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Report

drawn up on behalf of the Committee on External Economic Relations

on the state of relations between the EEC and East European state-trading
countries and COMECON

Rapporteur: Mr M. SCHMIDT

By letter of 23 February 1977 the Committee on External Economic Relations requested permission to draw up a report on the state of relations between the EEC and the East European state-trading countries and COMECON.

By letter of 5 April 1977 the President of the European Parliament authorized the committee to draw up a report on this subject. On 11 May 1977 it was decided to ask the Committee on Regional Policy, Regional Planning and Transport of its opinion.

On 21 June 1977 the Committee on External Economic Relations appointed Mr SCHMIDT rapporteur.

The committee considered the draft report at its meeting of 25 January 1978 and adopted the motion for a resolution and the explanatory statement unanimously on 18 April 1978.

Present: Mr Kaspereit, chairman; Mr Scott-Hopkins, vice-chairman; Mr Schmidt, vice-chairman and rapporteur; Mr Martinelli, vice-chairman; Mr van Aerssen, Mr Bersani, Lord Brimelow, Mr Brugha, Mr Cousté, Mr Fitch, Mr Galuzzi, Mr Holst (deputizing for Mr Radoux), Lord Kennet, Mr Klinker (deputizing for Mr Müller-Hermann), Mr Sandri, Mr Schwörer, Mr Spicer, Mr Tolman and Mr Vandewiele.

The opinion of the Committee on Regional Policy, Regional Planning and Transport is attached.

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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

on the state of relations between the EEC and the East European state-trading countries and COMECON

The European Parliament,

- drawing particular attention to the powers conferred on the Community in the field of commercial policy by Article 113 of the EEC Treaty,
- having regard to the fact that for almost three years commercial relations between the EEC and the state-trading countries have not been subject to any treaty,
- having regard to the report of the Committee on External Economic Relations and the opinion of the Committee on Regional Policy, Regional Planning and Transport (Doc. 89/78),

in the matter of relations between the Community and the state-trading countries

1. Hopes that the situation characterized by the lack of any treaty governing foreign trade with the state-trading countries will be rectified as soon as possible with a view to bringing trade based on different arrangements and independent Community measures within the framework of a commercial agreement;
2. Stresses that the current practice of resorting to bilateral co-operation agreements involves a constant risk of circumvention of the Community commercial policy provided for in Article 113 of the EEC Treaty;
3. Notes that, although, according to the figures available, the rate at which the state-trading countries have run up new debts has fallen off in the last two years, their total indebtedness continues to increase, and, believing that the size of this debt may place a serious strain on East-West trade, calls for sound debt management arrangements between the two parties;
4. Draws attention to the increase in barter transactions with the state-trading countries and stresses that such operations restrict the diversity of trade, place small and medium-sized undertakings at a disadvantage, and may lead to market disturbances in the Member States of the Community;

5. Notes that low-price exports and dumping practices on the part of state-trading countries are detrimental to the economies of the Member States, jeopardize employment and distort competition in the sea transport, inland shipping and road transport sectors;
6. Feels, therefore that the Council and the Commission should:
 - continue energetically to pursue their current objectives in the field of trade with the state-trading countries, i.e. the achievement of balanced mutual advantages, the harmonious development of trade, the application of the most-favoured nation clause and the liberalization of imports;
 - coordinate the Community's commercial policy vis-à-vis the state-trading countries with any future industrial policy, in particular as regards products originating from licences or industrial plant exported to those countries;
 - take steps, in keeping with their spheres of competence, to accelerate the process of harmonization in the field of export credits and insurance;
 - extend the consultation procedure in the field of export aid measures and transfer it gradually to the Community framework;
 - take steps to ensure the strict application of GATT rules insofar as they are applicable to state-trading countries, and the introduction of various arrangements better suited to state-trading and to conclude clear agreements on these matters with state-trading countries which are not members of GATT;
 - call a halt to the infiltration of the Community's transport markets by the state-trading countries, secure for the Community transport sector a balanced share in the mutual trade with these countries, and take steps to ensure that Community transport undertakings are not forced out of third markets;
 - press for some relaxation of the overcentralized arrangements governing purchases by state-trading countries, with all the obstacles to trade and bureaucratic hindrances involved;

in the matter of the Community's participation in the now concluded CSCE follow-up conference in Belgrade

7. Hopes that the Council and Commission will submit a review of the results achieved since the Helsinki Conference in the field of cooperation between the Community and the state-trading countries, with particular reference to:
- the introduction and safeguarding of a system of reciprocity which will generally permit a balanced apportionment of advantages and obligations in commercial relations;
 - the potential for cooperation and coordination in the field of development aid;
 - measures with regard to cooperation on the solution of world economic problems in UN organizations and in the context of the North-South dialogue;
8. Calls on the Council and Commission to report to it on the position adopted by the Community in Belgrade and on the proposals and progress made at the Conference, with particular reference to the problems of trade and industrial cooperation dealt with in 'Basket Two';

in the matter of institutional contacts between the EEC and COMECON

9. Welcomes the interinstitutional contacts between the Community and COMECON, the most recent of which, on 21 September 1977 in Brussels, gave the Community, represented by the President of the Council and the appropriate Commissioner, the opportunity to explain its position to the President of the Executive Committee of COMECON and resulted in an agreement to open negotiations in the near future with a view to the conclusion of a treaty;
10. Supports the Commission's efforts to negotiate commercial agreements with individual state-trading countries in accordance with its proposed trade agreements scheme and welcomes its intention of concluding an outline agreement to develop, and perhaps subsequently extend, cooperation with COMECON in areas of mutual competence; stresses, however, that differing interpretation of the question of competence should not be allowed to impede the development of such contacts.

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11. Instructs its President to forward this resolution and the report of its committee to the governments of the Member States, and the Council and the Commission of the European Communities.

EXPLANATORY STATEMENTI. Introduction

1. The development of East-West relations, i.e. of relations between the two directly opposed economic and political systems in Europe, is an irregular, spasmodic process involving constant shifts of emphasis.

In the economic sector visible trade shows a marked predominance over service transactions, and in particular tourism, which are still in the early stages of development. The fear of adding to the strength of the Eastern European countries by intensifying economic relations has receded over the last few years. Attention is now focused on the expectations associated with the opening of Eastern markets to Western industry.

In the institutional context, the fisheries negotiations in Brussels in February 1977 marked a new change in relations between the organs of the Community and those of the state-trading countries, since the Soviet Fisheries Minister, Alexander Ishkov and his colleagues from Poland and the GDR entered directly into talks with the Community on the conclusion of fisheries agreements.

Moreover, in September 1977 the Community and the Council for Mutual Economic Assistance (COMECON) held a top-level meeting to exchange views on contractual relations. All the countries of Europe took part in the follow-up Conference on Security and Cooperation in Europe, which opened in Belgrade on 3 October 1977 and has now been concluded, and discussed economic relations as well as security and humanitarian problems. The European Community as a whole took an active part in this conference, particularly in the work on 'Basket Two'.

2. The European Parliament has been following these developments with great interest and has accordingly asked the Committee on External Economic Relations to draw up the present own-initiative report. This report is confined to relations between the Community and the East-European state-trading countries represented in COMECON¹, with particular reference to trade between the EEC and COMECON over the last two to three years in the absence of any specific commercial agreements.

¹ COMECON consists of: the USSR, the GDR, Poland, Czechoslovakia, Hungary, Romania, Bulgaria, Mongolia and Cuba

- Albania is no longer an active member

- Yugoslavia has observer status and Finland has had links with COMECON since 1973 under a cooperation agreement

As regards the development of trade, the report investigates the problems arising from the debts of the COMECON countries and from the increase in barter trade. Market disruption and dumping by these countries in the goods sector, and in particular in the field of transport, are a frequent cause for concern, especially in view of the Community's conjunctural and structural problems.

The lack of common policies, in particular in the industrial, transport, energy and environmental sectors, represents a considerable drawback in relations with the East-European countries. Suitable objectives and measures should therefore be worked out without delay.

The final section of the report deals with the very complex and difficult subject of inter-institutional relations between the EEC and COMECON, with particular reference to the international standing of the two bodies, their work in international organizations, their respective spheres of competence, and contacts between them so far.

II. The state of relations between the EEC and the East European state-trading countries

1. Present basis of East-West trade relations

3. Mutual trade is not governed by specific agreements now that the Community has become responsible for commercial policy under Article 113 of the EEC Treaty and the last bilateral trade agreements between Member States of the Community and COMECON countries have expired (end of 1974 and in 1975). At the end of 1974 the Community, anticipating this situation, submitted identical models for trade agreements to each of the countries concerned. However, some of the documents were simply returned without comment.

Nevertheless, it would not be true to say that the steady increase in external trade with the COMECON countries had absolutely no contractual or other basis since in fact conditions are determined by international and bilateral agreements, independent Community measures and bilateral cooperation agreements.

1.1. International agreements

4. Several COMECON countries, like the countries of the Community, are members of GATT (General Agreement on Tariffs and Trade), which lays down rules for international trade. The application of the most-favoured nation clause and the balancing of mutual advantages were a major obstacle to the membership of the COMECON countries since most of these states do not apply any customs duties in the Western sense. (We shall return to these problems in a later section.)

