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Report

drawn up on behalf of the Committee on External Economic Relations

on the European Community's relations with the East European state-trading
countries and COMECON

Rapporteur: Mr E.A. KLEPSCH

Pursuant to the motion for a resolution by Mr Vredeling (Doc. 21/73), the European Parliament, at its sitting of 4 April 1973, instructed the Committee on External Economic Relations to draw up a report on the European Community's relations with the East European state-trading countries and COMECON.

The Political Affairs Committee was asked for its opinion.

On 2 July 1974 the Committee on External Economic Relations appointed Mr Klepsch rapporteur.

It considered the draft report at its meeting of 17 December 1974 and adopted the motion for a resolution and the explanatory statement by 14 votes with 2 abstentions.

Present: Mr Thomsen, acting chairman; Mr Boano, vice-chairman; Mr Klepsch, rapporteur; Mr Bangemann, Mr Brégégère, Mr Corterier, Mr D'Angelosante, Mr De Clercq, Sir Douglas Dodds-Parker, Mr Dunne, Mr Lange, Mr Emile Muller, Mr Pintat, Mr Rivierez, Mr Scelba and Mr Thornley.

The opinion of the Political Affairs Committee is attached.

A

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

MOTION FOR A RESOLUTION

on the European Community's relations with the East European state-trading countries and COMECON

The European Parliament,

- having regard to its resolution of 4 April 1973¹ and to the political importance of the problems stressed in that resolution;
- having regard to point 13 of the final communiqué of the 1972 Paris Summit Conference on the need for a common policy on trade with the state-trading countries;
- having regard to the provisions of Article 113 of the EEC Treaty which calls for the establishment of a common commercial policy on the basis of uniform principles;
- having regard to the report of the Committee on External Economic Affairs and the opinion of the Political Affairs Committee (Doc. 425/74);

I.

1. Notes with regret that, despite the declaration of intent made by the Member States of the European Community at the close of the 1972 Paris Summit Conference, the commitments deriving from the EEC Treaty to formulate a common commercial policy, in particular towards the state-trading countries, have not yet been met;
2. Strongly urges the Commission and the Council to improve information and consultation procedures on common measures in the field of external economic relations;
3. Considers it indispensable that the Council and Commission should draw up without delay a draft for a common commercial policy and set long-term objectives as yardsticks for decisions in this field;

II.

4. Supports a balanced development of external trade with the COMECON countries based on the principle of reciprocity, thus ensuring equality of advantages and obligations, with due account taken of the difference in economic systems;

¹ OJ No. C 26, 30 April 1973, p.10

EXPLANATORY STATEMENTI. INTRODUCTION

1. In the final communiqué of the Summit Conference of the EEC States in Paris the latter reaffirmed their determination to follow a common commercial policy, in particular towards the state-trading countries, with effect from 1 January 1973¹. But it was not so much such declarations of intention or a common political impulse that enabled the Council of the European Communities to make the first difficult steps towards a common commercial policy, but rather the force of circumstances.

2. The most important of the steps taken were:

- the common stance adopted by the Member States and the negotiating mandate of the Commission at the CSCE;
- the decision to introduce a consultation procedure for cooperation agreements between Member States and third countries;
- the broad measure of agreement reached by the Council on the Commission's proposals on a model trade agreement and an autonomous trade policy towards state-trading countries.

3. In 1965 and 1968 the European Parliament gave close consideration to the questions involved in a common commercial policy towards state-trading countries, and drew attention to the main points involved².

The Committee on External Economic Relations therefore welcomes the above-mentioned achievements, although some only date from this year; they must now be made more substantial and be shown to operate effectively. At the same time the committee emphasizes that, in view of the Community's dynamic external trade and economic relations, these can only be seen as the first steps towards a common commercial policy. If no further rapid progress is made, any progress will be inadequate and unsatisfactory in relation to the contractual commitments and tasks.

4. As part of the détente in recent years the European Community's economic relations with the state-trading countries have continually grown and developed. But this process and the fact that the bilateral trade agreements are due to expire at the end of 1974 mean that there is pressure on the Community to put down on paper at least by 1975 the objective which it had set itself - a commercial policy to be effective from 1 January 1973.

