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TOWARDS A CLOSER ASSOCIATION WITH THE COUNTRIES OF CENTRAL AND EASTERN EUROPE

Report by the Commission to the European Council
Edinburgh, 11-12 December 1992

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I. INTRODUCTION

This report is a response to the request to the Commission by the European Council in Lisbon to evaluate progress made in the development of the Community's partnership with central and eastern Europe and to report to the European Council in Edinburgh suggesting further steps. It is also a response to suggestions from partner countries and notably to the joint memorandum submitted by the Visegrad countries, Czechoslovakia, Poland and Hungary.

The principal framework for the Community's relations with the countries concerned in the coming decade will be the Europe agreements. At present agreements have been signed with Czechoslovakia, Poland and Hungary; an agreement with Romania has been initialled and negotiations with Bulgaria are expected to be concluded shortly. These agreements should, in principle, be extended progressively to all eligible countries in central and eastern Europe. Eligibility depends on the establishment of political and economic systems based on the rule of law, the respect for human rights, the holding of free and fair elections and the principles of a market economy.

The principal question addressed by this report is, therefore, how partnership can be developed within the framework of the Europe agreements and how this framework can, itself, be extended.

a. A new relationship

The political and economic changes in central and eastern Europe have been widely presented by their protagonists as involving a "return to Europe" after decades of enforced isolation. The Community has helped to give form to this aspiration by developing a close relationship at different levels.

At the political level, diplomatic relations have been established, high level visits have intensified, agreements have been concluded and political dialogue begun. In the case of the Visegrad countries, this dialogue has acquired a multilateral character, helping to break down barriers between the participants. It has already had certain practical consequences, such as the Commission's action in defusing conflict over the Gabčíkovo-Nagymaros dam project on the Danube.

At the economic level, trade has grown rapidly and is broadly in balance, although the situation varies from country to country. The Community now accounts for nearly half the exports from central and eastern Europe, whereas the share of the former Comecon countries, previously predominant, has fallen to less than one fifth. In most of the partner countries, the Community is the principal source of direct private investment, although overall inflows remain weak. The EBRD and the EIB have begun to play a catalytic role for investment through credits for the private sector and infrastructure.

Trade and investment are the main long term elements in our partnership at the economic level. But in the short term aid is also important. The Commission's coordination of assistance from the Group of Twenty Four industrialised countries is indicative of the Community's special role in supporting economic reconstruction in partner countries. Indeed, the Community's share of total G-24 assistance is above 60 per cent, and PHARE has become a model for assistance with economic reconstruction.

Partnership is also expressed through cultural cooperation and support for the institutions of civil society. The inclusion of culture within the scope of the Europe agreements as well as the PHARE Democracy Programme encourage partnership between individuals and organisations.

b. The security dimension

With the disappearance of the bloc system, welcome in itself, and the persistence of civil strife in the former Soviet Union and the former Yugoslavia, the central and east European countries seek new security arrangements to strengthen confidence and stability. Their active participation in the North Atlantic Cooperation Council (NACC), in the Forum of Consultation of the Western European Union (WEU) in the Conference on Security and Cooperation in Europe (CSCE) and in political dialogue with the Community has, to some extent, enhanced their sense of security. As "like-minded" countries, they cooperate with the Community in the CSCE and other international settings.

But such intergovernmental settings do not respond fully to their desire to belong to a coherent security structure. For this, they count increasingly on the Community and on the future European Union. It is important to clarify the respective functions of the different fora in which security questions arise as well as the different modes of participation for partner countries. As far as the European Union is concerned, this applies especially to the common foreign and security policy and to the WEU, which is an integral part of the development of the Union.

c. Accession

Although association has an inherent value in itself, the central and eastern European countries look towards eventual Community membership as the basis for their political and economic development and stability. The Visegrad countries have requested that a timetable and conditions for future accession be set out by the Community. The preambles to the three Europe agreements which have been signed thus far recognise that the Community's partners' ultimate objective is to accede to the Community and that association will help achieve this objective.

