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Trade liberalisation with Central
and Eastern Europe*

TRADE LIBERALISATION WITH CENTRAL AND EASTERN EUROPE An assessment of the interim Europe Agreements with respect to industrial products¹

1. *There has been an unprecedented expansion of trade between the European Union (EU) and the Central and East European countries (CEECs) in the years following the collapse of the CMEA trade bloc and subsequent trade liberalisation undertaken by the EU. Community imports from the CEECs increased by 56% in value terms between 1989 and 1992, and exports by 87%. The rise in imports from CEECs has been especially pronounced since the transition to a market economy commenced, with annual growth rates of 12% between 1987 and 1989 compared with an annual average growth of 23% from 1990 to 1992.*
2. *Compared with the evolution of our trade with other trading partners, the change in the CEECs' export performance is remarkable: from 1987 to 1989, EC imports from the CEECs grew by 4 percentage points p.a. less than total extra-EU imports; since then, they have outperformed the growth in average extra-EU imports by an average of 13 percentage points, and by nearly 20 percentage points in both 1991 and 1992. In brief, the CEECs switched from being an under performer in the pre-transition period, to the ranks of the most dynamic trade partners.*
3. *Coinciding with this very rapid expansion in imports from the CEECs has been a fundamental and radical trade liberalisation on the part the EU. This process culminated in the signing of Europe Agreements (EAs) which inter alia aim to establish (bilateral) free trade areas in ten years. Trade is the economic and political cornerstone of the transition process, and a prerequisite stepping stone for ultimate accession to the EU. Pending the ratification of the EAs by all national legislatures, the trade provisions are being implemented via the operation of interim Europe Agreements (IAs).*

¹ This supplement is largely based on papers which shall appear shortly in a volume 'The economic interpretation between the EU and Eastern Europe' in the European Economy series. The supplement has been prepared in collaboration with the Directorate General for External Economic Relations.

4. Overall, the Europe Agreements constitute a very substantial trade liberalisation package, the scale and pace of which is without precedent in the EU. Over fifty percent of CEEC's trade achieved entry into the EU free of tariffs and quantitative restrictions on the day of entry into force of the IAs. The main exceptions to immediate free trade concerned sensitive products, ECSC products, textiles and clothing. However, even in these sectors, immediate liberalisation was substantial and accelerates very rapidly. Some 75% of industrial imports from Hungary will be free of tariffs and quantitative restrictions by the end of 1994, with equivalent figures of 77% for the Czech and Slovak Republics and 69% for Poland. With a delay of one year, similar conditions will prevail for 65% of imports from Bulgaria and for 56% of imports from Romania.
5. EU recourse to anti-dumping provisions against the CEECs has been very limited since the transition process began, with only two cases being initiated both in 1992 and 1993. The Europe Agreements provide for the CEECs to be treated in exactly the same manner as other industrialised countries, a major improvement compared with the special provisions previously applied to state trading economies. Anti-dumping measures currently in force affect a marginal percentage of total imports from CEECs (on average only 0.3% of total EU imports from the CEECs in 1993), and are concentrated across a very narrow range of tariff classifications, mostly basic chemical and steel products. Nonetheless, the indirect and implicit costs of anti-dumping actions should not be ignored, which inter alia, can discourage foreign direct investment.

INTRODUCTION

For the countries of Central and Eastern European (CEECs), trade with industrialised nations is the economic and political cornerstone of the transition process. Having emerged as the dominant trade partner for the CEECs, the EU has a particularly important role to play in this regard. From an economic perspective, trade is imperative for several reasons — as an outlet for goods and services hitherto traded with the former command economies, as a source of hard currency earnings, to encourage foreign direct investment (FDI), and finally to introduce competitive forces into previously centrally planned markets. Politically, trade with western economies signifies the process of renewed integration with the industrialised democracies, and is a necessary stepping stone towards accession to the EU.

The EU has sought to support the transition process through trade, by undertaking a fundamental reorganisation of market access conditions for the CEECs. Previously CEECs had fallen under a special (and more restrictive) trade regime which is applied to state trading economies. Trade liberalisation by the EU culminated in the signing of

six Europe Agreements (EAs) between 1991 and 1993,¹ which will establish a (bi-lateral) free trade area for non-agricultural products within ten years.² As made clear by the declaration of the EU Heads of State and Government following their meeting in Copenhagen in June 1993, the ultimate goal of the EAs is the accession of the CEECs to the European Union.

This supplement considers the extent to which the trade liberalisation provided by the EU in the EA's supports the transition process. A review of trade flows since 1989 confirms that there has been a massive expansion of EU-CEEC trade which coincides with EU trade liberalisation. The CEECs have in the space of five years jumped from a situation of having a declining share in extra EU imports to the ranks of the most dynamic trade partners. Growth rates for the value of imports from the CEECs reached over 20% in 1992, with domestic supply side conditions in the CEECs, rather than remaining EU trade barriers, apparently acting as the constraining factor.

Declaration on enlargement of the EU Heads of State and Government at the Copenhagen Council of June 21-22, 1993

'The European Council today agreed that the associated countries in Central and Eastern Europe that so desire shall become members of the European Union. Accession will take place as soon as an associated country is able to assume the obligations of membership by satisfying the economic and political conditions required.'

In order to fully assess the link between trade performance and trade liberalisation, this supplement begins by examining the recent evolution of trade between the EU and the CEECs, with the analysis divided into pre and post-transition phases. Attention is paid the sectoral breakdown of imports from the CEECs with a view to discerning a pattern of specialisation and comparative advantage. Subsequently, section 2 reviews the market access conditions provided by the EU as set out in the EAs. Special consideration is given to sectors where the EU did not undertake full liberalisation immediately (e.g. sensitive sectors such as textiles etc.). Finally, section 4 reviews EU recourse to contingent protection, especially anti-dumping actions, and considers whether they are having any significant negative impact on trade.

¹ see table 16 in annex

² Some provisions contained in the EA's fall within the exclusive competence of Member States, and can therefore only enter into force following their ratification by all EU and CEEC national legislatures. In the intervening period, so-called interim Europe Agreements (IAs) are being applied which essentially contain the trade and some trade-related aspects of the full Europe Agreements. This is possible since trade policy lies within the competence of the EU.

1. TRENDS AND CHARACTERISTICS OF CEECS TRADE WITH THE EU

1.1. Rapid growth since transition began¹

There has been a massive expansion of EC-CEEC trade in the years following the collapse of the CMEA trade bloc and subsequent trade liberalisation undertaken by the EU. As shown in **table 1**, Community imports from the CEECs increased by 56% in value terms between 1989 and 1992, and exports increased by 87%. The increase in imports from CEECs has been especially pronounced since the transition to a market economy commenced, with annual growth rates of 12% between 1987 and 1989 compared with an annual average growth of 23% from 1990 to 1992. This performance is all the more remarkable given that it occurred during a period of depressed demand in the EU, and falling growth rates of trade throughout industrialised economies.

The favourable performance of the CEECs contrasts with that of other EU trade partners over the same period, most of whom saw a decline in the annual average rate of growth of EU imports. This point is clearly illustrated in **graph 1**. In relative terms, the change in the CEECs' export performance is remarkable: from 1987 to 1989, EU imports from the CEECs grew by 4 percentage points p.a. less than total extra-EU imports; since then, they have outperformed the growth in average extra-EU imports by 13 percentage points, and by nearly 20 percentage points in both 1991 and 1992. This basic pattern of a relatively weak performance prior to transition, followed by sharp growth after 1989, is common to all five countries except Romania, and even here imports recorded above-average growth in 1992. In brief, the CEECs switched from being an under performer in the pre-transition period, to the ranks of most dynamic trade partners.

In contrast, the CEECs are heavily dependent on EU markets (see **table 2**), and this dependence has been growing very

quickly since 1989. In 1989, the EU accounted for some 22% of total exports from the CEECs, ranging from 6% in Bulgaria to 30% in Poland. By 1992, this share had jumped to 48%, with the share of Bulgarian exports undergoing a fivefold increase to 30% and that of Poland to 56%. A corresponding increase was recorded in the sourcing of CEECs imports from the EU. On average, 19% of total CEECs imports in 1988 came from the EU, and by 1992 this figure had risen to 44%.

TABLE 1 : EC-CEEC trade in manufactured goods 1987 to 1992 (NACE 2-4)

	1987	1988	1989	1990	1991	1992	avg 87-89	avg 90-92
1.1 EU imports (bn ECU)								
CEEC-5	7.28	8.22	9.30	10.52	13.60	16.74	8.27	13.62
Poland	2.05	2.55	2.84	3.96	4.97	5.98	2.48	4.97
ex-CSFR	1.78	1.95	2.23	2.40	3.68	5.10	1.99	3.73
Hungary	1.64	1.82	2.18	2.55	3.14	3.55	1.88	3.08
Romania	1.45	1.55	1.65	1.17	1.21	1.33	1.55	1.24
Bulgaria	0.35	0.35	0.40	0.44	0.60	0.76	0.37	0.60
1.2 EU exports (bn ECU)								
CEEC-5	8.02	8.41	10.08	10.52	15.21	18.87	8.84	14.87
Poland	2.03	2.46	3.30	3.72	6.66	6.97	2.60	5.78
ex-CSFR	1.90	1.97	2.14	2.34	3.43	5.63	2.00	3.80
Hungary	2.16	2.12	2.67	2.62	3.14	3.75	2.32	3.17
Romania	0.59	0.56	0.64	1.02	1.09	1.56	0.60	1.22
Bulgaria	1.33	1.30	1.32	0.82	0.89	0.98	1.32	0.90
1.3 EU trade balance (bn ECU)								
PECO-5	0.74	0.19	0.78	-0.00	1.61	2.14	0.57	1.25
Poland	-0.02	-0.09	0.46	-0.25	1.69	0.98	0.12	0.81
ex-CSFR	0.12	0.02	-0.09	-0.06	-0.25	0.53	0.02	0.07
Hungary	0.52	0.31	0.49	0.08	-0.00	0.19	0.44	0.09
Romania	-0.86	-1.00	-1.01	-0.15	-0.12	0.22	-0.96	-0.02
Bulgaria	0.98	0.95	0.93	0.38	0.30	0.30	0.22	0.95
1.4 Percentage growth rate in the value of EU imports								
CEEC-5		5	20	4	45	24	12	23
Poland		21	34	13	79	5	27	28
ex-CSFR		4	9	9	46	64	6	38
Hungary		-2	26	-2	20	19	11	12
Romania		-5	15	59	7	43	4	34
Bulgaria		-2	2	-38	9	9	0	-10
1.5 Percentage growth rate in the value of EU exports								
CEEC-5		13	13	13	29	23	13	22
Poland		24	11	39	26	20	18	28
ex-CSFR		9	14	8	53	39	12	32
Hungary		10	20	17	23	13	15	18
Romania		7	6	-29	3	10	7	-7
Bulgaria		1	14	11	36	27	7	24

Source : EUROSTAT (Comext).