The fact remains, however, that Czechoslovakia was one of the founder members of GATT. Poland acceded to the agreement in 1967, followed by Romania and Hungary in 1968. These countries are therefore under an obligation to apply GATT rules.

1.2. Bilateral agreements between the EEC and the COMECON countries

5. Certain bilateral agreements between the EEC and COMECON countries arise directly from GATT. For example, the textile trade agreement between the Commission and Romania, which was negotiated and initialled in 1976, lays down technical and administrative provisions relating to the Multi-fibre Agreement concluded under GATT. Unlike Romania, however, Poland and Hungary, which also signed the Multifibre Agreement, were not able to participate in such negotiations¹.

The outcome of the Commission's direct contracts with Poland and Romania should also be mentioned at this point. 'To guard against any political interpretation, the results of these negotiations were described as 'technical agreements.' They related in particular to the fixing of prices for certain products subject to market regulation. Each of the state-trading countries concerned undertook to maintain an agreed minimum price in return for which it was given guaranteed market access within specified limits'².

¹ See Ehrhardt, Carl: 'EWG und RgW kommen sich nur langsam näher' in 'Aussenpolitik' 2/77, pp. 170 ff

² See Franzmayer, Fritz: 'Zum Stand der wirtschaftspolitischen Beziehungen RgW und EG' in 'Europa-Archiv', 1/1977, p. 10.

1.3 Independent EEC measures

6. The Community's 'independent measures' mainly concern quantitative restrictions. The basis for a Community standpoint in this field is provided by the liberalization lists, which cover and define the different import restrictions in the Member States on products from COMECON countries.

The above measures mainly involve the unilateral fixing of import quotas. However, an active Community policy cannot be properly formulated on the basis of the very slow process of harmonization within the Community in this field. The Committee on External Economic Relations drew attention to this situation as long ago as 1974, when it pointed out that the principle of reciprocity of concessions must be maintained. Unilateral liberalization by the EEC without corresponding counterbenefits from the COMECON countries would be equivalent to prematurely surrendering important advantages in future negotiations¹.

The Committee on External Economic Relations would therefore like the Commission of the European Communities to take stock of the liberalization measures vis-à-vis the state-trading countries and of any counterconcessions granted by these countries.

1.4 Cooperation agreements²

7. Since the expiry of the bilateral trade agreements between Member States of the Community and COMECON countries, bilateral cooperation agreements between these countries have become increasingly important, in particular in view of the absence of Community powers in this field. Cooperation agreements represent the formal legal basis for cooperation between Western undertakings and the economic organizations of COMECON. In essence, such agreements amount to declarations of intent as regards the development of cooperation and specific means for promoting such cooperation (co-production, joint associations, exchange of know-how etc.).

¹ See Klepsch report - Doc. 425/74, pp. 16 ff.

- At present, 772 of the 1,098 Common Customs Tariff headings have been fully liberalized and 99 partially liberalized for the benefit of the state-trading countries. In an answer to a question by the rapporteur, the Commission pointed out that, under its comprehensive contractual offer of November 1974, the problem of liberalization was only one aspect of future negotiations. It was still true, however, that a unilateral liberalization of these imports might weaken the Community's future negotiating position. - In this connection it seems incomprehensible that the Council, on 22 December 1977, should again have raised import quotas for the state-trading countries by up to 5% unilaterally, i.e. without corresponding counterbenefits.

² The general expression 'cooperation' may be defined here as: 'long-term, permanent, technical and economic collaboration, with precise and agreed individual objectives, between economic organizations of state-trading countries and Western undertakings' - Bartsch, VUB 4/77, p. 95.

8. It is very difficult to draw the dividing line between cooperation agreements and the previous type of trade agreement. One reason for this is that the COMECON countries have so far refused to recognize the transfer of trade policy powers to the Community. In fact, they use cooperation agreements to demand external trade concessions aimed at enabling them to circumvent any Community trade policy.

The considerable importance attached by the Member States of the European Community to economic cooperation with the COMECON countries has also made them more willing to grant trade concessions, in particular by lifting quantitative restrictions on supplies of goods for cooperation projects and by making preferential arrangements for imports and exports and customs clearance in connection with the implementation of cooperation projects.

9. Such provisions, which run counter to Article 113 of the EEC Treaty, may be found in a number of cooperation agreements between the Member States of the EEC and the COMECON countries. For example, the agreement of 22 May 1973 between Italy and Romania provides for the application of the most-favoured nation clause in relations between these two countries.

Article 2 of the cooperation agreement between Germany and Romania of 29 June 1973 and Article 2 of the cooperation agreement between the Netherlands and Romania of 5 April 1974 contain similar provisions.

However, although these examples involve a member of GATT, i.e. Romania, and amount to an extension of corresponding GATT arrangements, it can nevertheless be argued that strictly-speaking even agreements such as these clearly fall outside the competence of individual Member States of the European Communities.

10. Agreements relating to quantitative restrictions pose an even more serious problem. For example, Article 4 of the cooperation agreement between Italy and Romania provides for the granting of import permits in respect of products arising from cooperation projects. The exchange of letters annexed to the agreement between the Netherlands and Poland of 2 July 1974 contains similar provisions. The Franco-Soviet cooperation agreement also contains provisions designed to allow increased sales of Soviet goods in France.

Agreements such as these, and others in the credit field, fall clearly within the Community's sphere of competence. The Committee on External Economic Relations has repeatedly drawn attention to these problems and warned against the circumvention of Community trade policy¹.

¹ See also Klepsch report, loc. cit., pp. 19 ff;
Jahn report - Doc. 359/73, p. 10.

- In answer to a question by the rapporteur, the Commission points out that its departments have taken successful steps to avoid the dangers of a trade policy interpretation of the provisions of the agreements (referred to in points 9 and 10) through unilateral statements of interpretation by Member States.

The Council and Commission of the European Communities went some way towards quelling these fears in a debate on a question in the European Parliament¹. On this occasion it was stressed that the Community information and consultation procedure for cooperation agreements (decided on by the Council on 22 July 1974) had been applied in respect of the 44 bilateral cooperation agreements listed as at 1 July 1975² and had worked to the satisfaction of the Community organs.

11. However, despite these assertions and despite the fact that, according to the Commission's estimates, only about 7% of all trade between the Member States of the EEC and COMECON is based on cooperation agreements, the Committee on External Economic Relations feels that there is still scope for national action by individual Member States in this field, especially since East-West cooperation between private undertakings is steadily expanding and a large number of major joint projects are only in their initial stages and the products involved are at present reaching only small sectors of the Community market.

A Community cooperation policy is essential, and during the above debate in May 1976, the Commission announced appropriate measures³. The Committee on External Economic Relations therefore asks the Commission to submit a detailed appraisal of the results achieved so far, of progress towards harmonization and of the latest developments in East-West relations in the field of cooperation.

2. The development of trade and special problems

12. Although external trade between the Community and COMECON still accounts for only a relatively small proportion of the Community's total external trade (about 7%), the considerable expansion of trade with the COMECON countries merits even more attention than it did in previous years, particularly in view of the Community's present conjunctural and structural difficulties. This may be illustrated by a brief review of the figures involved.

The problems effecting the trade sector have undergone little change since the committee's last investigations in 1974. However, there have been certain shifts of emphasis which we shall now consider in more detail, attention being drawn in particular to the debts of the Eastern-bloc countries - a much debated topic in the West - the considerable increase in barter dealing, and the growing disruptive influence and dumping practices of COMECON countries on both commodity and transport markets in the Community.

¹ Report of Proceedings of 12 May 1976, OJ No. 203, pp. 152 ff.;

² See Annex I (Texts of agreements between the FRG and state-trading countries can be consulted in the committee's secretariat).

³ The Commission has since informed the rapporteur that the plans for economic cooperation with the state-trading countries announced in the debate have not so far produced any tangible results.

2.1 Quantitative developments

13. As already mentioned, the structure of external trade between the EEC and the COMECON countries has undergone little change. Thus, the Community's exports to these countries still consist mainly of capital goods. Imports, on the other hand, mostly take the form of agricultural products, raw materials and fuels, and semi-finished products. We shall investigate the changes which are already becoming apparent in this field at a later stage.

14. Since the beginning of the 1970's the COMECON countries have been stepping up their imports of Western capital and consumer goods and technology, incurring larger and larger debts in the process. The volume of trade with the EEC has increased at a staggering rate¹, almost doubling between 1973 (13,000 m u.a.) and 1976 (24,000 m u.a.). Indeed, since 1955, when the figure was 1,000 m u.a., it has increased more than twentyfold.

The Soviet Union has played a particularly prominent role in these developments since it accounts for almost half of COMECON's imports from and exports to the Community. The "Österreichisches Institut für Wirtschaftsforschung" draws particular attention in this connection to a number of interesting changes within COMECON². Thus, in recent years the terms of trade for transactions within the Eastern bloc and with Western countries have improved relatively more in the USSR than in the other COMECON countries.

Estimates put the Soviet Union's present net debt vis-à-vis the West at about \$12,000 million. Taking account of the country's overall economic potential and its export capacity, this works out at less than the debts of most of the other East European countries. One reason for this is that the USSR is able to restrict its imports from the West mainly to advanced technologies, since it is self-sufficient in raw materials and obtains less advanced technologies from the other COMECON countries.

