

EUROPEAN PARLIAMENT

Working Documents

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DOCUMENT 1-165/80

Report

drawn up on behalf of the Committee on
External Economic Relations

on the proposals from the Commission of
the European Communities to the Council
(Doc. 1-164/80)

on the Cooperation Agreement between the
European Economic Community and the
Socialist Federal Republic of Yugoslavia
and the interim agreements

Rapporteur: Mr L. RADOUX

By letter of 6 May 1980 the President of the Council of the European Communities requested the European Parliament, pursuant to Article 238 of the EEC Treaty, on the EEC-Yugoslavia Cooperation Agreement. The European Parliament has also been consulted on the interim agreement on the commercial clauses pursuant to paragraph 4 of resolution Doc. 1-737/79/fin. and on the interim agreement on the financial clauses, pursuant to Article 235 of the Treaty.

The President of the European Parliament referred these proposals to the Committee on External Economic Relations as the committee responsible.

On 20 December 1979 the Committee on External Economic Relations appointed Mr RADOUX rapporteur.

The Committee on External Economic Relations considered the draft report at its meetings of 30 January, 12 February, 19 March and 25 April 1980 and, at its meeting of 30 April 1980, adopted the motion for a resolution and the explanatory statement unanimously.

Present: Sir Frederick Catherwood, chairman; Mrs Wieczorek-Zeul, Mr Van Aerssen and Mr Seal, vice-chairmen; Mr Radoux, rapporteur; Mr Antoniozzi, Mrs Caretoni Romagnoli, Mrs Chouraqui, Mr de Courcy Ling, Mr Galluzzi, Mr Giummarra, Mr Jonker, Mr Lemmer, Mrs Lenz, Mr Romualdi (deputizing for Mr Almirante), Mr Seeler, Mr Vandewiele and Mr Welsh.

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The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the Cooperation Agreement between the European Economic Community and the Socialist Federal Republic of Yugoslavia and the interim agreements

The European Parliament,

- having regard to the Communication from the Commission to the Council on the negotiation of the Cooperation Agreement between the EEC and Yugoslavia and the Agreement between the Member States of the European Coal and Steel Community and the European Coal and Steel Community, of the one part, and Yugoslavia, of the other part,
 - having regard to the draft regulation and the draft recommendation for a regulation relating to the commercial aspect of the Agreement and to the advance implementation of Protocol No. 2 thereto,
 - considering the exceptional importance of the economic and political ties between the two parties,
 - recognizing the necessity of contributing to the development of economic and social relations between the EEC and Yugoslavia,
 - having regard to the existence of agreements in force which form part of the Mediterranean policy of the Community,
 - considering the requirements which will be dictated by the accession of Greece to the Community,
 - having regard to the report of the Committee on External Economic Relations (Doc. 1-165/80),
1. Stresses the importance of Yugoslavia to the Community over and above economic and trade relations proper;
 2. Expresses, as in the past, its concern at the unsatisfactory development of exports from Yugoslavia to the Community and at the steadily mounting deficit of Yugoslavia's balance of trade;

3. Points out that the elimination or failing that, the reduction of the deficit of the Yugoslav balance of trade is one of the main conditions for the improvement of the Yugoslav economy, and also a pre-condition for closer economic and political relations between the two parties;
4. Underlines the importance of economic and technical cooperation between the two parties and, considering that the aims set out in the Cooperation Agreement in the various sectors are not limitative, hopes that in applying the Agreement, realistic and effective cooperation schemes will be implemented with a view to contributing to the rapid development of the Yugoslav economy;
5. Welcomes the decision to remove obstacles to trade gradually and in stages and stresses the need for the Cooperation Council as the executive body of the Agreement to be guided in its decisions by an endeavour to restore as far as possible the balance of trade between the parties;
6. Considers the removal of tariff barriers as a primary means of providing the stimulus to the Yugoslav economy to which the Community is proposing to make a reasonable contribution;
7. Notes with satisfaction the provision in the Agreement that Yugoslav workers employed in the territory of the Member States shall be free from any discrimination as regards working conditions or pay;
8. Is of the opinion that further progress must be made towards a solution of the social and cultural problems encountered by Yugoslav workers employed on Community territory;
9. In the hope that the links between the European Parliament and the Yugoslav Federal Assembly will continue to grow stronger, reiterates the importance and necessity of a joint committee to be made up of Members of the European Parliament and of the Yugoslav Federal Assembly;
10. Stresses that during the period of validity of the Agreement such projects in the communications and transport sector as are essential to prevent the economic and geographical isolation of Greece when it becomes a Member State of the Community must be implemented;
11. Considers it appropriate that the existence of this Agreement should lead not only to a consolidation of the commercial and economic links which already exist between the parties, but also to closer cultural relations;