TABLE 2 : Percentage of total CEECs trade accounted for by EU

	Exports					Imports				
	1988	1989	1990	1991	1992	1988	1989	1990	1991	1992
Bulgaria*	5.8	6.7	10.4	15.7	30.8	16.7	16.5	14.8	20.7	32.6
CSFR**	24.2	25.7	32.0	40.7	49.5	17.7	17.8	32.1	34.3	42.0
Hungary	22.5	24.7	34.2	47.6	49.5	25.2	28.5	31.5	40.4	42.4
Poland***	30.3	32.1	46.8	55.6	55.6	27.2	33.8	42.5	49.9	53.1
Romania	24.0	26.7	31.4	34.2	32.5	6.2	6.1	19.6	27.4	37.5
TOTAL****	22.5	24.5	33.5	44.6	48.2	19.2	20.8	27.8	39.5	44.7

* Basic data comes from Planecon except for flows with the EC, Eastern Europe includes Yugoslavia

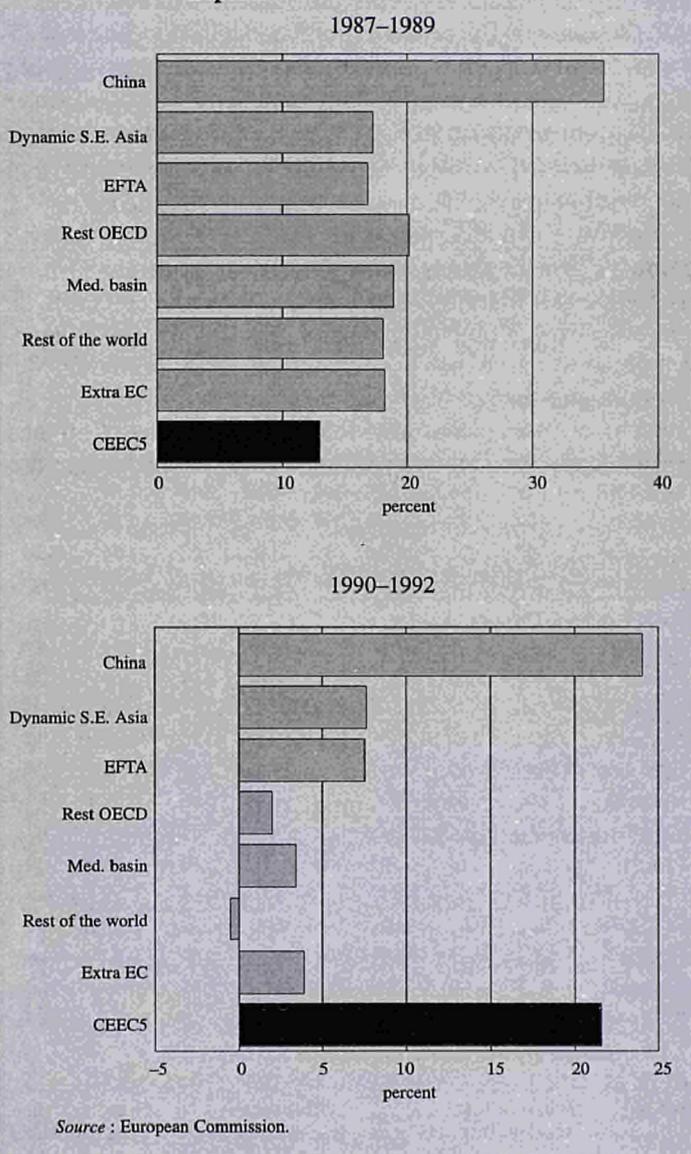
** Import data from national customs statistics in crowns converted into dollars at current exchange rates

*** Note: the total includes Albania

**** The various sources are not compatible between each other. Totals for the region and country trade balances are given for illustrative purposes only.

Source : United Nations, Economic Commission for Europe, 1993

GRAPH 1 : Average annual growth rates for extra-EU imports



between 1987 and 1992 (to 3.7% for industrial products). In terms of market share in the EU, industrial imports from the CEECs supplied an average of 0.4% of Community domestic demand over the period 1987-1989, which rose to 0.5% on average for the period 1990-1992, i.e. a gain of 25% or 0.1 percentage points.

1.2. The export base of the CEECs in the EU : sector concentration and specialisation

A feature of imports from the CEECs in the EU is that they are concentrated across a narrow range of industrial products, indicating a certain degree of dependence. This is evident from table 3 listing the share of the five largest sectors (NACE 2 digit) in total imports from the CEECs. Romania exhibits the greatest degree of concentration, 75% in 1992 and the Czech and Slovak Republics the greatest degree of diversity, 48.7%. On average, the five largest sectors accounted for 63% of total imports for all the CEECs in 1987, with some indication of diversification by 1992 when this figure had fallen by seven percentage points to 56%. Nonetheless, the overriding picture is one of relative stability bearing in mind the major alteration in trade regime and rapid growth rates.

The trend of slight diversification in the context of overall stability is also evident when one examines data on specialisation indices in table 4. Specialisation indicators reflect whether CEECs are above average suppliers of a given product to the Community market. The index used below points to specialisation in a given product if the share of that product in CEECs' industrial exports to the Community is higher than the weight of that product in total extra-EU imports of industrial products.

Although these growth rates are extremely high in absolute terms, the CEECs nonetheless remain relatively small trade partners of the EU, having increased their share in extra-EC imports from 2.8% to a still modest level of 3.3%

Of 107 sectors at the NACE 3 digit level, some 40% benefit from a specialisation which is above average. As with the data on import concentration, the CSFR has the most diversified import structure and Romania the least. The number of sectors where specialisation occurs increased for all CEECs with the exception of Romania, although the scale of the changes appear modest in the context of the transition process.

TABLE 3 : Share in total imports to the EU of the five most important imports by sector from the CEECs, 1987 and 1992 (NACE 2 digit)

Product	Bulgaria		ex-CSFR		Hungary		Poland		Romania		CEECs						
	1987	1992	Product	1987	1992	Product	1987	1992	Product	1987	1992	Product	1987	1992			
Prod. process metals	20.9	15.3	Prod. process metals	12.8	13.7	Food, drink, tobacco	20.7	15.5	Food, drink, tobacco	17.5	10.5	Timber, wooden furn.	23.4	18.9	Footwear, clothing	14.9	16.4
Chemical industry	16.7	11.2	Chemical industry	12.7	9.6	Footwear, clothing	17.2	17.8	Footwear, clothing	14.9	17.0	Footwear, clothing	22.1	33.5	Prod. process metals	12.4	12.7
Food, drink, tobacco	12.1	9.7	Timber, wooden furn.	10.5	6.7	Chemical industry	12.5	10.8	Prod. process metals	14.6	15.9	Prod. process metals	9.7	9.0	Food, drink, tobacco	12.3	8.5
Footwear, clothing	9.9	22.6	Footwear, clothing	8.0	9.5	Prod. process m	9.9	6.5	Chemical industry	11.6	8.5	Textiles	9.2	8.3	Chemical industry	11.6	9.2
Textiles	8.3	8.6	Mechanical engineering	7.5	7.9	Electrical engineering	7.1	11.1	Timber, wooden furn.	9.6	11.6	Chemical industry	8.0	5.9	Timber, wooden furn.	11.3	8.8
			also Textiles	7.5	5.8												
			Mfg. non-metal mineral	7.1	8.0	Mechanical engineering	5.7	7.3									
TOTAL	67.9	67.4	TOTAL (5*)	51.5	48.7	TOTAL (5*)	67.4	61.7	TOTAL	68.2	63.5	TOTAL	72.4	75.6	TOTAL	62.5	55.6

* Total is for the five largest sectors only.
Source : European Commission, 1994.

Combining concentration data and specialisation indices in **tables 3 and 4**, confirms that CEECs' export base is limited to less than 10 NACE 2 digit sectors. These sectors include chemicals, steel products, traditional consumer goods industries, food products, textiles, clothing, footwear and wood products. Each of these sectors accounts for about 10% of the CEECs exports to the Community. The CEECs also have a strong revealed comparative advantages for some intermediate goods, although these account for a small share of their export earnings. These are sectors which have a high energy content and are capital intensive, e.g. non-metallic mineral products, artificial fibres, or low technology products, e.g. metal products. The highest values of the specialisation index are to be found in this group, in particular for non-metallic mineral products, where the CEECs supply 14% of total extra-EU imports, or for sub-sectors of the metal product industry where they also account for more than 10% of extra-EU imports, as opposed to 3.3% for the industry as a whole.

TABLE 4 : Absolute number of NACE-3 where CEECs specialise

	Bulgaria	CSFR	Hungary	Poland	Romania	CEECs
1987	35	41	41	45	29	44
1992	37	51	47	47	27	52

Source : European Commission, 1994.

At the NACE 3 digit product level, the concentration and specialisation of the CEECs' imports is even clearer. ECSC products account for nearly all exports of metal products. For chemicals, exports are mainly petrochemicals. Food exports are concentrated on meat, fruit and vegetables. Ready-made clothing and footwear sub-sectors dominate the textile, foot-

wear and clothing sectors. Some 50% of wood products exports come from the furniture industry.

This common trade pattern does not exclude strong inter-country differences. Hungary does not export wood products, but has a relatively strong and diversified export base of electrical products. In addition, it has a relatively high dependence on food exports. The former CSFR has a very weak food industry, but a diversified export base with significant exports of glassware and motor vehicles as well as printing industry products. Polish textiles or textile-related industries have not reached, either in terms of specialisation or concentration, the degree of development of other CEECs. Like in Hungary, Bulgarian timber exports are significant only in the wooden furniture sub-sector. At the same time it has diversified exports of chemical products. Romania is the most atypical CEEC trade partner, with clothing and wooden furniture representing 40% of total exports.

1.3. Recent changes in CEECs' export base

What is most striking about the strong expansion in EU-CEEC trade since 1989 is that it has taken place across the board, and the maintenance of stability in the import structure, see **table 5**. Although data is only presented at the 2-digit level, a more detailed breakdown at the NACE 3 digit level shows that the sectors which recorded negative import growth rates over the period 1990-92 accounted for only 5.7% of total EU imports from the CEECs. In addition, a further 29 sectors representing 37.3% of exports grew more slowly over the period 1990-92 compared to 1987-89. This expansion occurred in the context of an overall slow-down

TABLE 5 : Characteristics of EU imports from CEECs

Sectors	Nace 2	% growth in value of imports		Specialisation index		Share in total extra-EU imports		% in total exports to the EU		Market share in the EU	
		1987-89	1989-92	1987	1992	1987-89	1990-92	1987	1992	1987-89	1990-92
Extract., prep. metal ores	21	16	20	9	13	0.4	0.5	0.2	0.2	0.4	0.5
Prod. process. metals	22	25	14	155	167	4.3	6.2	12.4	12.7	0.9	na
Extract. non-met.en. min	23	13	40	66	127	1.8	3.6	0.5	0.7	na	1.3
Manuf. non-met. min. pro	24	15	31	377	417	11.4	15.9	3.7	4.8	0.4	na
Chemical industry	25	10	14	123	99	4.0	4.7	11.6	9.2	0.4	0.7
Artificial fibres	26	12	16	158	165	4.5	5.6	0.8	0.6	0.0	0.0
Metal articles	31	19	49	137	237	4.1	8.1	2.9	5.9	0.2	0.4
Mechanical engineering	32	21	23	60	72	1.9	2.8	5.2	6.2	0.3	0.5
Office mach. Data process.	33	-7	68	3	4	0.1	0.1	0.2	0.3	0.0	0.0
Electrical engineering	34	21	29	33	45	1.0	1.6	4.4	6.1	0.2	0.3
Motor vehicles, parts & a	35	12	39	52	74	1.6	2.2	3.2	4.7	0.1	0.2
Other means of transport	36	-18	44	38	20	0.7	0.7	1.2	1.1	0.1	0.2
Instrument engineering	37	2	33	14	15	0.4	0.5	0.4	0.5	0.1	0.2
Food, drink, tobacco	41	19	4	172	151	5.6	6.9	12.3	8.5	0.3	0.3
Textiles	43	-4	25	125	105	3.6	4.3	6.7	5.3	0.6	0.9
Leather, leather goods	44	8	32	82	114	2.3	3.9	0.9	1.1	0.7	1.3
Footwear, clothing	45	8	30	276	270	8.0	9.9	14.9	16.4	1.9	2.7
Timber, wooden furniture	46	7	17	291	260	8.3	9.8	11.3	8.8	1.3	1.5
Paper, paper prod. print	47	16	14	41	42	1.2	1.5	2.5	2.2	0.1	0.2
Rubber, plastics	48	16	26	99	98	2.8	3.6	2.0	2.3	0.2	0.3
Other manufacturing	49	5	24	56	48	1.4	1.7	2.7	2.5	2.1	2.5

Source : European Commission, 1994.

of Community imports in 1990–92 compared to the sub-period 1987–89. It resulted in the CEECs increasing their share of extra-EU imports in all save fifteen products at the 3-digit level.

