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INTERIM REPORT

drawn up on behalf of the Committee on External Economic Relations

on the ~~present~~ state of commercial and economic relations between the EEC and
Yugoslavia

Rapporteur: Mr P.L. DE CLERCQ

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By letter of 2 March 1978 the Committee on External Economic Relations requested authorization to draw up a report on the present state of commercial and economic relations between the EEC and Yugoslavia.

Authorization was given by the President of the European Parliament in his letter of 22 March 1978.

On 13 April 1978 the Committee on External Economic Relations appointed Mr de Clercq rapporteur.

It considered the draft report at its meetings of 23 May 1978 and 19 September 1978 and unanimously adopted the motion for a resolution and the explanatory statement on 18 October 1978.

Present : Lord CASTLE, acting chairman ; Mr DE CLERCQ, rapporteur ; Mr van AERSEN, Mr BERSANI, Mr BRUGHA, Mr CIFARELLI (deputizing for Mr E. Mulder), Lord KENNEDY, Lord MURRAY (deputizing for Mr Didier), Lord St. SWALD and Mr VANDEWIELE.

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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 present state of commercial and economic relations between the EEC and Yugoslavia

The European Parliament,

- having regard to the Belgrade Declaration issued by the European Community and Yugoslavia on 2 December 1976 on cooperation between the two parties,
 - having regard to the report by the Committee on Social Affairs, Employment and Education on the mandate for the negotiations between the EEC and Yugoslavia (Doc. 32/78),
 - having regard to the oral question on behalf of the Committee on External Economic Relations and the Committee on Development and Cooperation to the Commission of the European Communities on external agreements concluded by the Community (Doc. 404/77),
 - having regard to the interim report by the Committee on External Economic Relations (Doc. 408/78),
1. Points out that Yugoslavia's importance to the European Community is more than simply a matter of commercial and economic relations;
 2. Is concerned at the disappointing trend in Yugoslavia's exports to the Community and the resultant increase in that country's trade deficit;
 3. Stresses therefore the need for closer cooperation to improve the structure of trade between the two parties on the basis of the complementarity of their economies, and to promote development in the various sectors of the Yugoslav economy;
 4. Is closely following the current negotiations for a new cooperation agreement;
 5. Is aware of the difficulties, especially in the commercial and economic field, but urges - bearing in mind existing agreements with the other Mediterranean countries - that it be made easier for Yugoslavia to export to the Community, thus providing revenue to pay for its imports from the Community;

6. Hopes that the settlement of social questions will be an integral part of the new agreement, and again calls for the removal of discrimination against Yugoslav migrant workers in the Community, and for specific Community aid for their reintegration into their country's economy;
7. Hopes that the future agreement will include a provision for the organization of regular contacts between the European Parliament and the Federal Assembly of Yugoslavia, these to take forms to be defined by the two Institutions concerned;
8. Calls on the Commission and the Council to take account in the present negotiations of problems which might arise from the establishment of the Trieste free zone provided for in the Osimo Agreements;

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9. Points out once more, on the occasion of these negotiations, the inadequacy of present arrangements for parliamentary supervision of the external economic affairs of the Communities, especially as regards the conclusion of association and trade agreements;
10. Points out that there is a similar legal vacuum in respect of parliamentary powers of supervision and ratification where the Community and third countries conclude commercial or cooperation agreements with financial implications for the Community budget;
11. Hopes therefore that, when it puts forward specific proposals, the Commission and Council will engage in constructive discussions with the European Parliament, thus allowing it to discharge its parliamentary responsibilities in this area too;

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12. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

EXPLANATORY STATEMENTI. Introduction

1. With its finely-balanced domestic and foreign policies, the multi-national Balkan state of Yugoslavia occupies a special position between the Eastern and Western military and economic blocs, takes an individual stance among the conflicting interests of North and South, and has a strategic location on the Mediterranean coastline between the present Community and Greece, Turkey and the Middle East.

These introductory remarks should be sufficient in themselves to illustrate the outstanding importance of Yugoslavia to the Community, to Europe and to the Western world, far transcending the matter under consideration, its commercial and economic relations with the EEC.

