas.

⁷ See: AKE, loc cit.

⁸ For example, 50% of all steam generators and 36% of all turbines in the GDR's power stations are more than 20 years old; in the Halle supply area, for example, heating power stations dating from 1912 and 1928 are fully integrated in energy production.

Thanks to the enormous use of brown coal and the almost total lack of environmental technology, in the past emissions of harmful substances in the GDR have been disproportionately high⁹. In western terms many regions are so highly polluted that they ought to be declared unfit for human habitation.

In contrast to the situation in the FRG, in recent years there have been no significant improvements in the GDR. Emissions of sulphur dioxide have been cut only very slightly (from 5.0 to 4.85 billion tonnes) between 1980 and 1988. Nitrogen oxide emissions have also remained virtually stable, accounting for 1 million tonnes per annum of which one third is generated in the transport sector.

A calculation of the trend in CO² emissions on the primary energy side for the ten year period ending 1987 shows an almost continuous rise to circa 410 million tonnes. This gives a ratio of about 3 tonnes CO² emissions/tce of primary energy consumption (PEC) (cf. circa 2 tonnes CO²/tce in the FRG). With over 24 tonnes CO² per head of population, the GDR leads the international league table and is even ahead of the USA (22 tonnes CO²) and Canada (18 tonnes of CO²). By comparison, the figure for the FRG is 12 tonnes CO².¹⁰

4. The future: energy supplies in the GDR and energy cooperation with Western Europe

It is virtually impossible at present to forecast future trends in energy consumption in the GDR¹¹. Main determinants of energy consumption, such as demographic trends, the overall economic growth rate and the structure of industry can only be the subject of speculation. Be that as it may, there is an urgent need to tackle the existing serious problems of energy and environmental policy. The key issue here is diversification of the structure of supplies.

The existing energy strategy provides for an annual production of 320 million tonnes of brown coal for the period up to 1995. For technical, political and

⁹ See: Rainer Görgen and Joachim Wollberg, *Energieaufkommen und -verwendung in der DDR*, (Energy production and use in the GDR), et, 1990; Hans Michaelis, *Ost-West-Zusammenarbeit in der Energiewirtschaft*, (East-West energy cooperation), paper presented to the East-West Energy Conference in Berlin, March 1990; Klaus Töpfer, Press statement on environmental protection in the GDR - We need an ecological development plan, Washington, April 1990; Papers presented to the Congress on 'Public Health and Environmental Crisis in Central Europe', Wilson Center, 30.4 - 2.5.1990, Washington.

¹⁰ These average figures do not fully bring out the actual level of pollution and threat to the environment in the individual regions; for example, the SO² pollution in many areas of the GDR reaches a maximum of 4000 mg/m³ (!). The WHO has laid down a target maximum of 60 mg/m³ on an annual average basis; in Weimar and Erfurt in the GDR these annual averages are in the order of 305 and 296 mg/m³ (the maximum permissible threshold in the GDR is set at 150 mg/m³!); by comparison, the Ruhr area in the FRG has a figure of 60 and Frankfurt has a figure of 59 mg/m³. (More detailed data are available from the author).

¹¹ Cf. Görgen/Wollberg, loc. cit.

ecological reasons this quota is unacceptable and should be reduced by at least 50 to 70 million tonnes per annum. Only if the GDR throws off its total dependence on brown coal can any progress be made in controlling pollution and in safeguarding energy supplies. A range of options are available, just as there are a range of constraints and restrictions on implementing such options.

The original plans provided for a substantial increase in nuclear energy in the 1990s to cover virtually the entire growth in energy demand. In the past development of nuclear energy was impeded not - as in the FRG - by public opinion - but by delays in supplies and considerable increases in costs. In future, however, the development of nuclear energy will be constrained or even prevented by adverse public opinion, particularly after the serious incident in the Greifswald power station became known and after the admission that safety standards were defective (compared with world or western standards), which resulted in the early part of this year in the short-term shutdown or threat of long-term shutdown of various reactors.

Another option would be more rational use of energy particularly in the domestic sector. This presupposes using the price of energy as a powerful information and control instrument in a market economy. Another precondition would be the successful restructuring of existing conditions of production and consumption with the absolute necessity of social guarantees and softening the blow for private consumers (the high subsidies in the past for private energy consumption were made for social reasons). Although in the medium and long-term this approach provides the greatest scope for energy savings, in the short-term it is unlikely to be very successful.

The most promising short-term option for easing the difficult transitional situation in the GDR consists of closer integration of the GDR's energy supplies in the German and/or European energy market. Given the slack supply situation on the energy market there should be no problem in providing additional quantities of energy for the GDR. The only problem lies in funding, although this should be regarded as part of the burden sharing in the process of German unification, and - like the other financial problems - should be largely taken over by the current FRG.

The question of 'energy transfer' from West to East can be summarized as follows:¹²

- Electricity supplies

Because of the absence of transmission lines to the GDR and because of the way the grids are integrated in various systems, there is only limited scope for supplying electricity from West German power stations. Because of differences between Western and Eastern Europe in the stability of the frequency, electricity can only be supplied via appropriate direct current interconnection systems. At present there is only one such connection, between Austria and Czechoslovakia; connections are planned between Lower Saxony and the GDR (Helmstedt, 600 MW) and between Bavaria and Czechoslovakia (Etzenricht, 600 MW); they are due to become operational in 1991/92. Otherwise limited amounts of

¹² Cf: AKE, loc cit; various statements by the German electricity industry; Michaelis, loc cit (further data and documents are available from the author)

electricity can only be supplied in 'radial operation' (the supplier power station is switched out of the West German grid) or 'island operation' (the area in the GDR is switched out of the CMEA grid)¹³.

- Gas supplies

Current energy thinking in the GDR envisages a large increase in gas supplies as a substitute for brown coal which causes pollution. Since domestic production and imports from the USSR cannot be increased to the level desired, there are plans to import from Western Europe and hence to connect up with the Western European natural gas grid. In December 1989 Ruhrgas AG and the Schwarze Pumpe gas collective, which is responsible for the GDR's gas supplies, signed an extensive cooperation agreement which involves connecting up the natural gas pipeline systems (Bad Hersfeld/Jena) and supplies by Ruhrgas to the GDR. Wintershall AG is planning a natural gas transmission line from Emden to Ludwigshafen; they have also applied for permission to build a connecting line to the GDR border (Eisenach/Sayda). In addition to these agreements there have been regional agreements - e.g. Thüga and Contigas - on cooperation with local energy collectives in the GDR in developing regional and local natural gas supplies. The West German firms will be supplying not only their knowhow but also an appropriate proportion of the funds required.

- Mineral oil supplies

Both mineral oil dealers and the mineral oil industry as such are currently very busy establishing and developing commercial links with the appropriate bodies in the GDR (e.g. VEBA Öl AG is negotiating with the Schwedt petrochemicals collective).

- Brown coal

Despite the ecological problems it is certain that even in the medium-term brown coal will continue to play a part, albeit reduced, in supplying the GDR with energy. Efforts should be directed towards reducing the inherent environmental pollution. Rheinbraun is not only involved in a scientific and technical exchange of views but is also establishing various direct forms of cooperation.

- Hard coal

German hard coal mining firms have stated that they are able to make good in the short-term any loss of coal imported from the CMEA countries, which is currently running at 8-9 million tonnes per annum. Given the price differences between CMEA and the world markets such supplies seem fairly unlikely.

- Renewable energy

Considerable efforts are being made in the GDR to encourage renewable forms of energy (in particular hydroelectricity and wind energy), with the specific intention of reducing pollution of the environment.

¹³ Electricity is also supplied by Preußenelektra via the section of the Helmstedt-Berlin power line which is operational as far as Magdeburg (radial operation 300 MW); Bayernwerk is currently exploring the possibility of transmitting to the GDR via Austria and Czechoslovakia. Another three high voltage lines are to be built between West and East Germany by the end of 1992/93.

However, in the short and medium-term these forms of energy are unlikely to make a substantial contribution towards meeting the energy demand.

5. Summary and prospects

The main problems facing the GDR's energy industry as briefly described above can be summarized as follows:

- supply bottlenecks
- low energy efficiency
- high pollution of the environment
- heavy dependence on imports (except brown coal), in particular from CMEA countries, which have their own energy problems and have announced reductions in supplies
- nuclear energy: slow development and inherent risks.

These energy problems can only be solved, at best, in the medium-term. Close integration in the energy sector with the FRG and the other Western European partners is indispensable in this context. To the extent that the GDR merges with the FRG to form a single economic area, energy policy also needs to be fully integrated at the EC level, too. These aspects are discussed in brief below:

- For the GDR the issue of energy savings must have absolute priority. Since the economic upturn will necessarily be accompanied by an increase in energy demand, energy savings means, first and foremost, an improvement in energy efficiency.
- Improving energy efficiency is also the sine qua non for the hoped for economic upturn in the GDR since, given the limited scope for substitution and import - e.g. because in the short-term there will be no change in technical infrastructures such as electricity and gas - otherwise the energy sector will be a factor inhibiting economic growth.
- The absolute prerequisite for improving energy efficiency is the use of up-to-date technology and massive investments. These two measures are also necessary as a way of tackling the other main problem of the GDR's energy industry: the excessive pollution of the environment.
- In the case of modern technology there is an unsolved and increasingly pressing problem, namely the export restrictions and controls on high technology pursuant to the COCOM list. The GDR still counts as a CMEA country and the latter are subject to such restrictions. A solution must be found to this problem as soon as possible, not simply in the context of German unification but also, and more importantly, in the context of European unification. But this problem is not specific to the energy sector (even though it is particularly there), but it applies to trade policy in general. In recent weeks these COCOM restrictions have proved to be a decisive obstacle, particularly with regard to improving the safety of GDR nuclear power stations.
- In addition to the question of modern technology, there is a more important task of providing the level of investments needed for projects in the energy sector, to bring about restructuring (substitution), to increase energy efficiency, to reduce environmental pollution and to put supplies on a securer footing. The West as a whole, with its market-

economy outlook, will have the responsibilities (not only towards the GDR but also towards the CMEA countries as a whole) of introducing a new 'Marshall plan' not only to provide the necessary funding but also, and more importantly, as a proof of the ability of the market-economy system to solve the serious transitional problems (from a planned to a market economy).

- It goes without saying that the GDR (or former territory of the GDR in a united Germany) must be granted a longer period for introducing all the regulations and legislation relevant to energy than is possible in the rest of the European economic space (EEC). Whether it is possible or desirable to make derogations in this respect from important regulations such as those on protection of the environment (maximum values for emissions of harmful substances, etc.) or safety requirements (e.g. nuclear power stations) can only be decided at the European level, since a number of other economic decisions (new investments, relocation of premises, etc.) depend on such decisions.
- There will also need to be a completely fresh approach - not only with regard to the GDR - to the issue of protection of the environment in the 'European House'. Under present conditions the rate of return for all investments in the environmental sector in the GDR and other CMEA countries is significantly higher than in the EEC (e.g. if a given sum of money is invested in reducing harmful substances in the East, the reductions that can be achieved are many times higher than in the West!). Given this situation, is there a need for a change of direction - possibly only for a limited period - in the environmental policy currently being pursued?
- One of the pressing problems which has to be solved in the GDR economic space in the energy sector is the question of linking up with Western European grids (in particular electricity and gas but also oil). It would be possible, in the context of creating a single European market for energy, to bring in the question of the GDR and the other CMEA countries (the question of infrastructures and how they are inter-related).
- There is also a need to examine the extent to which existing proposals to create greater competition in the internal energy market (in particular increasing the scope for transit of gas and electricity) are a suitable means of solving energy policy problems in connection with integrating the economic space of the GDR (and the other CMEA countries) in the Western European space.

The energy problems connected with integrating the GDR economically with the FRG and the EC are, as this brief introduction has shown, very varied, and they must be looked at in the context of creating the internal market for energy. It has been the intention of this document to show that in the energy sector in particular there is a whole range of problems in connection with the GDR. It remains to be seen whether this new task of shaping energy policy at the European level will also be regarded as an opportunity of making advances towards a common energy policy.

DIRECTORATE-GENERAL FOR RESEARCH

Notice to members of the Temporary Committee to
consider the impact of the process of German
unification on the European Community

Please find attached a working document on the following subject:

'The external economic and trade relations of the GDR'

This document was drawn up by the Directorate-General for Research.

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5. SUMMARY AND OUTLOOK.

In order to consider the consequences of the process of German unification for the Community in the external sphere, this study focuses on the GDR's external economic relations and their legal bases and, in so doing, pinpoints possible implications of the process of German unification, particularly for the Community's trade policy and relations with third countries.

1. EXTERNAL ECONOMIC RELATIONS OF THE GDR

1.0. External trade¹

The GDR's foreign trade is characterized by:

- its low level of involvement in the international division of labour,
- its one-sided orientation towards the COMECON countries, and
- its product pattern which is inappropriate for a highly industrialized country.

These characteristics derive from the politically determined compensatory function of the GDR's foreign trade: (a) goods were only imported to obtain scarce resources and to fill gaps in the range of goods available. Goods were only exported in order to finance import requirements. (b) Up until the beginning of the year, the state monopoly of foreign trade determined the strictly bilateral orientation of external economic relations towards the socialist countries. (c) An attitude of self-sufficiency, non-convertibility of the currency and lack of competitiveness are further adverse limiting factors.

1.1.0. Country pattern

The GDR's small share of world trade is illustrated by its overall volume of foreign trade which, in 1988, at US \$ 58.7 billion accounted for a share of somewhat more than 1% of world imports and exports. By comparison, the Federal Republic of Germany with a trade volume of US \$ 551.9 billion scored an average share of world trade of 10%.

The involvement of the GDR in the international division of labour is further restricted by its one-sided economic and trade relations with socialist countries. For example, around 66% of its total foreign trade was with COMECON countries, 40% of which alone with the Soviet Union.

Trade with non-socialist countries - approx. 24% - was mainly with OECD member countries, with intra-German trade alone accounting for around 10% and trade with the other EC countries approx. 5%. The share of developing countries in the GDR's overall foreign trade is at the same level, i.e. approx. 5%.

The GDR's main trading partners in the Community (without the FRG) are France, the UK and Italy. According to the figures so far available for 1989² Community trade with the GDR has managed to overcome the stagnation of the

¹ This chapter is based largely on the studies by the German Institute for Economic Research 'The economy of the GDR faced with radical change' (Berlin 1/1990) and 'The GDR's trade relations with the Common Market' (Berlin 3/1990)

² Estimated figures for Belgium, Greece and Luxembourg (the volume of intra-German trade was around 7 billion ECU)

last three years. For example, Community imports rose by 18% to 1.65 billion ECU compared with the previous year and Community exports increased sharply by 34% to 1.7 billion ECU. As a result, the Community was able to record for the first time a small trade surplus of 50 million ECU with the GDR after the customary deficits of previous years.

1.1.1. Product pattern

The abovementioned compensatory function of the GDR's foreign trade is clearly reflected in the basic pattern of products. For example, the Soviet Union, which dominates trade with the socialist countries, is the GDR's main supplier of energy and raw materials (covering, for example, 100% of its natural gas, lead, pig iron, wood and phosphate requirements). This is matched by the fact that the GDR, with its principal exports in the area of machinery, industrial equipment and transport facilities, is the Soviet Union's main supplier (although it accounts for only approx. 20% of all Soviet imports in this area). Trade with the other socialist countries - mainly Czechoslovakia, Hungary and Poland - is characterized by a greater degree of substitution.

Trade with the EC is an outstanding example of the explicit gap-filling function of the GDR's trade with western industrialized countries. It shows that the GDR primarily imports processed products as well as agricultural products (on an upward trend again during the first half of 1989). More than half of the GDR's exports to the EC are from the basic materials sector with consumer goods far outnumbering capital goods. Generally speaking, the following features are of interest from the EC's point of view:

- the range of EC imports from the GDR is very wide (i.e. only one product category (furniture) represents 5% of all GDR goods supplied, only 16 products account for a share of more than 1% and it takes a combined total of no less than 43 products to account for 50% of total goods supplied);
- alongside furniture, machinery and electrical household appliances, copper, potash, steel and fuel oil are among the principal imports from the GDR;
- textiles and clothing feature hardly at all (together with yarns and fabrics the proportion of imports was only 3%);
- agricultural products (except for oilseeds) likewise play hardly any part in imports from the GDR.

Intra-German trade is also characterized by a similar pattern of specialization by the GDR as seen in trade with the EC countries. However, the exchange of consumer goods for capital goods is more marked here. Appreciable differences exist only in a few product categories: unlike with the other EC countries, the GDR has comparatively large exports of clothing, textiles and foundry products to the FRG but relatively large imports from that country of iron and steel products, rubber goods and road vehicles.

Comparisons with the product patterns of other countries that supply the EC reveal that the GDR has the greatest similarities with Yugoslavia, Czechoslovakia or the Netherlands. According to available surveys, the range of products offered by the GDR overlaps only marginally with that of most developed countries.

From the trade policy angle, it is of overriding importance to the GDR during the transitional phase how its access to the EC market is organized when compared with the terms for other European countries. Preferential treatment for EFTA countries or individual COMECON countries would here have a highly discriminatory effect as would the further easing of trade barriers within the EC should the GDR not be able to participate. Accordingly, greater involvement by the GDR in EC integration will bring it significant advantages compared with other European third countries.