The product composition of CEECs' exports to the Community has been very stable. If one compares the average share of sectors between the two sub-periods 1987–89 and 1990–92, it appears that for CEECs on average, the weight of no NACE two-digit sector has changed by more than 2 percentage points, with some exceptions at the country level. The largest fluctuations have been the decline in the share of food products by 4 percentage points in Hungary and Poland, and the upsurge in the share of clothing and footwear by 8 percentage points in Romania and Bulgaria. Although the magnitude of the changes are generally small, the direction of the change is common to all CEECs, providing some indication of a restructuring away from the traditional sectors (steel, chemicals, but to a greater extent food) towards sectors where CEECs had an initially strong specialisation (non-metallic mineral, cement, metal products) and to a lesser extent towards more processed products (mechanical and electrical engineering). The only exception to this pattern is the clothing industry, which gained importance in EU imports from the CEECs.

Changes in the product composition of CEECs' exports also reflect the trends in EU import demand. This dimension is eliminated if we focus on the specialisation indices, which exhibits no strong trend over time. The CEECs strengthened their market position only for metal products (NACE 31) in the last years.

Focusing on 1992 changes only, some discontinuity compared to 1990–91 can be detected: it points to a greater concentration of CEECs' imports in the steel sector (NACE 22), a greater specialisation in the textile and clothing sectors (NACE 43 & 45), and a levelling of the export performance in the non-metal mineral sector (NACE 24).

If changes in concentration and specialisation are combined, the overall picture of stability is confirmed. There are only three sectors where the trend in CEECs' export performance points to a uniform improvement or worsening across sectors and countries: these are chemicals

(NACE 25) and food (NACE 41) on the negative side and metal tools (NACE 31) on the positive side. For the other key sectors, the stability at the aggregate level hides significant shifts in trade performance between countries or within NACE 2 digit sectors, although no systematic pattern which might point to a trend in the changes can be detected at this stage. This suggests that, in the absence of major product restructuring of CEECs' imports, some reorganisation around sub-sectors within the same NACE 2 digit category is taking place.

2. THE MARKET ACCESS CONDITIONS IN THE EUROPE AGREEMENTS : AN OVERVIEW

2.1. General provisions

The degree of trade liberalisation by the EU is evidenced by the fact, *see table 6*, that on the date of entry into force of the IAs, both tariffs and quantitative restrictions on some 50% of the value of all industrial imports from CEECs were abolished. Although these moves partly reflect the confirmation of previous concessions, including the granting of GSP eligibility, they nevertheless show a fundamental improvement in market access compared to the pre-1989 situation. This rapid liberalisation is in sharp contrast to the lengthy negotiations on market access which formed part of the Uruguay GATT Round (and which took more than seven years to complete), and reflects the high priority which the EU has attached to supporting economic transformation in the CEECs. The degree of trade liberalisation which the EU has granted is also in contrast with the more limited improvements in market access granted by some other countries.

The scale of CEEC exports falling under this general provision (Article 3 in IA, Article 9 in EA) depends on the commodity composition of their trade with the EU. Bulgaria recorded the highest percentage, over 55%, which can enter the EU free of restrictions, and most other CEECs witness similar levels of access. Only Romania recorded a significantly lower figure (25%), a result almost entirely explained by the importance of textiles and clothing in Romanian exports to the EU.

TABLE 6 : Breakdown of market access conditions of imports from CEECs in 1992

	ex-CSFR		Hungary		Poland		Romania		Bulgaria	
	% trd.	MFN	% trd.	MFN	% trd.	MFN	% trd.	MFN	% trd.	MFN
Basic products A (Annex IIa)	1.1	5.3	0.2	5.0	0.3	7.5	0.0	4.3	0.4	4.0
Basic products B (Annex II b)	0.0	6.2	0.2	6.0	0.7	3.7	0.4	6.0	0.6	3.6
Sensitive products (Annex II)	26.3	8.8	20.1	8.8	23.4	7.9	29.9	6.7	8.7	8.7
Textiles (Protocol 1)	12.9	12.1	21.3	12.5	18.8	13.3	37.8	13.3	28.1	12.8
ECSC coal (Protocol 2)	2.4	1.3	0.0	0.5	7.2	3.4	0.0	0.4	0.2	8.3
ECSC steel (Protocol 2)	8.2	4.0	3.7	3.5	4.9	3.3	6.5	4.6	6.5	3.9
Other industrial products	49.1	5.1	54.5	5.1	44.7	3.6	25.4	6.1	55.5	4.6
Total	100	6.8	100.0	7.5	100.0	6.4	100.0	8.9	100.0	7.2

% trd. = % share in total imports of EU from respective CEEC partner.

MFN = 1992 MFN tariff in %.

Note : references in parenthesis refer to the text of the IAs.

Source : Möbius and Schumacher, 1994.

Exceptions to the general provision are some basic products listed in Annexes IIa and IIb to the IAs, sensitive products listed in Annex III, textiles and clothing products (Protocol 1) and certain ECSC products (Protocol 2). All quantitative restrictions (QRs) were removed when the IAs took effect with the exception of certain textile and clothing products (which remain subject to quantitative restrictions until these have been progressively phased out), and certain coal products imported into Spain and Germany. Tariff reductions on the above mentioned product categories are phased so as to achieve complete liberalisation by 1 January, 1997 for the Czech and Slovak Republics, Hungary, and Poland, and 1 January 1998 for Bulgaria and Romania. The 1997 deadline is somewhat misleading, since tariffs on all industrial products will be abolished by 1 January 1995, with the exception of residual and substantially reduced tariffs on textiles and some coal and steel products: moreover, zero tariffs already apply to most outward processing trade (textiles). Liberalisation timetables are similar but not identical, and hence are presented on per country basis in **tables A to E**.

2.2. Basic industrial products¹

A first category of exempted products concerns certain basic products and raw material listed in **Annex IIa and**

Annex IIb to the IAs, the coverage of which is not the same for all associated countries. The products include salt, sulphur, earths and stone, alkali metals, leather, ferro-alloys, unwrought aluminium and lead, and other base metals, see **table 7**. It is evident from **table 6** that these products represent only a small percentage of the total exports from CEECs to the EU, with the highest figures of 1% for CSFR, Poland and Bulgaria.

As regards tariffs on items in **annex IIa**, the EU reduced duties to 50% of the basic duty when the IAs entered into force, and eliminated the remainder one year later. This implies that as of 1 January, 1994, the EU has not applied these tariffs on imports from any associated country. On products listed in **Annex IIb**, EU tariffs were reduced by 20% of the initial duty on the date of entry into force, and by a further 20% at the beginning of the second calendar after the entry into force. Total abolition is to be achieved by the end of the second year. Therefore, they no longer are applied to imports from Hungary, Poland and the Czech and Slovak Republics, and will be eliminated at the end of 1994 on imports from Romania and Bulgaria. Initially, the IAs provided for complete removal of tariffs after four years: however, liberalisation was speeded up as part of the Copenhagen conclusions.

TABLE 7: Main products listed in Annex IIa and IIb of the Interim Europe Agreements

	Bulgaria	former CSFR	Hungary	Poland	Romania
Annex IIa	Leather	Tantalum	Alum. oxide & hydroxide	Ferro-chrom.	Leather
	Unwrought lead	Aluminium	Leather	Leather	Tungsten
	Cadmium	Ferro-(silico)-chromium	Titanium	Salt	Zirconium
	Aluminium		Ferro-silico-manganese		
Annex IIb	Unwrought zinc	Ferro-silicon	Aluminium	Zinc	Unwrought aluminium

Source: Möbius and Schumacher, 1994.

2.3. Sensitive products²

The products listed in **Annex III** roughly correspond to the 'sensitive products' within the GSP. The products affected vary in each IA and are listed in **table 8**. They represent a sizeable share of total CEEC exports to the Community, ranging from 8.7% in Bulgaria to 29.9% in the Czech and Slovak Republics in 1992.

All quantitative restrictions on these products were abolished on the date of entry into force of the IAs, but remain subject to either tariff quotas or tariff ceilings. In both cases, tariffs on imports below a pre-determined threshold are suspended: with quotas they are automatically re-introduced once this level is breached, whereas with ceilings the Commission retains discretion as regards their reimposition. Furthermore, re-imposed duties on imports exceeding tariff quotas and ceilings are reduced annually by 15% of the basic duty (10% for Hungary). Also, the actual thresholds for tariff quotas or ceilings are increased by 20% per annum from the date of entry into force of the agreement (15% for Hungary). All tariff quotas and ceilings will be phased out three years after the IAs take effect, i.e. end 1994 for Hungary, Poland

and Czech and Slovak Republics and end 1995 for Romania and Bulgaria. The initial IAs provided for complete liberalisation after five years, but this was accelerated as part of the package agreed in Copenhagen.

The liberalisation has considerably improved market access for products from the CEECs, in contrast with their previous status as state trading economies. Furthermore, the actual degree of protection which the EU has retained during the liberalisation has been very light. Many of the tariff quotas are non-binding, in that supply side factors prevent the CEECs reaching the quota levels. In addition, tariff ceilings are unlikely to constitute a significant trade barrier as the reimposition of tariffs only occurs if ceilings are broken by a very large amount, and also if the proposal is supported by several Member States. Furthermore, a ceiling is only likely to be breached well into the calendar year, and delays in administrative procedures mean that the reimposition of tariffs may take several months to be enacted. This means that the reimposition of relatively low tariff rates will tend to occur towards the end of the calendar year, which subsequently will be suspended at the beginning of the following calendar year.

¹ Annexes IIa and IIb to the IA.

² Annex III to the IA.

TABLE 8 : Most important sensitive products in EU imports from CEECs, 1992

Bulgaria		ex-CSFR		Hungary		Poland		Romania	
Product	share* in %	Product	share* in %	Product	share* in %	Product	share* in %	Product	share* in %
Footwear, uppers of leather	3.2	Passenger cars	4.5	Footwear, uppers of leather	3.2	Furniture (metal, etc.)	3.3	Furniture (metal, wooden, etc.)	11.7
Disodium carbonate, sodium bicarbonate	1.6	Cement	2.1	Polymers of styrene	1.6	Passenger cars	3.3	Seats	5.1
Mixtures of urea	1.2	Furniture (metal, wooden, etc)	1.9	Seats	1.5	Seats	2.5	Footwear, uppers of leather	2.9
Ammonium nitrate	0.8	Footwear, uppers of leather	1.8	Electric filament or discharge lamps	1.2	Cement	1.2	Cement	2.0
Certain mineral or chemical fertilisers, nitrogenous	0.6	Tubes, pipes, etc. of iron or steel	1.7	Polyvinyl chloride	1.1	Footwear, uppers of leather	1.0	Glassware for table, etc.	1.4
Ethylene glycol iron or steel	0.5	Seats	1.4	Pneumatic tyres and inner tubes, of rubber	0.9	Copper bars, rods, profiles, wire	0.7	Tubes, pipes etc. of iron or steel	1.0
Urea	0.2	Glassware for households, etc.	1.2	Sheets, bands	0.8	Casein	0.7	Mixture of ammonium nitrate	0.4
Vitamin C senger cars	0.2	Trucks	1.0	Polythene	0.8	Pneumatic tyres and inner tubes, of rubber	0.7	Passenger cars	0.7
Tableware, porcelain or china bleware, porcelain or china	0.2	Pneumatic tyres and inner tubes, of rubber	1.0	Suitcases, bags	0.8	Mixtures of urea	0.6	Tableware, porcelain or china	0.6
Mixtures of ammonium nitrate	0.1	Tractors	0.9	Horticultural sheet glass, wired glass	0.8	6-Hexanelactam	0.6	Pneumatic tubes and inner tubes, of rubber	0.4

* Share in EC imports of industrial products from the respective country.
Source : Möbius and Schumacher.