The following comparison of the external trade figures of the Member States of the Community and the COMECON countries will help to clarify the situation and illustrate the USSR's position.

¹ See Annexes II - V;

² See Frankfurter Allgemeine Zeitung, 17 February, 1977, p.6

Volume of external trade

(External trade as a percentage of gross national product)

Federal Republic of Germany	20.85	USSR	8.3
France	18.25	Poland	15.5
United Kingdom	24.5	Romania	30.5
Italy	23.7	GDR	22.3
Netherlands	47.75	Czechoslovakia	21.2
Belgium/Luxembourg	52.85	Hungary	31.6
Denmark	28.8	Bulgaria	35.0
Ireland	48.45	Cuba	23.0
European Community *	24.75	COMECON **	13.0

* 1975, based on European Community figures

** 1973, based on World Bank Statistics

Per capita external trade

(in US dollars/1974)

	Imports	Exports
European Community	1136	1066
FRG	1120	1442
USA	476	458
USSR	99	109

Source: World Bank statistics

15. The trade balance has also undergone a further remarkable change, to which we shall also return when considering the debt problem. In 1975 and 1976 Western countries were still very concerned about the rapidly growing deficits in trade balances with the COMECON countries. However, the debate has petered out since the statistics for 1976 became available and showed the astonishing ability of the state-trading countries to react quickly to certain economic developments.

The tables contained in Annexes II and III show that exports from the East European state-trading countries in the Community in 1976 (11,300 m EUA) were about 34% higher than in 1975 (8,400 m EUA). Over the same period, however, their imports from the Community increased by only about 8%, i.e. from 11,700 m EUA to 12,500 m. Thus, a drastic reduction was made in the overall Comecon-EEC balance of trade deficit (from 3,300 m EUA in 1975 to 1,200 m EUA in 1976).

In this case too, the USSR's figures were the most impressive, since that country converted a deficit with the EEC of 1,100 m EUA in 1975 into a surplus of 400 m EUA in 1976.

In principle, the state-trading countries' efforts to improve their balance of trade with the Community can be seen as a positive development. However, it is still too early to say whether this situation will last. Further developments in trade must therefore be very carefully monitored and analysed.

2.2 The problem of the COMECON debt

16. As already mentioned, the rapid expansion of East-West trade, the growing balance of trade deficits and the increased borrowing by COMECON countries became a matter for debate in the West both among experts and at a more general level and aroused public concern at the debts of the countries of the Eastern bloc.

An objective analysis of this problem is extremely difficult because the countries concerned do not publish the relevant figures¹. In the past, therefore, we had to rely primarily on estimates supplied by the banks, which put the cumulative debt of the Eastern bloc countries at between 30 and 60 million US dollars and often created more uncertainty than clarity.

17. As for the European Community, the Commission has provided, in its answer to a written question², the relevant figures for a comparison between officially supported export credit transactions (exceeding five years) and total Community exports. The following table summarizes the situation:

	1973	1974	1975
Exports from the Community to the Eastern European countries (in millions US dollars)*)**)	8,036	11,726	14,519
Export credit transactions in respect of exports from the Community to the Eastern European countries (in millions US dollars)x)	1,059	1,976	2,378
Export credit transactions as a percentage of total exports from the Community to the Eastern European countries	13.2	16.8	16.4

*) Source: OECD - Statistics of foreign trade - Series A;

***) The Eastern European countries concerned are: Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania and the USSR;

x) Source: OECD - Trade Committee - November 1976

¹ Hungary is an exception: the Hungarian National Bank has now published a balance of payments drawn up in accordance with IMF criteria; See LE MONDE, 15 November 1977, pp. 21 ff;

² Written Question No. 963/76 by Mr Hougardy to the Commission, OJ C 162, 11.7.1977, pp. 10 ff.

The Commission was also asked whether it considered that 'the loans granted to COMECON countries and in particular the USSR are in proportion to the volume and trends in trade between the EEC and these countries, in comparison with loans granted to the developing countries and the USA'. By way of answer, the Commission published figures on the volume of trade¹ together with the following table, which gives a breakdown by destination of officially supported Community export credit transactions exceeding five years:

Community export credit transactions *)

	1973	1974	1975
Community export credit transactions (in million US dollars) in respect of:			
(a) all destinations	3,144	5,888	9,000
(b) developed countries	189	332	1,157
(c) developing countries	1,895	3,580	5,465
(d) Eastern European countries	1,059	1,976	2,378
(e) of which, the USSR	852	1,169	1,382
Percentage breakdown of Community export credit transactions:			
- developed countries	6.0	5.6	12.9
all destinations			
- developing countries	60.3	60.8	60.7
all destinations			
- Eastern European countries	33.7	33.6	26.4
all destinations			
- USSR	27.1	19.8	15.4
all destinations			
- USSR	80.4	59.2	58.1
Eastern European countries			

*) Source: OECD - Trade Committee, November 1976

These figures speak for themselves and serve to place the concern expressed in many quarters in its proper context. To some extent, it may be assumed that the world breakdown of credit transactions is similar to that described above. As the table shows, almost two-thirds of the credit volume goes to developing countries and only one-quarter to COMECON countries.

¹ See Annexes II - V

18. One of the most recent international discussions on the problems connected with the debts of the COMECON countries was held in Budapest from 17 to 19 October 1977 at a colloquim on monetary and financial problems in the East and West¹. A number of the main points raised in this discussion which are also relevant to the Community are mentioned below.

According to data supplied by a major American bank, the total balance of trade deficit accumulated by the Eastern European countries between 1961 and 1976 amounts to 42,500 million US dollars. More than 85% of this deficit has been incurred since 1971 and more than half of it in 1975 and 1976. The same study estimates the total gross debt of these countries at 46,800 million US dollars for the end of 1976, with net debts (i.e. gross debts less the amounts held by Eastern European countries in Eurocurrencies in Western banks) totalling 38,800 million US dollars.

Despite the efforts by COMECON countries to reduce their balance of trade deficits, experts believe that the total debts of these countries may well rise to 70 to 90,000 million US dollars by 1980.

19. A number of criteria may be used to provide a better idea of the significance of these amounts.

- The total debts of the COMECON countries are equal to only 4% of their gross national product. On this basis, the debts of the developing countries are five times higher even though they account for only 10% of world industrial production (as opposed to the Eastern bloc's 30%). More specifically, the debts of the USSR amount to about US\$ 16,000 m, whereas those of Brazil amount to about US\$ 25,000 m. The total COMECON debt stands at about US\$ 40 to 45,000 m as opposed to the US\$ 80,000 m of the Latin American countries (whose gross national product is only about 35% of that of the Comecon countries) or to the US\$ 190,000 m of all the developing countries in the third world (with estimated repayments of US\$ of 35,000 m per year).
- In terms of the volume of COMECON exports to the West, the situation no longer seems as favourable, and there are very considerable differences between the individual countries. A further criterion in this connection is the debt redemption favour, i.e. the annual repayment of capital and interest on medium and long-term foreign debts in proportion to annual exports.

According to a major German bank, the position of the individual COMECON countries with regard to borrowing may be described as follows:

POLAND	- very near the upper borrowing limit;
BULGARIA	- borrowing limit already reached;
HUNGARY	- good credit risk;
ROMANIA	- credit standing depends very much on political factors;
CZECHOSLOVAKIA	- relatively small debts in the West, heavy debts in the East;
GDR	- good credit risk;
USSR	- no doubt about repayment ability

¹ See 'LE MONDE' 8 November 1977, p.28

20. In January 1977 an Eastern bloc loan miscarried for the first time¹. The operation in question involved a 200 million US dollar roll-over -credit arrangement between an American bank syndicate and the Moscow International Investment Bank. No great significance was attached to this case because the failure was due not to doubts about the credit standing of the Moscow Bank but to incompatible negotiating positions. Because of possible adverse repercussions in the event of payment difficulties on the part of any one Eastern European state-trading country, the other COMECON countries are generally assumed in the West to accept joint and several liability. However, in the absence of any relevant examples, it is extremely difficult to say how this would work in practice.

Generally speaking, the factors indicated below must also be taken into account in any assessment of the debts of the COMECON countries.

The COMECON countries have been using Western credits to finance their imports of capital goods. The aim is to speed up industrialization with the aid of Western technologies -and, with Western assistance, to exploit new sources of raw materials in the relevant countries (Soviet Union, Poland). This will not only increase prosperity and improve the level of self-sufficiency in raw materials and energy in the COMECON area but will also - in the long-term - make for a better export position on Western markets (export-oriented growth).

It should also be remembered that the increase in the debts of the COMECON countries was in no way seen as an undesirable development by the Western countries. In point of fact, the credit-financed increase of exports to the COMECON countries was particularly welcomed by all Western countries during the economic lull of 1974/75 and the COMECON countries enjoyed a correspondingly high credit standing. Moreover, the plans for 1976 to 1980 show that the reduction of the imbalance in external economic relations with the West is an important economic objective for that period. This aim is to be achieved primarily by an increase in exports by the COMECON countries although an appreciable reduction in imports (by comparison with the period from 1971 to 1975 will also contribute to the desired result (see figures on trade development above.)

Thus, Hungary's exports to the non-Socialist countries are to be increased by 60% whereas imports from these countries will only rise by 38 to 40%.