In the area of imports, the GDR will be faced during the transitional phase with exceptional structural problems. The pattern of production on which the GDR's foreign trade is based is characterized by a policy geared to a far-reaching degree of self-sufficiency. As a result, the range of products manufactured has been far too large measured in terms of a single country's opportunities on the world market. If the GDR is exposed in the short term to the pressure of competition on the world market, without fundamental changes to the pattern of production at best one third of its companies will be able to survive on current estimates.

1.1. External economic cooperation

Until a few months ago the GDR was not open to foreign investment nor had it entered into any joint ventures with western undertakings. The cooperation enshrined in a multiplicity of contracts, particularly with the COMECON countries and their undertakings, seems in most cases to represent more an administrative confirmation of trading relations with those partners.

A different order of importance will however attach to the investment participation agreements concluded with COMECON countries. Examples here are three such agreements stipulating reciprocal supply obligations with the USSR until 2008:

- construction of a gas pipeline between Jamburg and the western border of the USSR (GDR supplies totalling 650 million transfer roubles (TR) - USSR supplies of natural gas until 2008),
- construction of a mining plant for oxidic ores in Kriwoi Rog (GDR obligations totalling 163 million TR - USSR supplies of iron pellets - 192 million TR (until 2002)),
- construction of a 750 kW cable (USSR supplies of 1800 million kWh/p.a. until 1995).

The problem of determining equivalent values and the capacity of GDR undertakings to absorb and supply products will, along with many other questions, play a major role in the continuation of such contracts.

1.2. Development aid

This sector, which was of secondary importance in the GDR's external relations, is so far little known. The GDR like the USSR preferred the term 'socialist aid' to the Western term 'development aid', the better to demarcate itself from Western aid. It includes all forms of assistance to developing countries 'to reciprocal advantage', i.e. military aid as well. Priority was

accordingly given to all countries that had taken the road of socialist development.

No comparable information is so far available about the volume or breakdown of such aid. It is true that the GDR has mentioned figures at the General Assembly of the United Nations and at UNCTAD according to which, for example, the volume of its aid in 1984 totalled GDR Marks 1.82 bn, although how this amount is broken down and to what extent it is comparable in international terms is not known. At all events, it includes not only price subsidies, favourable freight rates and study grants but also the provision of police and security services.

2. LEGAL BASES FOR THE GDR'S EXTERNAL ECONOMIC RELATIONS

The legal framework for the GDR's external economic relations is characterized by the GDR's membership of the Council for Mutual Economic Assistance (COMECON), by underdeveloped contractual relations with western countries and by the ambiguous relationship with the Community arising from intra-German trade.

As regards COMECON, it should be remembered that this association, which was founded in 1949 as a counterpart to today's OECD, is compared with the EC only international and not supranational in nature. Cooperation between the member countries is based above all on the coordination of five-year plans, agreements concerning the multilateralization of the internal accounting system and the 'complex programmes' from 1971 and 1985.

2.0. COMECON obligations

Various external economic obligations on the GDR derive from the above-mentioned main functions of COMECON, although they are to some extent losing their binding nature as a result of the signs of disintegration affecting this association:

(a) Coordinated planning: While the planning coordination commissions did still meet at the end of last year, their function will soon become superfluous as a result of the stated intention at the Bonn CSCE conference in April on the part of the European COMECON countries to adopt a market economy.

(b) Cooperation in multilateral settlements: In this area the hitherto unsuccessful efforts were in practice terminated by a decision of the COMECON finance ministers last January in Sofia, it being agreed to speed up the switch from settlements in (worthless) transfer roubles to convertible currency. From 1991 trade in goods and services is to be carried out on the basis of dollars or ECUs.

(c) Contractual obligations with COMECON countries at bilateral level or deriving from COMECON programmes raise greater problems arising from the legal succession to the GDR. According to the European Commission, no less than 3 000 official agreements were concluded by the GDR. In addition to the abovementioned investment agreements, these include medium-term trade agreements, annual product protocols, government agreements under the 'complex programmes' as well as, for example, sectoral agreements.

The related questions - which affect substantial economic and security interests of the Soviet Union in particular - will be looked at in a separate study. The GDR and the FRG have on several occasions given assurances that these obligations will be honoured. According to the declaration at the Dublin EC summit, the European Commission will not only participate in the intra-German activities of the process of unification but will also, in accordance with its powers, examine the compatibility of such contracts with the Community Treaties and rules.

Agreements with the non-European COMECON countries and other developing countries will also be included in this review³.

2.1. Agreements with western countries

Apart from various cooperation agreements - including with the EC countries - the GDR had not concluded any trade agreements with western countries before last year's political upheaval.

An approach towards the EC was heralded first with expert talks in 1986 and 1987 which were stepped up in 1988 after the establishment of official relations between COMECON and the EC. Intra-German trade relations and the special status of West Berlin have always occupied a special role here. They meant that from the point of view of the Community the GDR was in an ambiguous position - neither a third country nor a Member State.

2.1.0. Intra-German trade

Intra-German trade is conducted on the basis of the Berlin Agreement of 1951 (clearing agreement on the exchange of goods and services). These arrangements were incorporated in the Treaties establishing the EEC in the form of the 'Protocol on German internal trade and connected problems' and still exist. This means that on the market of the FRG the GDR has so far enjoyed preferential access in certain respects such as, for example, exemption from customs duties and levies, VAT relief and generous independent quotas. As a result of strict monitoring by the FRG it has not so far proved possible to identify significant inconvenience to other EC countries resulting from these special trading arrangements (re-export of GDR products from the FRG, etc.).

2.1.1. Special status of Berlin

The special status of Berlin has to the last played a role less in the field of the GDR's external economic relations than in that of its foreign policy and, above all, of the foreign policy of the USSR. For example, the legal status of Berlin (West) in the Community has so far rested on the Berlin Declaration of the Federal German Government when depositing the instruments of ratification for the Treaties of Rome in 1957 in which it was stated, in agreement and by arrangement with the contracting parties, that the Treaties in question 'shall equally apply to Land Berlin'. Recognition of the inclusion of Berlin in the field of application of the EC Treaties (the Berlin

³ Mention can be made here, for example, of aid agreements with Cuba, Vietnam and the Mongolian People's Republic and GDR participation in COMECON cooperation agreements (Afghanistan, Angola, Ethiopia, Iraq, Mexico, Mozambique, Nicaragua and South Yemen)

clause) by the COMECON countries was guaranteed in all agreements with those countries.

2.1.2. EC-GDR trade and cooperation agreement

After the political upheaval in the GDR last November, the EC Council of Ministers granted the Commission on 22 December 1989 a negotiating mandate for a trade and cooperation agreement with the GDR. The proceedings were completed in only three negotiating rounds with the result that the agreement could be initialled on 13 March, only five days before the parliamentary elections in East Germany. The signing of the agreement is scheduled for 7 May 1990. Its contents basically correspond to those of the agreements already concluded with Hungary and Poland (10-year term, most-favoured nation status, removal of quota restrictions, far-reaching cooperation). ECSC, textile and fisheries products are covered in separate agreements. A declaration makes provision for adaptation of the agreement after the establishment of German economic and monetary union.

3. EXTERNAL ECONOMIC ISSUES RAISED BY THE PROCESS OF GERMAN UNIFICATION

As long as German economic, monetary and social union has not been completed and the state treaty on German unification has not entered into force, the GDR and the FRG continue to exist as two entities under international law. This means that, until the completion of German unification, the GDR is governed by the abovementioned legal bases and only the FRG by the legal provisions of EC trade policy.

The European Commission clarified this in its paper submitted to the Heads of State or Government in Dublin: during this period described as the interim phase, the provisions of the Protocol on German internal trade continue in existence and they are supplemented by the arrangements agreed in the new trade and cooperation agreement. The existing intra-German frontier thus continues to exist as the external frontier of the European Community for the other eleven Member States. The Federal German Government continues to be responsible for ensuring that there are no adverse effects for the other Member States arising from misuse of intra-German trade.

3.0. Application of EC trade policy

(a) On the EC side there are three priority areas covering customs duties, quantitative import restrictions and anti-dumping measures.

As regards customs duties, the fact is that the common external tariff is the keystone of the common external trade policy. Since the granting of most-favoured nation status, GDR consignments of goods are charged the same customs duties as, for example, American or Japanese exports to the EC. Only with German unification will duty-free consignments of goods be allowed into the other Member States, in addition to the FRG, from GDR territory.

As regards quantitative restrictions, the situation is more complex. The only common Community basis for imports from state-trading countries - and hence still for the GDR - is the EC's so-called liberalization list enumerating those products not subject to quantitative restrictions in any EC country. The Member States are at liberty to maintain existing quantitative import restrictions on all other goods. The trade and cooperation agreement envisages their gradual elimination.

Many products are subject to import restrictions in only one Member State and only a few products (mainly porcelain, tents, electrical machinery and certain steel pipes) are restricted in several Member States (including Italy and Portugal). Surveys have shown that the majority of GDR quotas are used only partially or not at all and their elimination should hardly give rise to disruption on EC markets.

It should also be remembered here that the elimination of quantitative import restrictions also plays a major role in the creation of a large internal market by 1992. Apart from the removal of non-tariff barriers to trade, the main problems here are with, among other things, import quotas for textiles, cars and bananas from third countries. Possible solutions must at the same time take due account of the extension of Community territory to include the GDR - and this also goes generally for the application of GATT rules.

The GDR was particularly affected by the EC's anti-dumping policy in the early eighties. Most of the procedures were however terminated after undertakings concerning export prices had been given. In 1985 and 1986 a total of only five procedures were instituted against the GDR and in 1987 none at all. However, in this area too certain transitional measures will be necessary.

(b) On the GDR side the more serious problems relate without doubt to the adoption and application of the Community Treaties and derived legislation ('acquis communautaire'). The Commission has promised a comprehensive review of these issues so that after German unification the rules governing external economic relations are applied in full to the territory of the GDR.

It is however foreseeable that this will not be possible without a series of transitional provisions. This concerns above all Community customs legislation, customs tariff legislation, import and export legislation and the area of external protection in agricultural legislation where there is considerable need for adaptation and transitional rules (guaranteed quantities, subsidies, market organizations for agriculture and fisheries etc).

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Surveys carried out to date have shown that, despite such problems of adjustment, a complete opening of markets will not cause any major difficulties for the other Member States. However, many competing undertakings in those countries will in the course of time feel the pressure of increasingly productive GDR undertakings. Conversely, the reforms and their effects on investment and earnings will provide a major boost to the GDR's absorptive capacity. On account of the high demand for imports the GDR will be a worthwhile outlet for the Member States of the Community and will remain an important outlet for the COMECON countries.

3.1. EC relations with third countries

A central issue is the implications of the process of German unification for the EC's relations with third countries. Particularly in the developing countries, the concern is being widely voiced that the Community, by being completely absorbed by the German question and the developments in Eastern Europe, will neglect their interests.

The Commission and the European Council have responded clearly to these fears, which were also expressed by the European Parliament in its resolution of 4 April 1990.

The Commission states, for example, in its communication of 19 April 1990 on 'The Community and German unification':

- ... German unification represents not only a challenge but also a considerable opportunity for the entire Community for new investment, new growth, new exchanges and new contacts at all levels,
- ... the continuation of traditional trade flows has a role to play in maintaining good political and trade relations with other East European countries ...
- It sees no grounds for concluding that the process of German unification and a united Germany will alter the development of the Community's relations with the countries of Eastern and Central Europe, its neighbours and in the third world ...

The European Council in Dublin was even clearer:

- 'In parallel with the process of the unification of Germany, the Community will continue its internal and external development ...'
- 'The Community will intensify its policy of good relations with the Mediterranean countries, based on more effective cooperation, taking into consideration the particular problems of each of them. It will pursue its special relationship with the ACP countries and it will intensify its cooperation with countries in Asia and Latin America ...'

Moreover, the Federal German Government did not call in Dublin for any special aid from the Community for the process of German unification. According to a Council decision, the GDR will however have access during the interim phase to funds provided under the aid programme of the 24 OECD countries (PHARE) and will also be entitled to EIB and ECSC loans.

From the legal angle, the taking over of Community agreements with third countries will not involve any insurmountable problems for the GDR. Legislation will be needed, for example, for agreements relating to the multifibre arrangement, the ECSC and the EURATOM Treaty.

Transitional rules and adaptations will also be necessary e.g. in the case of the Community convention on contractual obligations or the Community patents convention.

3.2. COCOM rules and other issues

The COCOM rules banning and/or restricting exports of western advanced and military technology to eastern state-trading countries have, since their inception, been the focus of criticism from the countries affected. Progress in the disarmament talks and the upheaval in Eastern Europe have reduced and partially called into question their significance.

The process of German unification raises a central problem here: how can the restructuring of the GDR be accelerated using western technology without such technology being reexported in uncontrolled fashion to undesirable countries? A solution to this problem is being facilitated by a relaxation of the USA's

hitherto tough stance. This means that not only are the existing lists of products to be cut substantially but exports to the reforming Eastern European countries are also to be made easier. The Soviet Union is for the time being to be excluded from these changes. How this is to be guaranteed during the transitional phase on GDR territory is not yet clear (this concerns above all existing supply obligations on the GDR, some of which come under the COCOM heading of 'dual-use technology').

Among the many other external economic issues raised by the German unification process are the questions that need to be considered in the context of the GDR's COMECON obligations, viz:

- the establishment of market-oriented prices and exchange rates, and
- the elimination of accumulated imbalances (transfer rouble balances).

In addition, the question of the GDR's debts in western countries needs to be resolved. Only at the end of March did the GDR admit in an activity report published by its state bank that its foreign indebtedness is considerably higher than emerges from western statistics and than it had itself so far conceded. According to these figures the net indebtedness to the West amounted to US \$ 18.5 billion by the end of 1989 (on the basis of statistics supplied by the Bank for International Settlements a debt total of US \$ 10 billion was taken as the starting point).

A solution to this problem should be made easier by the fact that, over the past year, the GDR's credit rating on the Eurobank market was severely downgraded. For example, the Luxembourg Finance Ministry has authorized depreciation adjustment rates of between 50 and 100% for the banks concerned in respect of GDR Euromarket lending.

4. CURRENT POSITION

After the elections to the East German Parliament on 18 March 1990 the negotiations between the two German governments on the creation of a German economic, monetary and social union have made rapid progress. For example, on 2 May an agreement was reached on the currency conversion which is due to be implemented on 2 July 1990. The Federal German Government assumes that it will also be possible on this date to implement the other key elements of the sought-after union.

The planned state treaty will contain a clause stating that 'the protection of legitimate expectations shall apply in respect of the obligations of the GDR towards other states'.

As far as the Community is concerned, the main results of its activities have already been mentioned. They emerge from the Commission communication on German unification, the broad outline of which was approved at the summit of Community Heads of State or Government on 28 April in Dublin. In its document the Commission envisages an interim phase from the beginning of the German union up until German unification. The progress made during this period by the GDR in adapting to the EC will determine the transitional measures that are subsequently still necessary. The Protocol on German internal trade and the necessary monitoring arrangements retain their full validity.

Formal German unification then marks the beginning of the transitional phase during which the obligations of the GDR in the Community area and the

Community obligations on GDR territory must be taken over. Only after completion of these measures will the ultimate phase begin during which Community law will be applied in full within the new German borders.

5. SUMMARY AND OUTLOOK

- It is evident from the foregoing that the Community and its Member States have from the outset been affected by the process of German unification-which in the field of external relations is to be accomplished without amendment to the EC Treaties. It is therefore crucial that the Community institutions responsible, in accordance with their powers, are not only informed or consulted about, but involved in, the work of the two German governments. This position expressed by the Commission was unequivocally confirmed by the Dublin summit.

- The incorporation of the GDR's planned economy (and its restructuring) in the Community raise a series of complex issues in the external economic field where a particular effort will be required from the Federal German Government and the Commission during the interim phase in framing the necessary measures for adapting to the adoption of Community law and the common trade policy. At the same time, the intra-German frontier remains, up until German unification, the external frontier of the Community for the other Member States on the basis of the Protocol on German internal trade.

- The GDR's COMECON obligations and their adaptation to the Community legal framework based on the market economy involve difficulties in connection with evaluation and currency conversion, although these need to be qualified in view of the GDR's small volume of external trade. A solution to the problems associated with the COCOM rules is not yet in sight. Overall, however, the GDR's special relations with the COMECON countries offer major opportunities not only for the FRG but for all EC Member States to expand their underdeveloped trade with this category of countries.

- Since the Temporary Committee is due to complete its work by November, it is to be recommended that arrangements should be made now for the European Parliament's committees responsible for external economic relations (REX and DEV) to be kept regularly informed by the Commission on the way matters are progressing.

DIRECTORATE-GENERAL FOR RESEARCH

Notice to members
of the Temporary Committee
to consider the impact of German unification
on the European Community

Members will find attached a working document on:

'The trade commitments of the GDR towards the COMECON countries'

This document was prepared for the Directorate-General for Research by the Central Institute for Economics of the GDR Academy of Sciences in East Berlin.

CONTENTS

1. The overall trend within the framework of long-term trade agreements and annual protocols.
2. Trend in the balance of trade.
3. Trade commitments towards the USSR
4. Exchange of goods with other COMECON countries
5. Conclusions.