2.4. Textiles and clothing¹

TABLE 9 : Overview of EU-CEECs trade in textiles and clothing 1988-92

	TEXTILES					CLOTHING					
	1988	1989	1990	1991	1992	1988	1989	1990	1991	1992	
9.1 Imports (MECU)											
CEEC5	339	356	415	498	581	CEEC5	1072	1185	1406	1917	2580
Poland	64	66	85	116	129	Poland	304	336	508	750	979
CSFR	154	159	179	233	287	CSFR	108	116	141	277	411
Hungary	68	74	98	99	98	Hungary	274	307	362	456	573
Romania	37	37	32	29	29	Romania	352	389	337	343	463
Bulgaria	16	20	20	21	38	Bulgaria	34	38	57	91	154
Extra-EC	9699	10730	11425	11890	11630	Extra-EC	15958	17985	20551	25553	26511
9.2 Annual growth rate of imports (%)											
CEEC5		5.0	16.6	20.1	16.7	CEEC5		10.5	18.6	36.4	34.6
Poland		3.8	28.8	36.0	11.3	Poland		10.3	51.3	47.7	30.6
CSFR		3.2	12.2	30.3	23.4	CSFR		7.1	22.3	95.5	48.6
Hungary		8.9	33.6	1.1	-1.5	Hungary		12.1	18.1	26.0	25.5
Romania		-0.8	-12.0	-10.7	1.9	Romania		10.5	-13.4	1.7	34.8
Bulgaria		23.4	1.5	5.1	78.7	Bulgaria		11.7	51.5	59.2	69.6
Extra-EC		10.6	6.5	4.1	-2.2	Extra-EC		12.7	14.3	24.3	3.7
9.3 Share in total EU imports from the CEECs (%)											
CEEC5	3.2	2.9	3.2	3.1	3.1	CEEC5	10.3	9.8	10.8	11.9	13.7
Poland	1.9	1.7	1.7	1.9	1.8	Poland	9.1	8.7	9.8	12.1	13.8
CSFR	7.0	6.2	6.6	5.7	5.2	CSFR	4.9	4.5	5.3	6.8	7.4
Hungary	3.1	2.8	3.4	2.7	2.5	Hungary	12.7	11.9	12.4	12.6	14.4
Romania	1.7	1.4	2.0	2.0	2.1	Romania	15.8	15.3	21.0	23.4	33.0
Bulgaria	3.5	3.7	3.4	2.8	4.2	Bulgaria	7.3	7.1	9.8	12.1	17.2
9.4 Trade balance (MECU)											
CEEC5	348	462	551	809	119	CEEC5	-936	-994	-1147	-1530	-2075
9.5 Share in total extra-EU imports of textiles (%)											
CEEC5	3.5	3.3	3.6	4.2	5.0	CEEC5	6.7	6.6	6.8	7.5	9.7

Source : COMEXT, SITC categories 65 and 84.

¹ Protocol No.1 and the Additional Protocol to the IAs.

Textiles and clothing represent an important and growing share of CEEC exports to the EU. In 1992, textiles and clothing represented 16.7% of the total value of CEEC exports to the EU, compared with 13.5% in 1988. In 1992, the share of textiles and clothing in total exports to the EU (in value terms) ranged from 12.6% in the case of the former CSFR to 35% in the case of Bulgaria. **Table 9** presents an overview of the EU-CEEC trade in textiles and clothing over the period 1988–1992. In general, exports of textiles and clothing from the CEECs to the EU performed strongly over this period compared to exports from all third countries. **Table 9** shows that the EU has a trade surplus with the CEECs in textiles and a trade deficit in clothing. This partly reflects the importance of OPT, i.e. the EU exporting fabrics which are then re-imported as clothing. Hence, the picture that emerges is one of significant two-way trade between the EU and the CEECs, with much of this trade resulting from the growing internationalisation of the location of production. However, the EU market share of CEEC products in 1992 was only 0.6% for textiles and 3.5% for clothing (including OPT).

Prior to the beginning of economic transition in Central and Eastern Europe, EU imports of textiles and clothing produced from the CEECs were managed through bilateral agreements negotiated under the Multi-Fibre Arrangement (MFA). The MFA is the multilateral agreement which aims at the orderly and equitable development of trade in certain textile and clothing products through the reduction of trade barriers and the avoidance of disruptive effects in individual markets. EU policy is to negotiate bilateral agreements whereby the exporting countries agree to restrict their exports to agreed levels. Since the administration of these quantitative restrictions is the responsibility of the exporting countries themselves, they function as a form of voluntary export restraint.

In order to encourage economic recovery in the CEECs and support the transition to a market economy, the EU increased certain important quotas in 1990 and 1991, for the Visegrad countries, and similarly in 1991 and 1992 for Romania and Bulgaria. The additional quotas for Outward Processing Traffic (OPT) operations were improved in 1991 on being incorporated into the bilateral textiles agreement. OPT occurs when firms export semi-finished products for further processing and subsequent reimport. These measures, together with the granting of GSP tariff treatment, therefore pre-date the IAs themselves.

The market access conditions for textiles and clothing are contained in Protocol N° 1 to the IAs as regards tariff con-

cessions, and in the Additional Protocol on textiles as regards quantitative aspects. Although outside the scope of the MFA, the Additional Protocols follow the normal structure of MFA type bilateral agreements and they use the standard EU product categorisation system.

The IAs provide for the elimination of tariffs over five years (originally six but reduced to five by a decision of the European Council at Copenhagen) while quotas between the parties will be eliminated on 1 January 1998 (Visegrad four) and 1 January 1999 (Romania and Bulgaria). In addition, a special tariff exemption is already granted for OPT operations under the relevant EU regulation.

Erzan and Holmes (1992) examined EU imports from the CEECs over the period 1985–1989. They concluded that the CEECs were as constrained as other MFA suppliers but speculated that this situation would improve as the CEECs negotiated preferential access to the EU market. In order to assess whether this has indeed been the case, a number of measures of restrictiveness based on 1992 EU imports are presented in **table 10**. Firstly, the number of quotas applied to the CEECs has dropped significantly from 71 in 1986 to 44 in 1992 and 34 in 1993. More significantly, the number of binding quotas has fallen even more from 47 in 1986 to 5 in 1992. A complementary measure is provided by average quota utilisation rates for 1992.¹ There are problems associated with the interpretation of each of these measures: nonetheless the EU has granted considerable liberalisation to the CEECs, and that there is little evidence to suggest that they are constrained suppliers, at least in a direct sense.

More recent data for 1993 presented in **table 11** indicates very low average quota utilisation rates for direct quotas in 1993. The highest figure is for the Czech Republic at 54% and the lowest for Hungary at 26%. These figures further reinforce the conclusion of a lack of restrictiveness of EU measures.

2.5. ECSC products²

Steel products (Chapter 1, Article 2 of the protocol): the share of these various ECSC products in total imports varies

¹ Quotas are considered to be binding according to the measure proposed by Erzan and Holmes (1992), i.e. a utilization rate of above 90%. R. Erzan and C. Holmes (1992) 'The restrictiveness of the Multi Fibre Arrangement on Eastern European Trade', PRE working document WPS 860, International Economics Department, World Bank.

² Protocol 2 of the IA.

TABLE 10: Quota utilisation rates 1986–93

	1986*	1989*	1992*	1993*	AQR** import	AQR** OPT	AQR** avg.
CEEC5	71 (47)	54 (37)	44 (5)	34	33	39	35
Bulgaria	25 (8)	11 (1)	15 (2)	11	47	44	46
CSFR	55 (37)	40 (26)	25 (1)	23	50	36	47
Hungaria	37 (22)	29 (17)	19 (0)	16	24	32	28
Poland	37 (21)	31 (20)	20 (0)	15	33	38	35
Romania	42 (25)	35 (20)	35 (2)	28	19	54	25

Figures in parentheses represent the absolute number of binding quotas.

* absolute number

** AQR = average quota utilisation rate for 1992.

Source: European Commission, 1994.

considerably from 3.7% for Hungary to 8.2% for the Czech and Slovak Republics. All quantitative restrictions were removed when the IAs took effect, and tariffs, with the exception of Bulgaria, follow an identical liberalisation timetable, i.e. to 80% of the basic duty on the entry into force, and subsequently to 60%, 40%, 20%, and 0% at the beginning of subsequent years. Hence, January 1996 will mark the end of tariffs for Bulgaria, Poland, Hungary and the Czech and Slovak Republics followed by Romania one year later. In the case of Bulgaria, duties are reduced by 20% annually from the entry into force of the agreement so as to abolish all duties by the end of the fourth year.

TABLE 11 : Direct quota utilisation rate, 1993 (%)

Poland	34
Hungary	26
Czech Republic	54
Slovakia	35
Romania	32
Bulgaria	36

Source : Commission services.

Regarding *coal products* (Chapter 2, Article 6), tariffs were reduced to 50% of the basic level on 1 January 1994. On 1 January 1996 the remaining duties will be eliminated. Some minor exceptions to these rules apply to Bulgaria. Romania does not export coal products to the EU, however these products represented 7.2% of total Polish exports to the Community in 1992. Coal products, along with textiles, are the only commodity for which the IA permits the EU to retain quantitative restrictions. All QRs were abolished one year after the entry into force of the agreements with the exception of imports going to Germany and Spain, where national quantitative restrictions must be eliminated at the latest four years after the entry into force of the agreement.

2.6. Overall assessment

Overall, the interim Europe Agreements constitute a very substantial trade liberalisation package, the scale and pace of which is without precedent in the EU, or in other industrialised countries. Aside economic benefits accruing to the CEECs from the approximation of laws, the 'national treatment' of enterprises as well as economic and financial and cultural cooperation, over fifty percent of their trade achieved entry into the EU free of tariffs and quantitative restrictions on the day of entry into force of the IAs. Only low tariffs were imposed on basic industrial products, representing a minor share in total imports, and these have since been terminated for Hungary, Poland and Czech and Slovak Republics, and will cease to be applied to imports from Romania and Bulgaria at the end of 1994.

The main exceptions to immediate free trade concern sensitive products, ECSC products, textiles and clothing : even in these sectors, liberalisation has been substantive and rapid. For sensitive products, all quantitative restrictions were immediately revoked, and tariffs below tariff quotas and ceilings have been suspended. Tariff quotas have not proved binding in many cases due to supply side constraints, and as illus-

trated in section 2.3, tariff ceilings in practice are not likely to be a big constraint. Complete liberalisation of sensitive will be achieved by the end of 1994 for Hungary, Poland and the Czech and Slovak Republics, and at the end of 1995 for Romania and Bulgaria. This means that taking account of the general provisions, products listed in annexes IIa, IIb and III, some 75% of industrial imports from Hungary will be free of tariffs and quantitative restrictions by the end of 1994, with equivalent figures of 77% for the Czech and Slovak Republics and 69% for Poland.¹ With a delay of one year, similar conditions will prevail for 65% of imports from Bulgaria and for 56% of imports from Romania.

The pace and depth of liberalisation can be gauged from table 12, which illustrates the (estimated) average tariff rates resulting from the provisions in the Europe Agreements and the Copenhagen Council conclusions. These average tariff rates are weighted according to the commodity structure of imports in 1992, and hence differences among CEECs occur due to divergent trade patterns. The average MFN rate in 1992 ranged from 8.9% for Romania (on account of a high share for textiles) to 6.4% for Poland. GSP status considerably lowered the actual levels of tariffs paid (approximately by one third), and these reductions were more or less doubled on the entry into force of the IAs.