12. Hopes that Yugoslavia will be given every assistance to develop closer and more effective financial cooperation since capital supply facilities are an important factor in the process of industrialization and for the economic and social progress of that country;
13. Considers it desirable for the European Parliament to be suitably represented in the Cooperation Council to enable the parliamentary committees responsible to follow, with a full knowledge of the facts, the application of the provisions of the Agreement and the development of its potential;
14. Approves the Agreement and the provisional protocol on trade, commercial cooperation and the advance implementation of Protocol No. 2 of the Cooperation Agreement and stresses how important it is that these texts should enter into force on 1 July 1980;
15. Approves the Cooperation Agreement and hopes that appropriate use will be made of the opportunities afforded by it for developing the existing economic contacts and expanding economic cooperation between the parties as far as possible.

EXPLANATORY STATEMENT

I. INTRODUCTION

1. On 25 February 1980 a new cooperation agreement between the EEC and Yugoslavia was concluded in Brussels. On 2 April it was signed both by the Community and by its Member States.

2. In view of the economic importance and urgency of the measures provided for in the Cooperation Agreement, it was found desirable to have some measures of a commercial and financial nature applied before the Cooperation Agreement itself entered into force. For this reason on 14 April 1980 two interim agreements were created in order to bring the financial and commercial clauses of the Cooperation Agreement into operation. The European Parliament in the course of this report has also examined and expressed its opinion on these interim agreements.

3. The new Agreement has a much wider scope than its predecessor which was purely a non-preferential trade agreement.

4. Before reviewing the content of the new Agreement, it may be useful to give a brief outline of the Yugoslav economy, as this may contribute to a more accurate assessment of the content of the Agreement and of the social and economic needs of Yugoslavia which has agreed to establish economic ties with the Community which can undoubtedly provide a basis for deeper political understanding.

5. Yugoslavia, apart from being a Mediterranean country, with all the political and economic problems characteristic of that region, is also a non-aligned country which skilfully balances its domestic and foreign policies.

II. THE YUGOSLAV ECONOMY

6. The Socialist Federal Republic of Yugoslavia includes six socialist republics: Bosnia-Herzegovina, Croatia, Macedonia, Montenegro, Serbia and Slovenia in addition to the two autonomous provinces, Vojvodina and Kosovo.

7. Yugoslavia had a population of approximately 22 million in 1979 and the active population is distributed in the following way :

Distribution of the Active Population (%)*

Activity	1955 ¹	1977 ²
Agriculture	68.4	34.6
Socialized sector:		
- productive	23.8	39.2
- non-productive	4.7	8.1
Private sector	2.2	3.5
Unemployed	0.9	8.0
Total	100	100

¹ Total active population in 1955 : 7,576,000

² Total active population in 1977 : 10,662,000

* See 'Problèmes économiques' - La Documentation Française - No. 1657 of 23.1.1980, page 29.

8. The last 25 years have brought important structural changes to the Yugoslav economy and a considerable improvement in standards of living. The last decade was a period of extremely rapid economic growth. In 1955 Yugoslavia was still an agricultural country in which approximately 2/3 of the active population were employed on the land and agriculture accounted for approximately 1/3 of the social product, while the average per capita income was a quarter of the OECD countries' average.

9. In 1978 the number of persons employed on the land had fallen to about 1/3 of the total workforce, agricultural production accounted for 15% of the social product and the average per capita income was over 1/3 of the OECD countries' average. Its main resources of finance have been domestic.

10. The rapid increase in demand and production, in conjunction with far-reaching structural changes, has been responsible to a certain extent for Yugoslavia's relatively high inflation rate, especially up to the early 1970's. Thereafter, the sharp increase in the inflation rate of the Western countries somewhat diminished the gap between the Yugoslav inflation rate and the average inflation rate of the West.

11. Despite the high rate of long-term growth in production, job creation in the non-agricultural sectors has not kept pace with job demand. The number of job-seekers has risen steadily since the early 1950's in spite of the fact that the population of working age has not grown very rapidly (1.25% per annum). About 1,100,000 Yugoslav workers had emigrated in the 14 years up to 1973. Since 1974 there has been a reversal of the trend and by 1978 300,000 Yugoslav emigrant workers had returned home.

12. Yugoslavia's balance of payments has been in heavy deficit for many years, thus hampering the economic growth of this fast-industrializing country.

13. Yugoslavia's long-term deficit on current account remained comparatively stable from the end of the war until 1965. Since then, exports have increased at a much slower rate than imports. This situation, together with the increase in oil prices, has resulted in the present deficit.

14. It should, moreover, be noted that the increase in its long-term trade deficit has been largely offset by the increase in invisible earnings (largely due to migrant workers' remittances and to the development of tourism). In 1978 migrant remittances totalled over 1,700 million dollars.