1. The overall trend within the framework of long-term trade agreements and annual protocols

Since 1970 the GDR's foreign trade has increased steadily on the basis of State agreements. The overall volume rose from 26.65 bn Valutamark (VM) in 1970, to 75.18 bn VM in 1980 and 117.96 bn VM in 1989. It is, however, evident that:

- the rate of growth in foreign trade is falling steadily;
- the fall in growth has been greatest in trade with the developing countries and least in trade with COMECON countries;
- the percentage of the GDR's foreign trade accounted for by the COMECON countries has thus remained relatively high and stable.

As regards trade with COMECON countries, the agreements for the period 1986-90 marked a definite reversal in the trend in growth; since 1987 there has been an unmistakable downward trend in the volume of trade with the USSR. In 1986 this was still 70.6 bn VM, in 1987 it fell to 68.4 bn VM and again in 1989 to 65.4 bn VM. 1989 also saw the first fall in trade with Czechoslovakia (- 4%) and with Bulgaria. In 1989 the volume of trade with virtually all the COMECON countries can be expected to fall.

In recent years the States concerned have agreed to supply smaller quantities and to an increasing extent the agreements have not been fulfilled. The COMECON area has never had instruments for imposing effective economic penalties in the case of infringements or for enforcing such agreements.

Furthermore, in an analysis of the GDR's foreign trade links it has been necessary to adjust the figures. The exchange rate coefficients used for economic planning to determine the share of individual countries in the GDR's foreign trade have distorted the situation in the past. The new coefficients established in February 1990:

1 US dollar	= 8.20 Mark
1 DM	= 4.40 Mark
1 Rouble	= 4.67 Mark

alter the picture considerably. Using these coefficients, for example, the USSR's share of the GDR's trade falls from 38% to 21%, the FRG's share rises from 7% to 19%, the share of the COMECON countries falls from approximately 66% to 41%. Even with these coefficients, the valuation of the rouble compared to the dollar or the DM is highly questionable (cross comparison), when one considers that in the currency auctions in Moscow rates of up to 9 roubles and over have been achieved by the dollar. At the moment it is not possible to quantify trade on the basis of market economy indicators. This makes it difficult to compare macro-economic analyses of the GDR's foreign trade with the COMECON countries on the one hand and with the Community Member States on the other.

Despite reduced growth in foreign trade, the import and export structure of the GDR's trade with the COMECON countries has remained relatively constant. Stable export and import patterns have been established with a number of partners. A good 60% of the GDR's exports to the COMECON countries are accounted for by machinery and equipment while on the import side raw

materials are the major group at 40-50%. In trade with the Community, exports of machinery are less than half the figure for imports¹.

This structure is significant insofar as the transition to a market economy will pose a threat to sales of GDR machinery and equipment in the COMECON countries given the quality and the level of technology of GDR products.

Initial calculations also show that in trade at world market prices the GDR would obtain 15 to 20% less for its machinery and equipment on the Soviet market.

In the transition to a market economy (world market conditions in trade and removal of State guarantees underwriting obligations) trade in machinery and equipment would be hit immediately and would decline, at least for a transitional period.

2. Trend in the balance of trade

There has been a substantial change, not only in the volume of the GDR's trade with the COMECON countries but also in the trade balance. As a result of price trends for raw materials and energy and the varying delivery capacity and reliability of other countries, there has been a definite improvement in the GDR's trade balance in recent years.

In the years since 1975, the GDR's trade balance with the COMECON countries moved from ./0.5 in 1975 to a surplus of 12.2 bn VM in 1989.

It is interesting to note that in the years up to 1988 the trade balance with the Western industrialized nations also improved steadily although this did not permit any reduction in the GDR's gross foreign currency liabilities. The trade surplus with Western countries was achieved by radical reductions in imports, by exporting rather than supplying the domestic market and by a shift in exports away from Eastern Europe to Western countries.

The GDR's balances with other COMECON countries with the International Bank for Economic Cooperation (IBEC) in Moscow, which acts as a clearing house for goods and services exchanged between the COMECON countries, was as follows in recent years²

¹ This is clearly illustrated by the export quotas of selected 'combines' in the metalworking industry. 20 to 50% of the production of such plants goes to COMECON countries whereas less than 10% as a rule is exported to the West.

² This balance cannot be compared with the cumulated trade balance since the IBEC settles not only exports and imports of goods but also other services, e.g. transport, tourism, etc. (transferable rouble)

	<u>as at</u> <u>31.12.87</u>	<u>as at</u> <u>31.12.88</u>	<u>as at</u> <u>31.12.89</u>	<u>as at</u> <u>31.12.90</u>
Bulgaria	139	261	54	4
Hungary	-13	210	-82	-194
Vietnam	-50	-91	-89	-61
Cuba	436	447	636	519
Mongolia	20	16	10	6
Poland	271	316	118	-392
Romania	-50	157	224	315
USSR	-893	-333	3977	4193
Czechoslovakia	-125	-84	-265	-119
Total balance	-265	+899	+4583	+4181

The figures show that the GDR's surplus arises principally from high credit balances vis-à-vis the USSR, Cuba and Romania whereas there are modest liabilities towards Hungary, Poland and Czechoslovakia.

The rise in the GDR's credit balance with the IBEC coincided with a considerable decline in the trade, attributable to a variety of factors:

- **USSR:** The decline in the USSR's revenue from oil and natural gas sales was not offset by sales of other goods, there was also a cutback in the GDR's purchases of military technology.

- **Hungary and Poland:** The introduction of a market economy has meant that these countries could no longer guarantee to purchase GDR products. Polish and Hungarian firms have terminated purchases previously made from the GDR. In addition, the GDR made substantial payments to Poland for transit traffic to the USSR and the GDR has a deficit in the tourism balance with Hungary.

- **Czechoslovakia:** Here the GDR has a substantial deficit in the tourism sector.

It can be assumed that 1990 will see a further drastic decline in the GDR's trade with the COMECON countries and that the GDR will have a substantial credit balance vis-à-vis all COMECON countries with the IBEC. The reasons for this are:

(a) The USSR will have great difficulty in meeting its supply commitments to the GDR for the reasons outlined above and owing to the difficulties in its internal division of labour;

(b) The introduction of a market economy in the GDR will mean that industry in the GDR will no longer make substantial purchases from Hungary, Poland, Czechoslovakia and other countries (in the past the GDR has been similarly affected by developments in Hungary and Poland and the trend will now be felt to a greater extent in reverse);

(c) The decline in trade with the USSR will reduce the GDR's costs for transit traffic through Poland and there will also be a substantial shift in GDR tourism towards Western Europe.

There are definite signs that the commitments entered into by the GDR under the long-term agreements 1986-90 are no longer being met under the annual

protocols; this was certainly the case last year. The GDR is now a creditor vis-à-vis the COMECON countries³.

The current process of radical change in the GDR has also prevented it from drafting or concluding a trade agreement for the period 1991-95 on the lines of the five-year trade agreements negotiated in previous decades and the 1990 protocol - the last part of the 1986-90 agreement - was negotiated bearing in mind the new context (cf. Section 4).

Moreover, cooperation within COMECON, in its present form - linked to binding State guarantees tied to a distinctive price and currency system - will soon cease to exist.

The transition of the COMECON countries to a domestic market economy and the introduction of current world market prices and convertible currencies in mutual settlements is bound to call into question the existing foreign trade structure and will inevitably alter the structure of production considerably. However, new areas of cooperation will also open up (e.g. cooperation in reconversion, tourism, cooperation of small and medium-sized businesses).

It can be assumed that this radical break with existing supply conditions will necessitate a re-examination and reassessment of the commitments entered into. This applies particularly to trade with Hungary, Poland and the Czechoslovakia, where rapid advances are being made in economic reform and settlements in transferable roubles will cease as from 1991, and possibly earlier in certain areas.

3. Trade commitments towards the USSR

The USSR is the GDR's main trading partner within COMECON. A comprehensive annual protocol has been concluded for 1990 and for the period 1991-95 there are certain preliminary arrangements or individual agreements.

In November 1989 a level of 6.8 bn transferable roubles (TR) was agreed for the GDR's exports and a figure of 6.4 bn TR for imports (thus confirming the downward trend in the volume of foreign trade: 94% of the 1989 level).

The key element of trade relations between the two countries remains the raw material package, i.e. the supply of Soviet raw materials and contractually agreed supplies by the GDR (to pay for the raw materials) of machinery, equipment, chemicals and consumer goods. The GDR has established stable export lines which, in some sectors, cover a high percentage of its import requirements from the USSR: equipment for the processing of petroleum and natural gas 27%, machine tools 30%, machine systems and production lines for metal working, moulding and pressing 40%, ventilation and refrigeration technology more than 55%.

Recently in particular, the USSR has stepped up its purchases of micro-electronics products, equipment for light industry and the foodstuffs sector and for commerce and public utilities. The raw materials package accounts for some 50% of deliveries and purchases in trade with the USSR. So far the USSR

³ What will happen to this credit balance with the introduction of monetary union and the D-Mark has yet to be resolved.

has made obvious efforts to ensure that this aspect of trade will continue to enjoy a State guarantee (possibly through State contracts with firms).

The 1990 annual protocol includes lists of goods which basically aim to continue existing trading patterns, but present considerable difficulties in terms of their implementation. This is due not only to the restricted delivery capacity of the two sides, owing to internal changes, but also to the potential markets in the COMECON countries. The sale of Soviet machinery and equipment and consumer goods (35 mm cameras, televisions, refrigerators, toys, cars, bulldozers, dredgers, tractors, rolling mills, aeronautics) will no longer be possible in a market economy in the GDR without special State aids. Leaving aside the supply of raw materials, the remainder of GDR-USSR trade will dwindle considerably in 1990.

The initial preliminary agreements for the period 1991-95 provided for the annual supply of 17.1 kt oil, 7.9 bn cu m gas, 4.5 m t coal as well as pig iron, rolled steel, ferro-alloys, cotton and sawn timber.

Goods to be supplied by the GDR include:

Injection moulding machinery	505 m TR
Passenger rolling stock components	1200 m TR
Printing equipment	700 m TR
Equipment for light industry and the foodstuffs industry	2020 m TR
Peripheral equipment for the electronics industry	750 m TR

Total supplies are of the order of 18 bn roubles. Since the Ministries of Industry have already concluded initial agreements totalling 13 bn TR, turnover of approximately 31 bn TR is planned for both countries. This is more than 6 bn a year, with a figure of 6.9 bn projected for 1990.

These assumptions are now very much open to question. The purchase of Soviet raw materials (e.g. coal, metallurgical products) will have to be reconsidered as the new production profile in the GDR and the economically effective delivery capacity of the FRG could bring about substantial changes. In the event of a changeover to trade on world market conditions, the USSR has indicated that it would spend its foreign exchange earnings from raw material exports on the purchase of machinery and equipment of a higher technical standard than GDR products. However, a radical cutback in such trade relations would result in economic losses. It is also feasible that closer cooperation between GDR 'combines' and firms in the FRG will enable GDR industry to keep these markets.

Existing trade between the USSR and the GDR is based on a range of agreements at government and ministerial level and between economic entities. Of these agreements, two categories are of particular importance:

- (a) specialization and cooperation agreements,
- (b) investment agreements.

In general, agreements covering specialization and cooperation in production have been developed only moderately, which is why there has been criticism that the excessively wide range of finished products in the GDR reduces efficiency. The metal working industry accounted for 18.6% of the GDR's total exports whereas it imported 24.7% of the production of the metal working industry in the USSR.

Such agreements contributed a total of 705 bn Roubles to GDR exports and 230 m Roubles in imports. Of these figures 285 m and 150 m respectively were accounted for by supplies under specific agreements, 327 m and 46 m related to specific finished products, assemblies and semi-finished products and 93 m and 34 m respectively as assemblies for various finished products.

The goods concerned are mainly for sectors such as the electrical/electronics industry, agricultural engineering, shipbuilding and to a lesser extent the automobile industry.

A number of these agreements are worth considering in greater detail. For example, the USSR's new agricultural policy will have implications for the agricultural engineering sector, which relies on close cooperation between the two countries. The leasing system and individual production require a different technology from that used to date. The input of Western know-how and capital could enable firms in the GDR to expand this sector of cooperation to gear itself up to the new Soviet market.

In the area of investment, the GDR has concluded the following agreements which will remain valid after 1990:

- the agreement on the participation of the GDR in the construction of the natural gas pipeline from Yamburg to the Western border of the USSR; 650 m TR worth of machinery and equipment is to be supplied over the period 1990-94 and from 1989 to 2008 natural gas supplies will be made as credit repayments totalling 1.3 bn TR;
- the agreement on cooperation in the construction of the mining and processing plant for oxide ore in Krivoy-Rog. This agreement provides for exports of 163 m TR over the period 1990-92 and GDR imports of iron ore pellets as credit repayments (192 m TR) from 1993-2002;
- the agreement on the construction of a 750 kV-power line in the Western Ukraine, which will allow the GDR to import some 1800 kWh a year of electricity over the period 1991-95.

Although the natural gas agreement will continue, the agreements on Krivoy-Rog and the 750 kV power line will require a thorough reassessment. The import of iron ore pellets is at risk owing to internal structural developments in the GDR (general competitiveness of the GDR metal industry), and imports of electricity through the COMECON 'peace' grid may prove problematic insofar as the GDR is to be connected to the FRG grid. For technical reasons this would involve its disconnection from the Eastern European system at least on a temporary basis.

In 1989 a number of individual agreements were reached which form part of the coordination programme for the period 1991-95. These agreements include the supply by the GDR of the following:

- ships and shipbuilding products amounting to 475 m TR from 1991-93;
- machine tools, 176 m TR from 1991-92;
- EDP products, 88 m TR from 1991-92;
- chemical plants, 88 m TR in 1991.

The agreement on ships and ancillary shipbuilding equipment and for repairs and supply of spare parts is particularly important in scale and significance.

The GDR is to supply, inter alia, 66 ocean-going vessels, including 7 multi-purpose cargo vessels, 9 timber carriers, 9 refrigerated vessels and transporters, 36 factory trawlers, 2 ocean-going bucket dredgers, 16 inland waterway general purpose vessels, 2 refrigerated vessels, motor launches for a total value of 0.9 m Roubles and ancillary equipment totalling 190 m Roubles.

The GDR will receive from the USSR: 1 bulk carrier, 7 harbour tugs, 2 bucket dredgers, 37 trawlers, 4 general purpose vessels and ancillary equipment totalling 190 m Roubles.

4. Trade with other COMECON countries⁴

Trade links with the other COMECON countries differ in volume and structure from those with the USSR. The total volume of trade is approximately 7 bn VM less than with the USSR. The differences from one country to another arise primarily from the different levels of economic development of the countries concerned and their progress towards economic reform.

Forecasts point to a volume of exports of approximately 26.8 bn VM and imports of some 24.1 bn VM, i.e. a turnover of 50.9 bn VM with these countries for 1990. In 1989 the figure was 52.5 bn VM. As at March 1990, supplementary projections indicated approximately 27 bn VM in exports and 23 bn VM in imports, i.e. a further overall reduction leading to an increased trade surplus for the year.

A sharp decline can be expected in the areas of machinery and, equipment, motor vehicles and consumer goods. To date trade with other COMECON countries has also been backed by State guarantees and specific categories of goods have been linked on the basis of their competitiveness and marketability.

The trend which has emerged in trade with Hungary and Poland is the exchange of raw materials and raw material equivalents on a 1:1 basis. The GDR has long-term contracts with Hungary for the supply of bauxite, aluminium, maize, cereals, fruit and wine whereas it supplies Hungary with potash, brown coal briquettes, cement, insulation boards and chemicals.

Even in the case of settlement in foreign currency and German monetary union, a large part of this trade is likely to remain relatively stable, although there may well be a falling off in industries' mutual purchases of machinery and equipment, motor vehicles, agricultural machinery, etc. At the beginning of the year, a contract for the supply of Hungarian busses fell through owing to the demand for payment in convertible currency, but following monetary

⁴ (excluding the USSR): Hungary, Poland, Czechoslovakia, Romania, Bulgaria, Cuba and Vietnam

union, the GDR would have to consider whether it might not be better to buy busses from the FRG if they had to be paid for in foreign currency.

On 24 January 1990 the Hungarian Government declared all licences based on the Rouble to be invalid and cancelled the supply of busses to the GDR. The supply of 412 busses had been scheduled for the first quarter of 1990 and in 1988 the GDR had imported a total of 1229 busses.

The GDR is finding it particularly hard to market electrical/electronic products, agricultural machinery and vehicles in Hungary. It will prove to be extremely difficult to preserve cooperation arrangements in the agricultural engineering sector.

The 1990 protocol with Hungary contains no State guarantees of purchases on the part of the Hungarian Government and no provisions on pricing.

In the case of Poland, it was decided not to conclude an annual protocol for 1990 but merely a loose agreement. The agreement provides only for a volume of approximately 20% of the previous years' trade, this obviously being the amount for which the Polish Government considered it could provide a certain guarantee. A volume of approximately 1 bn VM was agreed for exports but it is estimated that supplies will reach a figure of 4.9 bn VM (in 1989 the GDR's exports were still 5.9 bn VM).