Czechoslovakia plans to increase exports to the West by 43% whereas imports will rise by only 8%.

¹ See *Frankfurter Allgemeine Zeitung*, 29 January 1977, p.10.

Poland aims to increase exports to the West by 75%, while imports from the West will rise by 25%. The USSR hopes in particular to extend, on a compensation basis, transactions which guarantee a proper balance, i.e. a *quid pro quo*, in trade relations¹.

21. Answers can also be given, on the basis of these comments and the talks in Budapest, to the three most important questions connected with the problems under discussion.

- (a) Have the debts of the COMECON countries vis-à-vis the West reached a critical point?

Governments and economists unanimously agree that the overall debts of the Comecon countries give no cause for concern.

- (b) What course are the debts of the COMECON countries likely to follow in future years?

These debts are seen as a long-term phenomenon. No substantial reduction can be expected in the next ten to fifteen years.

- (c) How can balance be restored?

Experts agree that although a reduction of imports from the West by COMECON countries - the policy pursued last year - may result in a temporary decrease in debts, it will bring with it long-term economic and political problems, particularly for the Eastern European countries. (Without imports from the West, growth would be slower, supplies of consumer goods would deteriorate, structural reforms would become more difficult, and export capacities would not improve etc.). Thus a very discriminating approach must be adopted with regard to the debts of the COMECON countries. The danger of over-reaction must be avoided.

22. Finally, attention should once again be drawn to the lack of progress towards Community harmonization in the field of export credits, particularly in respect of the COMECON countries. Although by the Council Decision of 14 March 1977 the 'gentlemen's agreement' was provisionally transferred into the Community framework (expiry date 31 December 1977), the Committee on External Economic Relations has nevertheless criticized the Commission's

¹ See also: Macharowski, Aussenwirtschaftspolitische Ziele der RgW-Länder in neuen Planjahr fünf 1976-1980, in Europa-Archiv 2/77, p.85

inactivity in this field and expressed doubts as to the effects of the above-mentioned Council Decision¹.

It would therefore be interesting to hear from the Commission what practical results have been achieved in this field in the meantime².

2.3 A return to barter trading between the EEC and the COMECON countries?

23. Countertransactions have always formed the basis for foreign trade relations within COMECON as a result of Eastern planning systems, which involve mutual commitments to supply and take goods etc., and as a result of the non-convertibility of Eastern currencies.

In recent years such transactions have been used with increasing frequency in trade between COMECON and the West. The main reason for this lies in the poor trade balances in the East and the attempt to introduce improvements by drastically reducing imports and considerably increasing exports. Since a cutback on imports would jeopardize the attainment planned objectives, the state-trading countries, and in particular the USSR, are concentrating their efforts on boosting exports. For this reason, Western exporters come under increasing pressure to accept part of their payment in Eastern goods, and the competitiveness of individual firms is measured in COMECON countries on the basis of the volume of Eastern goods they are able to take.

24. Countertrade may take any of the forms indicated below³.

Barter: This is the direct exchange of goods between East European and Western partners. Barter transactions differ from all other forms of countertrade in as much as neither money nor third parties are involved.

Compensation: This a procedure whereby the western supplier agrees to accept part or full payment in merchandise. In compensation transactions the commitments to buy and to sell are covered in a single contract, which makes the procedure very complicated and time-consuming. Full compensation is similar to barter trading, although the Western and East European deliveries are paid for in cash independently of each other and the Western exporter may transfer his obligation to buy to a third party. In the case of

¹ Cousté Report - Doc. 129/77, p.6 and 13;

² In an answer since received to questions by the rapporteur, the Commission expresses general satisfaction with the functioning of the 'gentlemen's agreement'. The new negotiations on the clarification and tightening-up of the contents of the agreement were concluded on 22 February 1978.

³ See 'Current Countertrade Policies and Practices in East-West Trade' published by the Business International Institute, quoted in the Neue Zürcher Zeitung, 16 November 1977, p. 16.

partial compensation, the Western exporter receives a percentage of his payment in cash and the rest in East European goods. The disadvantage of partial compensation is that the Western exporter receives prompt payment for only a percentage of his supplies. The remainder does not become available until a purchaser has been found for the East European goods and has made payment. At present about 10 - 15% of all countertrade takes the form of compensation transactions.

Reciprocal purchasing arrangements are the most common procedure. Under such arrangements, Western exporters undertake to buy East European goods equal to the value of a given percentage of their exports. The main difference between this system and compensation is that two separate contracts are concluded for the Western exporters' sale and his commitment to buy, each containing a reference to the other contract. A further difference is that in transactions of this type the exporter receives payment immediately after delivery is made and has time to look around for suitable goods to buy. The Western buyer must then make payment for these reciprocal purchases direct to the East European vendor.

Product payback arrangements for the establishment of new plant are gaining popularity more rapidly than any other system. Under this procedure Western suppliers of industrial plant agree to accept part-payment in goods manufactured with the plant supplied and with Western technology and know-how. Payments made in this way may amount to as much as 100% of the value of the goods supplied from the West. Until recently product payback arrangements usually covered between 20 and 30% of the overall payment but this has now risen. Indeed, there have been cases where Western exporters have signed long-term contracts to take goods for up to as much as 200% of the value of the original export.

25. By means of such transactions, the COMECON countries boost their exports of semi-finished and finished products to the Community and elsewhere, which contributes to better trade balances. At the same time, they save money on market research and on all measures connected with sales in the West. However, compensation transactions need not necessarily benefit only one party. They may also bring advantages to both sides. Examples of this are the natural gas pipe transactions between the USSR and certain Member States of the European Community or the transactions involving counterbenefits in raw materials for the Community, which is poor in natural resources.

However, problems generally arise for small and medium-sized undertakings which are not in a position to enter into extensive reciprocal transactions as the type described above. Disadvantages might also arise if compensation is adopted as a principle or if the Community exporter is offered exchange goods which would be difficult to sell.

As there is no common trade policy in this sector either, the Commission should be asked what practical steps it is taking to make full use of its powers vis-à-vis the Member States and ensure that the practices described above have no adverse effects on the Community¹.

2.4. Market disturbances and the dumping practices of COMECON countries in the Community's goods and transport sectors

26. Because of the world economic recession, market disturbances caused by low-price imports and dumping on the part of industrialized, developing and COMECON countries are becoming increasingly detrimental to the Community. The effects of such practices by the COMECON countries are most apparent in the textile, finished products and steel sectors. As the Committee on External Economic Relations is at present drawing up two reports on these problems, a few topical examples will suffice here to illustrate the situation in the goods sector².

27. The Commission is endeavouring, by means of suitable agreements with GATT members Hungary, Poland and Romania, to counteract the repeated market disturbances in the Community's textile sector caused by price undercutting on the part of the COMECON countries. In the talks which began at the end of October 1977 the Commission has been trying to arrange self-restraint agreements containing price and reciprocity clauses. The aim of such agreements is to ensure that exports from these countries to the Community are made only at prices which cannot cause market disturbances. In addition, the Community also wants guaranteed access to COMECON markets for its own textile products.

28. At this point, attention should also be drawn to the Community's lighting equipment sector, which is at present suffering as a result of dumping by the COMECON countries³. The national associations of the Member States have in fact addressed a complaint on this matter to the Commission. According to the manufacturers, the West European market is being flooded with lamps from East European state-trading countries which, for the purposes of acquiring currency, are being sold at prices which are not based on true costs. Indeed, it is reported that in some cases import prices correspond exactly to material costs and may be more than 50% lower than production costs in the West European industry. Such cut-throat competition could mean that manufacturers will go out of business and jobs will be lost in the process.

¹ In an initial brief reply to a question by the rapporteur, the Commission stated that a general assessment of the abovementioned trading practices is not yet possible. However, care should be taken to prevent compensation to becoming a principle of East-West trading relations.

² See Lord Brimelow Report - PE 50.277 and Cousté Report - PE 49.532/rev., pp. 12 ff.

³ See Frankfurter Allgemeine Zeitung, 19 October 1977, p. 16.

29. The consequences in the important iron and steel sector are more serious. This industry points out that the massive increase in exports from the COMECON countries is causing market disturbances and losses of jobs in the Community. The prices quoted by these countries are far below the Commission's guide prices, with differences amounting to as much as 200 DM per tonne.

It is also difficult for the Community to adopt a common position on matters connected with the iron and steel sector because of the different rules which still apply in individual Member States. In England, France, Denmark and Ireland imports are fully liberalized. In other countries, however, different quantitative restrictions are still applied in respect of sensitive products. The German list of products of this type is shorter than the Benelux or Italian lists.

30. Leaving the goods sector aside, dumping by the COMECON countries on the Community's transport markets - a practice which has so far attracted scant attention - has also reached disquieting proportions. Since the draftsman of the Committee on Regional Policy, Regional Planning and Transport has dealt in considerable detail with this problem in the attached opinion, all that is required here is a summary of some of the main points raised.

Parallel to the growth in East-West trade, the state-trading countries have carried through a planned expansion of their transport capacities and caused far-reaching changes in competition on the Community's freight market, especially in the fields of sea transport, inland shipping and road transport.

The procedure adopted by the COMECON countries is roughly the same in all three of the above sectors.