TABLE 12 : Tariff reduction as foreseen in the Europe Agreements and Copenhagen conclusions

	MFN '92*	GSP '91**	'92***	'93	'94	'95	'96	'97	'98
CSFR	6.8	4.4	2.1	n.a.	1.4	0.7	n.a.	0.0	0.0
Hungary	7.5	4.5	2.5	n.a.	1.9	1.2	n.a.	0.0	0.0
Poland	6.4	4.0	2.4	n.a.	1.7	1.1	n.a.	0.0	0.0
Romania	8.9	6.2	n.a.	4.8	n.a.	3.6	2.2	n.a.	0.0
Bulgaria	7.2	5.2	n.a.	3.0	n.a.	2.3	1.6	n.a.	0.0

* MFN duty rate weighted by 8-digit CN imports within each NACE sector.

** GSP duty actually paid.

*** Duties as foreseen in the Interim Europe Agreements and the Copenhagen conclusions.

Source: Möbius & Schumacher, 1994.

Tariff rates fall progressively throughout the liberalisation timetable, and currently in 1994 a very low average tariff rate of under 2% applies to Hungary, Poland, and the Czech and Slovak Republics. Bulgaria faced an average tariff rate of 3% in 1993, which is still very low, whereas the 1993 rate for Romania of 4.8% is explained by the high concentration of textiles in total imports, and the relatively slow liberalisation compared with other industrialised products.

3. CONTINGENT PROTECTION AND RULES OF ORIGIN

3.1. The scope of EU anti-dumping measures against CEECs

In addition to the liberalisation described in section 1 above, the Europe and Interim Europe Agreements also contain provisions which allow the EU to apply contingent

¹ It should be noted that the real percentage of CEEC imports entering the EU will be higher than the figures presented above, given the zero percent tariffs applied to outward processing traffic (textiles).

protection measures (anti-dumping and safeguard actions) against the CEECs. This has raised the issue of whether such measures could impose high explicit and 'implicit threat' costs on CEEC exporters, could damage EU consumers and intermediate users, could deter FDI investment in the CEECs, and finally could encourage collusion among CEEC enterprises so as to avoid anti-dumping measures, thus conflicting with the goal of establishing a competitive (multi-producer) market economy.

Prior to the collapse of the communist regimes, CEECs accounted for roughly 20% of all EU dumping actions, far higher than their share in total extra-EC imports. However, since the mid-1980s, the number of investigations initiated annually has fallen sharply, from over 20 per year to only 2 in 1993, see **table 13**.

TABLE 13 : Initiation of anti-dumping cases against CEECs

	1988	1989	1990	1991	1992	1993
Bulgaria	1	1				
fmr. CSFR	1	1		1		
Hungary	1	1		1		1
Poland	1	1		2	1	1
Romania	2	2			1	
Total	6	6	0	4	2	2

Source: various annual reports on the Community's anti-dumping activities.

As illustrated in **table 14**, there were nineteen anti-dumping measures in force at the end of 1993. Poland faces the highest number of measures (6) followed by Romania (5). An interesting feature of EU anti-dumping measures

against CEECs is the high preponderance of price undertakings (which is potentially of benefit to the exporter)¹ compared with dumping duties applied against other countries. The most striking feature of **table 14** is that dumping measures are applied to very specific tariff lines across a narrow range of industrial products, mostly basic steel and chemical products. Furthermore, there is no indication whatsoever that the EU is extending the scope of anti-dumping actions into areas where the CEECs are acquiring a comparative advantage.

The very limited nature of anti-dumping actions against CEECs is clear from **table 15**, which examines measures in force at the end of 1993 but using 1992 trade data.² In total, only ECU 60 million imports from CEECs were subject to anti-dumping measures, representing 0.32% of total imports and 0.36% of total industrial imports from the CEECs. Bulgaria was most affected with 1.24% of all their exports to the EU being affected, followed by Romania with 0.7%. The CSFR recorded an incidence of virtually zero (0.05%). It should be noted, however, that the low trade coverage figures understate the impact on CEECs, on account of the implicit threat of anti-dumping measures (which, *inter alia*, can deter inward investment) and also due to the fact that duties/undertakings almost certainly reduce the actual levels of trade flows.

¹ The exporting enterprise may gain if increased revenues from higher prices offset any reduction in producer surplus brought about through constrained production. Account should also be taken of general welfare losses for the exporting economy, if factors of production shift away from the constrained industry to less efficient sectors.

² These figures refer to anti-dumping measures in force against CEEC countries on 31 December, 1993, using trade data for 1992. However, the orders of magnitude should not have altered substantially.

TABLE 14 : Anti-dumping measures in force against CEECs as at 10.12.93

Product	Measure	Publication
1. Czech and Slovak Republics		
Artificial corundum	undertakings	OJ L 275, 02.10.91
Methenamine	undertakings	OJ L 104, 24.01.90
2. Hungary		
Artificial corundum	undertakings	OJ L 275, 02.10.91
Seamless steel tubes	duty + undertakings	OJ L 120, 15.05.93
Urea	undertakings	OJ L 52, 24.02.89
3. Bulgaria		
Copper Sulphate	duties	OJ L 23, 27.01.89
Methenamine	undertakings	OJ L 104, 24.01.90
Sodium Carbonate	duties	OJ L 131, 13.05.89
4. Poland		
Artificial corundum	undertakings	OJ L 275, 02.10.91
Ferro-silicon	duty + undertakings	OJ L 369, 18.12.92
Methenamine	undertakings	OJ L 104, 24.01.90
Seamless steel tubes	duty + undertakings	OJ L 120, 15.05.93
Silicon carbide	undertakings	OJ L 287, 10.10.86
Sodium Carbonate	duties	OJ L 131, 13.05.89
5. Romania		
Methenamine	undertakings	OJ L 104, 24.04.90
Sodium Carbonate	duties	OJ L 131, 13.05.89
Synthetic textile fibres of polyester	duties	OJ L 306, 22.10.92
Welded tubes of iron or steel	duties	OJ L 91, 06.04.90
Urea	undertakings	OJ L 52, 24.02.89

Source: Commission services.

TABLE 15 : Evaluation of PECO imports subject to anti-dumping measures in 1992 ('000 Ecu)¹

	Measures*	Poland	fmr. CSFR	Hungary	Romania	Bulgaria	Total	% of extra EU imports
Art. corundum	U	1543	2727	2862	11	0	7132	12.8
Copper sulphate	D	3067	914	0	326	14	14	0.1
Sodium carb.	D	8326	129	5	701	10873	19900	17.4
		907	2542	1842	2	165	1074	0.3
Silicon carbide	U	1050	814	74	45	0	1050	1.6
Methenamine	U	163	67	83	8	79	317	10.6
Urea	U	10203	13045	0	3734	1708	3734	3.7
		5	21	269	0	0	269	21.3
Syn. polyester	D	6135	1935	34	979	3451	979	0.9
Ferosilicon	D&U	81	1023	217	0	23	81	0.0
		14	0	0	0	0	14	0.1
		14	4	95	0	53	14	0.1
Seamless steel pipes and tubes iron or non-alloy steel	D&U	465	2063	54	2954	45	519	1.8
		566	667	0	927	0	566	1.9
		113	514	235	0	4	348	4.9
		6818	35380	3756	739	929	10574	13.4
		7401	6152	1409	9	7	8810	29.3
Welded tubes of iron or non-alloy steel	D	62	5225	2	0	0	0	0.0
		2834	9594	69	3999	1	3999	12.6
		0	1235	87	0	104	0	0.0
		1530	1546	804	349	0	349	0.7
Total (ECU '000)		27461	2794	8585	9772	11131	59743	
% imports (2)		0.39%	0.05%	0.22%	0.70%	1.24%	0.32%	
% ind. impts (3)		0.44%	0.05%	0.26%	0.73%	1.42%	0.36%	

Figures in **bold italics** are those on which anti-dumping measures currently apply.

* D = duties; U = undertakings.

(1) Anti-dumping measures are imposed on very specific products at the 8-digit Combined Nomenclature level. Sometimes, an anti-dumping measure is imposed on several similar products of the same type, e.g. two specifications of sodium carbonate; This table presents the trade data for all tariff lines subject to anti-dumping measures. The figures are not aggregated.

(2) % of total EU imports from the respective CEEC country.

(3) % of total industrial EU imports from the respective CEEC country.

It is not possible from this data to determine the scale of injury to EU producers. Nonetheless, figures in the final column which show the share of these imports from CEECs as a percentage of total extra-EU imports, suggest that injury, if any, is likely to be limited. Of the products subject to anti-dumping measures in 1992, the CEEC share in extra-EU imports was highest for seamless steel pipes and tubes, 29%. However, the CEEC market share (share of CEEC imports in total EU consumption) is likely to be small given that steel is an industry where domestic producers tend to have high domestic market shares. Hindley (1993),¹ has pointed out that in this case, the Commission used methods of calculation applicable to state trading economies (basing the dumping calculations of production costs of a like good in Croatia) and offered evidence of dumping for only one out of the five goods affected, namely steel tubes.

3.2. Anti-dumping provisions in the interim Europe Agreements

Essentially the anti-dumping provisions of the IAs imply that associated countries fall under market economy rules

in the calculation of dumping margins as opposed to the special provisions relating to state trading economies applied hitherto. Therefore CEECs no longer fall under Article 2.5 of the basic dumping Regulation² which deals with state trading economies, but instead under to Article 2.3 which applies to all market economies. In other words, they receive exactly the same treatment as all other trading partners with the exception of members of the European Economic Area.

In practical terms, this has the following implications. The calculation of dumping margins for state-trading economies is usually undertaken on the basis of a comparison of prices or costs in a third 'reference' country. The use of third 'reference' country previously yielded relatively high rates of affirmative findings.

With the shift to market economy rules, the use of reference countries ceases. Instead, the Commission should, wherever possible, examine prices or costs on the domestic market of the CEEC concerned in order to determine whether actual price discrimination or below cost sales have occurred. This change in rules, however, does not settle the issue as many problems remain.

For instance, the difficulties in assessing dumping in an economically meaningful manner are likely to be compounded in a situation of economies undergoing a transition from a command based regime,³ e.g. it will be difficult for the Commission authorities to accurately assess domes-

¹ Hindley Brian (1993): 'Helping transition through trade? EC and US policy towards exports from eastern and central Europe', European Bank for Reconstruction and Development, Working Paper 4, March 1993.

² Council Regulation EEC/2423 of 11.07.1988 on protection against dumped or subsidised imports from countries not Members of the European Economic Community, OJ L 209 of 02.08.1988. Commission Decision ECSC 2424/88 of 29.07.1988 relates to ECSC products.

³ see P.K.M. Tharakan ed. (1991): 'Policy implications of anti-dumping measures', Elsevier Science Publishers, North-Holland.

tic prices and costs. Hence, the use of 'reference' countries is not excluded in very difficult cases.

One common feature of past anti-dumping cases against the CEECs has been the high proportion which have been settled with price undertakings. Defendants prefer this outcome to the imposition of duties since they benefit from higher prices. Of all the 272 cases between 1980 and 1987, some 72% were terminated with price undertakings, of which 55% concerned East European countries. The willingness of the Commission in the past to accept price undertakings from the CEECs was largely explained by the relative ease with which they could be monitored, given that imports were sourced through a sole exporting authority. This may change as the transition process progresses, as monopolies break-up in CEECs and EU imports become sources for many producers in the CEECs. Whether or not the frequency of price undertakings alters remains to be seen.