These forecasts are based not only on the previous policy of continuing reciprocal trade but also take into account the new demands that are emerging: thus Poland has recently expressed interest in greater supplies of consumer goods, including cars. These are products which the GDR will find increasingly difficult to sell on its domestic market after monetary union.

In trade between the GDR and Poland there are a number of central items, the volumes of which are likely to remain fairly stable; these are Polish supplies of coal, coke, sulphur, carbon disulphide, and exports from the GDR to Poland of potassium salts, potash fertilizers, polyurethane, chemicals, tyres for heavy goods vehicles, etc.

Polish exports of canned fruit and vegetables to the GDR have increased considerably in recent years (over 6000 t a year).

With Czechoslovakia, the GDR's second leading COMECON partner, an extremely detailed annual protocol has been concluded for 1990, as has been the practice for many years. The radical changes in recent months have created a new situation, the overall implications of which cannot yet be assessed. Other long-term agreements exist:

- with Poland - for the production of feeding yeast
- with Czechoslovakia - on the natural gas pipeline from the USSR
- with Cuba - on the production of Cuban nickel and cobalt, this agreement is valid beyond the year 2000 (GDR equipment has already been delivered to a large extent, supplies from Cuba will commence in 1997);
 - on Cuban bananas (equipment delivered, supplies to the GDR as from 1992)
- with Vietnam - natural rubber agreement (equipment still has to be delivered by the GDR).

There are also agreements with Cuba for the supply of sugar, citrus fruits etc. Cuba enjoys preferential prices, particularly for sugar, which will have to be reassessed within the framework of a new development aid strategy.

5. Conclusions

- (a) The transition to a market economy will bring about a decline in the volume of the GDR's trade with the COMECON countries and will alter the structure of its imports and exports. The main reason for this is the removal of State guarantees for the purchase of products. The breaking up of these traditional trade patterns will leave the GDR in a favourable economic position compared to other COMECON countries. Thus, as in recent years, the GDR's exports will continue to exceed its imports from other countries in the immediate future. It remains totally unclear to what extent and how the GDR will in future be able to use its credit balances (in transferable Roubles).
- (b) The supplies of a number of important raw materials or raw material equivalents, will probably be less severely hit by the falling off in reciprocal trade. This applies particularly to trade with other COMECON countries (excluding the USSR). Even in the future, it is likely to be very much in the interests of the GDR to maintain trade relations with its existing partners. German monetary union and the introduction of world market conditions in trade between the COMECON countries would put industry in the GDR in a better position to obtain such products from COMECON countries than its COMECON partners.
- (c) As regards future trade with the GDR's main trading partner, the USSR, the problems arising from economic reform in the USSR mean that transitional arrangements will have to be found for deliveries under the raw materials package if the commitments entered into are to be fulfilled to any extent. A bilateral clearing system in convertible currency could enable the GDR to maintain its economically effective raw materials supplies from the USSR and to continue its sales of important products of GDR combines in the USSR, particularly to safeguard jobs. Rough estimates suggest that up to 30% of the jobs in the major industrial combines and firms in the GDR are at stake (a radical transition to world market conditions in trade with the USSR would jeopardize exports of machinery to the USSR and might result in drastic cutbacks in supplies of raw materials and energy).
- (d) In the case of the individual agreements which are valid beyond 1990, the GDR is also in an economically favourable position. Although a number of investment and specialization agreements will have to be reassessed on the basis of market economy criteria, the new terms should be easier for the GDR to meet. Above all, intra-German cooperation affords GDR firms excellent prospects for specialization and cooperation with its partners in other COMECON countries.

In general therefore the GDR's delivery obligations do not constitute a burden for the economy nor should they present any great obstacle to structural change in the GDR. The continuation of certain supply agreements with the COMECON countries is both in the interests of the GDR and in the interests of its COMECON partners.

EUROPEAN PARLIAMENT

DIRECTORATE GENERAL FOR RESEARCH

Communication to Members of the Ad Hoc Committee responsible for examining the impact of the unification of Germany on the European Communities

The Members will find annexed a Working Document on:

**'Problems of applying Community legislation in the field of competition
and State aids'**

This document has been elaborated by the Directorate General for
Research.

**PROBLEMS OF APPLYING COMMUNITY LEGISLATION IN THE FIELD OF
COMPETITION AND STATE AIDS**

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PROBLEMS OF APPLYING COMMUNITY LEGISLATION IN THE FIELD OF
COMPETITION AND STATE AIDS

1. INTRODUCTION

In the field of state aid and competition the impact of German unification will be significant. A market economy is characterised by competition and a competition policy. Therefore the issue arises as to how fair competition can emerge and be reinforced in the unified Germany.

Here the Bundeskartellamt has a vital rôle to play. However it is the Commission's responsibility, by means of its competition policy, to ensure that the market system performs, as it should, in the whole of the Community.

5.

According to the European Commission¹ East Germany's integration into the common market will take place in three stages:

- (1) the interim stage or period of adjustment which will be marked by the establishment of a monetary union between the GDR and the Federal Republic and the introduction of a legal framework necessary for the gradual integration into the federal and Community system;
- (2) the transitional stage which will begin with formal political unification;
- (3) the definitive stage from which onwards the *acquis communautaire* will be fully applied.

Important steps on the way to complete integration affecting the Community and preconditioning the transitional stage, will already be taken during the adjustment period. Therefore problems relating to the application of Community competition rules will have to be considered at a relatively early date, whatever the formal legal situation.

¹ SEC(90)751 final, 19.4.1990: 'La Communauté et l'unification allemande'

The present assessment will focus on two broad areas of importance for the application of competition policy: state aids, and mergers and agreements between companies, before and after unification.

2. STATE AIDS²

At the moment the East German economy is so totally controlled by the State that it is difficult to unravel the financial and other relations between the State and its companies. It is impossible to switch overnight from an economy where government subsidies are the norm to one where they are the exception. The privatisation process will need time: on the one hand because the allocation of capital needed for this operation can only be gradually injected, and on the other because existing economic structure should not be disrupted. At the same time the whole transformation process, i.e. the modernisation of an outdated industry and the building of a new economic and industrial infrastructure, will be desperately in need of public aid. Therefore one can expect in the short- and medium-term a considerable growth of the relative weight of the mixed economy in the whole of the unified German market. Eventually this could lead to a change of the German position on certain issues, notably on questions relating to public undertakings.

On several occasions³ Commissioner Brittan highlighted the main principles upon which competition policy will be based with regard to unification process:

- a sensitive approach of the first two stages of the integration process;
- a flexible application of the Community's state aid rules, to allow East Germany to catch up;
- a balanced application of these rules, safeguarding the legitimate interests of companies located elsewhere in the Community.

² Articles 92-94 EEC.

³ See also his Statement before the Committee on Economic and Monetary Affairs and Industrial Policy at its meeting in Brussels on 18-20 April 1990.

2.1. Before formal unification

As long as the GDR is functioning as an 'independent sovereign state' Treaty provisions on competition are not applicable. However economic unification will take place before political unification. This means that after economic and monetary union, Germany will consist of one market which will, to all intents and purposes, be undistinguishable from the common market. Therefore, and in view of the expected public aid influx, state aid rules (Article 92/EEC) will have to apply. Moreover an early involvement of the Commission in this respect will allow the use of these rules as a flexible instrument for economic recovery and will provide a basis for Community participation in the task of democratic reconstruction.

Aid granted by the Federal Republic for company investments in the GDR will have to be scrutinised by Commission authorities. The Federal authorities have understood the need for this. They agreed to inform the Commission of all aid measures taken to develop the East German economy and to cooperate with the Commission to ensure that help is given where it is needed without unduly distorting competition.

A first case has already been submitted to the Commission. The Federal Government intends to extend investment aid to the GDR and East Berlin under the European Recovery Programme(ERP). The ERP fund is the survivor of the post-war Marshall Plan. The Federal Government has kept this revolving fund going over many years, adapting it to new requirements such as environmental protection and encouragement of small- and medium-sized businesses. It will be used for starting up businesses, improving the environment, industrial development and finally for building-up infrastructure for tourism. It will be provided in the form of a soft loan at a rate of 2% below market rate for a period of 15 years. The scheme is available to any Community-based companies which wish to invest in East Germany and is meeting the requirements of the programme. The Commission has given its approval.

Since the introduction of this aid programme the Commission has received 11 more aid notifications which are presently being studied.

2.2. After formal unification

The Commission intends to fully implement the 'acquis communautaire' and does not consider any kind of general transitional arrangement in respect of the state aid rules. According to Commission statements current rules have been designed to cover the needs of such a wide variety of regions and economic situations that they can be applied positively and constructively to the needs of East Germany.

Rules³ with regard to the application of Articles 92(3)(a) and (c) to regional aid will not leave much scope for operating large scale aid in this field, since important parts of present East Germany will probably not comply with the strict criteria operated by the Commission. However it can neither be totally excluded since reliable statistical data are still missing.

The new context of a united Germany will require the Commission to re-examine certain aid schemes currently operating in West Germany. As the Community has strict guidelines on aid to a number of sensitive sectors such as steel, shipbuilding, and synthetic fibres, it may be necessary to make some temporary adjustments to accommodate the needs of East German industry. Derogation with regard to sectoral aid can be considered. However also in this area the lack of reliable information is hindering in depth analysis by Commission services.

Finally the Commission will also have to review critically the aids granted, on the basis of Article 92(2)(c) EEC, to certain areas of the Federal Republic - West Berlin and the 'Zonenrandgebiet' (the border area with the GDR) - in order to compensate for the economic disadvantages caused by the division of Germany. Justification for these aids would disappear after unification.

It is being argued however that, although the paragraph specifically refers to areas of the Federal Republic, the scope of the provision will remain valid with regard to East Germany after unification.

³ Communication of the Commission OJ C 212, 12.8.1988.

See also 18th Commission report on competition policy, p. 147, 1989.

During the transitional stage after formal unification Article 92(2)(c)EEC would then apply to the Eastern part since that area would continue to suffer from the economic disadvantages caused by the division. The Commission is presently studying this possibility. Its interpretation would in any case only be acceptable if aid falling under it would be limited in time and would strictly meet the requirements laid down in the provisions of Article 92(2)(c) EEC.

3. AGREEMENTS BETWEEN COMPANIES - MERGERS⁵

Predominantly GDR companies are organised in the legal form of the 'Volkseigenen Betrieb' (VEB). These are by no means independent enterprises since the vast majority of them are incorporated in the 'Kombinate' which form large production structures, hierarchically led in accordance with the principles of plan economy. The concentration of VEB's in 'Kombinate' can be horizontal as well as vertical. The creation of vertical structures was inspired by the anxiety for maintaining autarchy. In a good functioning market economy however, supplies are assured. Therefore the trend in Western industrial states is to reduce vertical production structures. Horizontal concentration, and the monopolies it generates, is a much more serious threat to the functioning of a free market. As a typical product of command economy this form of production structure will have to disappear and priority should be given to their disentanglement as soon as company law reform allows it.

3.1. Before formal unification

At present the state of the GDR industry is desolate. East German industry fears free competition, and after so many years of command economy, its technologies and methods of design, production, management and marketing are ill-suited to the modern market environment. Businesses will be looking to European, c.q. West German, companies to help in the regeneration of their activities and firms will become involved in mergers and cooperation agreements.

⁵ Articles 85-90 EEC

In view of the fact that, as a general rule, the 'Kombinate' are virtual monopolies in the sectors in which they operate, there is a risk that anti-competitive structures may be established by agreements made between 'Kombinate' and dominant European firms. This would particularly be the case when a 'Kombinate' joins forces with its counterpart in the Federal Republic.

Recently a wave of proposed links between leading companies on either side of the Elbe has born light. It involves firms that are not only dominant within the Federal Republic but are also the Community's leading firms. These have included the proposed arrangements between:

- Lufthause and Interflug
- Allianz Versicherung and the DDR State Insurance Company
- Daimler Benz and IFA Nutzkraftwagen
- Volkswagen and IFA Personenkraftwagen
- Siemens and Robotron

The Commission has already expressed concern with regard to these developments and has sent a request for information to the parties located in the Federal Republic.

In the situation before formal unification GDR-Competition authorities will be first responsible for maintaining competition rules. Currently a legislation is being introduced. Most likely it will be designed on the basis of the Federal Republic's Kartellgesetz. The recently established Amt für Wettbewerbsschutz will have the same competences as the Bundeskartellamt. The latter is also providing know-how and logistic support and both instances will cooperate closely. For mutual agreements and mergers in which firms of the Federal Republic are involved, the Bundeskartellgesetz is applicable. In this respect the Kartellamt already took a negative position in the Lufthause-Interflug case.

Apart from possible arrangements in the future Economic and Monetary Union between the FRA and the GDR, Community competition law (Articles 85 and 86 EEC) only applies to third countries in respect of the extra-territoriality principle. This means that in the case of the GDR Community rules only apply when GDR companies would form part of a restrictive agreement affecting perceptibly competition in the Community.

By analogy of an established case law of the Court of Justice, the Commission intends to apply the regulation on merger control, which comes into force by September of this year, in an extra-territorial sense.

3.2. After formal unification

Community competition rules will fully apply.

However in the area of public undertakings, which fall under Article 90 EEC, difficulties may occur, since at the transitional stage this type of enterprise will probably still be largely represented. The Commission will have to draw up a detailed survey of intentions and actions of the united German Government in respect of public undertakings operating in German former GDR territory.

Finally commercial monopolies will have to be abolished immediately in accordance with Article 37 EEC. It is likely however that most of these monopolies will be given up before unification, in particular in view of the establishment of an economic and monetary union.

4. CLOSING REMARKS

In view of the considerable implications on competition within the Community of the unification process, involvement of the Community at an early stage seems necessary. Moreover, it offers the best guarantees for whole European participation in the recovery of East German economy.

In the monitoring of the different aid schemes transparency is an essential requirement. In earlier reports on competition policy the European Parliament has already expressed its concern with regard to control activities of the Commission in this field. In the perspective of the Single Market control is of vital importance to the credibility of the whole project. The Commission should cease the opportunity of reinforcing its legal instruments and scrutiny methods.

An assessment of the implications on competition policy of the integration of both German economies requires reliable data. Momentarily the Commission is collecting the necessary information. An inventory of the state of play after the establishment of economic and monetary union would be most welcome.

DIRECTORATE-GENERAL FOR RESEARCH

NOTICE TO MEMBERS

of the ad hoc Committee of Inquiry into the
impact of the process of German unification
on the European Community

Please find attached a working document on:

The impact of enlargement on the Community's structural funds.

This document has been drawn up by the Directorate-General for Research in cooperation with the Central Institute for Economic Sciences in the Academy of Sciences of the GDR in East Berlin.

THE IMPACT OF ENLARGEMENT ON THE COMMUNITY'S STRUCTURAL FUNDS.

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1. The GDR economy in comparison
2. Regional and sectoral analysis
3. Research commitments
4. Vulnerable branches and regions
5. Priority support areas
6. Eligibility for EC structural fund aid
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1. The GDR economy in comparison

- Publications by the GDR's Statistical Office give the figure of 353 000 million M for the GDR's gross domestic product (GDP) in 1989. This represents an increase over 1988 of 2.1% in operative, and of 2.3% in comparable, prices (base: 1985). The figures were calculated by the approved UN method for data relating the domestic economy as a whole. They are best treated as an initial rough estimate. Any comparison with Western data can only be subject to major reservations.

Gross social product has still not been officially calculated since data for the balance of earned and unearned income compared with foreign countries is still not available. This balance has increased in importance since the opening up of the GDR.

- Compared with the GDP of the Federal Republic of Germany, running at 2 110 940 million DM in 1988, that of the GDR, at 353 338 million M is clearly inferior, even allowing that the population of the GDR is less than 27% of the West German population. 27% of West German GDP would be 569 953.8 million DM.

With an exchange rate between West and East marks of probably somewhere between 1:1 and 1:3, GDP per head in the Federal German Republic would exceed that in the GDR:

- at an exchange rate of 1:1, by 1.6 times,
- at an exchange rate of 1:2, by 3.2 times, and
- at an exchange rate of 1:3, by 4.8 times.

At all events the GDR would come well below 75% of the EC average for GDP per head.

- A comparison of labour force structures by economic areas between the GDR and the FRG reveals the following differences in the job distribution structure¹:

. The proportion of the population employed in agriculture and forestries is about twice as high in the GDR as in the FRG.

. The higher proportion also employed in the secondary sector in the GDR results from the industrial processing sector accounting for a significantly higher share, and the construction sector having a 1% lower share. Included in these economic areas is the producing trades sector, the overall economic significance of which in the FRG is considerable.

¹ Cf. Magvas: Labour force structure by economic area, Die Wirtschaft, 4/90. In the table the division of the working population by sector and branch in the national economy of the GDR was carried out on the basis of the main groupings of the sectoral division of West German statistics and compared with the corresponding data for the FRG economy. It should however be realized that the GDR statistics exclude some 700 000 persons in the so-called X-areas, i.e. predominantly those belonging to the security apparatus, the armed forces and the party apparatus, and that consequently the 'public services' sector is given too low a weighting.

Thus in the Federal Republic in 1985 there were 6.94 million employees in industry alongside 3.67 million in trades. GDR statistics for the same year show 3.24 million employed in industry and only 0.36 million employed in producing trades (including construction trades).