¹ Final communiqué of the Paris Summit Conference, point 13, October 1972.

² LÖHR report, Doc. 10/65; JAHN report, Doc. 205/68

II. The evolution of EEC export trade with the East European COMECON countries

6. Two main features emerge from the picture of external trade with the East European COMECON countries as provided by the statistics. The first is that there seems to have been little structural change - i.e. according to the available information the goods involved are of very much the same kind. The second is that, in 1973 for the first time, the overall volume of external trade between the EEC of 9 and the Eastern European COMECON countries increased by over 40%; although it is still insignificant in comparison with trade with third countries in the West.

Community (of 9) imports from these countries rose by about 40% in comparison with 1972 and exports by about 45%. This indicates an exceptional increase in trade, particularly when the percentage increases are compared with those of the preceding five years, which were between 10 and 15%¹.

7. The exchange of information between the Community's services and the national statistical departments of the Member States is still subject to major difficulties and delays and this greatly hinders the work. There are, therefore, unfortunately no 1973 figures for separate categories of goods and it is impossible to ascertain whether the increases were concentrated on certain sectors. Bearing in mind the long-term economic plans adopted in the COMECON countries and developments in recent years it can, however, be assumed that there has been little change in the structure of trade between the EEC and the COMECON countries. The main component of EEC exports to the latter countries is therefore still made up of capital goods (although consumer goods have been becoming a factor in recent times). Imports are made up mainly of agricultural products, raw materials (including raw materials for producing power) and semi-manufactured goods.

8. There has been as little change in the basic problems of trade relations with the COMECON countries as there has been in the external trade structure. The main problems continue to be:

- the chronic lack of currency reserves in these countries and the non-convertibility of their own currencies;
- the non-complementary nature of the range of goods produced;
- the production of goods which do not, or only partly, meet Western quality requirements and demand;
- the deficits in the balance of payments with Western industrialized countries.

¹See also Annex, Tables 1, 2 and 4

marks the start of a process which may result in a more positive attitude towards, and possibly even encouragement of, the dependence referred to above. An increase in trade relations, economic cooperation and the exchange of scientific and technical know-how could in this way contribute to bringing about necessary social reforms in the East and the West and remedy the technological lag in some areas of the socialist countries. It is also conceivable that the creation of such interdependence would increase the costs and therefore reduce the possibility of a military conflict.

11. The progress of the Conference on Security and Cooperation in Europe will therefore be instrumental in the development of foreign trade with the COMECON countries. Although the Conference has been pushed into the background somewhat by the Community's economic and political problems and by the dynamism of American-Russian relations, its outcome - as demonstrated above - will have repercussions on the further development of a Community commercial policy and should already be taken into account in the relevant documents.

III. The organisation of economic relations between the Community and the East European COMECON countries

12. Since 1 January 1973 the Community has had sole legal authority to negotiate trade agreements but only in 1974 have there been indications of a certain measure of progress towards further coordination of Member States' foreign trade policies and the formulation of a common commercial policy, in particular vis-à-vis state-trading countries.

For example, the Commission's action has been based on a small number of decisions and schemes, namely, inter alia:

- Council Decision No. 69/494/EEC of 16 December 1969 on the progressive standardisation of agreements concerning commercial relations between Member States and third countries and on the negotiation of Community agreements (OJ No.L326, 29 December 1969)
- Regulation (EEC) No. 109/70 of the Council of 19 December 1969, establishing common rules for imports from state-trading countries (OJ No.L 19, 26 January 1970)

In order to guarantee the continuation of contractual trade agreements, mainly provided for by the long-term agreements between the Member States and the state-trading countries due to expire on 31 December 1974, and in the absence of Community agreements, the Council tacitly authorized Member States, under Title I of the abovementioned decision of 16 December 1969, to extend the validity of the trade protocols in the framework of these long-term agreements for the year 1974 (Council Decision No. 74/34/EEC of 6 December 1973, OJ No. L 30 of 4 February 1974).