2. Yugoslavia is a socialist people's federal republic, ruled by a communist unity party. To that extent it is similar to the other socialist Eastern European countries. But since Yugoslavia's expulsion from the Cominform in 1948 it has succeeded, despite considerable difficulties to steer an independent course between the two blocs. Its people, comprising Serbs, Croats, Slovenes, Albanians, Macedonians and six other ethnic minorities, live in six federated socialist republics and two autonomous provinces. A highly complicated self-government and delegate system at middle and lower levels, and the periodic rotation of the higher party and government posts have allowed Yugoslavia, despite recurring difficulties, to enjoy considerable internal stability; this may be attributed to the pluralism of the interests involved in self-government, and a certain scope for democracy, despite the overall control exercised by the ruling unity party. The Yugoslav system is marked by a similar degree of economic freedom, with central planning authorities allowing the self-managed enterprises to take their own decisions according to the rules of the market familiar to the Western world. These principles of Yugoslavia's domestic and economic policies were reaffirmed in essence at the XIth Yugoslav Party Congress held on 20-23 June 1978 in Belgrade.

3. Yugoslavia's balancing act in domestic policy has been matched by a similar performance in its foreign policy. Yugoslavia, along with Egypt, India and Indonesia, was one of the founders of the non-aligned nations movement. As a developing country it is a member of the 'Group of 77'. It takes part in the work of some of the commissions of Comecon, and has had formal relations with the European Community since 1970. Its relations with Moscow are relatively good, and last year's visit by Marshal Tito to China and the return visit by the Chinese head of state and party Hua Kuo Feng this year have reconciled once bitter enemies. Even the troubled relations with the Carter administration are beginning to improve.

It is against this political background that we have to consider Yugoslavia's relations with the Community in general and in the economic and commercial sphere in particular. This report will attempt to sum up the economic situation in Yugoslavia and the history of relations between that country and the EEC, to trace the course of the negotiations on the new cooperation agreement and subsequently to express an opinion on the agreement itself.

II. The economic situation in Yugoslavia

4. In 1976, with 21.6 million inhabitants, Yugoslavia had a GNP of approximately US \$ 37,600. However, within the country itself there is a large gap in productive strength between North and South. In 1974, for example, in Montenegro in the South and the autonomous province of Kosovo the average per capita annual income was US \$ 520, while in Croatia in the North it was US \$ 1,800. In that year the national average was US \$ 1,310.

Industrial production, at about 45% of Yugoslavia's GNP, rose by 3.4% in 1976. In the same year, production in agriculture (70% privately run), which employs 40% of the working population to produce 15% of GNP, rose by 3%. Here, as in its industrial development, Yugoslavia has made great progress, and has achieved self-sufficiency in many agricultural products (e.g. maize, sugar).

In overall terms the Yugoslav economy seems to have suffered less than the other Eastern European state-trading countries from the recession in the Western industrialized countries. Economists therefore take the view that, on the strength of progress made to date, the goal set in the 1976-1980 Five-year Plan of a 7% average growth rate is well within reach.

5. Nevertheless, Yugoslavia, along with most other countries, has to contend with the familiar problems of inflation and unemployment. In 1976 the rise in the cost of living did fall to 11% from 24% in 1975, but inflation was up to 17% again in the first half of 1977, and this at a time of stagnating production and wage-rises averaging 16%.

The 1975 unemployment figure of 11.4% of the working population had fallen to 10.4% in 1976. However, the figure rose to nearly 15% in the first half of 1977, giving a total of approximately 700,000 unemployed. This can be ascribed primarily to the return of about 80,000 of the 780,000 Yugoslavs working abroad in 1976.

6. Yugoslavia's main exports are machinery and transport equipment, metals and ores, livestock, meat, timber, textiles, fruit, tobacco and wine. Its major trading partners in order of importance are the Federal Republic of Germany, Italy, the USSR, the USA, Austria, Czechoslovakia, France, Poland, the German Democratic Republic and the United Kingdom.