The treatment of the CEECs in anti-dumping actions will differ from other countries on one respect. Article 27.3c of the IA (Article 33 of EA) provides that before any action is taken after having determined the existence of dumping *'the Community or the relevant associated country, as the case may be, shall supply the Association Council with all relevant information with a view to seeking a solution acceptable to the two parties'*. Article 27.3c of the IA continues saying *'the Association Council may take any decision necessary to put into effect an end to the difficulties; If it has not taken such a decision within thirty days of the matter being referred to it, the exporting party may apply appropriate measures on the exportation of the product concerned'*. In short, the Europe Agreement gives a grace period of 30 days from the time the definitive decision is announced to the time the measures take effect. This may be important in that it will allow the CEEC countries to plea their case to an international audience prior to the actions entering into force.

3.3. Overall assessment of anti-dumping actions

From above, it appears that the application of anti-dumping provisions cannot be considered as a deterrent to 'serious' foreign investors. Only two cases have been initiated since the IAs entered into force. Furthermore, anti-dumping measures currently in force affect a marginal percentage of total imports from CEECs, and are concentrated across a very narrow range of tariff classifications, mostly basic chemical and steel products. There is no indication that the EU will extend the scope of anti-dumping measures into sectors where the CEECs are acquiring a comparative advantage.

It is most unlikely, based on the data in **table 15**, that the CEECs are engaging in **predatory dumping**, i.e. setting prices below short-run marginal cost in an attempt to drive out competitors and secure monopoly power (and profits) in the long-run. In practice, the necessary conditions to conduct predatory pricing (market power, ability to prevent market entry, ability to endure losses) arise infrequently,

especially for financially weak CEEC enterprises which tend to have very small market shares in the EU.

Instead, if CEEC firms are engaged in dumping, then this is likely to take the form of either **cyclical dumping** or dumping financed through **government subsidies**. **Cyclical dumping** occurs when firms set prices below average costs, and is more likely to occur in industries with large fixed costs, e.g. steel, chemicals. These non-predatory forms of dumping may cause injury to EU producers. Account should, however, be taken of the benefits through lower prices to EU consumers, and to enterprises who use CEEC imports as intermediate imports. Hence, there is a need to take a balanced approach in such cases weighing up costs all the costs and benefits. Where dumping does occur, the first best response may be to strengthen the competition framework in the CEECs (see European Commission, 1994). The Europe Agreements contain comprehensive provisions for approximation of competition laws in the CEECs to those of the EU.

3.4. Safeguard actions

A general safeguard clause in the IAs, Article 24, states

"Where a product is being imported in such increased quantities and under such conditions as to cause or threaten to cause (a) serious injury to domestic producers of like or directly competitive products in the territory of one of the contracting parties, or (b) serious disturbances in any sector of the economy or difficulties which could bring about serious deterioration in the economic situation of a region, the Community or the relevant associated country may take appropriate measures under the conditions and in accordance with the procedures laid down in Art.27",

Article 27 of the IA stipulates the administrative procedures for implementing the general safeguard of Article 24. In case of presumed threat to domestic producers, the "injuring" party is to be informed and all relevant information should be made available with a view of seeking an agreement between both parties; failure to resolve the dispute results in "any appropriate measure" being taken, but *"in the selection of measures, priority must be given to those which least disturb the functioning of the Agreement"*.

In addition to the general safeguard clause, there are additional specific safeguard regimes, e.g. Articles 15 (Hungary, Poland, ex-CSFR) & Article 16 (Romania, Bulgaria) of the IAs provide for safeguard actions with respect to agriculture.¹ There are also supplementary safeguard measures which can be introduced by the CEECs against imports from the EU, designed to take account of the specific problems facing economies undergoing transition. These include Articles 22 & 23 of the IA² which allows CEECs to apply exceptional measures for a limited dur-

¹ Article 15 for Hungary, Poland, and the Czech and Slovak Republics, Article 16 for Romania and Bulgaria.

² Article 22 for Hungary, Poland, and the Czech and Slovak Republics, Article 23 for Romania and Bulgaria.

³ Article 25 of the IA allows to apply appropriate safeguard measures on exports in case of "(i) re-export towards a third country against which the exporting country maintains, for the product concerned, quantitative export restrictions, export duties or measures having equivalent effect, or (ii) a serious shortage, or threat thereof, of a product essential to the exporting country".

ation to protect infant industries and certain sectors undergoing restructuring or facing serious difficulties.³

The safeguard provisions in the IA differ from those permitted under GATT Article XIX, since the former are selectively applied (to associated countries) rather than the multilateral application of the latter. This selective application is justified given that the IAs provide additional trade liberalisation beyond MFN status. Selective application means that IA provisions differ from those under GATT Article XIX in two important respects. Firstly, whereas the conditions under which the safeguard actions can be implemented are identical, the definition of injury differs somewhat. For example, the IA references to "serious disturbances" and "serious deterioration in the economic situation" are not precisely defined, and there is no reference, as in EC Regulation 288/82,¹ to the basic concept of "unforeseen developments". Secondly, the administrative procedures in the IA rules do not provide for a formal investigation as specified in EC Regulation 288/82.

In practice, however, such legal differences have had little practical effect, and certainly have not negated the trade liberalisation achieved in the market access provisions. This is evidenced by the fact that Article 24 of IA has been applied only once since the IAs entered into force. The Commission authorised Germany, France and Italy to impose quotas on imports of certain iron and steel products coming from the Czech and Slovak Federal Republic, after bilateral discussions on voluntary action had failed. These measures were temporary and lapsed on 31 December 1992.² For the years 1993, 1994 and 1995, the EU has agreed with Czech and Slovak authorities to limit the annual growth rate of imports on some five steel products and product groups.³ It should be borne in mind, however, that prior to the entry into force of the IAs, the CEECs were not subject to normal EU safeguard rules, but rather to special provisions with respect to state-trading economies.⁴

3.5. Rules of origin

Rules of origin are relevant in the context of preferential trade arrangements since they determine which exports from associated countries can benefit from preferential trade concessions. In particular, they may play an important role in determining the level of FDI in CEECs, as EU enterprises may wish to take advantage of lower costs for labour-intensive phases of production process.

Rules of origin distinguish between goods which are wholly produced in a given country (e.g. mineral products, agricultural products), and goods where two or more countries contribute to production. In the latter case, the key issue concerns where the last substantial transformation takes place, for

which three general tests are employed. These are a change of tariff heading in a specified nomenclature, the undertaking of a prescribed list of manufacturing or processing operations, and the application of an *ad valorem* rule, either referring to a threshold amount of value added from a manufacturing process, or an upper limit on the value of the imported materials and/or components in the final product.

The impact of rules of origin on an associated country depends on a number of factors, the most important of which are the thresholds contained in the tests described above, e.g. the local content requirements in *ad valorem* rules. Also, the costs of compliance with rules of origin must be low relative to the tariff and non-tariff barriers if preferential trade arrangements are to be meaningful. Analyses of the GSP with respect to developing countries have documented cases where the costs associated with satisfying the rules of origin were so high as to induce exporters to pay the relevant MFN tariff. An additional important factor is whether the origin rule is cumulative, i.e. allows for the aggregation of value added in all countries participating in the preferential trade system.

The rules of origin in the Europe Agreements are contained in a Protocol No.4 on the definition of the concept of "originating products". Although similar to those applying to other EU preferential trade agreements,⁵ they differ in a number of respects as follows

- specific conditions are attached as regards products wholly obtained in one party, e.g. fish caught by national vessels (Article 1);⁶
- a change of tariff heading is the general rule used for determining sufficient transformation. However, exceptions are listed in the Annex II of the Protocol. The existence of this list means that there is no provision for a Technical Committee on Origin to mediate disputes, as occurs in trade with countries with whom the EU does not have a preferential trade arrangement. The exceptions concern the maximum percentages in value-added of third country inputs⁷ and certain specific processing operations required to confer origin;
- cumulation is allowed between the Visegrad countries (i.e. Poland, Hungary, the Czech Republic, the Slovak Republic). Hence, EU inputs are not counted in determining foreign value content of Visegrad products. In contrast, no intra-CEEC cumulation is permitted with respect to Bulgaria and Romania, because they do not participate in the Visegrad process.

A systematic analysis of the effects of rules of origin in the IA is beyond the scope of this supplement. The institutional provisions in the IAs are comparable if not more liberal than similar provisions contained in other bilateral trade arrangements and the value added requirements are similar to those contained in Annex II of the EEA Agreement.⁸ Nonetheless,

¹ This Regulation was recently replaced by Regulation 518/94 of 7 March, 1994.

² Article 24 of the IA entitles the affected party to take selective "appropriate measures" in the event of increased quantities that cause or threaten to cause serious regional problems.

³ Decision N°1 of the EC-Czech Republic and Slovak Republic Joint Committee of 28 May, 1993 (93/373/ECSC) in OJ L 157 of 29.06.1993.

⁴ Council Regulation N° 1765/82 of 30 June 1982 on common rules for imports from State-trading countries.

⁵ Commission Regulation 802/68 of 27 June 1968 on common definition of the notion of origin of goods, OJ N° L148/1 28/6/68.

⁶ The term national vessels is defined in the text and subject to specific conditions which are the same as in the EEA Protocol on rules of origin (Art.3(2)).

⁷ 40% and 50% limits apply for chemicals, metal articles, machinery, clothing, electric engineering articles, tape recorders, TV sets, radios, integrated circuits, insulated wires, motor vehicles, etc.

⁸ Annex II of the EEA Agreement, as Annex II of the EAs lists all the products for which the change in tariff heading criterion was not retained and, instead, a specific operation or the value added criterion, or both, are indicated to confer origin.

a further consideration of the application of rules of origin with respect to CEECs could be required if problems arise, but this requires a great deal of in-depth study on a sectoral basis. Furthermore, compliance costs might be reduced by making administrative procedures more transparent and inexpensive, and possibly by upgrading technical assistance to customs authorities in CEECs.

As regards cumulation, all the IAs/EAs provide for so-called bi-lateral cumulation between the EU and CEEC country concerned, e.g. EU-Romania or EU-Hungary. Diagonal cumulation is permitted among the Visegrad countries, e.g. EU-Hungary-Poland. The IA/EA with Romania allows for cumulation among Romania and Bulgaria: however, the IA/EA with Bulgaria, following a request of Bulgarian authorities, does not provide for cumulation with Romania. The differential treatment of the Visegrad countries on the one hand, and Bulgaria and Romania on the other hand requires reconsideration. However, extending so-called diagonal cumulation, in principle requires the CEECs themselves to co-ordinate their customs activities. It should be noted that even among Visegrad countries, who in theory operate a diagonal cumulation system, problems have arisen following the negotiation of separate EAs with the Czech and Slovak Republics. In a broader context, the Copenhagen Council has invited the Commission to carry out a study on the feasibility and impact of rules of origin and cumulation between the EC, the CEECs and the EFTA countries.

ANNEX 1 : MARKET ACCESS CONDITIONS AND INSTITUTIONAL PROVISIONS

1. The legal state of play of the Europe Agreements

The European Union has supported the transition to a market economy in the Central and eastern European countries (CEECs) by, *inter alia*, a fundamental and substantial liberalisation of trade arrangements. As indicated on **table 16**, this has been a phased move, beginning with the signing of trade and economic (and commercial) cooperation agreements with Hungary in 1988, Poland in 1989 and subsequently the CSFR, Romania and Bulgaria in 1990. Simultaneously, quantitative restrictions specific to the CEECs were lifted. In January 1990, Hungary and Poland were unilaterally declared eligible for the Generalised System of Preferences (GSP) by the EU, status which was accorded to the CSFR and Bulgaria in early 1991. Romania had received restricted GSP status since 1974, and the remaining restrictions were removed in January 1991.