15. The following table illustrates the current balance of payments trends from 1946 to 1978.

Current balance of payments trends 1946-1978

U.S. \$ million

Yearly averages	Exports (fob)	Imports (cif)	Trade balance	Services and private transfers	Current ¹ balance
1946-51	184	331	-147	23	-124
1952-56	258	429	-171	45	-126
1957-60	482	730	-249	98	-151
1961-65	822	1114	-292	172	-120
1966-70	1379	2018	-639	496	-143
1971-73	2034	3665	-1361	1545	184
1974-78	4736	8441	-3705	2781	-924

¹ Official transfers excluded because of lack of data. Between 1960 and 1972 these transfers varied from US \$1. to \$34 million.

Source : V.Pertot : The Economics of Yugoslav Foreign Trade, Informator, Zagreb 1971; OECD

16. The following table gives particular details of the Yugoslav balance of payments trends from 1969 to 1978 under various headings :

Balance of payments

Millions of US dollars

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978 ²
Trade balance	-659	-1195	-1435	-992	-1658	-3715	-3625	-2489	-4380	-4317
Exports, fob	1475	1678	1817	2241	2853	3805	4072	4878	5254	5671
Imports, cif	-2134	-2874	-3252	-3233	-4511	-7520	-7697	-7367	-9634	-9988
Services and private transfers	594	847	1079	1412	2144	2532	2622	2654	2798	3300
Transportation	171	211	224	240	323	396	473	428	563	585
Foreign travel	168	144	141	219	589	644	702	725	751	935
Investment income	-90	-119	-139	-155	-181	-198	-281	-279	-258	-305
Private transfers and workers' remittances	284	544	789	1049	1413	1379	1310	1415	1427	1745
Other services	61	66	64	59		311	418	365	315	340
Official transfers	2	1	-1	-1	-1	-	-	-	-	-
Current balance	-63	-348	-357	419	485	-1183	-1003	165	-1582	-1017
Non-monetary capital (including errors and omissions)	138	279	132	-14	301	731	1203	1046	1383	1332
Long-term net	216	190	579	557	596	679	1076	1093	1402	1150
Other (including errors and omissions)	-78	89	-447	-571	-295	52	127	-47	-19	182
Allocation of SDR's	-	25	22	24	-	-	-	-	-	-
Monetary movements	-75	44	203	-429	-786	-452	200	1211	-199	315
Bilateral balances	63	71	-	-113	-	-195	137	146	-161	65
Net gold and foreign exchange position	-117	118	-73	-538	-508	-257	63	1065	-38	250
National Bank and commercial banks' credit, net IMF account, SDR's	-21	-145	276	222	-278	n.a	n.a.	n.a.	n.a.	n.a.

¹ Due to changes in coverage, figure for 1973 is not fully comparable with those for earlier years.

² Preliminary estimates.

Sources: IMF, Balance of Payments Yearbook, and direct communications to the OECD.

Its most salient feature would appear to be the trade balance deficit which grew from 659 million dollars in 1969 to 4,317 million dollars in 1978.

17. It should be pointed out that the Yugoslav trade balance deficit is largely due to the trade gap between Yugoslavia and the EEC. In 1979 Yugoslavia's trade balance deficit with the Nine reached 2,500 million dollars. Yugoslavia's trade with the various economic regions of the world can be broken down as follows : trade with the EEC accounts for 30 to 35% trade with the USSR and Eastern European countries accounts for 40% approximately and trade with the USA, Japan and the rest of the world accounts for approximately 20%. Within the EEC, Yugoslavia's leading trade partner is the Federal Republic of Germany¹.

18. Given that the structure of the Yugoslav economy cannot be defined as that of a normal state-trading country, a number of observations are called for. In the Yugoslav economic system today a margin of manoeuvre is left to the individual productive units so that the structure of the economy and of the productive sector in that country to some extent parallels that of the Community countries. Given the special features of the Yugoslav economic system, it appears possible and opportune for relations between agencies and bodies responsible for small and medium-sized undertakings on both sides to be adequately developed. This particular sector of the Yugoslav economy perhaps holds out better prospects than others for the successful development of economic and commercial links.

III. THE EEC-YUGOSLAVIA ECONOMIC AND FINANCIAL COOPERATION AGREEMENT

19. On 25 February 1980 the text of a new EEC-Yugoslavia Agreement was initialled in Brussels. The new Agreement covers a much wider field than its predecessor, which was merely a non-preferential trade agreement, whereas the Agreement which the Community has now contracted with Yugoslavia is an Economic and Financial Cooperation Agreement.