- . In the tertiary sector the significantly lower proportion of employment accounted for by the financial sector and public and consumer oriented services in the GDR is striking. Trade too is less fully developed.

Social services account for a significantly higher proportion of total employment in the GDR. That is already apparent in the higher standard of socially provided of child care facilities (creche, day nurseries, day schools).

- . The ratio of material production to tertiary sector output - calculated by employee - is 57.7 to 42.3 in the GDR, and 47.0 to 53.0 in the FRG.

2. Regional and sectoral analysis

- The crux of the necessary structural adjustments will be to diversify a monolithic economy overwhelmingly dominated by heavy industry. This applies in particular to Land Brandenburg with its extensive capacities in the energy and fuel industries (Cottbus region) and large-scale undertakings in metallurgy (Brandenburg, Hennigsdorf, Eisenhüttenstadt) and chemicals (Schwedt).

By contrast heavy industry in the south of the GDR forms part of a broadly developed industrial structure. The southern regions have extensive capacities, with the electrical engineering, electronics, appliance and machine tools manufacturing sectors being located at advantageous distances from each other.

Relative contributions of future Länder (based on district groups) to industrial performance (1987)

L a n d ^x	Industrial commodity production	Net profit	Export	
			SW	NSW
Percent				
Mecklenburg	7.1	6.2	7.5	4.3
Brandenburg	17.5	20.2	10.6	24.5
Sachsen-Anhalt	23.2	15.9	20.6	18.5
Thüringen	14.9	16.8	19.5	17.7
Sachsen	32.3	36.0	36.1	31.6
Berlin/East	5.0	4.9	5.7	3.4

^x The existing districts to be brought together to form the future Länder will probably be roughly as follows:

Mecklenburg: Rostock, Schwerin, Neubrandenburg

Brandenburg: Potsdam, Frankfurt, Cottbus

Sachsen-Anhalt: Halle, Magdeburg

Thüringen: Erfurt, Gera, Suhl

Sachsen: Leipzig, Dresden, Karl-Marx-Stadt.

- The main centres of the processing industry are East Berlin, Leipzig, Karl-Marx-Stadt, Dresden and, to a lesser extent, Rostock, Erfurt, Halle and Magdeburg. The variety of sectors represented in and around these cities can provide genuine alternatives favourable to the structural adjustment process. High industrial density, a wide range of sectors and close interconnection combine to make the southern industrial undertakings strong candidates as potential performers.

By contrast the major centres in the central and northern regions (coal/energy, metallurgy, chemicals, shipbuilding in the Brandenburg and Mecklenburg Länder) will be put at a clear disadvantage when it comes to adjustment by the monolithic technology typical of those sectors.

- The well-nigh all-encompassing extent of plant and equipment dilapidation and the consequent need for its replacement is the main problem of industrial rationalization. A closely connected problem is that posed by too low levels of production technology, discernible both by branch of industry and by region, too high levels of input and energy consumption by unit of product, excessive demands on labour inputs and operating space, together with unsatisfactory product quality.
- Some advantages in terms of industrial fixed asset performance are enjoyed by model investment areas of the 70s and 80s like Schwedt, Eisenhüttenstadt, Brandenburg (primary industries) and the coastal towns (heavy machinery construction). But extreme dilapidation of plant and equipment combined with an overwhelmingly obsolete industrial base is the predominant characteristic of the consumer goods industry and its main branches of light industry (40%), textile industry (51%) and foodstuffs industry (39%).

By comparison the primary products industry enjoys relatively favourable production base conditions, although the international market situation and the ecological implications mean that there are only limited prospects in these sectors for the longer-term exploitation of usable production facilities. Alternative production options will have to be created here by the introduction of processing industries.

3. Research commitments

- Some 119 000 employees (1987) in industry, or 4.4% of the total workforce, are directly engaged in research and development. That capacity is extended by 17 800 employees engaged in research and development in the Academy of Sciences and 10 420 employees in higher educational establishments and universities. About half the research potential of the Academy of Sciences is linked to industry through economic treaties (1987). The uses to which this formidable intellectual potential is put are however seriously restricted by insufficient and obsolete research technology. The potential of those employed in research and development in industry is concentrated overwhelmingly on mechanical engineering and vehicle construction undertakings (about 35%), electrical engineering/electronics and appliance construction (31%), and the chemical industry (18%).

The core areas of industrial research and development potential are:

District	Industrial sector
Dresden	Electrical engineering, electronics, appliance construction, mechanical engineering and vehicles construction
Berlin East	Electrical engineering, electronics and appliance construction
Karl-Marx-Stadt	Mechanical engineering and vehicles construction, textile industry, electrical engineering, electronics, appliance construction
Halle	Chemical industry
Cora	Electrical engineering, electronics and appliance construction
Leipzig	Mechanical engineering and vehicles construction, chemical industry
Erfurt	Electrical engineering, electronics and appliance construction

4. Vulnerable branches and regions

- Internal estimates are based on the assumption that a total of about 30% of employees within the industrial ministries for heavy industry, heavy engineering and light industry can expect to experience a change of job, and that about 60% of employees will have to be sent on retraining courses or that job-related schemes to improve qualifications will be required.

Factors making for redundancies include:

- . Reduction of raw brown coal extraction
(Owing to the high dependency of the Cottbus district on coal extraction and the concentration there of employment in this sector, highly complicated conditions for the continuing employment or reallocation of labour could be expected to arise in this district.)
- . Structural changes in the heavy and light metals industries
(The production facilities subject to possible closures dominate local production potential by anything from 60% to 90%.)

Estimated industrial employment trends by industry ministry
for 1990-1995

Industry ministries	Employees Base: 1987	Employees liable to relocation 1990-1995
	1000 employees	1000 employees
Heavy industry	770	230 - 250
Mechanical engineering	1 100	300 - 500
Light industry	690	230 - 250
	2 560	760 - 1 000

Employees in the coal and energy sectors in selected districts (1987)

District	Employees	Percentage of total workforce
	Persons	%
Cottbus	92 000	54.3
Halle	56 900	15.3
Leipzig	52 250	18.8
Total	201 150	24.6

- In the chemical industry a transition is taking place to a more efficient raw materials structure and environmentally more acceptable technologies, with the closing down or contraction of inefficient, technically obsolete plant (carbo-chemicals, viscose production, carbide production, obsolete paint production plant, basic chemicals production plant). In the Fürstenwalde, Schwedt, Guben, Merseburg, Roßlau, Wittenberg districts 75% to 83% of those employed in industry work in chemical industry undertakings. Expected labour market developments in the Halle district would appear to be specially problematical. The chemical industry, which employs about 140 000, is concentrated in 7 main localities.
- The development of mechanical engineering will require an extensive modernization and renewal of capital stock in selected sectors capable of competing. Significant areas of mechanical engineering will have to be cut back, or particular sectors closed down completely, as uncompetitive.

These will probably include the following products: parts of ship building, metallurgical equipment, construction machinery, foundry machinery, general mechanical engineering and agricultural machinery products, vehicle manufacture, electrical engineering and electronics. Owing to the regionally dominant role of mechanical engineering the change in the situation on the labour market should mean that extensive re-allocation and re-training of employees made redundant within the mechanical engineering sector should be able to take place promptly.

- The structural development of light industry will lead to a contraction of the product range. This will affect inefficient and environmentally polluting production lines, including yarn and cloth production, woven underclothing and certain ranges of outer clothing. It is estimated that predominantly in the Berlin, Cottbus, Dresden, Karl-Marx-Stadt and Erfurt districts a total of about 230 to 250 thousand employees in light industry will be affected.

Employees of the light industry ministry in selected districts (1987)

District	Employees	Proportion of those employed in industry
	Numbers	%
Karl-Marx-Stadt	207 400	46
Dresden	101 400	26
Erfurt	68 600	28
Leipzig	55 500	20
Berlin	26 700	12
Cottbus	29 550	17

It is estimated that within the industry ministry for light industry about 40% of employees and staff will face temporary redundancy. This ministry employs a large proportion of women whose career structures are very narrowly defined and who cannot readily be reassigned to other employment.

5. Priority support areas

- Summing up it may be concluded that all the following regions (in no particular order) will have to be considered for industrial support:

Wolgast, Wismar
 Senftenberg, Lauchhammer
 Hoyerwarda, Lauta
 Brandenburg
 Stossfurt
 Espenhain, Böhlen, Rositz, Deuben
 Bitterfeld, Wolfen
 Mansfeld, Sangerhausen
 Erfurt
 Zwickau, Glauchau

6. Eligibility for EC structural fund aid

The size of the structural fund is fixed (at 14 500m ECU) by decision of the Council until 1993. The same applies to its geographical distribution across the regions of the Community. Some 80% of appropriations are earmarked for the adaptation of the least developed rural regions (GDP per head below 75% of the EEC average) and about 10% for regions that have fallen behind in industrial development.

Whether the area of the GDR meets the necessary conditions for access to structural fund appropriations is a question that can be answered as follows:

- The legal basis for access to the structural fund will not exist until the unification of Germany has been completed;
- A further precondition is that the regions located in the territory of the present GDR would have to meet the conditions laid down in the structural fund regulations. These are in particular:
 - for objective No. 1: GDP must be 75% below the EEC average,
 - for objective No. 2: the unemployment rate must be above the EC average;
- A third condition is the availability of additional budget appropriations.

It can be assumed that the recipient countries now eligible for structural fund aid will be at best less than willing see their own share reduced in favour of transfers of appropriations to regions of what is now the GDR.

Whether it would be in the interest of the Council and the European Parliament to make additional appropriations available for the regions of the former GDR before the existing agreement on structural fund appropriations expires (at the end of 1993) will not be considered here. It is a matter for a political decision.

It would however seem reasonable to assume that from 1 January 1994 the structural funds will be provided with sufficient appropriations to enable the territories of the former GDR to be included in the aid programmes.

7. Possible scope of structural fund aid

Objective No. 1: Less-favoured development regions

Data on the relative position of the GDR's GDP compared with the Community average are inadequate. The comparability of statistics between East and West is strictly limited. According to DIW and OECD data the GDR lies somewhere between Greece and Portugal, near the bottom of the EEC income scale.

Average gross wages and salaries by comparison with the EEC in 1988
 - DM per month -

GDR 1102	
Federal Republic of	
Germany	4048
France	3941
Italy	3300
Britain	2952
Belgium	3910
Greece	1449
Ireland	3053
Portugal	869
Spain	2630
Netherlands	4074
Denmark	3919

Source: OECD Economic Outlook
 No. 46, December 1989;
 DIW calculations

Average wages and salaries by comparison with the EEC in 1987
 - DM per month -

	Gross income	Social sec. deductions	income tax	net income
GDR ²	1102	69	96	937
FRG	3992	1200	775	2017
France	3850	1425	483	1950
Britain	2517	317	483	1717
Spain	2392	608	300	1483
Netherlands	4150	1592	800	1758
Belgium	3783	1033	1067	1683
Greece	1433	408	167	858
Portugal	892	200	92	592

Since wages and salaries (and prices) in the GDR are fixed by the state there are virtually no regional income disparities within the country. The disparities in income as between town and country that are commonplace everywhere else are virtually unknown in the GDR.

² 1988

Sources: national statistics: Commission of the European Communities, European Economy No. 42, November 1989; OECD, National Accounts; EUROSTAT, National Accounts ESA, series C, theme 2; calculations by DIW.

To the extent that the preliminary data given above is realistic (it should be scrutinized in great detail by the Commission!) it can be assumed that at present the whole territory of the GDR can be regarded as a development region under Objective No. 1 within the meaning of the EEC structural funds.

On the assumption of an equivalent distribution of appropriations under Objective No. 1 in 1992 (8.2 thousand m ECU are available for 70 m inhabitants in these eligible regions, i.e. 117 ECU per head) it would be theoretically possible for aid under Objective No. 1 running to 1.8 thousand m ECU to be made available for the GDR. This figure is however entirely hypothetical and can serve as no more than a guide to the eventual replenishment of the fund, insofar as considered politically desirable.

Objective No. 2: Regions with backward industrial development

Official GDR statistics for early 1990 put the unemployment figure at about 53 000. Compared with the EEC unemployment rate this puts the GDR well below the average. It consequently would not be eligible for structural fund appropriations under Objective No. 2 at present.

It must however be assumed that after 2 July 1990, the date set for the introduction of economic, monetary and social union, the number of unemployed will rise rapidly. No reliable estimates can as yet be made of the level or extent of unemployment. These have been put at anything from 150 000 to two million.

It would nevertheless be reasonable, in an improving economic situation and with a falling trend in the unemployment rate in the twelve EEC States, to expect the unemployment rate in the GDR to rise above the EEC average in 1991. That there would also be significant regional differences within the area of the former GDR is highly probable.

Given the present industrial structures, the areas referred to under paragraph 5 would appear to be particularly vulnerable. So too would be those rural regions from which a high labour surplus in agriculture will have to be absorbed in the years to come. The uncertainties are too great to allow any regional projection of the expected unemployment rates to be made.

EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR RESEARCH

**Notice to members of the
Temporary Committee to consider
the impact of the process of
German unification on
the European Community**

Please find attached a working document drawn up by the Directorate-General for Research on:

'The impact of German unification on revenue and expenditure under the Community budget'.

**The impact of German unification on revenue and expenditure
under the Community budget**

1. The procedure for establishing the budget of the European Communities normally begins with the drafting, by each individual specialist department, of a breakdown and an estimate of the resources required to finance its planned activities. Accordingly, an assessment of the impact of German unification on the Community budget should also be based on analyses and financial assessments of the measures required to incorporate the territory of the GDR into the Community. As this basic information is not yet available, this document can only offer a preliminary and necessarily approximate assessment of the budgetary impact of such measures.

2. The Commission, which is required, under the Community budget procedure, to submit proposals and, if necessary, a preliminary draft supplementary and amending budget, likewise feels unable as yet to make firm statements on the basis of reasonably reliable figures. The Commissioner responsible for the budget explained this in detail most recently on 24 April 1990, at a meeting of Parliament's Committee on Budgets. The same view emerges from the Commission communication to the Dublin European Summit, which describes every estimate of the budgetary impact of the incorporation of the GDR as approximate at this stage.

3. German unification will have a general impact on the Community budget for the following reasons:

- The incorporation of the GDR into the Community will raise the EC's overall GNP. Following the financial reform and the new own resources regulation of 1988, up to 1.2% of overall Community GNP is available to fund the Community budget and the actual sum involved will increase after the incorporation of the GDR.
- With regard to expenditure, the full application of the existing Community legal order to the GDR will give rise to justified claims on the Community budget, particularly in connection with structural policies, the common agricultural policy and industrial development. This will necessarily increase total expenditure under the Community budget unless the current system is changed with a view to redistributing expenditure to the detriment of its present recipients.

The question as to whether these developments will bring about a fundamental change in the financial structure of the Community will depend on the balance between increased revenue and higher expenditure: should the Federal Republic of Germany's current net payments be reduced following unification, this would increase the burden on the other Member States.

4. Any assessment of the budget implications must therefore take account not only of expected increases in revenue but also fresh claims for payment under existing legal bases. Given the current complete lack of reliable data, calculations or estimates of this kind are marked by ignorance or, at best, sketchy knowledge of the key factors, so that there is scant basis for putting reliable figures to the sums involved. Particular problems include:

- The lack of statistical data: the GNP of the GDR for 1989 has yet to be calculated with sufficient accuracy and its GNP for 1990 cannot yet be estimated. As a state-trading country with a centrally planned economy, the GDR has no national accounting system like that employed by the OECD countries. It is particularly difficult to convert the available figures for the GDR with a view to applying this technique. The GDR Statistics Office (previously Central State Administration for Statistics) has only very recently published initial calculations of the GNP of the GDR which as yet give only preliminary results for the country's GDP. The figures for agricultural production and foreign trade are also approximate.
- The time factor: the point at which unification will be implemented under international law is not yet known. Unless specific transitional rules valid for a certain period after unification are agreed, the Community finance system can only be fully applied in what is now the GDR once that process has been completed.

The current economic situation in the GDR and, therefore, the basis for calculating the impact on the Community budget can be expected to change very considerably during the period leading up to the incorporation of the GDR in the Community finance system. The economic and monetary union between the Federal Republic and the GDR scheduled for early July 1990 should immediately stimulate an economic recovery on the territory of the GDR whose speed cannot as yet be estimated but whose results may affect the impact on revenue and expenditure under the Community budget.

5. The budgetary impact, insofar as it can yet be assessed, differs for the various stages of unification. The key difference concerns the period leading up to unification under international law and the period thereafter:

- Period leading up to unification: during this period, the GDR is a third country and measures with budget implications must comply with existing Community provisions on relations with third countries and must be agreed on by the Community bodies responsible in accordance with prescribed procedures.
- Period after unification: this phase begins with formal unification, after which the GDR is no longer an entity under international law. From this point on, the population and territory of what is now the GDR will in principle be subject to the full provisions of the Community legal system. It is highly likely, however, that a wide range of derogations from current EC law and transitional rules will be required for a certain period on the former territory of the GDR. From this point on also, the Community finance system would come into force in full, in respect of both revenue and expenditure under the Community budget.

6. Financial impact in the period leading up to unification

During this period, for the Community the GDR is a third country, and relations may be established with it, as with other third countries, in accordance with existing legal bases. A trade and cooperation agreement has already been negotiated with the GDR, although it has yet to be signed and ratified. However, given the speed of the unification process, it is doubtful whether this agreement can be put into effect and, hence, have an impact on the budget.