1. The basic elements of a common commercial policy

16. The main basic elements of a common commercial policy are the 'classical' instruments such as most-favoured nation treatment, quotas and liberalization and also the so-called general trade provisions. In the context of present external economy relations with state-trading countries these trade policy measures are of only relative and secondary importance if the Community is not at the same time given the powers to include the instruments of foreign trade credits and, even more important, cooperation policy.

The abovementioned instruments are discussed below and compared with the Commission's latest proposals, as far as these are known.

(a) Most-favoured nation treatment

17. The bilateral agreements between the Member States and the state-trading countries, due to expire in principle on 31.12.1974, provide for reciprocal application of the most-favoured nation clause for customs duties. In this framework there are special arrangements arising from national negotiating traditions which include, inter alia, exceptions on special provisions on cross-frontier trade, benefits within the framework of the UNCTAD generalized preferences and special agreements with specific areas or states¹.

If the application of most-favoured nation treatment in trade with the Eastern bloc is so advisable, when it is included in a common commercial policy account must be taken of a problem raised once before², which is whether customs preferences which are negotiated with specific trading partners on the basis of direct reciprocity can be accorded without further ado to countries which do not take part in such negotiations and consequently do not offer anything in exchange for the customs reductions. Another problem is presented by the fact that most state-trading countries do not conform with GATT conditions when trading and, above all, do not have any part in the tariff reductions obtaining within this organization.

(b) Quotas and liberalisation

18. Quota measures still play an important part in trade with the Eastern bloc. Nevertheless the liberalization of the different tariff headings could be extended by the individual Member States.

¹ See: Doc. SEC(72) 4500 final of 20 December 1972, p. 12 ('Vertragliche und autonome Handelspolitik gegenüber den Staatshandelsländern')

² LÖHR report, Doc. 10/1965, p. 12

20. Much as the desired liberalization measures are to be welcomed as a basis for the extension of trade exchanges, emphasis must also be laid on the demand by the Commission for reciprocity of concessions granted. Unilateral liberalization by the countries of the European Economic Community without corresponding counter-benefits from the state-trading countries would be equivalent to prematurely surrendering important advantages in future negotiations.

(c) General trade arrangements

21. In its 1965 report the European Parliament had already pointed out the importance of general trade arrangements in economic relations with the Eastern bloc. Among the most important elements are the conditions under which payment, transport, arbitration and credit are guaranteed. Despite the technical nature of the general trade arrangements, the effect they have on trade policy and quality control are not to be underestimated. The different national approaches by the Member States create very disparate basic positions and distort competition conditions to such an extent that coordination and the creation of community outline conditions in this field is becoming increasingly urgent.

(d) Export trade credits

22. The emphasis has shifted in the last few years from quantitative to qualitative measures, and in particular to credit and cooperation policy (the latter is described below). The products offered by the Western industrialised countries were not taken up completely and there was a demand element outstanding, coupled with a chronic lack of currency reserves in the COMECON countries, so that a competition situation has grown up in which the granting of credit is a dominant factor.

The total credits granted (for a period of five years) by the six original Member States of the Community to the Eastern European state-trading countries amounted in 1971 to more than 3,000 million dollars - approximately equivalent to the total value of the Community's exports to these countries in the same year (1971)¹.

¹ No recent statistics on the credit taken up by the COMECON countries are available but Federal German figures indicate considerable expansion: in 1974 the Federal Republic of Germany guaranteed credits for exports to the COMECON countries and Yugoslavia of the order of 8,800 million DM.

25. It is indispensable for external trade with the COMECON countries to have a clearly conceived and comprehensive common commercial policy - in which the 'gentleman's agreement' would be a major component - and also to create further binding guidelines and framework agreements on the above and other fields.

An export credit system of this kind would have to be sufficiently flexible to meet the wishes of the state-trading and other third countries and to make possible compatibility throughout the world with the credit policy of very dynamic countries such as the USA and Japan.

(e) Cooperation

26. The distinctive features of economic relations with the state-trading countries have shown increasingly during the last few years that trade policy is less concerned with the regulation of the flow of goods by means of customs duties or quotas than with the encouragement or even creation of trade in the first place. This has given greater importance to the increasing number of cooperation agreements with the eastern bloc states and their effect on external trade.