20. What has been drawn up is, at Yugoslav request, a 'Mediterranean' type of cooperation agreement, i.e., efforts have been made to grant that country, as a general rule, all those facilities which have been accorded to the other countries of the Mediterranean area. The EEC-Algeria Agreement has served to some extent as a model.

21. It was intended in this way to take account of Yugoslavia's special international position and characteristic economic needs.

22. The main features of the Cooperation Agreement are as follows :

- unlimited duration,
- confirming the resolve of the two Parties to lay a solid foundation to their cooperation by making their relations in principle² irreversible;

¹ Statistics supplied by the Commission of the European Communities

² A denunciation clause with six months' notice is included in the Agreement

- overall cooperation,
covering a wide range of sectors;
- a first five-year stage for the trade aspects;
- the setting-up of a Cooperation Council which is to play an important part in the life of the Agreement.

23. This is an agreement intended to promote overall cooperation between the two parties in order to contribute to the economic and social development of Yugoslavia, and help to strengthen their relations. It also provides for schemes designed to promote a free industrial zone in the Karst set up under the Agreements signed by Italy and Yugoslavia at Osimo in 1975.

(a) Economic and technical cooperation

24. The areas of this cooperation, as defined by the Agreement, are wide, covering the industrial sector, energy, scientific and technological cooperation, agriculture, transport, tourism, the environment, fisheries and the financial sector.

It will be for the Cooperation Council to define periodically the guidelines of cooperation and to seek ways and means of establishing cooperation in the areas defined in the Agreement.

(b) Financial cooperation

25. The financial cooperation will back up cooperation in other sectors, whereby the Community will participate in the financing of projects of mutual interest to both sides.

26. During a five-year period, an amount of 200 million EUA can be committed by the European Investment Bank from its own resources for this purpose.

27. The Parties will have to take particular account of the mutual interest attaching to the achievement of the objectives of the Agreements signed by Italy and Yugoslavia at Osimo, when considering the list of projects put up for financing.

(c) Trade

28. The aim of the Agreement in this sector is to promote trade between the two Parties, taking account of their respective levels of development and of the need to ensure a better balance in their trade.

29. The Agreement provides for a gradual and stage-by-stage removal of barriers to trade. It specifies the particulars of the first of these stages, for which a period of five years has been fixed. One year before the end of this first stage they will commence negotiations to determine the subsequent trade arrangements.

30. Industrial products originating in Yugoslavia - including ECSC products - will on the whole be eligible for duty-free importation into the EEC and will not be subject to any quantitative restrictions.

31. However, certain Yugoslav products, particularly certain textile products, will be subject to a system of tariff ceilings. The Agreement also provides the Community with the possibility of referring to the Cooperation Council in order to determine any conditions of access to its market which might prove necessary for products which it deems to be sensitive.

32. In agriculture, specific tariff concessions are laid down for products of particular importance to Yugoslavia.

For its part, Yugoslavia grants the Community most-favoured-nation treatment in the field of trade.

It also has the option of introducing into its trade arrangements with the Community new customs duties or quantitative restrictions insofar as its industrialization and development make such measures necessary.

33. Provisions on dumping, a safeguard clause in the event of sectoral or regional difficulties, and provisions to cover any difficulties with the balance of payments are also included in the Agreement.

(d) Social provisions

34. In this sector the Agreement lays down that Yugoslav workers employed in the territory of each of the Member States shall be free from any discrimination based on nationality as regards working conditions or pay.

35. It also expresses the readiness of the Member States to hold discussions with the Yugoslav authorities on the position of the Yugoslav workforce employed in the Community, with particular reference to socio-cultural problems.

(e) Institutions

36. The Agreement provides for a Cooperation Council made up of representatives of the Community and its Member States and representatives of Yugoslavia. The Cooperation Council will have a very important role to play as its responsibilities will include :

- periodically defining the general guidelines of cooperation;
- seeking ways and means of establishing cooperation in the areas defined in the Agreement;
- ensuring the proper functioning of the Agreement in general and the trade aspects in particular.

37. It should also be pointed out that both Parties have agreed to encourage continued cooperation and contacts between the European Parliament and the representatives of the Assembly of the Socialist Federal Republic of Yugoslavia.

IV. CONCLUSIONS

38. The signing of the new EEC-Yugoslavia Cooperation Agreement has provided a basis for relations of considerable importance to both parties.

39. It can, therefore, be said that the Community's relations with Yugoslavia as outlined in the present Cooperation Agreement are not confined to economic aspects but also pave the way for closer political cooperation with that country.

40. For these reasons your rapporteur considers that the substance of the EEC-Yugoslavia Cooperation Agreement may be approved in general and that, in general, it is of a nature to make a useful contribution to the economic and social development of Yugoslavia.