It should be pointed out here that appropriations to cover aid for the countries of Central and Eastern Europe have been entered in the 1990 Community budget via a supplementary budget. In principle, the GDR also has a claim to resources under this programme. The Community bodies responsible must make the political decision as to whether, and to what extent, applications by the GDR for aid from these appropriations can be considered. The GDR has as yet received no financial aid from the Community. According to the statements made hitherto by the Federal German Government, all costs in the period leading up to German unification are to be met by the Federal Republic alone so that no additional burden will be placed on the Community budget during this period.

When German economic and monetary union comes into effect, although the GDR will remain an international legal entity and, therefore, a third country for the Community, the institutionalized economic and currency links with the Federal Republic will affect the GDR's degree of integration with the other Community Member States. In this connection, accompanying measures to prepare for full unification are already required with a view to incorporating this territory into the Community. Although, at this point, no direct impact on the Community budget is yet foreseeable, indirect implications are conceivable. Thus, the question of the fixing of an artificial exchange rate for the conversion of GDR-Marks into Deutschmarks could have a considerable impact on exchange rate parities and the capital market in the Community. Any such measure will have to be financed by the Federal Republic. The Bundesbank can be expected to pursue a restrictive monetary policy which might lead to higher interest rates on the European capital market and, in turn, financial difficulties for individual Member States and the Community insofar as certain measures depend on financing via that market.

7. Impact after unification

From this point on, the territory of what is now the GDR will in principle be subject to the full provisions of the European finance system. As it cannot yet be stated what form the likely transitional and adjustment rules will take, the following is based on the assumption of the direct application of that system.

- Budget revenue

As regards the traditional Community own resources (customs duties, agricultural levies and the sugar levy), certain sums can be expected to flow into the Community's coffers from the territory of the GDR. For example, the GDR is already a sugar exporter, so that revenue from this category should be generated for the Community. However, the volume of revenue from these sources cannot be estimated in advance and they are, in any case, of minor importance in the overall revenue context.

In the case of the so-called third own resource, the 1.4% share of harmonized VAT receipts, there is as yet no basis for calculating the sums to be expected from the GDR as that country has no VAT system. It would have to be introduced by the time of unification at the latest. The Federal German Finance Minister has already announced a date between the establishment of German economic and monetary union and the completion of the unification process. However, this has still to be agreed with the GDR Government.

The fourth resource created in 1988, which involves residual financing from a share of total Community GNP rising to 1.20% in 1992 (in the case of payment appropriations), will be particularly important. The Member States contribute according to their percentage share of total Community GNP. (The special compensation measures for economically weak Member States a high proportion of whose GNP is accounted for by VAT revenue can be ignored here.) The additional GNP brought into the Community by what is now the GDR will thus increase proportionally the resources effectively available to the Community.

- According to the calculations by the GDR Statistics Office referred to under point 4 above, the GDR's gross domestic product in 1989 was 353 000 m DDR-Marks.

If one applies to this figure the exchange rate of DM 1: M 2 for the conversion of non-privileged money and then converts into ECU, this produces a figure for the

GDR's gross national product of around 90 000 m ECU.

- Disregarding any likely economic upturn on the territory of the GDR, applying the 1.20% rate produces additional Community resources totalling 1000 m ECU.

The additional financial burden for the Community then emerges as the balance between the expenditure required on the territory of the GDR and the additional revenue generated by the incorporation of that territory into the Community.

- Expenditure

Under the Community finance system, and in view of the situation in the GDR, the main areas of expenditure are likely to be structural policy and the common agricultural policy.

- Structural policy: Since 1988, Community structural policy measures have been graded by objectives, with regions covered by Objective 1 being the most needy. The measures planned for these regions are allocated the highest volume of resources. Regions are classified according to per capita GDP. Objective 1 covers regions in which per capita GDP is less than 75% of the Community average. This average will of course be changed by the accession of the GDR. As the relevant figures cannot yet be calculated with sufficient accuracy (see above under 4) and the economic development of the GDR following German economic and monetary union cannot be predicted with any precision, it is not yet clear whether the entire territory of the GDR or only parts of it will be classified under Objective 1.

The degree of impact on the Community budget will depend on this classification. As things stand, any attempt to gain an idea of the figures involved must work on the basis of a classification under Objective 1. According to provisional calculations, the GDR's per capita GDP is already considerably higher than that of Greece, Portugal and Ireland and roughly the same as that of Spain, which can therefore serve as a comparison. The structural funds have earmarked for the regions of Spain covered by Objective 1, which encompass around 20 m inhabitants,

allocations totalling around 10 billion ECU over the five-year period 1989-1993, i.e. roughly 100 ECU per head of population per year.

Applying this model to the GDR, and on the assumption that the greater part of its territory will be classified under Objective 1, the additional annual burden on the Community budget through structural fund payments following German unification will be in the order of 1.5 bn ECU.

Under existing Community agreements pursuant to the five-year (1989-1993) financial perspective, appropriations totalling 60.315 bn ECU have been earmarked for the structural funds. They can be broken down by objective as follows:

	m ECU
Objective 1	38 300
Objective 2	7 205
Objectives 3 and 4	7 450
Objective 5a	3 415
Objective 5b	2 795
Transitional measures	1 150

The appropriations earmarked for Objective 1 have already been fully distributed among the seven Member States entitled to them. The appropriations for the other objectives have also already been committed since, in the regions concerned, and on the basis that these appropriations will be allocated, a start has already been made with long-term development projects to be financed from the Community budget. The budget will therefore have to be increased in order to provide the structural fund resources to which regions in the GDR are entitled. This will entail a comprehensive revision of the 1988 financial perspective which Parliament, the Council and the Commission have taken, in the 1988 Interinstitutional Agreement, as the binding framework for the Community budget to 1993. The objective of doubling structural fund resources between 1988 and 1993 will also have to be adjusted.

Common agricultural policy: Here, it can as yet only be forecast that funding will initially be required predominantly for structural measures. The level of guarantee payments will essentially depend on how far the existing, large-scale production units (agricultural cooperatives, etc.) retain their current form and improve their productivity. The appropriations required for the GDR are currently put at around 0.5 bn ECU per year.

The revenue/expenditure balance: On the basis of the calculations and estimates made here, for the reasons set out above no reasonably reliable prediction can as yet be made regarding the actual impact in concrete financial terms of German unification on the Community budget. Taking these calculations as a basis, however, as things stand the incorporation of the GDR would generate for the Community additional resources of around 1 bn ECU to be set against additional expenditure requirements of around 2 bn ECU. The net burden on the Community budget would therefore be of the order of 1 bn ECU, i.e. 2.1% of the total 1990 Community budget. In the light of the expected economic upturn in the former GDR, it can be forecast that the budgetary implications of the incorporation of the GDR into the Community will have cancelled themselves out after a few

transitional years and the same budgetary structure will be restored in roughly its current form. In general, it can therefore be said that German unification will not have a particularly significant overall impact on the budget of the European Communities.

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EUROPEAN PARLIAMENT

Directorate General for Research

Statistical Service

Communication to members

of the temporary Committee on the impact of the unification process
of Germany on the European Community

Members will find annexed a working document on the theme:

STATISTICS OF THE GDR AND THE EUROPEAN COMMUNITY

This document has been prepared by the Directorate General for Research

SECTION 1

ECONOMIC STRUCTURE OF THE GDR AND THE FEDERAL REPUBLIC OF GERMANY

Economic Structure of the GDR and the Federal Republic of Germany
Comparative data*

Item	Unit	GDR*		Federal Republic	
		1970	1988	1970	1988
Population					
Total ¹	1 000	17 068 ^{a)}	16 675	61 001	61 715
of which:					
- men	%	46,1 ^{a)}	47,8	47,7	48,0 ^{a)}
- women	%	53,9 ^{a)}	52,2	52,3	52,0 ^{a)}
Age structure: up to 15	%	23,3	19,5	23,2	14,6 ^{a)}
15 to 65	%	61,1	67,4	63,6	70,1 ^{a)}
65 and over	%	15,6	13,3	13,3	15,3 ^{a)}
Population density	sq km	158	154	244	248
Employment					
Employed and self-employed/workforce ²					
Total	1 000	7 769	8 594	26 817	29 681
of which: (%)					
- Men	%	51,7	51,1	64,1	60,3
- Women	%	48,3	48,9	35,9	39,7
Workforce as percentage of total population ³					
Total	%	45,5	51,5	44,0	48,1
of which:					
- Men	%	51,1	55,1	59,1	60,7
- Women	%	40,7	48,3	30,2	37,0
Employed and self-employed/workforce by economic sector ⁴					
Total	1 000	7 769	8 594	26 560	26 079
of which (%):					
- Agriculture and forestry	%	12,8	10,8	8,5	4,9
- Manufacturing ⁵	%	42,0 ^{c)}	40,5 ^{c)}	40,2	33,6
- Construction	%	6,9	6,6	8,7	6,6
- Others ⁶	%	38,3	42,1	42,6	55,0
National product/productivity^{7,8}					
National income at 1985 prices					
- Total	bn M	121,6	268,4	.	.
- Per capita	M	7 126	16 105	.	.
Net material product at 1985 prices ⁸					
- Total	bn M	130,6	278,4	.	.
- Per employee	M	16 811	32 397	.	.
- By economic sector (%):					
Agriculture and forestry	%	17,3	9,8	.	.
Manufacturing (excluding construction)	%	56,4	64,9	.	.
Construction	%	7,6	7,4	.	.
Others ⁶	%	18,7	17,8	.	.
Gross national product at 1980 prices					
- Total	bn DM	.	.	1 134,0	1 701,8
- Per capita	DM	.	.	18 590	27 575

Item	Unit	GDR*		Federal Republic	
		1970	1988	1970	1988
Gross added value at 1980 prices					
- Total	bn DM	.	.	1 080,6	1 645,2
- Per employee	DM ¹	.	.	40 683	63 086
- By economic sector (%):					
Agriculture and forestry	%	.	.	2,6	2,2
Manufacturing (excluding construction)	%	.	.	40,1	34,2
Construction	%	.	.	8,3	5,7
Others ⁶	%	.	.	49,0	58,0
Gross capital formation (at 1985/1980 prices)					
- Total	bn M/bn DM	43,7	77,0	316,3	365,6
- Fixed capital formation	bn M/bn DM	41,1	72,6	291,9	352,2
of which (%):					
- machinery and equipment	%	51,8	60,7	34,9	43,8
- buildings	%	48,2	39,3	65,1	56,2
Primary energy consumption					
- Total	petajoule	3 017	3 751	9 870	11 425
- Per head	- t coal unit	6,03	7,68	5,52	6,32
- By energy source (%)					
including: - Lignite	%	75,9	71,7 ^{d)}	9,1	8,1
- Coal	%	10,6	4,2 ^{d)}	28,8	19,2
- Mineral oils	%	12,6	8,7 ^{d)}	53,1	42,0
- Natural gas	%	0,6	10,8 ^{d)}	5,5	16,2
- Nuclear energy	%	0,2	4,0 ^{d)}	0,6	12,0
Incomes, monetary assets and living standard of private households					
Average monthly gross earnings in selected economic sectors ⁹					
- Industry/manufacturing	M/DM	770	1 292	1 175	3 657
- Construction	M/DM	833	1 287	1 118	2 958
- Agriculture and forestry	M/DM	710	1 197	864	2 597
- Commerce	M/DM	668	1 134	950	2 893
- Transport and communications	M/DM	806	1 405	1 283	3 311
Net income/disposable income of private households ¹⁰					
- Total	bn M/bn DM	79,4	162,6	432,3	1 343,1
- Per head per month	M/DM	388	813	591	1 814
Private savings per head per month	M/DM	23 ^{e)}	57 ^{e)}	87 ^{f)}	252 ^{f)}
Savings ratio ¹¹	%	6,0	7,0	14,7	13,9
Notes and coins in circulation and monetary assets of private households					
Notes and coins in circulation					
- Total	bn M/bn DM	7,4	15,6	36,99 ^{g)}	142,69 ^{g)}
- Per head	M/DM	434	937	605	2 311
Savings deposits with credit institutions					
- Total	bn M/bn DM	52,1	151,6	193,2 ^{h)}	714,6 ^{h)}
- Per head	M/DM	3 055	9 091	3 167 ^{h)}	11 579 ^{h)}

Item	Unit	GDR*		Federal Republic	
		1970	1988	1970	1988
Monetary assets ¹²					
- Total	bn M/bn DM	65,6	183,8	494,3	2 514,7
- Per head	M/DM	3 842	11 022	8 103	40 747
Consumer durables in private households ¹³					
Cars	%	16	52	51	97
Televisions	%	69	96	93	98
of which: colour televisions	%	0	52	4	94
Telephone	%	6 ⁱ⁾	9 ⁱ⁾	20	98
Refrigerator	%	56	99	94	82
Freezer	%	1	43	19	77
Washing machine	%	54	99	38	99
Housing					
Housing stock	1 000	6 057 ^{j)}	7 002	20 807	26 279,5 ^{l)}
Living space per inhabitant	sq m	20,6 ^{j)}	27,0	23,8	35,5
Facilities indicating level of housing stock					
- Bathroom/shower	%	39 ^{j)}	79	72 ^{k)}	96 ^{l)}
- Inside lavatory	%	39 ^{j)}	72	79 ^{k)}	98 ^{l)}
National budget (including social security)/ Government budget (central, regional and local authorities and social security)⁴					
Revenue					
- Total	bn M/bn DM	70,6	269,7	265,48	945,57
- Per capita	M/DM	4 137	16 174	4 352	15 322
Expenditure					
- Total	bn M/bn DM	70,0	269,5	264,13	990,77
- Per capita	M/DM	4 098	16 160	4 330	16 054
including: measures to ensure stable prices for basic necessities, fares and services for the population					
- Total (1971/1988)	bn M	8,5	49,8	.	.
of which for: foodstuffs	bn M	5,5	31,9	.	.
manufactured goods	bn M	0,8	11,9	.	.
transport services	bn M	1,7	5,0	.	.
External trade (goods)					
Exports	bn VM ¹⁴				
- Total	bn DM	19,2	90,2	125,3	567,7
of which: to socialist countries/State- trading countries	%	73,9	69,5	4,3	4,4
to other countries	%	26,1	30,5	95,7	95,6
Imports	bn VM ¹⁴				
- Total	bn DM	20,4	87,2	109,6	439,6
of which: from socialist countries/State- trading countries	%	69,4	68,7	4,0	4,7
from other countries	%	30,6	31,3	96,0	95,3
Intra-German trade					
Deliveries to GDR	bn DM	.	.	2,4	7,2
Purchases from GDR	bn DM	.	.	2,0	6,8

Item	Unit	GDR*		Federal Republic	
		1970	1988	1970	1988
Structure of external trade					
Exports/imports by commodity groups (%)					
By main product groups ¹⁵					
Machinery, equipment, means of transport,	%	51,7/34,2	47,6/37,0	.	.
Fuels, mineral raw materials, metals,	%	10,1/27,6	15,1/33,5	.	.
Other raw materials	%	7,4/28,1	7,0/14,1	.	.
Durable consumer goods	%	20,2/ 4,5	16,4/ 5,7	.	.
Chemical products, fertilizers, etc.	%	10,6/ 5,6	13,9/ 9,7	.	.
By commodity groups ¹⁶					
Food and beverages	%	.	.	3,5/19,1	5,1/12,1
Raw materials and semi-finished goods	%	.	.	10,2/29,6	6,9/18,3
Primary products	%	.	.	18,4/15,5	17,1/15,1
End products	%	.	.	67,4/34,4	70,6/52,7
of which:					
- Machinery	%	.	.	21,0/ 7,8	17,6/ 9,7
- Motor vehicles	%	.	.	14,4/ 4,4	18,0/ 7,9
- Electrical machinery and appliances	%	.	.	9,6/ 5,2	10,5/ 9,3
Prices					
Consumer price index					
Overall	1970 = 100	100	99,5	100	197,7
of which: food, beverages and tobacco ¹⁷	1970 = 100	100	102,0	100	178,1
rents and tenancies ¹⁸	1970 = 100	100	98,9	100	218,2
electricity, gas and water ¹⁹	1970 = 100	100	100,0	100	222,3
Selected retail prices, charges and fares (in M/DM)					
- Potatoes	5 kg	0,85	0,85	2,58	4,94
- Rye bread	kg	0,52	0,52	1,30	3,17
- Braising steak	kg	9,80	9,80	10,04	17,19
- Fresh milk	1 l	0,72	0,68	0,74	1,20
- Butter	1 kg	9,60	9,60	7,50	8,60
- Filter cigarettes	One	0,16	0,16	0,09	0,21
- Ground coffee	kg	70,00	70,00	16,84	17,86
- Children's shoes	1 pair	16,30	18,50	24,10	60,60
- Ladies' tights	1 pair	17,60	14,00	4,20	5,23
- Washing machines (automatic)	One	1 450,00	2 300,00	829,00	981,00
- Refrigerator, 125 l/160 l	One	1 250,00	1 425,00	293,00	559,00
- Freezer, 90 l/300 l	One	.	2 090,00	.	1 023,00
- Television set, colour	One	.	4 900,00	.	1 539,00
- Lignite briquettes	50 kg	3,53	3,51	6,92	20,55
- Rail fare, 2nd class	km	0,08	0,08	0,085	0,21
- Tramway	1 journey	0,20	0,20	0,66	2,07
- Letter post	20 g	0,20	0,20	0,30	0,80
- Electricity (domestic rate)	1 kWh	0,08	0,08	0,18	0,42
- Municipal gas (domestic rate)	1 m ³	0,16	0,16	0,41	0,34
- Monthly rent, modern flat 2/3 rooms, kitchen, bathroom, central heating	One	.	75,00	285,00	411,00

Source: Deutscher Bundestag, Drucksache 11/6301, 24.1.1990.