A general distinction has to be made between scientific and economic or industrial cooperation, the latter being especially relevant to the common commercial policy. 'Cooperation' has become a political watchword although no accepted definition of the term has yet been found¹.

The main component of the cooperation agreement is the skeleton provisions for the individual agreements concluded between western enterprises and eastern state concerns. The main types of agreements of this sort are:

- licensing against payment by means of the resulting manufactured goods;
- supply of complete plants against payment by means of the resulting products;
- joint production, in which each partner specializes in a particular part of the manufacturing process;
- sub-contract production on the basis of the know-how provided;
- joint ventures, i.e. various degrees of joint management, joint stock-holding and joint sharing of profits and risks.

¹ For instance the term 'industrial cooperation' is employed when there are reciprocal measures, additional to the purchase and sale of goods and services, which extend into the fields of production, research or marketing - see also 'Analytical report on industrial cooperation among ECE countries' - General E/ECE, 14.3.1973, p. 4.

- to ensure that the agreements and any commitments and measures planned in the framework of such agreements are in accordance with the Community's policies and with the common commercial policy in particular;
- to improve the exchange of information and coordination of the activities of Member States with regard to the third countries concerned;
- to examine the advisability of unilateral measures which could be taken by the Community in the fields covered by Article 113 of the Treaty in order to promote cooperation projects.

The Community is still at the beginning of the road. The Commission must, therefore, be asked once again to persist in consolidating the coordination process between Community countries and then, at a further stage, to 'progressively incorporate independent contractual cooperation with third countries into the framework of European Community activity'¹ and to integrate it into the common commercial policy.

¹ JAHN report, Doc. 359/73, p. 14

This model agreement has meanwhile been brought to the notice of the COMECON countries in a memorandum.

(b) Autonomous trade policy

30. Having regard to the fact that the time which has been allowed to pass now means that it will no longer be possible to have a comprehensive binding Community trade policy by 1.1.1975, the Commission has worked out a proposal for the definition of an autonomous trade policy in order to avoid a hiatus in the present trade relations.

This will once again be a minimum solution on the basis of the lowest common denominator, basically concerned with common import rules. Initially this means a continuation of the existing various national arrangements made by the Community countries. In other words, the small degree of harmonization at Community level - some national arrangements are liberal, others restrictive - means that no other solution is possible for the time being. One reason for this is that it would be difficult for those countries with liberal arrangements to withdraw their more generous concessions, whereas countries with restrictive arrangements could only grant concessions independently on a reciprocal basis.

31. As far as can be discerned from the information available, the documents before the Council do not comprise the long overdue draft for a common commercial policy requested by the Committee on External Economic Affairs: they appear rather to be an inadequate patchwork affair which only attempts to do justice to the technical requirements of Community export trade in a limited number of sectors and does not have as its objective the dynamic transfer, provided for in the Treaty, of national powers to the Community's organs.

IV. Institutional problems in EEC-COMECON relations

32. For many decades the European Community's relations with the Council for Mutual Economic Assistance (COMECON) were limited to bilateral contracts between the individual Member States of the EEC and COMECON, as the state-trading countries refused to recognize the European Community, but in the last twelve months they have been activated, suddenly bringing into prominence a number of long-standing institutional and also political problems.

This development was made official in the much-quoted speech given by the Soviet First Secretary of the Communist Party of the USSR, Mr Brezhnev, on 20 March 1972¹. It led on 27 August 1973 to the highly appreciated approach made by COMECON's secretary-general Mr Fedeyev to the President-in-Office of the Council, the aim of which was to establish contacts to investigate possible relations between the European Community and COMECON.

¹ See also relevant quotations in: BOANO report, PE 36.125, p. 33 opinion (Mr E. JAHN) of the Political Affairs Committee, PE 33.956/fin., p. 19

settlements within the framework of the small 'multiclearings' (1957) and after the introduction of the transfer rouble (1963) were of no significance¹. As long as the COMECON countries are unable to create freely convertible currency systems, trade dealings with the Community, as with the rest of the world, will be limited.

A detailed analysis of the reactions of the individual COMECON countries reveals a certain dissatisfaction about economic cooperation within their community, which also helps to explain why they are attracted by the European Community. It is therefore possible that the approach made by the COMECON secretariat is intended to obviate any individual moves by eastern European state-trading countries towards Brussels.