The European Council should now confirm that it accepts the goal of eventual membership in the European Union for the countries of central and eastern Europe when they are able to satisfy the conditions required. By offering this perspective, the Community will provide encouragement to those pursuing reform and make the short term economic and social consequences of adjustment easier to bear. This perspective will also provide a stimulus to investment and discourage excessive nationalism.

General conditions for accession are established by the Treaties. At the appropriate time, political decisions will be needed which take into account the particular situation of each applicant as well as the following considerations:

- the capacity of the country concerned to assume the obligations of membership (the "acquis communautaire");
- the stability of institutions in the candidate country guaranteeing democracy, the rule of law, human rights and respect for minorities;
- the existence of a functioning market economy;
- the candidate's endorsement of the objectives of political, economic and monetary union;
- its capacity to cope with competitive pressure and market forces within the European Union;
- the Community's capacity to absorb new members while maintaining the momentum of European integration.

It would be premature at this stage to establish a timetable. The Europe agreements, and the initiatives suggested in this report, will help to prepare partner countries for eventual membership but the timing will depend on progress in meeting the criteria referred to above. In any event, a process of transition would be needed both before and after the formal act of accession to enable them progressively to assume their responsibilities as full members of the Community and the European Union.

d. The wider process of European integration

Against this background, it is necessary to prepare countries in central and eastern Europe for fuller participation in the process of European integration. This implies a progressive narrowing of the gap between their political and economic systems and those in the Community; this task should not be underestimated, despite the enormous progress made. For this purpose, the Europe agreements provide an excellent point of departure.

2. MAKING THE MOST OF THE EUROPE AGREEMENTS

a. Deepening political dialogue

The Europe agreements have an important foreign policy dimension. In particular, they establish a political dialogue which permits a regular exchange of views on matters of common interest. In parallel with these formal arrangements, a multilateral political dialogue with the Visegrad countries has been gradually established over the past months at different levels, political directors and foreign ministers, culminating in the first EC/Visegrad summit meeting in London on 28 October last, and the Joint Declaration adopted on that occasion.

More generally, bilateral political dialogues should be supplemented and eventually replaced by a structured multilateral dialogue involving countries which have decided to cooperate closely among themselves. This will help overcome political barriers and pave the way for the involvement of partner countries in political cooperation and, later, the common foreign and security policy. It will also overcome practical problems arising from a multiplicity of dialogues.

In developing a policy on the future of political dialogue with the countries of central and eastern Europe, the Community should take into account the evolution of the common foreign and security policy. The chapters on political dialogue in the Europe agreements give considerable flexibility by indicating that mechanisms for political dialogue shall also be established by "any other means which would contribute to consolidating, developing and stepping up political dialogue". With this in mind, the Community should:

- intensify the political dialogue which has begun with the Visegrad countries and which is progressively being established with other partners;
- strengthen the multilateral character of this dialogue, which will become increasingly necessary both for practical reasons and to build a common European approach to pressing international issues of mutual concern;
- increasingly involve partner countries in the process of European political cooperation.

Appropriate arrangements for this could include:

- the extension of political dialogue to the level of political cooperation working groups dealing with issues of common interest;
- participation, as observers, of partner countries at certain EPC expert meetings on matters of common interest on an ad hoc basis;
- systematic consultation with partner countries, as envisaged in the Europe agreements, on positions taken within international organisations.

These proposals, when implemented, will complement the gradual economic integration of these countries with the Community, and could prepare the ground for a more ambitious approach as outlined in the chapter of this report entitled "Beyond the Europe Agreements".

b. Improving market access

The Europe agreements aim at free trade and describe an asymmetric path by which it is to be achieved. This commitment and the entry into force of the interim agreements with the Visegrad countries have already contributed to a major reorientation in our partners' trade. This is generating hard currency and, equally important, providing experience of business conditions in the west and of the kind of adaptations needed to compete in sophisticated markets.