- *. GDR: figures taken from official statistics only, no indication can be given as to their reliability.
1. Population at year end.
 2. GDR: excluding apprentices (position as at 30 September). Federal Republic: employed and self employed persons and unemployed (results of sample census)
 3. Employed and self-employed persons/workforce as a percentage of the total population.
 4. Federal Republic: figures taken from national accounts.
 5. Manufacturing industry, energy and water supply, mining.
 6. Federal Republic: commerce and transport, services, government and private households (including private non-profit-making organizations), breakdown used in national accounts.
GDR: transport, post and telecommunications, commerce, other productive sectors, sectors not contributing directly to material production.
 7. In calculating its national product the GDR does not use the system of national accounts (SNA) used in the Federal Republic but - like all other COMECON countries - the material product system (MPS), which means that the vast services sector (defined as unproductive services/sector not contributing directly to material production) is not included and turnover and income generated in this sector are not regarded as production but as the redistribution of income arising in the 'material spheres'. The national product - calculated according to the SNA - less consumption of fixed capital and contributions from the services sector i.e. non-productive economic sectors, corresponds approximately to the 'national income' under the MPS. However, even using such fictitious deductions, inter-country comparisons are only viable to an extremely limited extent.
 8. GDR - excluding a large part of the services sector.
 9. GDR: wage and salary earners in full-time employment: agriculture and forestry: agriculture; trade: socialist trade in consumer goods; transport excluding communications.
Federal Republic: gross wages and salaries per employee in employment.
 10. GDR: gross earned income, pensions and other benefits, less income tax and social security contributions.
Federal Republic: net income from employment and government transfers (total net income from wages, salaries, pensions and social insurance benefits, government transfers and net civil service pensions less transfers from private households to the government) plus property income of all private households and withdrawals of profits by the self-employed, less transfers abroad.
 11. Savings as a percentage of net income/disposable income.
 12. Cash, deposits with banks and insurance companies, investments in securities.
 13. GDR: number of households which have the relevant consumer goods, relating to 100 households;
Federal Republic: four-person household of worker with average income.
 14. The 'Valutamark' (VM) is a fictitious unit used for statistical purposes, which bears no relation to the DM in terms of purchasing power. Based on the (fictitious) gold content one rouble = 4.67 VM (at the end of March 1988, the Soviet Central Bank quoted 1 DM = 0.3561 roubles).
 15. For the GDR figures are based on the COMECON uniform external trade nomenclature.
 16. For the Federal Republic, breakdown based on the commodity groups used in the external trade statistics.
 17. For the Federal Republic: foodstuffs.
 18. For the Federal Republic: housing.
 19. For the Federal Republic: heating and lighting.
- (a) Date of census.
 - (b) 1987.
 - (c) Industry, crafts and other branches of production (excluding construction).
 - (d) 1985.
 - (e) Change in notes and coins in circulation, savings deposits and personal insurance savings schemes.
 - (f) Including claims on occupational pension funds.
 - (g) For the Federal Republic: total notes and coins in circulation, excluding cash balances with credit institutions, including DM notes and coins abroad.
 - (h) Savings deposits of resident private individuals (including private non-profit making organizations).
 - (i) Per 100 inhabitants 1970-1984.
 - (j) 1971: figures on date of census.
 - (k) Buildings and housing census, October 1968.
 - (l) Buildings and housing census, May 1987

SECTION 2

THE GDR AND THE EUROPEAN COMMUNITY Comparative Statistics

		DDR	D	B	DK	F	GR	UK	IRL	I	L	NL	P	E	EUR12
<u>1. AREA AND POPULATION</u>															
Area	1000km2	108	249	31	43	552	132	244	70	301	3	41	92	505	2263
Population:															
- total	1000	16641	61077	9918	5127	55627	9992	56930	3543	57331	367	14661	10350	38853	323870
- under 15	%	19	15	18	18	21	21	19	29	18	17	18	22	22	19
- over 65	%	13	15	14	15	13	14	15	11	14	14	13	13	12	14
Population per km2	Number	154	246	320	119	101	76	233	50	190	124	358	112	77	143
Live births	per 1000 persons	13.6	10.5	11.9	11	13.8	10.7	13.6	16.6	9.6	11.4	12.7	12	11.2	11.8
Deaths	per 1000 persons	12.9	11.2	10.7	11.3	9.5	9.5	11.3	8.8	9.3	10.8	8.3	9.3	7.9	9.9
Difference	+/-	0.7	-0.7	1.2	-0.3	4.3	1.2	2.3	7.8	0.3	0.6	4.4	2.7	3.3	1.9
<u>2. CIVILIAN WORKING POPULATION</u>															
Activity rate	%	51	45	42	56	42	39	48	37	41	42	40	44	37	43
Employment in:															
-Agriculture, forestry and fisheries	%	10.8	5.1	2.6	5.7	7	26.5	2.4	12.7	10.5	3.2	4.5	21.9	15.1	8
-Industry	%	50.2	40.6	25.1	27.7	30.8	27.3	29.8	27.1	32.6	28.2	23.6	35.8	32.3	32.9
-Services	%	39	54.3	72.4	66.6	62.2	46.2	67.8	60.2	56.8	68.6	71.9	42.3	52.5	59.1

		DDR	D	B	DK	F	GR	UK	IRL	I	L	NL	P	E	EUR12
<u>3. AGRICULTURE</u>															
Agricultural area	1000ha	6189	11956	1513	2806	31353	9195	18558	5669	17109	127	2014	3285	30749	134334
Arable and permanent crops	%	79.7	62.5	54.1	92.7	62.1	42.9	37.7	17.3	71.1	45.7	45.9	83.9	66.4	58.5
Agricultural output:															
- Cereals	1000t	11224	23770	1957	7198	52964	5183	21678	2108	18400	126	1107	1686	20575	156752
- Potatoes	1000t	12228	6836	1957	957	6720	948	6760	697	2454	26	7478	1178	5552	41563
- Milk	1000t	8080	24436	4056	4860	38586	628	15358	5751	10875	299	11667	1008	6012	123536
- Meat	1000t	2003	5070	1307	1500	5551	531	3431	736	3768	:	2480	488	3065	27927
Livestock:															
- Cattle	1000	5804	15305	2967	2323	22803	805	12476	5626	8819	209	4895	1332	5003	82563
- Pigs	1000	12840	24502	5763	9048	12419	1191	7955	980	9278	74	14349	2920	15782	104261
<u>4. INDUSTRIAL SECTOR</u>															
Output by product:															
-Hard coal	1000t	0	76300	4346	0	13743	0	101645	48	0	0	0	264	19335	215681
-Electricity	1000GWh	114	418	63	29	378	30	302	13	201	1	68	20	133	1656
-Motor and aircraft fuel	1000t	4680	19066	4996	1298	16638	2750	24680	297	16234	0	12968	1014	8074	108015
-Diesel	1000t	6382	10933	9067	3159	25923	3855	21429	526	25596	0	17901	1863	11982	132234
-Crude iron and high-carbon manganese	1000t	2799	28517	8254	0	13449	0	12110	0	11355	2305	4575	431	4804	85800
-Crude steel	1000t	8200	36248	9783	605	17693	908	17414	220	22873	3302	5082	732	11691	126537
-Artificial fertilizer	1000t	1318	1056	795	155	1530	402	1318	224	1145	0	1742	166	938	9471
-Paper and pulp	1000t	1406	9967	1114	240	5836	280	4178	40	4882	0	2190	627	3251	32605
-Private cars	1000	217	4348	279	0	3052	0	1148	0	1712	0	125	0	1432	12096
-Ships launched	1000t	302	222	53	270	196	7	46	0	281	0	50	5	127	1257

		DDR	D	B	DK	F	GR	UK	IRL	I	L	NL	P	E	EUR12
<u>5. FOREIGN TRADE</u>															
Imports per capita	\$US	1483	3719	8027	4941	2830	1294	2704	3846	2130	:	6224	1299	1260	
Exports per capita	\$US	1573	4787	8061	4816	2570	653	2297	4496	2032	:	6332	886	882	
<u>6. COMMUNICATIONS</u>															
Private cars	per 1000 persons	212	417	348	321	394	130	318	201	408	443	348	124	266	
Merchant fleet	1000t	1494	4318	2268	4873	5371	23560	8505	154	7817	0	3908	1048	4949	66771
Telephones	per 1000 persons	226	640	461	818	608	393	524	265	469	600	621	190	379	
<u>7. HEALTH RESOURCES</u>															
Inhabitants per doctor	Number	472	348	371	482	480	393	694	774	345	735	510	456	362	356
Hospital beds per 10 000 inhabitants	Number	103	110	94	77	59	62	82	100	98	119	123	51	51	83
<u>8. CONSUMPTION</u>															
Steel (crude steel equivalent)	kg per capita	581	454	267	346	258	160	264	121	397	:	263	151	234	
Energy (TOE)	kg per capita	7944	5672	5577	5331	3881	2455	5363	3556	3211	11328	7200	1318	2199	

Notes:

Data is for 1987. Where this is unavailable, latest available year is shown.
 Due to problems with reliability, data for the GDR should be interpreted with caution.

Sources: 1989 Overseas Statistical Yearbook, Federal Statistics Office of the FRG, Wiesbaden, December 1989.
 Basic Statistics of the Community, EUROSTAT, 1989.

E N V I R O N M E N T

Sulphur Deposits Emitted and Received by Selected Countries, 1987

('000 t)

Receiving country / Emitting country	Federal Republic of Germany	German Dem. Republic & E. Ber.	Belgium - Lux.	Denmark	Finland	France	Greece	United Kingdom, Ireland	Italy	Yugos- lavia	Nether- lands	Norway
Federal Republic of Germany	330	61	16	7	3	40	0	12	8	8	35	6
German Democratic Republic & E. Berlin	163	725	7	12	8	41	2	17	15	18	8	15
Belgium-Luxembourg	30	7	51	1	0	23	0	6	2	1	15	1
Denmark	3	2	0	31	1	1	0	0	0	0	0	6
Finland	0	0	0	0	48	0	0	0	0	0	0	2
France	69	14	21	1	0	332	0	16	21	8	11	2
Greece	0	0	0	0	0	0	45	0	0	4	0	0
United Kingdom, Ireland	45	15	11	7	3	44	0	615	4	3	20	19
Italy	13	2	0	0	0	21	5	1	353	61	0	1
Yugoslavia	1	1	0	0	1	3	6	0	16	192	0	0
Netherlands	14	4	4	1	0	5	0	3	0	0	32	1
Norway	0	0	0	0	0	0	0	0	0	0	0	13
Austria	1	0	0	0	0	0	0	0	1	3	0	0
Poland	23	32	2	4	12	15	2	4	14	24	2	11
Romania	0	0	0	0	0	0	0	0	0	1	0	0
Sweden	0	0	0	0	3	0	0	0	0	0	0	5
Switzerland	1	0	0	0	0	1	0	0	2	0	0	0
Soviet Union	1	1	0	1	57	0	2	1	1	1	0	10
Spain, Portugal	6	1	1	0	0	67	0	2	10	4	1	0
Czechoslovakia	47	84	2	2	4	19	2	5	13	22	2	5
Hungary	3	2	0	0	2	5	3	0	11	47	0	1
Other European countries	0	0	0	0	0	0	18	0	0	19	0	0
North Africa	0	0	0	0	0	1	0	0	3	1	0	0
Unspecified	64	24	9	9	62	139	28	79	83	74	10	91
Total sulphur deposits received	821	979	128	83	210	760	119	770	562	497	139	194

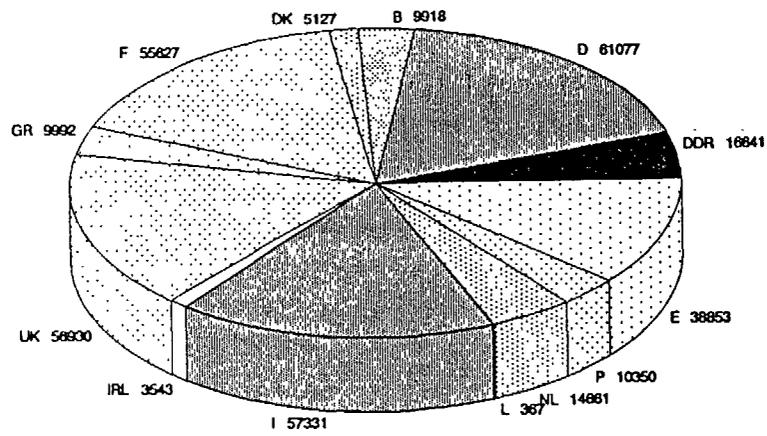
ENVIRONMENT

(cont.)

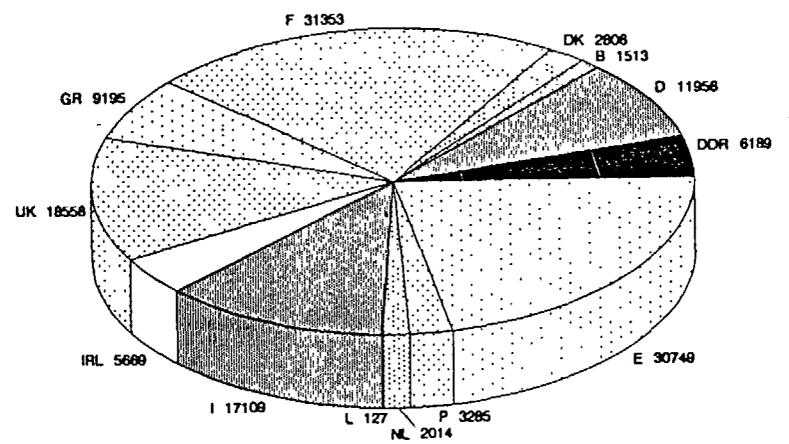
Receiving country Emitting country	Receiving country											Total sulphur emitted
	Austria	Poland	Romania	Sweden	Switzerland	Soviet Union	Spain, Portugal	Czech.	Hungary	Other European countries	North Africa	
Federal Republic of Germany	18	47	5	12	4	36	3	28	6	2	131	823
German Democratic Republic & E. Berlin .	24	310	18	33	4	167	5	128	16	9	253	2 005
Belgium-Luxembourg	2	6	0	2	1	5	1	4	1	0	39	207
Denmark	0	5	0	13	0	9	0	0	0	0	43	121
Finland	0	0	0	8	0	22	0	0	0	0	18	101
France	12	15	3	3	13	10	11	11	3	1	136	721
Greece	0	0	2	0	0	3	0	0	0	10	26	94
United Kingdom, Ireland	4	15	1	13	3	16	6	7	1	3	454	1 322
Italy	30	10	13	1	14	13	2	10	12	13	182	759
Yugoslavia	8	11	39	1	0	24	1	9	23	22	62	424
Netherlands	1	4	0	2	0	3	0	1	0	0	32	115
Norway	0	0	0	4	0	1	0	0	0	0	7	28
Austria	18	3	1	0	0	3	0	4	3	0	5	47
Poland	15	790	33	33	1	337	3	95	25	9	194	1 685
Romania	0	1	34	0	0	12	0	0	1	5	6	65
Sweden	0	1	0	37	0	7	0	0	0	0	21	79
Switzerland	1	0	0	0	8	0	0	0	0	0	1	17
Soviet Union	0	18	17	23	0	2 204	0	2	1	17	196	2 558
Spain, Portugal	2	1	1	0	3	1	592	1	0	0	223	923
Czechoslovakia	27	145	28	12	2	107	2	385	31	8	105	1 064
Hungary	12	40	61	3	0	84	2	45	190	16	64	594
Other European countries	0	1	23	0	0	24	0	0	1	233	63	390
North Africa	0	0	0	0	0	0	1	0	0	1	11	21
Unspecified	27	64	43	103	14	491	123	28	18	131	810	2 532
Total sulphur deposits received	207	1 492	330	307	70	3 584	757	765	337	496	3 087	16 695

Note: This table, which was originally compiled by the United Nations Economic Commission for Europe, is based on expert estimates. Due to the uncertain nature of the data, however, it is thought that the figures in the table could, in reality, vary by a factor of between 50% and 200%