34. The main elements of the underlying institutional and political problems of EEC-COMECON relations can be deduced from the above. They are:

- because of the different level of competence the EEC organs cannot negotiate with COMECON as such on questions of trade policy or conclude trade agreements with it;
- under the free market economy the European Community has no powers with regard to economic planning whereby it might be able to harmonize plans with the planned state economies of the COMECON countries;
- the European Community has to take account of the desires of individual COMECON countries as expressed in bilateral arrangements.

35. As a result of this the relations between the organs of the European Community and COMECON will for the present mainly cover, inter alia, the exchange of economic information, the harmonization of development plans and questions of environmental protection. The limited basis for relations is therefore clear and the possible 'further development of these relations' is no reason for holding back on the development of the common commercial policy.

V. Conclusions

36. The Committee on External Economic Relations welcomes the results of international endeavours to create a détente which have led in recent years in particular to substantially increased trade between the European Community and the East European state-trading countries and which have made it increasingly urgent to create a comprehensive common commercial policy.

¹D. STELZEL: 'Die internationalen Banken des Rats für gegenseitige Wirtschaftshilfe', pp. 123 ff.

39. The interdependence of foreign policy and external trade policy is the cardinal factor in relations with the COMECON countries. This can be seen from the CSCE and also in the indications of readiness on the part of the state-trading countries to recognise the European Community as a negotiating partner and, in a specific context, in the direct talks between the USA and the Soviet Union. Only an intrinsically sound policy - for external trade too - can meet the expectations which people have of the European Community. This applies not only with regard to the state-trading countries but equally to the negotiations with the Arab countries and the coming GATT negotiations.

TABLE 2

EEC EXPORTS (COMMUNITY OF 9)
TO EASTERN EUROPEAN COUNTRIES ¹
(1972-1973)

(in m.u.a.)

	<u>1972</u> ²	<u>1973</u> ³	<u>INDEX: 1972=100</u>
USSR	1,545.7	2,246.8	145
GDR	302.1	308.6	102
POLAND	962.9	1,716.7	178
CZECHOSLOVAKIA	637.2	772.6	121
HUNGARY	536.9	656.4	122
ROMANIA	617.2	784.7	127
BULGARIA	213.9	287.2	134
ALBANIA	14.3	15.1	106
	<hr/>	<hr/>	<hr/>
TOTAL:	4,830.2	6,788.1	145

¹ not including German internal trade

² Source: Statistical Office of the European Communities

³ Figures supplied by Member States

TABLE 4

GROWTH OF TRADE BETWEEN THE SIX ORIGINAL EEC STATES AND
THE EASTERN EUROPEAN COMECON COUNTRIES
(1955-1972)

Year	Total volume of EEC-COMECON trade ¹	
	Value (x 1,000 million dollars)	Rate of growth (%)
1955-1957 ²	1,043	-
1958	1,325	26.9
1959	1,530	9.6
1960	1,920	25.5
1961	2,140	11.5
1962	2,305	7.7
1963	2,320	0.7
1964	2,510	8.2
1965	2,850	13.5
1966	3,430	20.4
1967	4,050	18.1
1968	4,440	9.6
1969	5,110	13.1
1970	5,810	12.2
1971	7,040	17.5
1972	7,772	10.4

¹Not including German internal trade and the non-European Member States

²Average figures

SOURCE: Statistical office of the European Communities

I. Introduction

a) General aim of the opinion

1. In a recent resolution¹, the European Parliament considered it essential to make use of the right of initiative to study important foreign policy issues and to make proposals on common policy lines for Member States. Parliament stressed 'that the existence of the European Community as such is seen throughout the world as an important factor in international politics, and that its policies, its action and even its inactivity can have immediate political consequences at international level'. The potential of the enlarged Community called for a coherent political conception of its action in the field of external relations.

2. Relations between the Community and its neighbours to the east are a case in point that is of vital importance.

The territory of the European Communities adjoins the state-trading countries of Eastern Europe, an area which not only has a different social and economic order but also lies within the orbit of a world power that is a political rival.

