



*European Communities
Commission
Background Report*

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February 22, 1978

YUGOSLAVIA AND THE COMMUNITY

The Community has just opened negotiations with Yugoslavia designed to improve trade and cooperation with that country. The first round of talks took place on February 13 and will be continued towards the end of March.

Politically, Yugoslavia is unique. Not only is it a European and Mediterranean country, but it is also a developing and non-aligned one. Her government has constantly expressed its desire to extend political and economic cooperation with the Community, already begun with the signing of a trade agreement which came into force on October 1, 1970, and was renewed three years later. That Agreement, which expires on August 31, 1978, provides for the liberalisation of trade on the basis of most-favoured-nation treatment, adjustment of the Community levy in order to foster Yugoslav exports of beef and veal, and a clause providing for developing economic cooperation complementary to trade.

Meanwhile, the Belgrade Joint Declaration of December 2, 1976 expressed a mutual desire to extend political and economic cooperation. The present negotiations based on Commission proposals* approved by the Council of Ministers earlier this year, are being conducted with the principles of the Declaration in mind.

Some problems

Yugoslavia already benefits considerably from the Community's System of Generalised Preferences and has recently received a loan from the European Investment Bank towards the construction of an electricity transmitter, as part of an EIB decision at the end of 1976 to lend her up to 50 million units of account (about £33m. - 1ua=65p) towards projects of common interest to Yugoslavia and the EC.

But economic recession has hit Yugoslavia hard, with her trade deficit with the Community rising from \$886 million in 1973 to \$2,233 million in 1975.

* COM (77) 599 final, November 18, 1977

Despite some improvement in 1976, the position deteriorated again in 1977.

YUGOSLAVIA'S TRADE BALANCE WITH THE EEC

(in million US \$)

	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1973	1 022	1 908	- 886
1974	1 039	3 023	- 1984
1975	930	3 163	- 2233
1976	1 326	2 877	- 1551
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1976/6 months	648	1 356	- 708
1977/6 months	747	1 864	- 1117

The Commission admits that it is difficult to deal with this imbalance of trade with Yugoslavia to mutual satisfaction because what she has to offer, particularly in agricultural products (such as beef and veal), do not complement the Community's needs. Internal economic recession and the prospect of enlargement are other factors in the equation that have to be taken into account.

Between 1973 and 1976 the Community share of Yugoslav exports fell from 36 to 27 per cent while her export share to Comecon countries rose from 31 to 40 per cent. There was a comparatively small decline - from 42 to 39 per cent - over the same period in the Community share of the Yugoslav market. This, the Commission suggests, reflects Yugoslav difficulties in finding comparable sources of supply in Eastern Europe where the share of the Yugoslav market has remained comparatively constant since 1970, though it is now beginning to rise.

The shifting balance in trade with Eastern European countries has worried the Yugoslavs, as it runs counter to their traditional policy of holding an economic balance between Eastern and Western Europe. They have, therefore, asked the Community to re-examine its relations with their country.

Proposals for a new agreement

The Commission is proposing an agreement that differs in certain respects from those concluded with other countries, though the social provisions affecting Yugoslav workers abroad, follow closely the Maghreb agreements, with Morocco, Tunisia and Algeria, and suggestions for economic cooperation are based on agreements * signed with Mexico and Canada.

* See BR ISEC/B32/77

The Yugoslavs have requested that the agreement should be non-preferential, but within the general framework there would be specific provision for industrial, agricultural and financial cooperation, and for cooperation in the fields of transport, the environment, labour and fisheries.

The present Joint Committee would be replaced by a Joint Cooperation Committee; the agreement would last for five years and during that time no area of cooperation would be excluded from consideration. The effect of the agreement would be to give more precise institutional form to evolving trade under the present system.

Visits to Belgrade by Mr Wilhelm Haferkamp, Vice-President of the Commission and of M. Henri Simonet, then President of the Council of Ministers, last September, indicate the importance the Community attaches to finding a satisfactory solution to improving relations with Yugoslavia.

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