For years Yugoslavia has had a sizeable trade deficit. The 1976 figures were:

| | |
|---------------|-------------------------------------|
| Total imports | US \$ 7,367 million |
| Total exports | US \$ 4,878 million |
| Trade deficit | <u>US \$ 2,489 million</u> ===== |

Part of this figure is offset by invisibles (revenue from tourism, transfers from Yugoslavs working abroad, etc.), but it is likely that the balance of payments deficit this year will exceed the anticipated figure of US \$ 1,250 million.

7. About 45% of Yugoslavia's foreign trade is conducted with Western industrialized countries, about 35% with the Eastern state-trading countries and about 20% with developing countries. In the first category, and indeed overall, the EEC is Yugoslavia's main trading partner. However trade with the EEC also accounts for the major (and growing) part of the country's trade deficit, which is a source of major concern in Yugoslavia, and is central to the current negotiations on the new cooperation agreement; we shall return to this topic later.

Yugoslavia's total foreign debts are estimated at about US \$ 10,000 million in 1977. It has always paid on time, and its credit is good. Its balance of payments deficit has therefore not given rise to undue international concern so far.

III. The development of commercial and economic relations between the EEC and Yugoslavia

8. Formal relations between the Community and Yugoslavia began in 1970 with the conclusion in Brussels of a three-year non-preferential agreement. This was followed by a five-year agreement signed in 1973, which expires on 30 September 1978. The trading partners are currently attempting to negotiate a comprehensive cooperation agreement with the aim of further, balanced development of existing relations.

The five-year agreement still in force contains the following major points:

- most-favoured-nation treatment;
- extension of the preferences granted by the EEC in 1970 for beef and veal;
- the establishment of an EEC-Yugoslavia joint committee;
- a future developments clause allowing the contracting parties to develop economic cooperation as an adjunct to trade.

Commercial and economic relations with Yugoslavia have improved steadily as a result, and the volume of trade has increased from 1,300 million EUR in 1968 to 5,400 million EUR in 1977.

9. In the course of a visit to Belgrade on 1 and 2 December 1976, Mr Van Der Stoel, President-in-Office of the Council and Mr Gundelach, Member of the Commission, together with Mr Bijedić, President of the Federal Executive Council of Yugoslavia, issued the 'Belgrade Declaration'. This document set the guidelines for subsequent relations which have been followed in the work of the Joint Committee and in the current negotiations.

In the Belgrade Declaration the parties announced their desire to strengthen their cooperation, with the following objectives:

- improving the structure of their trade on the basis of the complementarity of their economies;
- promoting the development of the various sectors of the Yugoslav economy;
- safeguarding the advantages of the generalized system of preferences;
- developing of financial cooperation;
- intensified marketing and sales promotion for Yugoslavian goods on Community markets;
- facilitation of exchanges of technology;
- diversification of Yugoslavia's agricultural exports;
- the promotion of joint ventures.

10. The EIB has since, in November 1977, lent Yugoslavia 25 million EUR as the first part of a total loan of 50 million EUR, to help with the construction of an electricity grid and the Joint Committee has endeavoured, in the course of a number of meetings at ministerial level, to achieve the objectives of the joint declaration. Particular attention has been paid to the following points.

The problem of Yugoslavia's trade deficit with the EEC was, and still is, at the top of the list, as the following table shows:

| | EEC exports to Yugoslavia (m EUR) ¹ | EEC imports from | Trade balance (m EUR) |
|-------------------|---|---------------------|--------------------------|
| 1968 | 808 | 480 | + 328 |
| 1973 | 1,785 | 1,169 | + 616 |
| 1974 | 2,828 | 1,193 | + 1,635 |
| 1975 | 2,783 | 1,041 | + 1,742 |
| 1976 | 2,671 | 1,455 | + 1,216 |
| 1977 ² | 3,793 | 1,601 | + 2,192 |

¹ EUR = US \$ 1.11805

² Commission estimate for the year on the basis of the results of the first nine months

Yugoslavia dropped from twelfth place in 1968 to sixteenth place in 1976 in the league table of importers from the Community. As a supplier, it has hovered around twenty-fifth place since 1968. The country's growing deficits in trade with the Community can mostly be explained by increasing imports of capital goods (nearly 90% of Yugoslavia's industrial imports come from the EEC) and by the weak structure of Yugoslavia's exports, 40% of which still consist of primary materials and agricultural products.