3. The Communities as such - still less their individual members - have not yet been able to develop into an independent counterforce to the supreme power in Eastern Europe. Instead, Western Europe forms part of the current bipolar system of the two super-powers. Typical of this system was, and still is, mutual respect for the status quo from the territorial, social and military aspects.

The proximity of different systems harbours the seeds of conflict. Such conflicts are ambivalent; they can break out uncontrolledly and lead to mutual physical threat, but they are also potentially favourable as they may develop into peaceful competition and trade relations and - subject to mutual respect for ideological differences - good neighbourly relations.

4. In the present world situation, both sides may be assumed to have a vital interest in a peaceful situation in Europe. This presupposes respect for one another's interests. On the other hand, peace can only be permanently guaranteed if the existing social differences are reduced.

The opinion is intended to clarify the conditions and scope for comprehensive relations between the Community and the state-trading countries of

¹ Mommersteeg report, resolution of 6 April 1973
OJ No. C 26, 30 April 1973, p. 25.

ensure that Western European policy is more than the lowest common denominator of Member States' policies.

As the example of the CSCE shows, the demand for the establishment of a coherent foreign policy in general, and towards the Eastern European States in particular, also depends on world political factors.

8. Mutual respect for the status quo in Europe and a start to cooperation between the super-powers are essential if the special European problems are to be solved. Changes in Europe in an attempt to reduce existing causes of conflict are not possible against the declared wills of the super-powers.

As conflicts and competition between the super-powers move away from Europe, however, the nations of this continent and particularly the European Communities will have an increasing possibility of defining their own foreign relations.

9. A Community foreign policy towards the state-trading countries of Eastern Europe therefore requires agreement between the two super-powers that have until now been engaged in the continent of Europe. The Communities will be able to develop a credible foreign policy only if they take account of these powers' spheres of interest. However, it is precisely because of the cooperation between the super-powers - in which neither the Community nor its members has so far taken any substantial part - that the Community must accentuate Europe's vital interests.

It is to be hoped that the East European States are also prepared and willing to recognize the Community as a peacemaking factor.

10. In the introduction the term 'foreign policy' was used several times to denote the Community's possible relations with Eastern Europe. Obviously in its strict sense foreign policy is still the preserve of Member States and cooperation will build up only gradually in this sphere. But an approach guided only by terms and sectors cannot provide adequate responses to new developments. The expectations of the United States, the third world, and the Eastern European countries embrace all the effects of the Communities, whether deliberate or unintentional.

11. In respect of the countries of Eastern Europe, two events have permanently influenced the significance of the Communities in the sphere of foreign policy since 1 January 1973.

Enlargement abolished the division between the largest Western European countries. With Britain's accession to the Communities and its commitment to the common aims, a broadly-based political consensus among these countries has become possible for the first time.

14. Since the development and implementation of trade policy now rest with the Communities, it is important that this political function of trade should not be weakened by Member States quietly taking back the powers handed over to the Communities in order to retain their ability to take action in foreign policy. On the contrary, the Community Treaties place an obligation on Member States to do all they can to help the Communities fulfil their tasks. Therefore, when agreements on economic relations with third countries fulfil a political function, the substances of this function must be defined at Community level.

If Member States prove unwilling to accept this consequence of the Community Treaties, the Political Affairs Committee calls upon the Commission to take the measures provided in Art. 169 of the EEC Treaty against Member States that fail to fulfil the obligations laid down in Art. 113 et seq.

15. It is very doubtful whether the instruments of trade policy incorporated in the Treaties are sufficient to operate an effective policy even towards the Western industrial nations. It may be assumed with complete certainty that the Communities' means of action devised 20 years ago, customs duties, quantitative restrictions, protective machinery and financial aids, are not adequate to improve trade with the Eastern bloc at Community level, let alone to use it for détente and cooperation. Commercial relations with the state-trading countries are very much determined by credit terms, barter transactions and cooperation in the construction of industrial complexes. The committee firmly supports the Commission's intentions to ensure:

- establishment of common rules and uniform principles;
- coordination of these agreements, which should be supplemented as and when necessary by Community outline agreements;
- coordination of measures planned by its Member States and elaboration of common projects (to be carried out by undertakings established in several Member States) or projects of Community interest;
- Europeanization of these projects, which should be promoted, as a matter of policy, by every means available to national and Community authorities.