While trade is not a panacea for economic ills, it is an important stimulus to recovery. It is far more cost effective than aid in strengthening economic reconstruction. The Europe agreements considerably improve market access while offering adequate safeguards, ensuring the maintenance of competitive conditions and avoiding distortions in the market. But the pace of liberalisation should be increased and trade obstacles in sensitive sectors removed more rapidly. This would bring major benefits to partner countries.

Indeed, economic expansion in central and eastern Europe will benefit both the countries directly involved and the Community. Better market access will boost investment and growth. In turn, inward investment will provide capital and reduce dependence on aid. A more buoyant economic climate in partner countries will increase demand for many products which the Community is well placed to supply, given its comparative advantages, which include technology, proximity and familiarity with the market. A more attractive range of goods in the shops and brighter economic prospects in their own countries will encourage workers to pursue job opportunities at home without adding to migratory pressures.

Accordingly the Community needs to take action to:

- shorten the transition periods for the Community's dismantling of customs duties and quantitative restrictions for all products
- improve market access for food products, making use of all possible flexibility for import quotas and the reduction of levies or duties, and for textiles, including the liberalisation of economic outward processing traffic
- encourage regional economic cooperation through cumulation under the rules of origin for all products from associated central and east European countries and EFTA.

c. Movement of workers

Member States should be encouraged to apply the provisions of the Europe agreements concerning access to employment as soon as possible, notably through the conclusion of bilateral agreements on quotas. Member States should strengthen training opportunities, in parallel with the Community's own schemes. The possibility of accelerating the entry into force of the agreements' second stage, to improve the conditions for access to employment, should be explored.

d. Approximation of Laws

The Europe agreements provide for cooperation on the approximation of legislation, as this is an important condition for economic integration. A legal environment compatible with Community law is a major incentive for foreign investment and a vehicle for improved access to Community markets. Partner countries recognise that it is in their interest to make the most of this provision of the Europe agreements as it can help prepare them for eventual Community membership. The Community has offered to make available to its partners technical assistance and other forms of support to enable them to adapt their legislation to that of the Community.

Accordingly specialised groups should be set up within the framework of the Association Committees to identify priorities for approximation. These are likely to include fields essential to the effective application of the Europe agreements such as customs, competition policy, and intellectual property protection.

e. Economic, technical and financial cooperation

PHARE is the main instrument for economic and technical assistance under the Europe agreements. Since its inception in 1989, the number of countries covered by PHARE has grown from two to ten and the volume of finance has tripled. The continuing commitment of the Community to provide assistance to the region is underlined in the Council conclusions on the future of PHARE, which have just been adopted.

These conclusions and the PHARE guidelines for 1993-1997 reflect the priorities of the recipient countries. PHARE's objective in this period is support for economic reform and structural adjustment, with an emphasis on consolidating reform. This will help lay the foundations for a market economy, with a modern public administration and a thriving civil society. This requires:

- an appropriate balance between technical assistance and support for investment;
- support for institution building;

- programming on a multi-annual basis;
- the greater use of funds to support our partners' own sectoral and regional development programmes;
- continued cooperation between PHARE, the EIB and the EBRD.

PHARE should, in the future, increase the proportion of funds channelled through institutions in partner countries, which would integrate the use of these funds into their own sectoral and regional development programmes. In this way PHARE could begin to resemble Community structural funds, with systematic cofinancing, and emphasis on those regions which face the greatest problems of economic adjustment.

Cooperation programmes at regional level in areas straddling the Community's borders with the partner countries should be developed, bringing together PHARE and various schemes under the European Regional Development Fund such as the Community initiative concerning border areas (INTERREG). Close coordination concerning different aid instruments is essential if Community assistance is to achieve the greatest impact in each partner country given its particular needs.