41. It should be pointed out that it is essential to correct, as far as possible, the disequilibrium in the trade relations between Yugoslavia and the EEC. Yugoslavia cannot make any substantial progress in its economic development unless this deficit is substantially reduced. Having regard to this, your rapporteur considers that the Agreement's provisions on trade and on financial, economic and technical cooperation have a scope which permits the achievement of the above goal.

42. It is essential, therefore, that Community markets be opened as much as possible to Yugoslav products and that an effective allocation be found for the financial aid of 200 million EUA that is to be provided by the EIB from its own resources.

43. In this connection it should be noted that the executive body specified in the Cooperation Agreement, the Cooperation Council, made up of representatives of the Community and its Member States and representatives of Yugoslavia, will have a crucial part to play. Its responsibilities will include periodically defining the guidelines of cooperation and seeking ways and means of establishing cooperation in the areas defined in the Agreement.

44. It follows that the attainment of the aims of the agreement will closely depend on the work of the Cooperation Council. For this reason, the European Parliament considers that the decisions taken by the Cooperation Council should be duly monitored and assessed.

45. A joint parliamentary committee could play an important part in developing the political dialogue and in determining the needs of the Parties to the Agreement.

46. In a Joint Declaration annexed to the Agreement, the Contracting Parties undertake to work for a renewal of the cooperation and contacts instituted between the European Parliamentary assembly and the representatives of the Yugoslav Assembly.

47. The EEC Yugoslavia Joint Committee's work can provide assessment and confirmation for the Cooperation Council's decisions.

48. Importance is also attached to the opportunities for effective financial cooperation to facilitate Yugoslavia's access to Community capital markets. This should help speed Yugoslavia's economic and social progress.

49. The European Parliament, aware of the need to carry some measures of an economic nature provided for under the Cooperation Agreement into effect as soon as possible, approves the provisional agreements which are intended to allow the financial and commercial clauses of the Cooperation Agreement to be applied ahead of time.

50. In conclusion, your rapporteur considers that the substance of the new Cooperation Agreement should be approved because it is designed to help Yugoslavia to make rapid economic and social progress, while creating conditions for the development and consolidation of all the relations between the two Parties.

ANNEX I

Cooperation agreement between the European Economic Community and the
Socialist Federal Republic of Yugoslavia

HIS MAJESTY THE KING OF THE BELGIANS
HER MAJESTY THE QUEEN OF DENMARK
THE PRESIDENT OF THE FEDERAL REPUBLIC OF GERMANY
THE PRESIDENT OF THE FRENCH REPUBLIC
THE PRESIDENT OF IRELAND
THE PRESIDENT OF THE ITALIAN REPUBLIC
HIS ROYAL HIGHNESS THE GRAND DUKE OF LUXEMBOURG
HER MAJESTY THE QUEEN OF THE NETHERLANDS
HER MAJESTY THE QUEEN OF THE UNITED KINGDOM OF GREAT BRITAIN AND
NORTHERN IRELAND

and

THE COUNCIL OF THE EUROPEAN COMMUNITIES

of the one part, and

THE PRESIDENT OF THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA,

of the other part,

PREAMBLE

RESOLVED to strengthen economic cooperation between the Community and
its Member States, on the one hand, and the Socialist Federal Republic
of Yugoslavia, a non-aligned, European, Mediterranean State and a
member of the Group of 77 developing countries, on the other hand,

HAVING REGARD to the Final Act of the Conference on Security and
Cooperation in Europe,

MOVED by a common will to contribute to the economic development of
the Socialist Federal Republic of Yugoslavia in various sectors of
mutual interest, having regard to the respective levels of
development of their economies,

RESOLVED to undertake, in accordance with the Joint Declaration signed in Belgrade on 2 December 1976, the necessary efforts to strengthen, consolidate and diversify relations between the Community and the Socialist Federal Republic of Yugoslavia and the interdependence and complementarity of their economies, with a view to more harmonious development of their economic links,

RESOLVED to promote the development and diversification of economic, financial and trade cooperation in order to foster a better balance and an improvement in the structure of their trade and expand its volume and to improve the welfare of their populations,

RESOLVED to provide a sounder basis for cooperation in conformity with their international obligations,

DESIRING to contribute to the development of economic cooperation between countries having different levels of economic development, in the framework of the efforts of the international community to attain a more just and more balanced economic order,

ANXIOUS to contribute to the attainment of the objectives of the Agreements signed at Osimo on 10 November 1975 by the Italian Republic and the Socialist Federal Republic of Yugoslavia, and in particular the objectives contained in the Protocol on the free zone and in the Agreement on the promotion of economic cooperation between the two countries,