On the basis of Mr Jahn's report (Doc. 359/73) on these proposals from the Commission, the European Parliament warned emphatically of the dangers which can result for the Community's trade policy from bilateral cooperation agreements¹. The committee therefore welcomes the Council's decision of 22 July 1974 as a first step in the right² direction.

16. At the Paris Summit Conference², the Heads of State or Government themselves confirmed the comprehensive aim of trade policy with Eastern Europe at Community level and thereby set political aims which still have to be attained by the Communities:

¹ Unanimous resolution of 11 February 1974, OJ C 23/1974, p 9

² Final communiqué of 20.10.1972, 13.

- Trade and economic cooperation have no value in themselves. The state and quality of relations cannot be measured by export and import figures alone. The political aims of the partners in their cooperation are what count. It must be realized that very close economic relations create a reciprocal dependence. If separate dependences are established between individual members of rival power systems, changes must be expected and conflict cannot be ruled out. The Community is therefore well advised to fit its economic planning into a general political concept and to reflect both on constructive possibilities and on unfavourable consequences.
- Economic relations between countries with state-controlled and private-enterprise economic systems are particularly susceptible to political and economic differences in viewpoint which appear to rule out the possibility of intensifying them in the near future. On this point the abovementioned report by Mr Hahn¹ and the Commission² reach the same conclusions.

A policy that endeavours to change the East-West relations by economic means should therefore be planned with great patience and sufficient scepticism not to mistake the absence of immediate successes for complete failure.

20. The importance of strengthening economic relations with the Eastern European countries was recognized in the early sixties. Since then individual Member States have taken various autonomous or bilateral measures to improve these relations. The European Parliament also stressed the importance of trade at an early date and analysed the factors opposing any expansion of trade³, but the total scope of economic relations has not shown any lasting change. For the Community, foreign trade with state-trading countries accounts for about 7% of all foreign trade. However, the Community is of more importance for exports from state-trading countries, accounting, in individual cases, for up to 25% of their foreign trade.

¹ Doc. 205/1967-68, 42-44

² Answer to written question by Mr Vredeling, OJ C 115/1972, p.8.

³ Hahn report, Doc. 205/1967-68, 9-18

The conditions for this are a comparably high level of technical development, comparable production and similar costs.

24. A new way of encouraging this development, recognized as essential in the state-trading countries, is what is known as industrial cooperation. This cooperation covers inter-company agreements extending beyond the direct buying and selling of goods and services. It embraces a number of connected and mutually dependent operations in production, research and development, transfer of technology, distribution and marketing, which are agreed over a period of several years¹.

Great hopes appear to be placed in this form of cooperation in Eastern Europe². The Political Affairs Committee supports this type of cooperation based in equality and reciprocity. However, it insists on the need for these agreements to be incorporated within framework of Community trade policy. The Commission should, as soon as possible, submit proposals to ensure proper regard for this objective, which is in the interests of all parties concerned.

25. As already mentioned, the Communities certainly have no intention of creating dependent relationships by means of a policy directed at cooperation with the Eastern European States. At the same time, the Communities should carefully examine the extent and political function of existing relationships which curtail their economic freedom. The problems surrounding Western Europe's energy supplies serve to draw attention to this aspect. As is well known, the Community of the Six plus the three newly acceded states imported about 64% of its energy requirements from third countries in 1973. This figure is rapidly increasing. The majority of the imported fuels consists of petroleum from the Middle East and Africa.

In the version of this opinion dating from 17.8.1973 the rapporteur had already pointed to the susceptibility of this region to crises and the resultant risk of failures in supply. Recent developments serve to emphasize this aspect and give reason to examine possible alternatives. In this connection consideration should be given to increasing imports of raw materials generally from Comecon countries, especially the USSR, and safeguarding them by long-term agreements. The security risk must be one of the prime considerations.