- Enterprises from the COMECON countries participate in Western shipping and transport undertakings or establish their own branch offices in the Community. (Western undertakings are not allowed to do this in COMECON countries.)
- Western importers and exporters are increasingly required to effect corresponding transactions through East European transport undertakings.
- Freight rates in the Member States of the European Community are undercut by up to 50%, with the result that such dumping practices are threatening the existence of increasing numbers of Western undertakings.

The Committee on Regional Policy, Regional Planning and Transport therefore stresses the need for a common position in this field centring on the fair distribution of freight traffic between the European Community and the COMECON countries and leading to the speedy adoption of measures with a view to ensuring that the average costs incurred by Western transport undertakings are used as a basis for the freight rates concerned¹.

3. EEC measures and objectives in East-West trade

31. In its 'model for trade agreements' with state-trading countries, which was adopted by the Council on 15 October 1974, the Community set the following objectives for its trade with these countries²:

- (1) long-term, non-preferential trade agreements in which an overall balance of benefits to either side would be guaranteed;
- (2) general skeleton provisions aimed at guaranteeing the harmonious development of trade;
- (3) reciprocal application of the most-favoured nation clause, with due regard to the traditional exceptions;
- (4) progress towards the liberalization of imports.

Although the COMECON countries attach considerable importance to the attainment of these objectives from their own point of view, and although the latter points head their list of requirements from the Community, they have not so far accepted the Community's offer for obvious political reasons and, despite the interinstitutional meetings held in the meantime, they are further attempting to circumvent those elements of the common commercial policy which have so far been put in effect (see above).

32. Until such time as the Community can achieve its objectives in direct negotiations with the COMECON countries, it must make every effort to accelerate the process of Community harmonization in the fields of cooperation (and the compensation transactions which often go with it), export credit allocation and insurance, and quantitative restrictions. If the Commission can finally assert its powers in this field pursuant to the EEC Treaty, the COMECON countries will also come to Brussels to settle their trade problems.

1

Nyborg Opinion - PE 50.003, p.10

- The Commission informed the rapporteur that it had already forwarded to the Council a proposal for a decision on relevant inland waterway transport issues. A further proposal for a decision on sea transport is being prepared.

² See Klepsch Report: loc. cit., p. 22

However, the Community must in particular seek to clarify its industrial policy. This applies equally to relations with the COMECON countries and to relations with other third countries. Will the Community continue to step up its exports, will it export more know-how and more technology of every kind and thus maintain and create jobs? And must it also be prepared to accept corresponding imports from the recipient countries concerned? The COMECON countries take the view that if the Member States of the Community, for example, export entire factories for manufacturing textiles, cars etc., they must also be prepared to accept goods produced in these factories so that the East European countries concerned can acquire the necessary currency for further purchases.

Thus, within the framework of its industrial policy, the Community must consistently encourage the structural adjustments necessary to ensure that it can maintain its competitiveness and adequately withstand the pressure of supplies from the COMECON countries without the loss of jobs. Clear objectives must be set for the Member States' trade and industry in this field. Otherwise the clamour for protectionist measures will increase, as it has in recent years, and the Community's foreign trade will be seriously disrupted.

33. Similarly, attention should also be drawn to the adverse effects of the absence or inadequacy of Community policies vis-à-vis the East European state-trading countries in the agricultural (butter transactions), transport, energy and environmental sectors. Appropriate objectives and criteria are required in these fields.

The main objectives for East-West trade have been mentioned above. Appropriate measures have also been mentioned in this and other individual reports by the Committee on External Economic Relations. The main requirements may be summed up as follows:

- Harmonization of liberalization measures and compliance with the¹ principle of reciprocity in relations with the COMECON countries;
- Extension of the consultation procedure for cooperation agreements and progressive transfer of such agreements into the Community framework²;
- Extension of the consultation procedure for export promotion³ measures and progressive transfer into the Community framework³;
- Strict application of GATT rules relating to dumping and market disturbances and clear agreements with COMECON countries which do not belong to GATT.

The speedy implementation of these basic measures, which are only outlined briefly here, is an essential prerequisite for the desired balanced and harmonious development of trade with the COMECON countries.

¹ See Klepsch Report: loc. cit., pp.16 ff.

² See Jahn Report: loc. cit., p.6

³ See Cousté Report: loc. cit., p.6.

III. Institutional relations between the EEC and COMECON

34. Since 20 March 1972 when, at a Soviet trade union congress, Mr Brezhnev made his much-quoted speech containing the first official reference in the USSR to the 'existence of the common market', mutual contacts between the EEC and COMECON have steadily improved and to all intents and purposes have led, almost imperceptibly, to mutual de facto recognition in international organizations.

However, direct relations between the two bodies continue to present difficulties because of the differences in their respective spheres of competence and the resulting political implications, which will be crucial to the further development of contacts.

1. The international standing of the two bodies and their work in the UN and the CSCE

35. Articles on the differences between the spheres of competence of COMECON and the Community and, more generally, on the question of mutual recognition, seldom mention that the two organizations are often placed on an equal footing at international level. For example, in 1974, COMECON and the EEC were granted observer status in the UN and the ECE (Economic Commission for Europe). Moreover, in 1975, the two organizations signed cooperation agreements with the International Atomic Energy Agency (IAEA) in Vienna¹.

36. Signs that the COMECON countries were increasingly prepared to recognize the Community were also apparent at the Conference of Security and Cooperation in Europe (CSCE), which was concluded in Helsinki on 1 August 1975. To be more precise, the COMECON countries did not object to the active participation of representatives of EEC bodies or to the Final Act of Helsinki being signed, in view of the EEC's powers in respect of its Member States' trade policies, which could no longer be disputed under international law, by the President-in-Office of the Council of Ministers of the European Communities in precisely that capacity. The Italian Prime Minister, Mr Moro, who was then President of the Council, also drew attention to this fact in an official declaration.

The extent of these concessions by the COMECON countries will be apparent in particular from the fact that they were unable to obtain any foothold at all for COMECON in the Helsinki documents.

¹

See Eberhardt, Carl: loc. cit., p.162

37. Cooperation between the two organizations continued within the Economic Commission for Europe partly with a view to preparing for the now concluded CSCE conference. These activities related especially to CSCE Basket Two: 'Cooperation in the fields of economics, of science and technology and of the environment'.

The European Parliament has not so far been adequately informed of the results of this work or the Community's position at the Belgrade Conference. This, particularly in the field of economics, we know only from press reports that the Commission and Council have several times intervened on behalf of the European Communities and submitted proposals. The Commission has once again drawn attention, inter alia, to its model for trade agreements, to the inadequacy of exchanges of economic information and to the difficulties connected with exports to the COMECON countries. The Council is reported to have submitted proposals on scientific and technical cooperation, the improvement of the flow of information and the facilitation of business contacts.

38. Since it does not have the relevant details on the Community's position at this important conference, the Committee on External Economic Relations calls on the competent Community bodies to report to it in the European Parliament on the matter. It should also be pointed out at this stage that no information has been made available on whether contacts with the state-trading countries in international organizations since the Helsinki Conference have yielded any results as regards reciprocity in trade relations, cooperation and coordination in the field of development aid, or the solution of world economic problems.

In this connection, the Committee on External Economic Relations believes that, in view of their increasing share in world trade, the COMECON countries should also assume commensurate responsibilities. Since the Community and COMECON are both represented in international bodies, and in particular in UN organizations, the Community should press more urgently for increased participation by COMECON countries in the solution of world problems relating to development aid, food, and energy and raw materials supplies.

2. Further development of institutional contacts

39. The fact that the Community and COMECON assume different attitudes towards each other continues to represent the main obstacle to the further development of mutual relations. To be more precise, COMECON is being very slow in recognizing the European Community. On the other hand, the Community is not prepared to recognize COMECON as a partner in negotiations for trade agreements on the grounds that it is not a supranational organization and has no power to give binding undertakings on behalf of its Member States. For this

reason, the Community at present only wants to extend its relations with COMECON in matters connected with the exchange of economic information, statistics and environmental protection. This means, however, that there will be no Community trade policy vis-à-vis COMECON as such.

40. Here we have the crux of the problem which the differences in spheres of competence and political considerations pose for interinstitutional relations. The Community does not want to encourage, by means of contractual agreements, even stronger bonds between the smaller East European state-trading countries and the Soviet Union, whose power is already overwhelming. COMECON, however, has repeatedly stressed that it does have the power to enter into agreements with other countries on behalf of its members and asserts that it has already done so. Moreover, it feels that the question of powers is an internal matter of no concern to the European Community.

Because of these differing viewpoints, there is a risk that if the European Community persists in its attitude, COMECON will feel forced to act and the Soviet Union, in particular, will press for it to be given powers similar to those of the European Community. The legal situation thus created would be completely at variance with the European Community's original intentions and should therefore also be borne in mind.

41. Against this background, interinstitutional contacts between the EEC and COMECON have been further extended since the last investigations of the Committee on External Economic Relations in December 1974¹. A meeting between a delegation from the Commission and a delegation from COMECON in February 1975 in Moscow failed to yield any practical results.

However, after a year of inactivity, COMECON surprisingly approached the Community with a view to the conclusion of a treaty. To be more precise, on 16 February 1976, in Luxembourg the Vice-President of the Council of Ministers of the German Democratic Republic presented to the President of the Council of the European Communities, then Prime Minister of Luxembourg, a draft agreement between COMECON and the European Community, consisting of a preamble and 15 articles, on basic arrangements for mutual relations.