CONSCIOUS of the need to take into account the significance of the new situation created by the enlargement of the Community for the organization of more harmonious economic and trade relations between the Community and the Socialist Federal Republic of Yugoslavia, and to strengthen existing links between neighbours,

HAVE DECIDED to conclude this Agreement and to this end have designated as their Plenipotentiaries:

MEMORANDUM

Subject: Information provided by the General Secretariat
of the Council on the Cooperation Agreement between
the European Economic Community and the Socialist
Federal Republic of Yugoslavia

I. MAIN FEATURES OF THE CO-OPERATION AGREEMENT

1. The Co-operation Agreement negotiated with Yugoslavia is an Agreement "sui generis".

Its originality lies in the fact that the content of the Agreement, while modelled on preferential agreements concluded by the Community with various countries, particularly under the overall Mediterranean approach, takes account of the special international position of Yugoslavia as a non-aligned, European, Mediterranean State and a member of the Group of 77 developing countries. In particular, the Agreement does not affect the maintenance of Yugoslavia on the list of countries benefiting from the Community's generalized scheme of tariff preferences (although of course this arrangement cannot in fact be combined with that under the Agreement).

2. The main features of the Co-operation Agreement are as follows:

- unlimited duration
confirming the resolve of the two Parties to lay a solid foundation to their co-operation by making their relations in principle ⁽¹⁾ irreversible;
- overall co-operation
covering a vast range of fields;
- a first five-year stage for the commercial aspects;
- the setting-up of a Co-operation Council to play an important part in the life of the Agreement.

⁽¹⁾ a denunciation clause with six months' notice is included in the Agreement.

II. CONTENT OF THE CO-OPERATION AGREEMENT

The Co-operation Agreement is intended to promote overall co-operation between the two Parties in order to contribute to the economic and social development of Yugoslavia, and help to strengthen their relations.

To this end the Agreement provides for a large measure of economic and technical co-operation, backed up by financial co-operation, together with a commercial aspect and social provisions.

It also provides that, in implementing this co-operation, the two Parties will give special attention to co-operation designed to promote the free zone set up under the Agreements signed by Italy and Yugoslavia in OSIMO in 1975.

1. Economic and technical co-operation

Economic and technical co-operation is of fundamental importance. It is conceived as a means of contributing to the development of Yugoslavia by complementing that country's own efforts and strengthening the economic ties between Yugoslavia and the Community on as broad a basis as possible to the mutual advantage of both Parties.

The areas of this co-operation, as defined by the Agreement, are vast, covering the industrial sector, energy, scientific and technological co-operation, agriculture, transport, tourism, the environment, fisheries and finance.

The aims ascribed by the Agreement to co-operation in various fields are not limitative.

It will be for the institution provided for in the Agreement - the Co-operation Council - to define periodically the general direction of co-operation and to seek ways and means of implementing co-operation in the fields laid down in the Agreement.

Moreover, as regards the free zone set up by the Agreements signed in Osimo, the Community and Yugoslavia will be co-operating closely within the Co-operation Council with a view notably to taking into account the progress of projects to develop this zone, in accordance with the objectives of the aforementioned Agreements.

2. Financial co-operation

The other forms of co-operation will be backed up by financial co-operation whereby the Community will participate in the financing of projects designed to contribute to the economic development of Yugoslavia and of mutual interest to both sides.

During a five-year period, an amount of 200 million EUA can be committed by the European Investment Bank from its own resources for this purpose.

In implementing this financial co-operation, the Community and Yugoslavia will take particular account of the mutual interest attaching to the achievement of the objectives of the Agreements signed by Italy and Yugoslavia in Osimo when considering the list of projects put up for financing.

3. Trade

The aim of the Agreement in this sector is to promote trade between the two parties, taking account of their respective levels of development and the need for a better balance in their trade in order to improve access to the Community market for Yugoslav products.

To this end the two Parties have set themselves the aim of gradually abolishing, in stages, the barriers to the bulk of their trade and have specified in the Agreement the particulars of the first of these stages, for which a period of 5 years has been fixed. One year before the end of this first stage they will commence negotiations to determine the subsequent trade arrangements, with a view to progressing towards their stated aim.

With regard to industry, industrial products originating in Yugoslavia - including ECSC products which are covered by a separate agreement - will on the whole, be eligible for duty-free importation into the Community and will not be subject to any quantitative import restriction. .

However, certain industrial products originating in Yugoslavia particularly certain textile products, will be subject to a system of tariff ceilings, on the understanding that the Agreement does not affect the Agreement concerning trade in textiles concluded by Yugoslavia and the Community under the Arrangement regarding International Trade in Textiles. In addition, certain industrial products originating in Yugoslavia will enjoy a gradual reduction of customs duties upon import into the Community.