Financial cooperation is also an important feature of the Europe agreements. In addition to PHARE assistance, the Community has mobilised exceptional macro-economic assistance, as a complement to balance of payments support from the IMF. As coordinator of the Group of Twenty Four, the Commission has also invited other industrialised countries to participate in this type of assistance. If such aid is needed in future, it should be designed both to provide for external financing needs and to contribute to structural adjustment.

f. Information

A real partnership requires popular understanding of the Community and support for its objectives. To this end, information activities should be enhanced. They should include mass media support and exchange programmes, especially for young people. At the same time, the Community should continue to support training for journalists and others involved in the mass media to improve the free flow of information. Such support can reinforce the PHARE democracy programme and help strengthen civil society.

3. BEYOND THE EUROPE AGREEMENTS

The strengthening of links with partners in central and eastern Europe as outlined above can be realised, for the most part, within the framework of the Europe agreements. But it is also necessary to consider how this framework can, itself, be extended and what kinds of additional cooperation can be established.

a. Towards a European Political Area

The Community's acceptance of the goal of eventual membership for partner countries in central and eastern Europe implies the need to work together more closely in a growing number of fields. This should bring concrete benefits to both sides and foster the convergence of political and economic systems. In particular, the Community should seek to associate partner countries with Community activities in areas of trans-European interest, such as energy, the environment, transport, telecommunications, science and research. A structured institutional relationship with partner countries should be worked out which can help to realise the new relationship outlined in this report, while preserving the Community's own autonomous development.

To achieve this objective, several approaches have been suggested:

- The Community and partner countries in central and eastern Europe could identify jointly areas of trans-European interest. In these fields, which would include political dialogue as well as a number of concrete policy areas, regular enlarged meetings of the Council of Ministers could be held with the participation of representatives of partner countries. Similar arrangements could be made by the Commission, the European Parliament, and other Community institutions. In time, this would develop into a structured institutional relationship in diverse areas of common concern.
- The European Parliament is considering the concept of a "European Confederal Cooperation System" which could provide a framework for associating partner countries in central and eastern Europe with the work of the Community and the European Union. The report in question also suggests a type of association with the Union which would permit partners to participate in the common foreign policy and security policy, as well as questions related to internal affairs and justice.⁽¹⁾ New forms of association are suggested permitting greater involvement in common policies, with the perspective of accession. Multilateral political dialogue, of the type being developed with the Visegrad countries, is also advocated as a means to promote regional cohesion and to discourage the rise of nationalism.
- Another, related option was advanced by the Commission in its report "Europe and the Challenge of Enlargement", annexed to the conclusions of the Lisbon European Council. In this option, partners in central and eastern Europe would be associated with designated Community policies, in a manner analogous to the associate status in the Western European Union.

(1) "The structure and strategy for the European Union with regard to its enlargement and the creation of a Europe-wide order," Report of the Committee on Institutional Affairs, 21 May 1992, PE 152.242/fin.

They would participate in relevant Council or Commission meetings, unless the majority of Member States decided otherwise, and would have the right to speak but not to vote.

Other initiatives to break down political barriers and strengthen the wider process of European integration could be developed. As a follow-up to this report, it is suggested that

- the European Council establish an Action Committee for Central and Eastern Europe, inspired by the Monnet Committee, and composed of eminent personalities from different parts of Europe with expertise in European integration. The Committee would be invited to report to the European Council on means to develop a structured institutional relationship with partner countries, enabling them to be associated more closely with the work of the Community. The goal would be to foster the convergence of policies on issues of trans-European interest and the emergence of a European Political Area;
- the Commission, in consultation with partner countries in central and eastern Europe, screen Community programmes to identify those of trans-European interest where the participation of partners could be mutually beneficial.

B. A Europe-wide free trade area

Several parallel initiatives, many inspired by the Europe agreements, aimed at trade liberalisation are underway in Europe:

- The Community and the EFTA countries are committed to free trade through existing bilateral agreements and the EEA.
- The Community and the central and east European countries are pursuing free trade through the Europe agreements.
- Free trade agreements are being concluded between the EFTA and central and east European countries.
- The Visegrad countries have stated their common wish to establish a free trade area. Other partners may join in this process.