1

See Klepsch report: loc. cit., p.24

In essence, this document reiterated the usual demands and objectives of the COMECON countries vis-à-vis the West; for example¹,

- expansion of trade and cooperation and application or extension by the European Community of most-favoured nation treatment and non-discrimination;
- more loans at favourable conditions;
- extension of European Community preferences to interested less-developed COMECON countries; and
- improvement of exchange of information and mutual contacts etc.

42. The Community declared that it was not prepared to enter into negotiations on the basis of the COMECON draft and on 15 November 1976, after much deliberation, dispatched a secret answer to COMECON. In the accompanying letter the Community reminded COMECON that it was willing to enter into trade negotiations with any individual Member State of that organization in accordance with the offer it made in November 1974.

As we mentioned at the beginning of this report, the Soviet Union, Poland and the German Democratic Republic have shown how flexibly the COMECON countries can react when their own interests are involved. In February 1977 they sent ministers to the Council's headquarters in Brussels for negotiations on outline agreements on fisheries.

43. On 21 September 1977, after a further exchange of letters, a meeting was held in Brussels between Mr Marinescu, Romanian Deputy Prime Minister and President of the Executive Committee of COMECON, Mr Simonet, Belgian Foreign Minister and President of the Council of the European Communities, and Mr Haferkamp, Vice-President of the Commission. At this meeting, during which further direct preparatory talks were held, it was agreed that negotiations between the two organizations on cooperation agreements would be opened in Spring 1978. Before that time the Community's rigid attitude in the field of trade should be reconsidered in the light of the above remarks.

IV. Conclusions

44. The steady development of trade relations between the Community and the East European state-trading countries has been followed with great interest by the Committee on External Economic Relations. The committee stresses, however, that although the trend is favourable as a whole, it is nevertheless characterized by certain negative aspects which must be carefully monitored and eliminated.

¹

See Franzmeyer, Fritz: loc. cit., p.11

For example, the complete absence of specific trade agreements over the past three years has given rise to bilateral action, which should be replaced by a Community trade policy pursuant to Article 113 of the EEC Treaty. The lack of a Community policy on cooperation, countertransactions, export credit and insurance, and export aid systems, continues to result in uncoordinated national measures, which are consciously exploited by the state-trading countries and work to the disadvantage of trade and industry in the Member States of the Community.

45. A Community which supports free trade must take steps to ensure that international trade rules are observed on its markets even by the state-trading countries. It must therefore take vigorous measures to protect itself against politically motivated and state-manipulated prices for goods and services which might well permanently damage its economy and in particular endanger jobs.

It is particularly important for the Commission to give economic entities in the Member States of the Community a clear idea of the objectives for individual policies and to adopt the measures necessary for the attainment of these objectives. This applies in particular to structural policy. The only way to safeguard the competitiveness of the Community's industries and protect employment is to adjust production structures to the constant changes on the various markets. Unless such action is taken, the Community cannot maintain the present volume of exports of licences, technology, industrial plant etc. to the COMECON countries and accept the goods produced with the aid of these exports without considerable disruption to its markets and without pressing demands for protectionist measures.

46. The Committee on External Economic Relations welcomes once again the intensification of institutional contacts between the Community and COMECON, which facilitate understanding between the different economic regimes and cannot fail to lead to cooperation, in international organizations and at international conferences, on the solution of the economic problems affecting all the countries of the world.

List of long-term cooperation agreements between the Member States of the European Communities and the COMECON countries (as at 1.7.1975):

1. Belgium/Luxembourg Economic Union

- Bulgaria	26. 3.1975	
- Czechoslovakia	10.10.1967	duration unspecified
- GDR	31. 8.1974	
- Poland	22.11.1973	
- Romania	16. 9.1968	duration unspecified
- USSR	19.11.1974	
- Hungary	26. 4.1967	duration unspecified

2. Federal Republic of Germany

- Bulgaria	14. 5.1975	
- Czechoslovakia	22. 1.1975	
- Poland	1.11.1974	
- Romania	29. 6.1973	
- USSR	19. 5.1973	
	30.10.1974	(additional agreement)
- Hungary	11.11.1974	

3. Denmark

- Bulgaria	14. 6.1967	
- Czechoslovakia	9.11.1970	
- GDR	21. 2.1974	
- Poland	20.11.1974	
- Romania	29. 8.1967	
- USSR	17. 7.1970	
- Hungary	20.10.1969	

4. France

- Bulgaria	14.11.1974	
- Czechoslovakia	23. 2.1970	duration unspecified
- GDR	19. 7.1973	
- Poland	5.10.1972	
- USSR	27.10.1971	
	6.12.1974	(additional agreement)
- Hungary	9.11.1974	

5. United Kingdom

- Bulgaria	14. 5.1974	
- Czechoslovakia	8. 9.1972	duration 5 years
- GDR	18.12.1973	
- Poland	20. 3.1973	
- Romania	15. 6.1972	duration 5 years
- USSR	6. 5.1974	
- Hungary	21. 3.1972	duration unspecified

6. Italy

- Bulgaria	27. 5.1974	
- Czechoslovakia	30. 4.1970	duration unspecified
- GDR	18. 4.1973	
- Poland	17. 1.1974	
- Romania	22. 5.1973	
- USSR	25. 7.1974	
- Hungary	25. 5.1974	

7. Netherlands

- GDR	12. 6.1974	
- Poland	2. 7.1974	
- Romania	5. 4.1974	
- USSR	29.11.1974	(initialled)

COMMUNITY IMPORTS FROM EASTERN EUROPEAN COUNTRIES^{1,2}
(1975-1976)
(in m EUA)

	<u>1975</u>	<u>1976</u>	<u>INDEX: 1975 = 100</u>
USSR	3,816	5,549	145
GDR	463	581	125
POLAND	1,593	1,974	124
CZECHOSLOVAKIA	826	988	120
HUNGARY	692	850	123
ROMANIA	868	1,089	125
BULGARIA	191	256	134
	<hr/>	<hr/>	<hr/>
TOTAL:	8,449	11,287	134

¹ Not including German internal trade

² Source: Monthly External Trade Bulletin, Special Edition 1958-1976, p.12

COMMUNITY EXPORTS TO EASTERN EUROPEAN COUNTRIES^{1,2}
 (1975-1976)
 (in m EUA)

	<u>1975</u>	<u>1976</u>	<u>INDEX: 1975 = 100</u>
USSR	4,918	5,155	105
GDR	459	556	121
POLAND	2,649	2,831	107
CZECHOSLOVAKIA	1,021	1,236	121
HUNGARY	958	1,054	110
ROMANIA	1,036	1,093	105
BULGARIA	651	573	88
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TOTAL:	11,692	12,498	107

¹ Not including German internal trade

² Source: Monthly External Trade Bulletin, Special Edition 1958-1976, p.13

BALANCE OF TRADE BETWEEN THE NINE MEMBER STATES OF
THE EUROPEAN COMMUNITY AND THE EASTERN EUROPEAN
STATE-TRADING COUNTRIES¹

(in m EUA)

	USSR		Other E. Euro- pean COMECON countries ²		TOTAL ²	
	1975	1976	1975	1976	1975	1976
IMPORTS	3,816	5,549	4,654	5,782	8,470	11,331
EXPORTS	4,918	5,155	6,808	7,368	11,726	12,523
BALANCE	+ 1,102	- 394	+ 2,154	+ 1,586	+ 3,256	+ 1,192
TOTAL VOLUME OF TRADE	8,734	10,704	11,462	13,150	20,196	23,854

¹ Source: Monthly External Trade Bulletin, Special Edition 1958-1976, pp. 12 and 13

² Including Albania; excluding German internal trade

GROWTH OF TRADE BETWEEN THE EEC AND THE EASTERN EUROPEAN
STATE-TRADING COUNTRIES
(in m EUA)

Total volume of EEC-COMECON trade¹

<u>Year</u>	<u>Value</u> (m EUA)	<u>Growth rate</u> %
1958	1,910	-
1960	2,771	+ 45
1963	3,490	+ 26
1966	4,814	+ 38
1967	5,537	+ 15
1968	6,010	+ 9
1969	6,755	+ 12
1970	7,590	+ 12
1971	7,988	+ 5
1972	9,409	+ 18
1973	12,413	+ 32
1974	17,991	+ 45
1975	20,196	+ 12
1976	23,854	+ 18

Source: Monthly External Trade Bulletin, Special Edition 1958-1976,
pp. 12 and 13

¹ Including Albania; excluding German internal trade

OPINION OF THE COMMITTEE ON REGIONAL POLICY, REGIONAL PLANNING AND TRANSPORT

Draftsman: Mr K. NYBORG

On 25 May 1977 the Committee on Regional Policy, Regional Planning and Transport appointed Mr K. Nyborg draftsman.

It considered the draft opinion at its meetings of 17 and 18 October 1977 and 25 January 1978, and at the latter meeting adopted it unanimously.