The Agreement also provides the Community with the possibility of referring to the Co-operation Council in order to determine any conditions of access to its market which might prove necessary for products which it deems to be sensitive. If the Co-operation Council does not take a decision within three months the Community may take the required measures.

In agriculture, specific tariff concessions are laid down for products of particular importance to Yugoslavia, such as morello cherries, slivovitz under a Community tariff quota of 5,420 hectolitres, wine under a Community tariff quota of 12,000 hectolitres, tobacco of the "Prylep" type under a Community tariff quota of 1,500 tonnes and the abatement of the levy applicable ⁽¹⁾ to imports of baby beef within the limits of a monthly quota of 2,900 tonnes.

Provision is made for the Community and Yugoslavia to grant products originating in the free zone introduced by the Agreements signed in Osimo free access to their markets.

For its part, Yugoslavia will grant the Community most-favoured-nation treatment with regard to trade.

It also has the option of introducing into its trade arrangements with the Community new customs duties or quantitative restrictions or of increasing those already in existence, insofar as its industrialization and development make such measures necessary. However, it must inform the Community so as to allow for discussions beforehand and the measures taken must also be examined periodically within the Co-operation Council.

(¹) In accordance with a scale allowing for the possibility of modulating the reduction in the basic levy on imports of baby beef from Yugoslavia into the Community according to the state of the Community market.

Provisions on dumping, a safeguard clause in the event of sectoral or regional difficulties and provisions to cover difficulties with the balance of payments are also included in the Agreement.

The two Parties have in general acknowledged that application of the Agreement implies a reciprocal commitment, depending on the state of development of their respective economies, to promote wherever possible favourable consideration of their mutual commercial, economic and financial interests. They agreed to examine on an annual basis within the Co-operation Council the measures taken by both parties for this purpose.

4. Social provisions

The Agreement lays down that Yugoslav workers employed in the territory of each of the Member States shall be free from any discrimination on grounds of nationality concerning conditions of work and pay.

It also expressed the readiness of the Member States to hold discussions with the Yugoslav authorities on the position of Yugoslav labour employed in the Community, with particular reference to socio-cultural problems.

5. Institutions

The Agreement provides for a Co-operation Council made up of representatives of the Community and its Member States and representatives of Yugoslavia. The Co-operation Council will have a very important role to play as its responsibilities will include:

- periodically defining the general direction of co-operation;
- seeking ways and means of implementing co-operation in the areas defined in the Agreement;
- ensuring the proper functioning of the Agreement in general and the trade aspects in particular.

It should also be pointed out that both Parties have agreed to encourage continued co-operation and contact between the European Parliament and representatives of the Assembly of the Socialist Federal Republic of Yugoslavia.

ANNEX III

Note on the Treaty of OSIMO

1. The Osimo Agreements take their name from the place where they were signed, on 10 November 1975, by the representatives of the Italian Republic and the Socialist Federal Republic of Yugoslavia. They consist of a Treaty, which settles definitively the border questions left unresolved at the end of the Second World War, and which contains a protocol on the free zone (Annex I) creating a free frontier-zone of approximately 25 km², and of an Agreement on the promotion of economic cooperation aimed, inter alia, at fostering cooperation schemes in the free zone.
2. The Italian Government said at the time that the conclusion of the protocol on the free zone and of the Co-Operation Agreement should give fresh impetus to the industrial and economic development of the city of Trieste. This official aim of the Italian Government was vigorously contested by the great majority of the population of the region, who held that the creation of the free zone in fact ran counter to the region's interests for many reasons-economic, social, ecological etc. Several attempts were made to prevent ratification by the Italian Parliament but without much success, for the Agreements were ratified and have been in force since 1978.
3. The Community, for its part, had given its endorsement to the conclusion of these treaties, taking the view that they were compatible with the EEC Treaty on the basis of Article 234 (decision of the Council (A-item) at its meeting of 5 and 6 November 1975) Moreover, since that occasion, in answering several written and oral questions from members, the Commission has consistently maintained this position.
4. The system set up by these agreements in the free frontier-zone is a franchise system (Article 2: 'all operations relating to the inward and outward movement of materials and goods and their storage, marketing, handling and processing, including processing of an industrial nature, shall be free of all restrictions, taxes and customs duties').

The rules governing the export formalities for goods produced in the free zone differ according to their destination (the Community, Yugoslavia or third countries). Provision is made for petroleum products and fuels (independently of their origin) intended for industrial consumption in the zone; the same applies to electricity. Conversely, other goods originating in third countries, used or consumed in the zone, are subject to Italian and Yugoslav customs duties depending on where they come from.