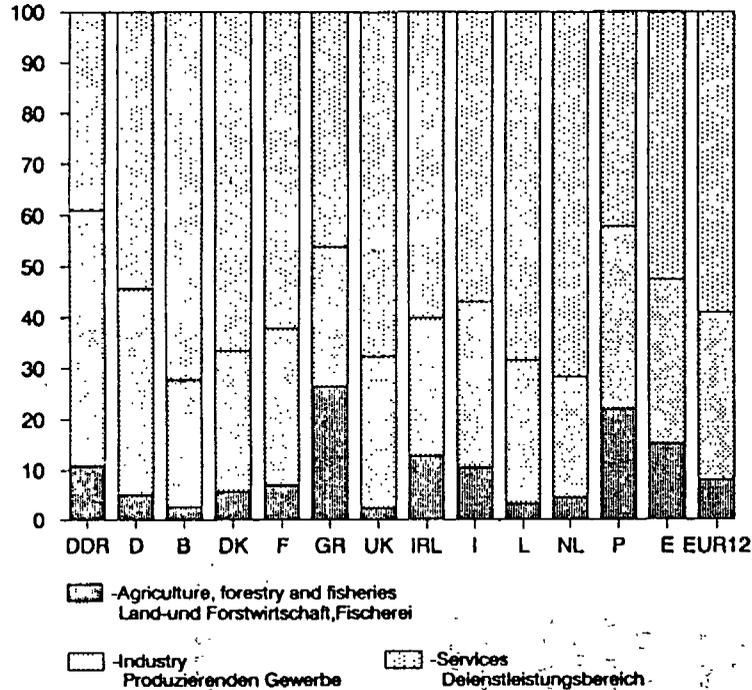
Population, 1987
 Bevölkerung, 1987
 (x 1000)



Agricultural Area, 1987
 Landwirtschaftliche Fläche
 (x 1000ha)

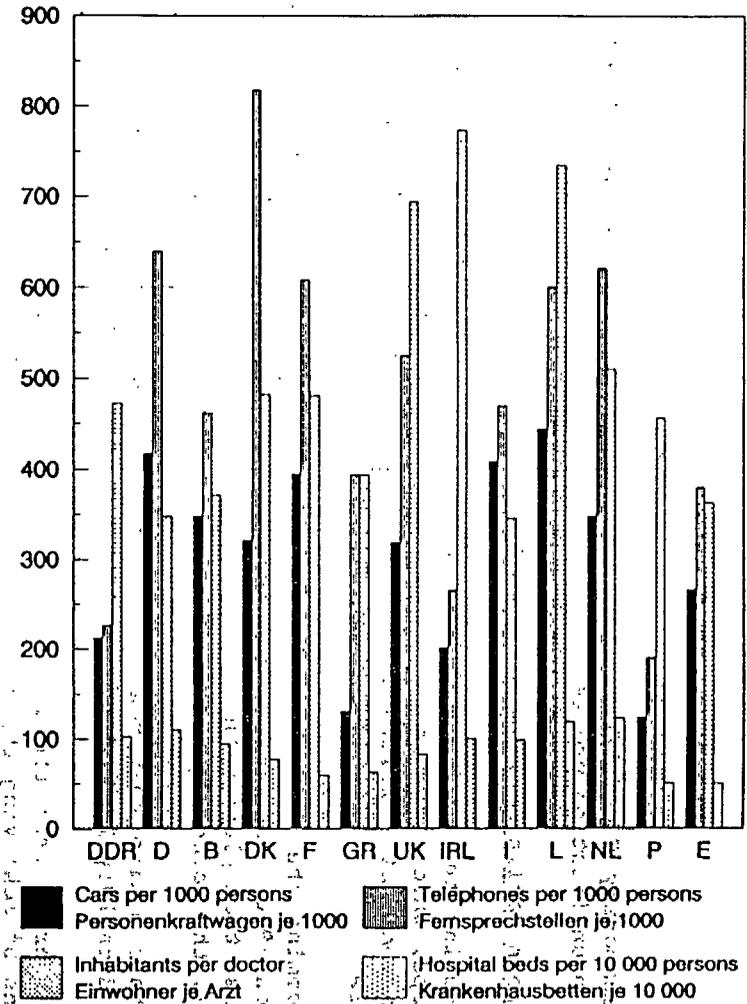


Distribution of the Working Population in 1987 (%)
Erwerbstätige, 1987 (%)



Social Indicators, 1987

Sociale Indikatoren, 1987



German Unification

RESOLUTION

by the Temporary Committee to study the impact on the European Community of the German unification process

The European Parliament,

- welcoming the recent revolutionary developments in Central and Eastern Europe, which have led to the extension of freedom and democracy, and to a removal of barriers and lessening of tensions within Europe as a whole,
- welcoming the fact that the German Democratic Republic's election of 18 March 1990, the first democratic election in that country for almost 60 years, took place within only four months of the opening up of the Berlin Wall, the former symbol of a divided Europe,
- further noting that these elections are part of a wider process, which could rapidly lead to the unification of the two German states,
- considering that the formulation of this objective, and the timing and means of achieving it, are a matter for the German people to decide,
- believing, however, that such a process of unification poses a set of fundamental challenges for the future of the European Community and of its political, economic and social policies, for its relations with neighbouring states in Europe, and for the future of NATO, the Western European Union and the Warsaw Pact,
- considering further that the process of German unification demonstrates the need to find Europe-wide rather than narrow national solutions and that it is important in particular that all states continue to cooperate in the Community on equal terms irrespective of their size,
- noting that three of the fundamental principles on which the European Community is based are democracy, self-determination, respect for human rights and the rule of law and that the harmonious development of the whole of the Community is its principal objective,
- further noting the unequivocal position of the European Parliament on the question of the East German/Polish border expressed in the resolution of 23 November 1989¹,

¹ OJ No. C 323, 27.12.1989, p. 111

- underlining the major contribution that must be made to the unification process by the European Community, and also welcoming the contribution that will be made to the Community by the population of the GDR,
 - believing that the participation of the GDR Government and the newly-elected parliament of the GDR in all stages of negotiations with the Community is essential,
 - having regard to the statements made by the leaders and main political forces in Germany confirming their desire to keep Germany fully integrated in the European Community and to work to strengthen the Community's structures,
 - having regard also to the contacts which have been initiated between the FRG and the relevant Community authorities,
- I. Calls upon its President to invite the newly constituted 'Volkskammer' to work closely together with the European Parliament on all matters relating to German unification and European integration;
- II. Calls upon the European Council in Dublin to accept the following points as a political framework for its consideration of the impact upon the Community of German unification:
- A. As regards involvement of the European Community
- (i) believes that it is essential that German unification, with all the consequences arising therefrom for the Community when the current GDR joins it, takes place within the European Community context, which must be defined as soon as possible;
 - (ii) insists from the outset that the European Community be fully consulted, and not merely informed of developments, in all instances where measures leading to German unification have an impact on the implementation of Community legislation, programmes and policies; stresses in particular that any measure concerning the integration of the GDR into the Community which has implications of an institutional nature must be determined on the basis of a common agreement between Germany and the European Community;
 - (iii) insists, further, that the responsible European Community institutions and the Member States must be involved in an appropriate manner in the negotiating process on the integration of the GDR into the Community, in order to ensure the maximum degree of transparency and accountability and thus avoid increasing the democratic deficit; insists that the Commission submit proposals for the full involvement of the European Parliament in the negotiating process in the paper it will submit to the meeting of the European Council on 28 April 1990;

- (iv) stresses the requirement that the incorporation of the present GDR into the European Community must be effected in accordance with the EC Treaties currently in force and with the procedures set out therein;

B. As regards the speed of European integration, and the achievement of the Community's key objectives

- (i) considers that the process of German unification must be accompanied by an increase in the speed of European integration: the profound changes in the European context make the completion of a political union even more inevitable and vital for the Community, and the future unified Germany must be fully part of further Community integration;
- (ii) insists that the completion of the internal market by 1992 be fully adhered to and that progress towards Economic and Monetary Union and the social dimension and the institutional reforms be accelerated and supplemented by the steps necessary to create the Political Union;
- (iii) stresses, further, that the Intergovernmental Conference must commence its work before the end of 1990 and complete it by the end of June 1991 at the latest and that the democratic deficit, decision-making by qualified majority - particularly in social and environmental policy - economic and monetary union and the expansion of the Community's political responsibilities should be on its agenda;
- (iv) believes also that German unification should under no circumstances pose a threat to the European Community's economic and social cohesion and that the new financial needs which arise should not lead to a reduction of present and future commitments to the peripheral and disadvantaged areas of the existing Community, and that the objectives of social Europe should be maintained and laws under the Community Social Action Programme should proceed without delay;
- (v) considers that Community environmental policies must be strengthened and extended, especially in view of the severe environmental problems faced by the German Democratic Republic;

C. As regards the impact of German Economic and Monetary Union (GEMU)

- (i) recognizes the move toward German economic, monetary and social union as a signal to the population of the GDR that irreversible change is taking place and that progress towards unity is being made;
- (ii) considers, however, that the ways in which GEMU is carried out could also have certain negative effects, both on the German and wider European economies;

- (iii) calls, therefore, on the Commission to undertake to obtain the agreement of the governments of the FRG and the GDR for extensive consultations on the impact of GEMU on the economies of the Community Member States, the EMS and the process of Economic and Monetary Union;
- (iv) calls upon the Commission immediately to draw up a detailed cost-benefit analysis of the impact of GEMU upon the European Community economy, and a study of the impact on Economic and Monetary Union;
- (v) believes that certain other safeguards must be provided for the population of the GDR; calls, in this context, for the Federal Republic of Germany and the GDR, following negotiations, to come forward with a framework of social and economic measures, in particular for unemployed people, for pensioners and concerning the social conditions for women, to accompany German Economic and Monetary Union, that would help to minimize any negative effects of the latter on social conditions within the GDR, and also help to stem the current outflow of people from East Germany to West Germany;

D. As regards a comprehensive review of the impact of German unification on the Community

- (i) calls upon the Commission to produce an analysis of the impact of the extension of Community territory on the whole range of Community policies, and of the specific adjustments that will have to be made;
- (ii) requests that a calculation be made of the likely overall budgetary costs to the Community of German unification, and considers that this process will necessitate a reinforcement of the role of the Community budget, a reassessment of the Community budgetary commitments over and above the actual proposals for the revision of the financial perspectives, and, in future, of the financing system of the Community, while ensuring that its commitments to Member States and third countries are not affected;
- (iii) calls for an assessment of the impact of German unification on the macro-economic data of the Community, especially price and interest rate levels and also economic growth and employment levels and regional disparities;

E. As regards immediate Community measures to help the GDR in the period before full unification

- (i) considers that the Community must contribute to the costs of the restructuring of the GDR's economy, and that such a contribution is necessary in order to show solidarity with the population of the GDR;

- (ii) calls for the rapid preparation of a special Community aid programme for the GDR during the interim period before unification is completed, and for this to be presented in time for the forthcoming Dublin European Council;
- (iii) also requests rapid presentation of proposals for ways in which the GDR can be progressively involved in relevant Community policies, such as training, and research and development programmes;
- (iv) cooperation to assist the countries of Central and Eastern Europe must not be carried out at the expense of the Community's efforts to help the Third World, particularly the ACP States and those Mediterranean and Latin American countries with which the Community has close historical ties;

F. As regards preparatory and transitional arrangements for the GDR

- (i) considers that preparatory and transitional arrangements will also be required, in order for the GDR to adapt to Community requirements without too severe immediate consequences for its economy and society;
- (ii) calls upon the Commission and Council to provide information on the transitional arrangements that they consider to be necessary, and which must be the subject of negotiations between representatives of the Federal Republic of Germany, the German Democratic Republic and the Community;

G. As regards the impact on other European countries of the GDR's existing international political and commercial agreements and commitments

- (i) expects that the Commission will forward to it at the earliest possible date a detailed list of the international political and commercial agreements and commitments entered into by the GDR; calls on the Commission to inform Parliament at the earliest possible opportunity of the expected impact of commitments entered into hitherto at international level by the German Democratic Republic.
- (ii) requests the Council to authorize the Commission, in consultation with the GDR, to begin negotiations with the countries of Central and Eastern Europe, with a view to concluding commercial agreements guaranteeing that GDR accession to the European Community will not upset the flow of commercial goods vital to their economies;

H. As regards the wider security framework

- (i) notes that the Federal Republic of Germany and the GDR have now and henceforth recognized the inviolability of the present western border of Poland in bilateral treaties and in the CSCE Final Act and that both German governments and parliaments must also jointly guarantee the same on behalf of a united Germany;
- (ii) considers that the German unification process could act as a catalyst for the development of new security structures at European level;
- (iii) believes that the forthcoming Intergovernmental Conference should look closely at ways in which the security aspects of European political cooperation could be strengthened in the future, and linked to a pan-European system of collective security to be realized within the CSCE framework in which the European Community should play a role; further believes that the role of the present security structures are changing and that structures transcending the alliances are gaining in importance; considers that there should be no NATO military installations or troops in a unified Germany on the territory of the present-day GDR;
- (iv) considers that Poland's western border (Oder-Neisse Line) must be recognized irrevocably;

III. Instructs its President to forward this resolution to the Commission, the Council, the governments and parliaments of the German Democratic Republic and the Federal Republic of Germany, and of the other Community Member States and to communicate the substance of the resolution to the Heads of State or Government meeting in Dublin on 28 April 1990.

RESOLUTION

on the conclusions of the special meeting of the European Council in Dublin on 28 April 1990

The European Parliament,

- having regard to the outcome of the European Council in Dublin on 28 April 1990,
 - having regard to the most recent developments within Germany related to the process of German unification and especially the declaration by the newly elected members of the Volkskammer, the Government Coalition Programme within the German Democratic Republic, the proposal by the Federal Republic of Germany for a Treaty on the establishment of German economic, monetary and social union and the progress made in the negotiations on a Treaty between the two German Governments,
 - having regard to its own resolution of 4 April 1990;
1. Welcomes the European Council's unambiguous support for the German unification process and its recognition of the need for such a process to take place within the European Community context;
 2. Notes the undertaking that the Federal Republic of Germany will keep the Community fully informed of any measures discussed and adopted by the authorities of the two Germanies for the purpose of aligning their policies and their legislation during the period prior to unification; considers it essential that the Federal Republic of Germany should confer with the European Community in all cases where steps towards German unification have implications for the Community and wishes, in particular, that the European Parliament should be involved in these consultations;
 3. Notes that the European Council accepted the Federal Republic of Germany's position in stating that the integration of the GDR into the Community can take place without revision of the Treaties; expects the Commission to take due account of the Treaties and calls for careful adaptation of the Community's secondary legislation; calls, in this latter context, for clarification as to when these modifications will be achieved and the necessary degree of legal certainty attained and as to how this is to come about;
 4. Notes that, according to the European Council, integration of the territory of the GDR into the Community will help to speed up economic growth and asserts that economic and monetary stability must continue to be safeguarded;
 5. Welcomes the fact that the GDR will be granted immediate access to Community loan facilities, and that further Community contributions could be forthcoming in the wider framework of Group of 24 actions, and of Eureka projects;

6. Regrets, however, that the European Council did not specifically support the idea of a special pre-accession Community aid package for the GDR as suggested by Parliament in its resolution of 4 April; recognizes that the main financial burden will inevitably have to come from the Federal Republic of Germany alone, but considers that a Community contribution in such directly relevant fields as environmental protection would have been an appropriate way of demonstrating existing links with the GDR with a view to its membership of the European Community;
7. Recalls, in this connection, the European Parliament's earlier wish that multilateral aid should take precedence over bilateral aid from the Member States, in the framework of a joint programme coordinated by the Commission;
8. Supports the European Council's call for smooth and harmonious integration of the territory of the GDR within the Community, whilst, at the same time, fully respecting Community commitments and objectives, notably those concerning the completion of the internal market and the creation of an economic, monetary and social union;
9. Calls for the rapid submission by the Commission of its proposals for derogations and transitional provisions which will be subject to negotiations and on which the Parliament will have to be consulted;
10. Strongly welcomes the decisions by the European Council that the process of German unification should be accompanied by reinforcement of the process of European integration, including a timetable for the adoption of Economic and Monetary Union and the holding of a second Intergovernmental Conference on Political Union, whose work would parallel that of the Conference on Economic and Monetary Union, with a view to ratification of its conclusions by the Member States to the same timetable;
11. Welcomes the fact that, in parallel with German unification, the Community also intends to pursue the development of its external relations, in particular relations with the other countries of Central and Eastern Europe, with which individual association agreements will be negotiated; believes that their eventual Community membership must be considered in this context;
12. Notes that the European Council's statement that a Summit meeting of the CSCE would be desirable before the end of the year, and that the preparatory meeting should be held as soon as possible; insists on a European Community contribution to this process;

13. Looks forward to rapid progress in the current negotiations between the two German Governments, leading to a democratically legitimate unification; welcomes, in this context, the presentation of a draft treaty on German economic, monetary and social union, the recent declaration by the newly elected Volkskammer and the Coalition Programme put forward by the new government of the German Democratic Republic; believes that the path towards unification should take due account of the interests of the citizens of the GDR, especially those in lower-income categories, to avoid creating economic and social inequalities that would perpetuate divisions and injustices that unification should be helping to remove; welcomes, moreover, the progress in the negotiations between the two German Governments, aimed at the simultaneous achievement of economic, monetary and social union from 2 July 1990;
14. Takes the view, therefore, and in the interests of the development of the Community's social dimension, that negotiations between the two Germanies, in collaboration with the Community, must facilitate the introduction of social legislation which takes into account and respects social rights acquired previously in the two countries;
15. Instructs its President to forward this resolution to the Council, the Commission, the Governments and Parliaments of the GDR and of the Member States.

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