Yugoslavia's trade deficit with the Community was 53% of its total foreign trade deficit in 1974, 60% in 1975 and about 50% in 1977.

Yugoslav beef and veal exports to the Community are a particularly sensitive area. When the Community applied the safeguard clause to the beef and veal sector between 17 July 1974 and 1 April 1977, Yugoslavia was therefore particularly hard hit.

11. Despite all the reassuring statements by Community representatives, Yugoslavia still complains at the continuing imbalance in trade and lack of understanding by the EEC. Funds repatriated by Yugoslavs working in Community countries and revenue from tourism are regarded as an inadequate and uncertain form of compensation.

It should therefore come as no surprise that, despite the negotiations in progress with the Community, Yugoslavia is continually on the look-out for alternatives. These could lie with the EFTA countries, the state-trading countries, the developing countries, or indeed the USA and Japan. The two last-named are, however, the only serious contenders. The EEC should take

care that, in the present world-wide buyers' market, it is not pushed out of the Yugoslav market for lack of flexibility. Its major rivals, the USA and Japan, are ready to take advantage of any gaps it leaves.

Thus, in June this year the President of the American Ex-Im-Bank, John L. Mocre jnr., visited the Yugoslav capital and signed two agreements under which the American bank will no longer require government guarantees for loans to Yugoslav undertakings.

Two months previously the head of a Japanese bank was in Belgrade and signed a loan agreement for US \$ 400 million, granted by nine Japanese trading houses to Yugoslav industrial enterprises.

12. The Generalized System of Preferences (GSP) is highly important to Yugoslavia in its trade with the Community; as a developing country it is one of the major beneficiaries. Yugoslavia has been the country most frequently reaching the maximum amounts fixed in the GSP (up to which the Community applies a zero rate of duty for imports). Thus in 1976 Yugoslavia was the biggest user of the facility, with 383,607 million EUR.

With the objective of a better distribution of tariff preferences among the beneficiary countries and of reducing the number of commodities subject to Community quotas, the Council decided in 1975, to grant Yugoslavia an additional ceiling of 15% for sixteen classes of goods.

In 1978 horses for slaughter and other horses were added to the list of agricultural products covered by customs preferences, in deference to Yugoslav interest, thereby opening the way for 35 million EUR of further exports.

13. On the basis of the Multifibre Arrangement the Community has since signed a second agreement with Yugoslavia, on 23 December 1977, providing for voluntary restraint in respect of certain Yugoslav textile exports (cotton yarn, cotton fabric, men and women's trousers and slacks, blouses, shirts, etc.). Other sensitive products were made subject to quantitative control.

IV. The negotiations on the new cooperation agreement between the EEC and Yugoslavia

14. The European Parliament has frequently pointed out the importance of relations with Yugoslavia, and discussed the problems which will have to

be solved in the coming negotiations¹. In addition, relations between the Chamber of the Federal Republic of Yugoslavia and the European Parliament have developed through visits by a Yugoslav delegation to Strasbourg on 20-22 April 1977 and a delegation of the European Parliament to Belgrade on 18-22 September 1978.

As has been mentioned, the problems have arisen in economic and commercial relations and have crystallized in the express Yugoslav desire for equilibrium, stability and security in these relations in future. The Community is basically willing to meet these wishes, but, as can be seen from the negotiating positions listed below, at the present stage of the negotiations a number of legal, economic and political problems have still to be settled.