Trade liberalisation culminated in the signing of six Europe Agreements (EAs) between 1991 and 1993, which have as their aim the establishment of a bi-lateral free trade area for non-agricultural products over a ten year period. The removal of trade restrictions is to occur on an asymmetric basis, with the EU liberalising faster and earlier than each

of the CEECs. In addition to the creation of a bi-lateral free trade area, the EAs provide for political dialogue, the approximation of laws, the 'national treatment' of enterprises as well as economic, financial and cultural cooperation. As some of these policies fall within the competence of the Member States, the EAs can only enter into force following their ratification by all EU and CEEC national legislatures, a time consuming exercise. In the intervening period, so-called interim Europe Agreements (IAs) have been applied which concern essentially the trade and some trade-related aspects of the full Europe Agreements. This was possible since trade policy lies within the exclusive competence of the EU. As made clear by the declaration of the EU Heads of State and Government following their meeting in Copenhagen in June 1993, the ultimate goal is the accession of these countries to the European Union.

Given that the EAs were signed at different times and hence subject to diverging ratification timetables, the legal state of play is somewhat diverse.¹ Regarding **Hungary and Poland**, Europe Agreements were signed on 16 December 1991 and came into effect on 1 February, 1994, and Interim Europe Agreements have been in operation since 1 March, 1992. The IAs have been supplemented with Community legislation necessary for their legal implementation.²

For example, such legal acts removed the associated countries from the list of countries classified as State trading economies, which previously rendered them subject to a special trade regime. They further specified administrative procedures for provisions in the Interim Agreements that involve the discretionary introduction by the EU of trade policy measures, e.g. anti-dumping measures, safeguard actions, the functioning of tariff-quotas and ceilings. Some of the measures with respect to tariff-quotas and ceilings must be reintroduced on an annual basis.³

¹ Furthermore, as ratification is an ongoing process, the information provided in this supplement may be out of date even by the time of publication. The information presented reflects the status quo as at 16.02.1994.

² Council Regulation EEC/521/92 of 27.02.92 opening and providing for the administration of Community tariff quotas and ceilings for certain agricultural and industrial products originating in Hungary, Poland and the Czech and Slovak Federal Republic (1992), OJ L 56 of 29.02.92.

Council Regulation EEC/517/92 amending the autonomous import arrangements for products originating in Hungary, Poland and the Czech and Slovak Federal Republic, OJ L 517/92 of 29.02.1992.

Commission Decision ECSC/523/92 on certain modalities for the application of the Interim Agreement on trade and trade related matters between the ECSC and EEC of the one part and the Republic of Hungary of the other part, OJ L 56 of 29.02.1992.

Council Regulation EEC/519/92 on certain procedures for apply the Interim Agreement on trade and trade-related matters between the EEC and the ECSC, of the one part, and the Republic of Hungary of the other part, OJ L 56 of 29.02.1992.

Commission Decision ECSC/522/92 on certain modalities for the application of the Interim Agreement on trade and trade related matters between the ECSC and EEC of the one part and the Republic of Poland of the other part, OJ L 56 of 29.02.1992.

Council Regulation EEC/518/92 on certain procedures for apply the Interim Agreement on trade and trade-related matters between the EEC and the ECSC, of the one part, and the Republic of Poland of the other part, OJ L 56 of 29.02.1992.

³ Council Regulation EEC/3918/92 of 28.12.1992 opening and providing for the administration of Community tariff quotas and ceilings for certain agricultural and industrial products and establishing a reduced variable component for certain agricultural products originating in Hungary, Poland and the territory of the former Czech and Slovak federal Republic (1993), OJ L 296 of 31.12.1993.

TABLE 16 : The legal state of play of the Europe Agreements at 01.02.1994

	Signed	In force	Reference
16.1 Trade and Cooperation Agreements			
Poland**	19.09.1989	01.12.1989	OJ L 339 of 22.11.89
Hungary **	26.09.1988	01.12.1988	OJ L 327 of 30.11.88
CSFR*	07.05.1990	01.11.1990	OJ L 291 of 23.10.90
Romania	22.10.1990	01.05.1991	OJ L 079 of 26.3.91
Bulgaria	08.05.1990	01.11.1990	OJ L 291 of 23.10.90
16.2 Europe Agreements			
Poland	16.12.1991	01.02.1994	OJ L 348 of 31.12.93
Hungary	16.12.1991	01.02.1994	OJ L 347 of 31.12.93
Czech Rep.	04.10.1993	not yet	PO Cat No CB-CO-93-433--c
Slovakia	04.10.1993	not yet	PO Cat No CB-CO-93-433--c
Romania	01.02.1993	not yet	PO Cat No CB-CO-93-533--c
Bulgaria	08.03.1993	not yet	PO Cat No CB-CO-93-049--c
16.3 Interim Europe Agreement***			
Poland**	16.12.1991	01.03.1992	OJ L 144 of 30.4.92
Hungary**	16.12.1991	01.03.1992	OJ L 116 of 30.4.92
Czech Rep.	16.12.1991***	01.03.1992	OJ L 115 of 30.4.92
Slovakia	16.12.1991***	01.03.1992	OJ L 115 of 30.4.92
Romania	01.02.1993	01.05.1993	OJ L 81 of 2.4.93
Bulgaria	08.03.1993	31.12.1993	OJ L 323 of 23.12.93
* Czech and Slovak Federal Republic.			
** Replaced by Europe Agreement as of 1.2.1994.			
*** On basis of IA signed on 16.12.1991 with the former CSFR; supplementary protocols to the IA take account of the dissolution of the CSFR. See OJ L 349 of 31.12.1993.			
**** <u>Additional protocols to EA/IA</u> on acceleration of implementation of EU trade concessions (following Conclusions of Copenhagen European Council - June 93); provisional application (P, H, Cz, SK) as of 1.7.1993; OJ L 195 of 4.8.93. The additional protocols with each of these countries, as well as with Romania and Bulgaria, were signed in December 1993, and are published in OJ L 25 of 29.1.94.			
on trade in <u>textiles</u> : provisional application (P, H, Cz, SK) as of 1.1.1993; OJ L 410 of 31.12.92.			

The former Czech and Slovak Federal Republic signed Europe Agreements on the same date as both Hungary and Poland, and an interim Europe Agreement also came into force on 1 March, 1992. However, following the division of the CSFR, separate agreements were negotiated with the **Czech and Slovak Republics** which were signed on 4 October, 1993. The separate EAs differ in a number of respects vis à vis the original, in that they contain a preamble with respect to human rights and the treatment of minorities,¹ they contain an emergency provision clause allowing the implementation of the agreement to be suspended without prior consultation in special emergency cases, the import quotas and ceilings are divided between the two Republics, and finally, they allow for the cumulation of rules of origin from both Republics (and hence cumulation with Hungary and Poland). The negotiation of separate EAs has no impact on the actual implementation of trade liberalisation.

Finally, Europe Agreements with **Romania** and **Bulgaria** were signed on 1 February, 1993, and 8 March 1993 respectively. The IA with Romania entered into force on

1 May 1993. However, an internal EU trade debate delayed implementation of the IA with Bulgaria until 31.12.1993. In order to redress this delay, the EU considered that 1 January, 1994 marked the second year of application of the IA with Bulgaria, bringing the trade liberalisation schedule back in line with Romania.

The market access provisions in all six interim Europe Agreements were upgraded, by speeding up the liberalisation timetable, as a result of the decision by the EC Heads of State and Government at the Copenhagen Council in June 1993. The General Affairs Council of July 1993 adopted the necessary legal texts to accelerate of the implementation of trade concessions,² and final amendments to the protocols (as well as with Romania and Bulgaria) were signed in December, 1993.³

ANNEX 2 : OTHER TRADE-RELATED ISSUES

1. Right of establishment

It is agreed in principle that both EU and associated CEECs will grant each others' companies and nationals "national treatment" (i.e. non-discriminatory treatment) for the establishment of new economic and professional activities in each others' territories. As with market access conditions, implementation occurs on an asymmetric basis. The EU granted national treatment upon entry into force of the Europe Agreements, while transitional periods are foreseen for this application by the associated countries. During the transition period, these countries may also derogate from granting national treatment to Community companies and nationals in order to protect newly emerging industries and sectors undergoing restructuring.

2. Competition rules and the approximation of laws

Competition rules, similar to those applied in the Community will have to be introduced in the associated countries (Articles 31 & 32 of the IA). The EU rules concerning agreements between undertakings, abuse of dominant position and State aids shall be assessed 'on the basis of criteria arising from the application of the rules of Articles 85, 86 and 92 of the Treaty establishing the European Economic Community'. The Joint Committee has three years from the entry into force of the IAs to adopt the necessary rules for the implementation of these provisions. However, the six associated countries are considered as low income regions where, according to the EC Treaty, development-oriented state aids may be authorised. Specific rules to be applied to the coal and steel sectors are provided.

² Council Decision EEC/93/421 on the provisional application of the Additional Protocols to the Interim Agreements on trade and trade-related matters between the EEC and the ECSC, of the one part, and certain third countries, of the other part, and to the Europe Agreements between the European Communities and their Member States and the same countries, OJ L 195 of 04.08.93.
Council Regulation EEC/2232/93 amending Regulation EEC/3918/92 opening and providing for the administration of Community tariff quotas and ceilings for certain agricultural and industrial products and establishing a reduced variable component for certain agricultural products originating in Hungary, Poland and the territory of the former Czech and Slovak Federal Republic (1993), OJ L 200 of 10.08.1993.

³ OJ L 25 of 29.01.1994.

¹ The stipulations are identical to those in the EA's with respect to Romania and Bulgaria, which were concluded prior to the negotiation of separate agreements with the Czech and Slovak Republics.

The approximation of laws of the associated countries to Community law is a major precondition for economic integration into the Community. The associated countries are required to ensure compatibility of their legislation with EU laws and the Community will provide technical assistance for this purpose. The following areas will be concerned in particular: customs laws, company law, banking law, company accounts and taxes, intellectual property, protection of workers at the workplace, financial services, rules on competition, protection of health and life of humans, animals and plants, consumer protection, indirect taxation, technical rules and standards, transport and the environment.

3. Some additional areas

Payments and financial transfers : both parties undertake to authorise, in freely convertible currency, any payments related to movement of goods, services or persons, as well as the financial transfers related to investments, including repatriation of capital or investment benefits.

Intellectual, industrial and commercial property : the associated countries will, within five years from the entry into force of the Interim Agreements, provide similar levels of protection to those existing in the Community.

Public procurement : non-discriminatory access to public contracts is also provided following a transitional period.

Economic cooperation : a major objective of this cooperation is to enable the associated countries to meet the challenge of restructuring their economies and achieving competitiveness by the end of the transitional period. Economic cooperation refers to all areas of mutual interest. In particular, it concerns industry including industrial standards, investment promotion and protection, education, training, science and technology, agriculture, transport; telecommunications, postal services and broadcasting, banking, insurance and other financial control, money laundering, regional development, social issues, tourism, small and medium sized enterprises, information and communication; customs; statistics; economics; public administration and drugs.

4. Institutional arrangements

The EAs provide for the creation of Association Councils at ministerial level whose task is to monitor the implementation of the Agreements. They will have decision-making powers within specific areas and will be assisted by Association Committees, to which they may delegate any of their powers. In addition, Association Parliamentary Committees are established for Members of the Parliaments of the associated countries and of the European Parliament to meet and exchange views. They are entitled to request information from the Association Councils and to make recommendations. The Association Councils also inform the Association Parliamentary Committees of all decisions taken.