5. Although the Agreements are in force, they have not yet been effectively implemented and a Joint Italo-Yugoslav Committee is currently engaged in determining a number of criteria governing the operation of the free zone; in particular this committee is drawing up a list of products which may not be imported into the zone and of processing activities which will be prohibited there.
6. A series of special provisions relating to this zone had to be introduced in the Cooperation Agreement (non-reinstatement of duties above the ceiling for products manufactured in the zone - priority for investment projects in the zone, to be financed within the frameworks of financial cooperation) at the express request of the Italians.

Indeed, since the conclusion of a preferential agreement between the Community and Yugoslavia, the Italians fear that it is no longer particularly in Yugoslavia's interests to give preferential treatment to the free zone, since the whole Community territory constitutes a zone of preferential access.

N O T E

Subject: Declaration signed in Belgrade on 2 December 1976

The following is the text of the declaration which was signed by Mr Džemal BIJEDIĆ, President of the Federal Executive Council of the Federal Socialist Republic of Yugoslavia and Mr Max VAN DER STOEL, President of the Council of the European Communities, together with Mr Finn Olav GUNDELACH, Member of the Commission of the European Communities, in Belgrade on 2 December 1976 at the end of a visit which the Community's representatives had made to the Yugoslav capital to express both Parties' desire to strengthen cooperation between the Community and Yugoslavia.

I. THE EUROPEAN ECONOMIC COMMUNITY AND THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA

Desiring to strengthen economic cooperation between the Community and its Member States on the one hand, and the Socialist Federal Republic of Yugoslavia, a non-aligned, Mediterranean, European State and a member of the Group of seventy-seven developing countries, on the other;

Determined to make the necessary efforts to promote an increasingly harmonious development of their economic and trade links, and thus to improve the structure of their trade;

Animated by a common will to contribute to the economic development of the Socialist Federal Republic of Yugoslavia in the various sectors which would reflect their mutual interest, taking account of the respective levels of development of their economies;

Convinced that in view of the growing interdependence and complementarity of their economies, progress in trade between them and in other forms of cooperation will make an effective contribution to their economic growth and to the improvement of the welfare of their populations;

Bearing in mind the Final Act of the Conference on European Security and Cooperation;

Having stated their intention of strengthening, deepening and diversifying cooperation between the Community and Yugoslavia, in the common interest of both Parties, by developing their relations and extending them to new areas.

II. In this connection, the two Parties spoke of the major role in trade policy towards the developing countries played by the instruments and measures adopted under the Community's autonomous system of generalized preferences.

They also stressed the importance, as a factor in developing economic and financial cooperation, of the Community's decisions with a view to enabling Yugoslavia to obtain certain EIB loans, on terms to be agreed, for carrying out projects of common interest.

While respecting the non-preferential nature of the existing Agreement, and in the spirit of Article VII of that Agreement, the two Parties will endeavour to cooperate more effectively in their own mutual interest, particularly in trade, industry, agriculture and economic matters.

With this in mind, everything possible will be done to step up market surveys and sales promotion for the two Parties' goods on their respective markets, particularly for Yugoslavian goods on Community and third country markets.

Exchanges of technology between the Parties will be made easier, in particular so as to help Yugoslavia's industry develop in those sectors which the Socialist Federal Republic of Yugoslavia regards as most important for the growth of its economy.

Cooperation between Yugoslav industry and Community industries will be strengthened, in particular by increasing and broadening contacts between the two Parties' commercial operators, with a view to introducing long-term cooperation between them.

Cooperation in agriculture could be intensified so as to develop the complementarity between the two Parties' economies. This would permit diversification of the Socialist Federal Republic of Yugoslavia's exports to the Community market and third countries.

With a view to the harmonious development of trade, commercial operators of the two Parties could seek forms of cooperation in agricultural investment for areas where a mutual interest is identified.

The two Parties will seek to promote better information about each other's markets; this will help to improve the pattern of trade between them by enabling operators in the Community and in Yugoslavia to identify more precisely the sectors where their exports could be increased.

The growth in economic relations between the Community and its Member States, and the SFR of Yugoslavia should also be sustained by stimulating investment, particularly in joint ventures.

Lastly, the two Parties consider that studies should be made to identify specific sectors where cooperation should be continued and strengthened, such as transport, fisheries, iron and steel, energy, telecommunications, informatics, the environment, tourism, scientific and technical cooperation, and any other sector of mutual interest.

III. In conclusion, the Community and the SFR of Yugoslavia are determined to explore every opportunity of implementing this cooperation, the first fruits of which are already to be seen in the work done under the auspices of the EEC-Yugoslavia Joint Committee set up under the Agreement. They have therefore agreed to call a meeting of this committee as soon as possible, in order, in accordance with Article VI of the Agreement, to start examining the developments envisaged in this statement, and to seek ways of implementing the principles also set out above. The necessary procedures will be adopted as soon as this examination has been completed.