(a) The initial position of the European Community

15. On 17 January 1978 the Council approved draft guidelines for the opening of negotiations with Yugoslavia for a five-year non-preferential framework cooperation agreement. The main points of the agreement would be as follows:

- economic and commercial cooperation, to help reduce the Yugoslav trade deficit by means of diversification and specialization of Yugoslav exports, while retaining the most-favoured-nation clause and confirming the agricultural preferences already granted by the EEC (especially for beef and veal);
- financial cooperation, with the Community declaring its readiness on principle to grant new loans to Yugoslavia;
- cooperation in transport, environmental matters and fisheries, which had emerged as promising fields in the meetings of the Joint Committee.

The Community proposals also provide for a future development clause, so that cooperation could be extended to fields not yet covered.

In respect of the problems of Yugoslav workers in the Community, an exchange of letters is envisaged as an annex to the future agreement, dealing mainly with the reintegration of Yugoslav workers into their country's economy.

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- See, inter alia: - Oral Question with debate by Mr Bettiza, Mr de Clercq and others on economic relations between the EEC and Yugoslavia (Doc. 370/77);
Debates of the European Parliament, 14.11.1977 - Annex to the Official Journal No. 223, p.29 ff.;
- Report by Mr R. Adams on the mandate for the negotiations between the EEC and Yugoslavia (Doc. 32/78);
Debates of the European Parliament, 14.4.1978 - Annex to the Official Journal No. 229, p.280 ff.;
 - Written Question No. 931/77 by Mr Radoux to the Commission of the European Communities on the negotiations with Yugoslavia etc. - OJ No. C 107 of 8.5.1978, p.6 ff.

(b) The Yugoslav position

16. As far as can be ascertained from press reports on the present state of the negotiations, the Yugoslav negotiators are disappointed at the Community's proposals, and regard them as inadequate in every respect. According to the information at our disposal the Yugoslav counter-proposals are basically as follows:

- in the matter of economic and commercial relations, measures to reduce the Yugoslav deficit on its trade with the Community must be included in the new cooperation agreement, for example:
 - = the introduction of trade preferences in the form of individual cooperation agreements in the industrial and agricultural sector;
 - = inclusion of a general 'equilibrium clause' for relations between the two parties;
 - = express mention to be made of the application of the generalized system of preferences to Yugoslavia;
 - = the Community to undertake to consult Yugoslavia on the effects of future enlargement;
- in the matter of financial cooperation, a new agreement should contain specific provisions on future investment and the possible volume of lending (Yugoslav delegation is said to have already put forward specific plans for investment projects);
- in the social field the present discrimination against Yugoslav workers in the Community should be removed, and cooperation on the re-integration of Yugoslav workers into their country's economy should be strengthened not by means of the exchange of letters as proposed by the Community but by specific measures incorporated in the new agreement.

(c) The present state of the negotiations and the timescale envisaged

17. The negotiating teams have, to date, met twice on 13 February and 11 April 1978. Both sides have outlined their positions, as described above. Representatives of the Yugoslav Government also explained their ideas to Commissioner Vredeling during his visit to Belgrade on 19-20 May 1978.

On 25 July the Commission reported to the Council on progress made, the difficulties outstanding and the need to improve the terms offered by the Community. The expected calendar for the remainder of the negotiations was as follows:

- at the beginning of September 1978 the Commission will submit detailed proposals for the new negotiating directives to the Council;

- the Council will reach a decision on them in October 1978, so that negotiations may be resumed that month and concluded by the end of the year.

(d) Comments on the negotiations

18. Your rapporteur would like to put a critical view of three areas in the future agreement, viz. economic and commercial cooperation, social cooperation and procedure.

One central problem in the economic and commercial field has clearly emerged from the negotiations so far: In brief, Yugoslavia wants a non-preferential agreement, but one which grants it special concessions. Although the Community would be prepared in principle to grant Yugoslavia preferences as a Mediterranean country, for political reasons (in particular, to preserve its non-aligned status) Yugoslavia itself cannot accept them in the form normally used by the Community.

The Yugoslav proposals, viz. the specific mention to be made of the GSP and the introduction of preferences in the framework of industrial and agricultural cooperation, involve certain problems or even call for a completely new type of agreement.