ANNEX 3 : LIBERALISATION TIMETABLES WITH ASSOCIATED COUNTRIES

TABLE A : Overview of access to EU for industrial products in the EU-Hungary Interim Europe Agreement

1. General provisions	March '92	Jan. '93	Jan. '94	Jan. '95	Jan. '96	Jan. '97	Jan. '98
tariffs	0	0	0	0	0	0	0
QRs	abolished	none	none	none	none	none	none
2. Basic products							
Annex IIa - tariffs	50	0	0	0	0	0	0
Annex IIb - tariffs	80	60	(40) 0	(20) 0	0	0	0
3. Sensitive products (Annex III)	March '92	Jan. '93	July '93	Jan. '94	Jan. '95	Jan. '96	Jan. '97
within tariff-quota							
tariffs	suspended				abolished		(abolished)
quota-level	115	130	(130) 140	(145) 165	(160)	(175)	
outside Tariff-quota	March '92	Jan. '93	Jan. '94	Jan. '95	Jan. '96	Jan. '97	Jan. '98
tariffs	90	80	70	(60) 0	(50) 0	0	0
QRs	abolished	none	none	none	none	none	none
4. ECSC products (Protocol 2)							
Steel tariffs	80	60	40	20	(10) 0	0	0
QRs	abolished	none	none	none	none	none	none
Coal tariffs	100	100	50	50	0	0	0
QRs (except)		abolished					
QRs in Annex II					abolished		
5. MFA products (Protocol 1)							
tariffs	5/7	5/7	4/7	2/7	1/7	0/(1/7)	(0)
QRs	unspecified rate of reduction to 0 after (6) 5 years beginning 01.01.1994						

Note : The figures presented represent those agreed at the Copenhagen Council. Those in parentheses represent those agreed in the initial interim Europe Agreements. Figures with respect to tariffs reflects rates as % of those applied prior to the IA. Figures with respect to quantitative restrictions (QRs) reflect quotas as % of those applied at beginning of IA.

TABLE B : Overview of access to the EU for industrial products in the EU-Poland Interim Europe Agreement

1. General provisions		March '92	Jan. '93	Jan. '94	Jan. '95	Jan. '96	Jan. '97	Jan. '98
tariffs		0	0	0	0	0	0	0
QRs		abolished	none	none	none	none	none	none
2. Basic products								
Annex IIa - tariffs		50	0	0	0	0	0	0
Annex IIb - tariffs		80	60	(40) 0	(20) 0	0	0	0
3. Sensitive products (Annex III)		March '92	Jan. '93	July '93	Jan. '94	Jan. '95	Jan. '96	Jan. '97
within tariff-quota								
tariffs		suspended				abolished		(abolished)
quota-level		120	140	(140) 150	(160) 180	(180)	(200)	
outside Tariff-quota		March '92	Jan. '93	Jan. '94	Jan. '95	Jan. '96	Jan. '97	Jan. '98
tariffs		90	80	70	(60) 0	(50) 0	0	0
QRs		abolished	none	none	none	none	none	none
4. ECSC products (Protocol 2)								
Steel	tariffs	80	60	40	20	(10) 0	0	0
	QRs	abolished	none	none	none	none	none	none
Coal	tariffs	100	100	50	50	0	0	0
	QRs (except)		abolished					
	QRs in Annex III					abolished		
5. MFA products (Protocol 1)								
tariffs		5/7	5/7	4/7	2/7	1/7	0/(1/7)	(0)
ORs		unspecified rate of reduction to 0 after (6) 5 years beginning 01.01.1994						

Note : The figures presented represent those agreed at the Copenhagen Council. Those in parentheses represent those agreed in the initial interim Europe Agreements. Figures with respect to tariffs reflects rates as % of those applied prior to the IA. Figures with respect to quantitative restrictions (QRs) reflect quotas as % of those applied at beginning of IA.

TABLE C : Overview of access to the EU for industrial products in the EU-Czech and Slovak Interim Europe Agreement

1. General provisions		March '92	Jan. '93	Jan. '94	Jan. '95	Jan. '96	Jan. '97	Jan. '98
tariffs		0	0	0	0	0	0	0
QRs		abolished	none	none	none	none	none	none
2. Basic products								
Annex IIa - tariffs		50	0	0	0	0	0	0
Annex IIb - tariffs		80	60	(40) 0	(20) 0	0	0	0
3. Sensitive products (Annex III)		March '92	Jan. '93	July '93	Jan. '94	Jan. '95	Jan. '96	Jan. '97
within tariff-quota								
tariffs		suspended				abolished		(abolished)
quota-level		120	140	(140) 150	(160) 180	(180)	(200)	
outside Tariff-quota		March '92	Jan. '93	Jan. '94	Jan. '95	Jan. '96	Jan. '97	Jan. '98
tariffs		90	80	70	(60) 0	(50) 0	0	0
QRs		abolished	none	none	none	none	none	none
4. ECSC products (Protocol 2)								
Steel	tariffs	80	60	40	20	(10) 0	0	0
	QRs	abolished	none	none	none	none	none	none
Coal	tariffs	100	100	50	50	0	0	0
	QRs		abolished					
	QRs in Annex IV					abolished		
5. MFA products (Protocol 1)								
tariffs		5/7	5/7	4/7	2/7	1/7	0/(1/7)	(0)
ORs		unspecified rate of reduction to 0 after (6) 5 years beginning 01.01.1994						

Note : The figures presented represent those agreed at the Copenhagen Council. Those in parentheses represent those agreed in the initial interim Europe Agreements. Figures with respect to tariffs reflects rates as % of those applied prior to the IA. Figures with respect to quantitative restrictions (QRs) reflect quotas as % of those applied at beginning of IA.

TABLE D : Overview of access to the EU for industrial products in the EU-Romania Interim Europe Agreement

1. General provisions		May '93	Jan. '94	Jan. '95	Jan. '96	Jan. '97	Jan. '98
tariffs		0	0	0	0	0	0
QRs		none	none	none	none	none	none
2. Basic products							
Annex IIa - tariffs		50	0	0	0	0	0
Annex IIb - tariffs		60	60	(40) 0	(20) 0	0	0
3. Sensitive products (Annex III) within tariff-quota							
tariffs	suspended				abolished		(abolished)
quota-level		120	140-50 (140)	180 (160)	(180)	(200)	
outside tariff-quota							
tariffs		85	70	55	0 (40)	(25) 0	(0)
QRs		none	none	none	none	none	none
4. ECSC products (Protocol 2)							
Steel	tariffs	80	60	40	20	0 (10)	0
	QRs	abolished	none	none	none	none	none
Coal	tariffs	100	50	50	0	0	0
	QRs (except)		abolished				
	QRs in Annex III					abolished	none
5. MFA products (Protocol 1)							
tariffs		5/7	5/7	4/7	2/7	1/7	0 (1/7)
ORs		unspecified rate of reduction to 0 after (6) 5 years beginning 01.01.1994					

Note : The figures presented represent those agreed at the Copenhagen Council. Those in parentheses represent those agreed in the initial interim Europe Agreements.
 Figures with respect to tariffs reflects rates as % of those applied prior to the IA.
 Figures with respect to quantitative restrictions (QRs) reflect quotas as % of those applied at beginning of IA.

TABLE E : Overview of access to the EU for industrial products in the EU-Bulgaria Interim Europe Agreement

1. General provisions		Dec. '93	Jan. '94	Jan. '95	Jan. '96	Jan. '97	Jan. '98
tariffs		0	0	0	0	0	0
QRs		none	none	none	none	none	none
2. Basic products							
Annex IIa - tariffs		50	0	0	0	0	0
Annex IIb - tariffs		80	60	(40) 0	(20) 0	0	0
3. Sensitive products (Annex III) within tariff-quota							
tariffs	suspended				abolished		(abolished)
quota-level		120	140-50 (140)	180 (160)	(180)	(200)	
outside tariff-quota							
tariffs		85	70	55	0 (40)	0 (25)	0
QRs		none	none	none	none	none	none
4. ECSC products (Protocol 2)							
Steel	tariffs	80	60	40	0 (20)	10	0
	QRs	abolished	none	none	none	none	none
Coal	tariffs	100	50	50	0	0	0
	QRs (except)		abolished				
	Products in Annex V					abolished	
5. MFA products (Protocol 1)							
tariffs		5/7	5/7	4/7	2/7	1/7	0 (1/7)
ORs		unspecified rate of reduction to 0 after (6) 5 years beginning 01.01.1994					

Note : The figures presented represent those agreed at the Copenhagen Council. Those in parentheses represent those agreed in the initial interim Europe Agreements.
 Figures with respect to tariffs reflects rates as % of those applied prior to the IA.
 Figures with respect to quantitative restrictions (QRs) reflect quotas as % of those applied at beginning of IA.

Principal economic policy measures — June 1994

Community (EUR-12)

24./25.6. Corfu European Council endorses economic policy guidelines as presented by the ECOFIN Council and, in the context of the White Paper follow-up, agrees a first priority list of eleven major transport projects.

Belgium (B)

1., 8., 15., 22., 29.6. The Belgian central bank reduces the discount and intervention rates in five small steps, from 5.3% and 6.7% respectively at the beginning of the month to 4.95% and 6.45% at the end of the month.

Denmark (DK)

None.

Germany (D)

None.

Greece (GR)

31.6. The Bank of Greece increases liquidity by swap operations on foreign currencies with commercial banks and by raising the maximum amount of banks' borrowing guaranteed by government paper.

7.6. The Bank of Greece lowers key interest rates as pressures on the drachma ease in the first days of June and liquidity increases. Interbank overnight rate is close to 24% on 7 June, down from 165% on 31 May.

21.6. The Bank of Greece lowers the overdraft penalty rate from 0.3% to 0.1%. As from 21 June, the overdraft rate is 33% plus 0.1% per day.

Spain (E)

3.6. The Government approves a draft law to reorganize the Spanish electrical industry, which aims to simplify the legal rules and to minimise the cost of power supply.

17.6. The Government approves new tax incentives for employment creation. Firms which increase their staff in 1994 and maintain new jobs for at least two years will be able to apply free depreciation to new fixed assets.

20.6. The Government approves a new law enlarging the 1993 credit facility aimed at supporting medium- and long-term investments of small and medium-sized firms. The new stand-by loan amounts to PTA 200 billion, to be implemented through the Official Credit Institute (ICO).

France (F)

2.6. The Banque de France cuts its intervention rate from 5.4% to 5.3%.

3.6. The subsidized interest rate on loans (Prêts Locatifs Intermédiaires) for residential construction is cut from 7% to 6.5%.

7.6. The Aubry Law of January 1993 laying down rules on mass redundancies has been incorporated into the framework of the recent five-year law on employment.

13.6. A number of measures (cashflow facilities) are adopted to support the export performance of small and medium-sized enterprises.

15.6. Tax measures in favour of those selling short-term financial assets (SICAV monétaires) to finance construction are extended until the end of 1994.

16.6. The Banque de France cuts its intervention rate from 5.3% to 5.2%

Ireland (IRL)

None.

Italy (I)

8.6. The Government announces a package of measures to stimulate employment and investment:

- Industrial, commercial and services companies, with the exception of the banking and insurance industry, will be exempted from taxes on 50% of reinvested profits.

- During the period 1994-96, those employers hiring for an unlimited period the long-term unemployed or new entrants to the labour market will benefit from a tax rebate of up to 25% of their wage bill (with a maximum threshold of LIT 30 million).

- During the period 1994-96, the young (below 32 years old), the unemployed, the disabled and people supported by the "wage supplementation fund" starting up companies or making new investments in equipment up to LIT 300 million will not have to pay the present wide range of taxes on companies.

- Small and medium-sized companies which obtain a listing on the stock exchange will benefit from a reduction in the corporation tax rate from 36% to 20%.

- Share ownership in companies is encouraged through the introduction of a single 12.5% withholding tax on dividends.

- Some taxes are abolished and others are simplified in order to reduce the current complexity of the Italian tax structure.

Luxembourg (L)

None.

Netherlands (NL)

6.6. De Nederlandsche Bank reduces its rate on special advances by 0.10 of a percentage point to 5%.

14.6. De Nederlandsche Bank reduces its rate on special advances by 0.10 of a percentage point to 4.90%.

Portugal (P)

None.

United Kingdom (UK)

None.

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