Present: Mr Evans, chairman; Mr Nyborg, vice-chairman and draftsman; Mr McDonald, vice-chairman; Mr Albers, Mr Albertini (deputizing for Mr Zagari), Mr Broeks (deputizing for Mr Hoffmann), Mr Brosnan, Mr Brugger, Mr Corrie, Mr Delmotte, Mr Ellis, Mr Fuchs, Mr Jung, Mrs Kellett-Bowman, Mr Osborn, Mr Power (deputizing for Mr Liogier), Mr Pucci (deputizing for Mr Noé) and Mr Seefeld.

I. INTRODUCTION

1. The Committee on Regional Policy, Regional Planning and Transport congratulates the Committee on External Economic Relations on its decision to draw up an own-initiative report on the Community's relations with the Eastern European state-trading countries. For, particularly in the transport field, problems between Eastern and Western Europe have been arising with increasing frequency in recent years, and are in urgent need of solution.

2. Transport policy relations with the state-trading countries are usually regarded by the Member States of the Community as a subsidiary aspect of foreign trade. It would certainly be wrong to analyse and assess the problems of transport with the countries of Eastern Europe in isolation from the common commercial policy and the external economic relations of the Community and its Member States. What does need reconsideration, however, in the draftsman's view, is the importance of the role played by transport today in the context of trade policy vis-à-vis the state-trading countries. It is essential that, alongside foreign trade interests ('visible trade interests') adequate attention should be given to those of transport undertakings ('transport interests'). Transport services, as invisible exports, make an important contribution to the Community's balance of payments.

II. THE PRESENT SITUATION

3. Visible trade between the COMECON countries and the EC has expanded rapidly in the recent past. It doubled in volume between 1965 and 1974 to around 85 million tonnes. Quantitatively, the flow of goods is not very evenly balanced. In 1974, the COMECON countries imported only 15 million tonnes from the Community, exporting 70 million tonnes to the Community in the same year. The imbalance exists also in terms of value. The Community's trade deficit with COMECON is growing continually.

4. Parallel to this growth in trade the state-trading countries have planned and carried through a remarkably strong expansion of their transport capacities, achieving in the course of a decade an internationally recognized position as suppliers of transport services.

5. However, the resulting shift in the competitive position has affected the individual sectors of the transport market in different ways: in an increasingly difficult competitive situation, part of the explanation for which is the growing pressure of competition from the state-trading countries, serious changes are beginning to make themselves felt, especially in the sea transport sector in the Community, but also in the inland shipping and road transport sectors. In the field of rail transport the forced pace of expansion of the Trans-Siberian Railway, coupled with an aggressive freight rate policy, is having an effect on cargo levels transported by sea between Europe and the Far East. This affects Western European and Japanese shipping companies.¹ In the

¹ In 1976, 10% of freight between Western Europe and Japan was transported by container on the Trans-Siberian route, which is shorter and faster than the comparable sea-route. The freight rates are 40% lower than those of western vessels on scheduled runs.

air transport field, however, no significant change in the competitive situation has yet become apparent despite a number of difficulties in the past.

SEA TRANSPORT

6. Developments in the sea transport sector have been particularly striking: between 1965 and 1976 the COMECON merchant fleet grew from 2.8 to 27.5 million grt, its share of world tonnage rising from 2.8% to 7.4%. Over the same period the Nine's share of world merchant shipping fell from approximately 27% to 21%.

It is significant in this connection that the expansion of the COMECON merchant fleet has been far more rapid than the growth in the foreign trade of these countries over the past decade.

7. The planned expansion of the transport capacities of the state-trading countries is apparently not yet complete, because in 1977 over 10% of world shipbuilding orders will come from COMECON countries. Particular stress is being placed on equipping the merchant fleet with liner vessels.

8. This strong expansion of the COMECON merchant fleet, which goes far beyond what is needed to meet the transport requirements of the countries concerned, is taking place against the background of tightly organized state supervision in the sea transport sector.

Practices which are particularly striking in the sea transport policy of the COMECON countries include:

- Undercutting freight rates of western shipping companies by up to 50% (on average 20%). There are even examples of undercutting in cases where the enterprise concerned holds membership in liner conferences. One of the aims of the state-trading countries is to narrow their growing balance of payments deficits through increased revenues from shipping. The fact that freight rates do not need to cover costs is due probably to the desire to earn hard currency. Although the state-trading countries can be fairly accused of dumping, evidence of this is virtually impossible to produce since there is no way of making a valid comparison of cost structures because of the different economic systems on which they are based.
- By stipulating 'fob' conditions for all imports and 'cif' conditions for all exports, the responsibility for the transport is theirs, and they are free, since they are paying the freight charges, to choose the means of transport. Western ships are consequently almost entirely excluded from freight traffic between and with the state-trading countries.
- By establishing or participating in agencies and branch offices in Community countries, the national transport enterprises of the COMECON countries can build up their own sales and shipping organization with the twin aims of obtaining return cargoes and utilizing their capacity in traffic between

Western countries. While the state-owned shipping enterprises buy shares in or, indeed, purchase outright increasing numbers of shipping companies and agencies in Western Europe (e.g. in Belgium, Germany, France, Italy and the United Kingdom), Western agencies are prohibited from setting up branches or entering into partnerships in the state-trading countries.

9. The following consequences result from the expansive shipping policy of the state-trading countries:

- A large number of the Community's shipping agencies are only just profitable, one reason being the lower freight rates systematically offered by the state-trading countries' agencies. This, together with the fact that the COMECON fleets are being rapidly expanded, is regarded by Community shipowners as a serious threat to their existence.
- This threat to merchant shipping affects not only the traditional sea-faring nations, but also the merchant fleets which the developing countries are in the process of constructing. They, too, in the long term, will not be able to withstand this competitive pressure, because their low wages alone will not enable them to compete successfully against the freight rates charged by the state-trading countries.
- The upshot is that the state-trading countries, led by the Soviet merchant fleet, have been able to secure a growing share of the international shipping market. They today account for about ten percent of sea freight between Western Europe and America and about twenty percent between Western Europe and Africa. These figures are, moreover, rising. This is not only of significance for the Community's shipping policy, but will in future have repercussions on the West's defence policy. Reference should be made in this connection to the fact that the Soviet fishing fleet and navy are, at the same time as the merchant fleet, also being expanded.

TRANSPORT OF GOODS BY ROAD

10. In comparison to sea transport the share of road transport in total trade between the Community and the state-trading countries is relatively small. According to the estimates available, about fifteen percent of trade between Benelux, Denmark, France and Germany and the COMECON countries (not including the USSR) is by road. This proportion has been rising during recent years.

11. Trans-frontier road haulage between the EC and the Eastern European states is covered - with a few exceptions - by bilateral agreements. These agreements usually lay down, in quota form, the number of journeys each side may make. The same applies to transit traffic. There is usually no possibility for vehicles to engage in internal traffic. Most of these bilateral agreements provide for reciprocal exemptions from road taxes.

Some agreements also provide for the possibility for vehicles on their return journey to carry loads between a transit country and the country of the vehicle's origin. Traffic between third countries, i.e. between two states in neither of which the vehicle is registered, is normally prohibited.

12. As in the case of sea transport, most goods moved by road are transported by vehicles registered in Eastern countries. Here, too, the reason is that the Eastern state enterprises require their Western suppliers or customers to sell 'ex works' or to buy 'free at destination'. In addition, consignments for delivery to Eastern countries are becoming increasingly unattractive for Western European hauliers, since they have absolutely no chance of finding return loads in the country of destination. The state transport enterprises of Eastern Europe, however, thanks to their close relations with the state foreign trade organizations, which notify them direct of contracts concluded, usually do find a suitable return load.

13. The major state hauliers are, moreover, directly or indirectly active in the EC. The USSR, Poland, the GDR, Czechoslovakia, Hungaria and Bulgaria maintain branch offices in West Germany, Belgium and the Netherlands. In countries where branch offices are subject to restrictions, such as in France, they cooperate closely with selected Western haulage firms. There are, however, no possibilities for transport undertakings from the EC to establish branches in the state-trading countries.

14. In addition to the factors already mentioned, the rates charged by Eastern European hauliers are considerably below those charged by Community undertakings. The result of these restrictive practices is thus hardly surprising: Community hauliers take an unduly low share of freight revenues. While the share of individual Community countries in goods transported to individual state-trading countries varies, the average lies at around 15%; that means that around 85% of all goods transported by road from East to West or vice-versa are moved by vehicles from the state-trading countries. There can be no question of a balance existing.

INLAND SHIPPING

15. Significant changes in the competitive situation of the inland shipping sector have also become apparent. In contrast to sea and road transport the changing competitive situation in inland shipping mainly affects the Federal Republic of Germany, the other Member States being involved, so far, to a lesser extent.

16. Legal relations between the Federal Republic of Germany and its eastern neighbours with regard to inland waterways traffic are laid down, if at all, in a series of bilateral agreements. The situations relating to the various individual waterways differ widely.

17. In an agreement between Poland and the Federal Republic of Germany signed in 1971 both the cargo loaded over a specific period (50:50) and the level of freight charges (cost-related freight rates) are laid down. The actual result, however, is that West German vessels at present transport only 20% of freight and this at rates which do not cover costs.

18. Whilst inland vessels from Czechoslovakia are permitted to use the Elbe as far as Hamburg, the Elbe-Lübeck canal to Lübeck and the Mittelland canal to Braunschweig, West German vessels are not permitted to enter Czechoslovakia at all. There is no bilateral agreement. According to the 1972 Transport Treaty two-way inland shipping between the GDR and the Federal Republic of Germany is freely permitted. There are no agreements as to freight allocation and freight rates. Cross-trade with third countries is excluded. Conditions governing inland waterways transport between West Berlin and the Federal Republic through GDR territory are laid down in the 1972 Transport Treaty.