This leads to the question of whether Yugoslavia's economic and especially industrial progress allows it to continue to be regarded as a developing country and to benefit under the GSP. (This uncertainty goes a long way to explain the Yugoslav desire for the new agreement to make it clear that it does.)

On the other hand, the question of special preferences involves the Community in considerable legal, economic and political problems. The essence of the legal problem is that the Community and Yugoslavia are both members of GATT, and there is no provision under GATT for exceptional arrangements to cover preferences of this kind.

In the economic field the main danger is that special measures in individual cooperation agreements could seriously interfere with the Community's commercial policy. In political terms, a special agreement of this kind would create a precedent which could be seized upon by a succession of other countries. It should be pointed out here that the Community has so far not acceded to similar requests for special treatment by Iran. It must be said however that a report by the Committee on External Economic Relations on the matter was very much in favour of this course of action¹.

¹ See Klepsch report on economic and commercial relations between the European Community and Iran (Doc. 119/76, p.11 ff.)

19. As the introduction made clear, Yugoslavia's political and economic importance to the Community is beyond dispute. The Community must therefore act to counter the disappointment felt in Yugoslavia at the course relations have taken. The Community cannot avoid opening its markets to Yugoslav agricultural and industrial products, in line with existing agreements with the other Mediterranean countries, to enable Yugoslavia to pay for her imports from the Community, and in the medium term to bring her foreign trade into balance. Subject to the guidelines of the Community's common commercial policy and international commitments, progress on the agreement should therefore on no account be held up for technical reasons.

20. In the social field, the high rate of unemployment in Yugoslavia has already been pointed out. The international economic situation no longer allows the country to alleviate this perennial problem by large-scale emigration of workers as in the past. The flow of migration has in fact gone into reverse and is aggravating the social situation. As most Yugoslav migrant workers are employed in the Community, the desire to obtain binding undertakings on non-discrimination and re-integration for them is understandable.

The Committee on External Economic Relations therefore endorses and incorporates in this report the views of the Committee on Social Affairs, Employment and Education on the matter.¹

21. One or two basic remarks need to be made on questions of procedure. Thus, when this report was drawn up, because of the problems mentioned above relating to the form of the agreement, the Commission had not yet decided which article of the EEC Treaty to take as its legal basis (Article 113 or Article 238). However, in the opinion of the Committee on External Economic Relations, the crux of the matter is the involvement of the European Parliament in the procedure for concluding this agreement and future agreements with other countries.

In a debate in plenary session of 14 December 1977 on an oral question on behalf of the committee to the Commission on agreements between the Community and third countries (Doc. 404/77), Mr Krieg, deputizing for the chairman, spoke of the importance of the supervisory powers of the European Parliament. He rightly emphasized that since 1 January 1973 the Community had had sole responsibility for trade policy, and that the EEC Treaty, negotiated in 1956-1957, could no longer cope with the present scale of external economic relations and the body of agreement which had since been created.

¹ See Adams report on the mandate for the negotiations between the EEC and Yugoslavia (Doc. 32/78)

Thus Article 238 of the EEC Treaty for example provides for consultation of the European Parliament on the conclusion of association agreements. But for conventional trade agreements based on Article 113 there is no obligation whatsoever to consult Parliament.

There is a further area of uncertainty. It was planned that from 1 January 1978 the Community budget would be financed entirely from own resources. This could not be done on time but if it is in the near future, the inference would be that Community agreements having financial implications should no longer be subject to ratification by the national parliaments (which would no longer be competent to do so), but by the European Parliament.

During that same debate, the President-in-Office of the Council, Mr Simonet, and Commissioner Cheysson gave similar answers to questions on those lines from the committee, namely that, depending on whether an agreement was concerned with matters which were entirely the preserve of the Community or extended to matters outside the Community's jurisdiction, that agreement would be concluded simply by the Community institutions or would be subject to ratification by the Member States.

22. It is therefore clear that a vacuum is being or has already been created, where the executive institutions of the Community are acting or concluding agreements subject to no effective Parliamentary supervision, either at national or Community level. The European Parliament should therefore take the opportunity of the new cooperation agreement with Yugoslavia to impose its supervisory powers not simply - as previously - on budgetary matters, but also in the increasingly important area of external economic relations, and insist on a Community ratification procedure.