In time, these distinct, but related moves towards trade liberalisation should evolve into a Europe-wide free trade area. The Community should deploy all instruments at its disposal to encourage these initiatives.

C. Overcoming obstacles to investment

Direct investment from abroad and from domestic sources is vital for economic reconstruction and development. The inflow of funds has, hitherto, been somewhat disappointing, despite a relatively strong performance of some countries in attracting private capital.

Among the principal obstacles to investment in partner countries is the lack of confidence on the part of business. This is related to uncertainty over the stability of the new political and economic systems now taking shape. It is up to partner countries to increase confidence by pursuing vigorously economic reform policies and by leaving no doubt as to their determination to strengthen democracy and the respect for human rights. At the same time, they should improve the business climate by reducing red tape and leaving no doubt that foreign investment is a welcome and necessary part of their new economy.

The Community's offer of a closer association with the perspective of accession should do much to boost confidence. At the same time, initiatives are needed to encourage businessmen with potentially profitable investment projects to go ahead. These could include:

- investment protection schemes, including direct guarantee and risk sharing schemes for Community companies investing in partner countries;
- pre-investment support programmes, as outlined in the PHARE guidelines for 1993-1997;
- close coordination between the Commission, the EIB and the EBRD; further cooperation between the Community and the EBRD should be designed to lead to concrete investment decisions by the EBRD for private sector and infrastructure development.

The Commission will request advice from a Business Round Table, comprising economic operators from different parts of Europe, on suitable measures to overcome obstacles to investment and to stimulate trade.

D. TransEuropean networks

An adequate infrastructure, notably in the areas of transport, telecommunications and energy, is necessary if the present investment gap is to be filled. At the same time these areas are vital to European integration. Bottlenecks, such as poor roads, border facilities and telecommunications as well as inadequate and unreliable sources of energy, must be removed through the development of efficient all-European networks to enable business between the Community and partner countries to develop.

Financial support from the public authorities will be necessary to improve infrastructure and to trigger investment from private sources. The EIB and the EBRD both have an important contribution to make in infrastructure development. PHARE support can also be mobilised to pave the way to infrastructure investment and to provide training where needed.

The Community should give particular priority to encouraging infrastructure development through:

- the mobilisation of existing financial instruments

- closer coordination between these instruments
- the deployment of possible new financial instruments on investment
- co-financing operations involving Community funds, Member States' schemes, and the development programmes of partner countries
- cooperation between the Community, the EBRD and other international financial institutions.

4. CONCLUSIONS

In this report, the Commission has outlined steps which could be taken to develop a closer association with the countries of central and eastern Europe to prepare for their fuller participation in the process of European integration. A positive signal from the Community concerning its acceptance of the goal of eventual membership for these countries, under the right conditions, will contribute significantly to confidence and stability. By making the most of the Europe agreements, the Community and its partners can help create the conditions for their active participation in European integration.

In the framework of the Europe agreements, political dialogue should be deepened, the Community should improve market access more rapidly and full advantage should be taken of other relevant provisions. The Commission will make the necessary proposals shortly.

Beyond the Europe agreements, a number of initiatives can be taken to promote a European political area and a Europe-wide free trade area. Support for trans-European networks will strengthen economic integration and stimulate private investment. To identify further measures to promote investment and trade liberalisation throughout Europe, the Commission will request advice from a Business Round Table comprising economic operators from different parts of Europe, on suitable measures to overcome obstacles to investment and to stimulate trade.

The European Council should establish an Action Committee for Central and Eastern Europe inspired by the Monnet Committee and composed of eminent personalities from different parts of Europe, to advise on the best means to achieve a structured institutional relationship with partner countries in central and eastern Europe which would associate them more closely with Community activities.

The European Council is invited to ask the Council of Ministers to take decisions on the basis of Commission proposals, to implement the initiatives outlined in this report.