19. Pursuant to the Mannheim Rhine Shipping Act of 1868, which permits vessels of all nations to use the Rhine without let or hindrance, vessels from the state-trading countries have a legal basis for operating on this river. The only exceptions are inland vessels from Poland and the GDR which, on the basis of bilateral agreements with the Federal Republic of Germany, are prohibited from engaging in cross-trade between Western European countries and the Federal Republic on the Rhine.

20. The problems of competition on the Danube come into a special category. The Danube Convention of 1948 permits all riparian states free use of the river for shipping 'on the basis of equal treatment with regard to harbour and shipping dues' with the exception of national cabotage. However, western shipping companies operating on the Danube have great difficulties in obtaining business in the Eastern European countries. Fixed freight rates have been in application for Danube shipping since 1955, and have not been changed since.

Difficulties in obtaining business in the state-trading countries and uneconomic freight rates have resulted in three big Austrian shipping companies having to go out of business. The remaining Bavarian and Austrian companies are dependent on national subsidies to keep them from bankruptcy.

In consequence, the Austrian-German share of Danube shipping has fallen to barely 10%.

21. The Committee on Regional Policy, Regional Planning and Transport believes that the example of the Austrian shipping companies clearly shows how urgent common action on the part of the Community will be to prevent transport undertakings collapsing as a result of the severe distortions of competition by Eastern European state transport enterprises.

22. The completion of the Rhine-Main-Danube canal - planned for 1985 - will result in two types of problems for the Community. The Federal Republic of Germany is not in fact obliged to subject the canal, which is located entirely in Federal German territory, to international control or to grant other states rights of passage on the canal, but a number of COMECON countries, especially the Soviet Union, are already claiming a legal right to free transit to the Rhine. Efforts must be made in future to reach fair agreements with the COMECON countries, but not on the basis of unilateral demands. There are good reasons to believe that the COMECON countries will leave nothing undone to gain exclusive control over all traffic on the Rhine-Main-Danube canal from and to their territory. They will probably use the same methods they already employ on the Danube. Moreover, it can be assumed that, when the canal is completed, vessels of Eastern registration will also seek new cargoes on the Rhine. Where no bilateral agreements prohibiting cross-trade exist (like those with the GDR and Poland), the Mannheim Rhine Shipping Act gives them the legal right to engage in it.

By purchasing or buying into transport undertakings, shipping and forwarding agencies, etc., and by setting up their own branches in Community countries, the COMECON countries are already now methodically preparing to meet this situation.

23. In the light of the already existing over-capacity in inland shipping, particularly on the Rhine, it is not difficult to imagine what effects increased competitive pressure from the state-trading countries could have if no Community measures were taken.

III. TRANSPORT POLICY IMPLICATIONS FOR THE COMMUNITY

24. The Committee on Regional Policy, Regional Planning and Transport expresses satisfaction at the expansion of trade between the state-trading countries of Eastern Europe and the European Community. This growing trade must form both the foundation and stimulus for closer cooperation limited not merely to the trade in goods but extended also to include the transport of such goods.

25. In the view of the Committee on Regional Policy, Regional Planning and Transport, the developments described in this opinion in transport by sea, road and inland waterway between Eastern and Western Europe give cause for the greatest concern.

26. The committee believes that, both at Community level as well as in the individual Member States, measures must be taken to ensure that Community transport undertakings are able to share equally in the transport of goods between the state-trading countries and the European Community. There are sufficient grounds, as documented above, to justify a determined approach towards improving the competitive position of western transport undertakings.

27. In the interests of a continued expansion of trade and improved co-operation with the COMECON countries, the Committee on Regional Policy, Regional Planning and Transport considers it imperative that negotiations be started at once between the Commission and the individual state-trading countries.

If these negotiations should fail to lead to freight traffic being shared equally, unilateral measures by the Community in the form of transport policy restrictions and controls to restore the balance would seem unavoidable.

28. The Final Act of the Helsinki Conference offers a basis for working out a satisfactory settlement of transport problems with the state-trading countries. In it the signatory states undertake to refrain from causing any disturbance or disruption of the market. The state-trading countries have failed to comply with this principle in respect of the transport market.

The Committee on Regional Policy, Regional Planning and Transport therefore calls on the Commission, the Council and the governments of the Member States to press vigorously for improved cooperation in the transport sector to prevent market disturbances in future.

29. The committee is aware that the measures required will not necessarily meet with the approval of Western European shippers, who are, of course, interested in the lowest freight costs possible. The justified concern of Western European shippers can be countered by two economic arguments:

- The low freight rates offered by COMECON states are based not on comparative cost advantages enjoyed by the transport sectors of these countries but on the political desire to obtain hard currency at almost any cost.
- In all probability the same desire will mean that the advantages of low freight rates for the western shipper will be only short-lived. Once the Western European transport undertakings have been edged out of the market by unremitting pressure in the matter of prices, the Eastern European transport enterprises will take advantage of their newly-gained monopoly position to raise freight rates.

A struggle for dominance at the expense of the Western European transport undertakings can therefore not be in the long-term interest of western shippers.

30. In view of the crowding-out tactics employed by the COMECON states, with their centrally coordinated trade and transport organizations, at the expense of the countries of the Community, measures need to be drawn up and implemented both at Community level and in the individual Member States.

In the view of the Committee on Regional Policy, Regional Planning and Transport the Community's efforts should be concentrated in two areas:

- Measures to ensure a fair distribution of freight traffic between the EC and the state-trading countries
- Measures for implementing and maintaining freight rates based on the average real costs borne by western transport undertakings.

31. Past experience shows that Community transport undertakings will be able successfully to withstand the pressure of competition from the state-trading countries only if both these measures are simultaneously and jointly implemented. No Member State will be served if its transport undertakings succeed in gaining a fair share of goods transported in trade with the state-trading countries only to find that, because of freight rates which are too low, they are losing money.

32. If freight traffic is to be shared fairly, the committee believes the following measures should be taken by the Commission:

- The European Community should exert influence on the drafting of trade agreements with the state-trading countries, i.e. through the inclusion of provisions covering transport in the model drawn up by the Commission for trade agreements with the COMECON countries. The state-trading countries could in this way be made to give up their discriminating 'cif' clauses for exports and 'fob' clauses for imports.
- The establishment and expansion of transport enterprises of the state-trading countries in the Community should in future only be approved if western transport undertakings are granted the same opportunities in Eastern countries. The activities of already established branches should be brought under closer control.
- Introduction and observance of the social provisions and safety rules in road and sea transport, pursuant to the proposals of the United Nations and the ILO.

33. It is far more difficult, however, to influence the freight rates applied by the state-trading countries. The most obvious course here is to invite the state-trading countries to cooperate more closely in the liner conferences. The principle of cost-oriented freight rates should be included in the bilateral agreements on the transport of goods by road concluded between the Member States and the state-trading countries.

34. In addition to the general measures proposed above, the draftsman of the opinion believes that the following steps need to be taken in the individual transport sectors:

Sea transport:

- Opening of negotiations between the Commission and the state-trading countries with the aim of persuading them to take part in the sea transport conferences.
- Acceptance of the principle of the right of Community shipping companies to an equal share in sea transport between COMECON and Community ports on the basis of cost-oriented freight rates.
- The right of Community shipping companies to an equal share in traffic between COMECON ports and non-Community ports.
- An end to the discrimination against Community shipping companies by granting them the right to establish themselves in state-trading countries for the purpose of obtaining cargo orders and concluding transport arrangements.

Transport of goods by road:

- Participation on an equal basis of Community hauliers in traffic between the state-trading countries and the EC at cost-oriented freight rates, payable in convertible currencies.
- Granting of reciprocity in the matter of the establishment of branches and accessibility to freight (return loads).
- Granting of reciprocity in exemptions from road charges, taxes, vehicle insurance, etc.

Inland shipping:

- Here the principal measure at Community level must be a review of Article 1 of the Mannheim Rhine Shipping Act, with the object of providing the Community with a measure of control over vessels of Eastern registration on the Rhine, which will seek cargoes there following completion of the Rhine-Main-Danube canal.

35. The Committee on Regional Policy, Regional Planning and Transport is aware that the measures called for will have to take account of the terms of a common transport policy. Such a policy unfortunately does not yet exist, nor is it likely to in the immediate future. It is the absence of agreement in this field that makes possible the discriminatory and crowding-out practices of the state-trading countries against western transport undertakings.

36. In view of the urgent need for measures to put a stop to these practices, the Committee on Regional Policy, Regional Planning and Transport calls on the Commission to draw up detailed proposals for this particular sector.

37. This opinion makes it very clear how urgent the introduction of a common transport policy is. By 1985, when the Rhine-Main-Danube canal has opened, the main elements of the Community's internal shipping policy must have been finalized: access to the market, pricing arrangements, payments of infrastructure costs. Road transport policy, shipping policy and air transport policy should be pressed ahead more vigorously than in the past so as to enable the Community to adopt a common position in its dealings with the state-trading countries of Eastern Europe.