This period of preparation for direct elections is a good time to demonstrate to the peoples of our countries the significant role of the 'Assembly' in relation to the all-powerful executive in Brussels, and that the European Parliament is a real parliament, capable of fighting for its rights and thereby helping to protect the interests of the individual.

V. Opinion on Petition No. 20/77 on the Italian-Yugoslav Protocol of 10 November 1975

23. At its meeting of 23 May 1978 your committee decided to incorporate its opinion on this petition in this report. The authors of the petition wish the European Parliament to take action against provisions in the Italian-Yugoslav Protocol to the Osimo Agreements of 10 November 1975 on the creation of a free zone around Trieste. They are held to conflict with fundamental Community principles (non-Italian undertakings and citizens of the Community would be excluded from the free zone) and to threaten the environment in the area.

The authors have since founded a protest movement, which, at its first attempt, won 18 out of 60 seats on the city council at the last local authority elections. Those who voted for them consider that the proposed free trade zone threatens not only environmental pollution but also excessive Yugoslav immigration and the loss of jobs.

24. When asked about this the Commission replied that the Italian Government had duly given notice to the Community institutions of the draft agreement on the Italian-Yugoslav free zone.

In November 1975, the Council and the Commission noted that in giving notice of the draft agreement on the free zone of Trieste, the Italian Government bore in mind paragraphs 2 and 3 of Article 234 of the EEC Treaty and affirmed that the Agreement was not designed to jeopardize and could not have the effect of jeopardizing the functioning or development of the Common Market.

The Italian Government also gave an assurance that

- where access to the zone was concerned, goods in free circulation within the Community would be treated in a non-discriminatory manner vis-à-vis Italian goods.
- agricultural products entering the zone would be treated in accordance with Community agricultural regulations applicable to free zones. The same assurance was given for regulations concerning processed agricultural products;
- goods exported or re-exported from the free zone to the Community and which had not been subject to customs formalities would receive the same treatment as goods from third countries;
- as regards the processing and consumption of goods inside the zone, the same arrangements as for the 'punti franchi' of Trieste would apply;
- as regards freedom of movement, the right of establishment and tax arrangements, citizens and companies of the Community would be treated as their Italian counterparts.

The Council and the Commission have noted that Article 234 does not permit anything to be done beyond what is necessary to comply with the international agreements referred to in its first paragraph.

Referring to the Fourth General Report on the Activities of the European Communities, 1970 (edited in 1971, p.7, see p.3, footnote 2 of the aforementioned petition), the authors of the petition conclude that the Commission proposed as far back as 1971 to take all necessary steps to remedy the anomaly of situations then existing as regards free zones, having regard to

Article 234 of the EEC Treaty, but that it did not know the extent of its obligations.

However. this extract from the Fourth General Report quoted by the authors of the petition concerns only customs franchise privileges, a very different matter from arrangements for free zones, which are laid down in Directive 69/75¹.

The authors are primarily concerned about the fact that only Italian and Yugoslav undertakings and workers are entitled to establish themselves and to exercise an activity in the free zone, which would effectively constitute discrimination based on nationality. This is not apparent from the wording of the protocol to which exception is taken. Furthermore, as already stated, the Italian Government has given satisfactory assurances on this matter.

The significance which will attach to the points raised in this petition thus also depend partially on how the future cooperation agreement is drafted, especially in the commercial and economic and in the social fields. For if Yugoslavia is granted extensive Community preferences, and if Yugoslav workers are given equal status with Community nationals, the relevant parts of the petition become redundant, as Yugoslavia's interest in the free zone would be minimal, and the dangers would not materialize.

The Commission is therefore requested to bear the Trieste 'loophole' in mind in its negotiations on the new cooperation agreement, and to head off any ~~threatened~~ circumvention of the CCT or discrimination against Community citizens.

¹ OJ No. L 58, 8.3.1969, p. 11 ff.