26. All the above-mentioned forms of economic relations are conducted on the Eastern European side by state foreign trade monopolies or state undertakings. Despite a certain tendency towards decentralization, the

¹ This definition was formulated by the UN Economic Commission for Europe (ECE) 'Analytical Report on Industrial Cooperation among ECE countries E/ECE Doc. 844/rev.I

² See the speech by Mr Gierek, Polish Party Chairman, at the Posnan Fair on 10.6.1973.

(b) Influence of reciprocal security interests on efforts to improve relations

29. The need of both sides for security may act either as a motor or as a brake in any intensification of relations. 'Security' presupposes as a minimum a state in which there is no acute physical threat to existence between the parties concerned, but this situation is only a minimum since, in order to be effective, security must be seen as a dynamic process with military and political confrontation diminishing at an equal pace.

30. The situation in Europe has increasingly tended towards this state. This is not the place to consider what contribution the military efforts of both blocks have made to this. The military aspects of Western European cooperation - including their effects on the Eastern bloc countries - are being examined by the Committee on the basis of another report by Lord Gladwyn¹. However, military developments can sometimes have their own dynamic effect and influence the foreign policy of a State, but in general efforts of a military nature are generally subordinate to independent political aims. The maintenance of the balance between East and West in military matters as well can be an aim of this kind. However, once balance is attained and the parties show sufficient readiness to cooperate, this aim can also be attained in the opposite way, by balanced disarmament measures.

Once all those concerned find themselves in a position where they stand to gain more than they will lose by maintaining it, then military aspects become of less importance because of their incalculable consequences. Central Europe owes its comparatively peaceful situation to a basic attitude of preserving this status quo by all those concerned.

31. It should be pointed out in this connection that the military status quo in Europe is not the result of a balance of power within Europe. Even combined, the military forces of the Western European countries cannot counterbalance the potential of the Soviet Union alone, let alone the Warsaw Pact. Only the inclusion of Europe in the overall balance of power of the super-powers guarantees the military status quo.

Western Europe has so far been in a privileged position insofar as this balance of power has been ensured regionally by the stationing of American and Canadian troops in Europe.

32. The committee notes with concern increasing tendencies to alter this regional balance by massive rearmament in the Warsaw pact. Because of the danger of political mobilization, the considerable military superiority of the USSR is a great factor of uncertainty for the Western European States.

¹ PE 33.633

37. The founding of the Community constituted a development that was in complete contradiction to the theory of inherent inconsistencies. Even though individual crises apparently confirmed the Soviet theory of capitalism, the USSR has since adapted its theory as follows to the new and real decisive image of the Communities:

In principle, economic integration is a reflection of objective needs to develop productive forces. The international division of labour and development of economic relations with other countries have become necessary under the conditions of the scientific and technical revolution¹. A distinction is drawn between socialist and capitalist integration. In 'capitalist integration' the old inconsistencies persist so that even an enlarged EEC is eventually bound to founder on its own conflicts.

38. This ideologically motivated appraisal is appearing less and less in speeches by Soviet politicians.

An example of this is given by two speeches made by Party Secretary Brezhnev in 1972. On 20 March 1972 he said:

'The Soviet Union is well aware of the true situation in Western Europe, including the existence of an economic grouping of capitalist countries in the Common Market. We are closely following the activities of the 'Common Market' and its evolution. Our relations with the members of this group will of course depend on how far they for their part recognize the realities in the socialist part of Europe, in particular the interests of the Comecon countries. We are for equality in economic relations and against discrimination'.

39. On 21 December 1972 Brezhnev again spoke on the subject of the EEC and said: 'Can bases be found for some form of practical relations between the trade and economic organizations existing in Europe, between Comecon and the Common Market? Probably they can, if the States belonging to the Common Market refrain from any attempts at discrimination against the other side, if they will contribute towards the development of natural bilateral relations and cooperation throughout Europe'.

40. In this statement, one can detect a willingness to accept Western European integration. In July 1973 the Luxembourg Foreign Minister, Mr Thorn, was told by the Soviet Premier, Mr Kosygin, that the Member States of Comecon had instructed their Secretary-General, Mr Fadeev, to establish contacts with the European Community, with a view to formal negotiations later on. In the light of this information, one can expect the beginnings of normalization in the attitude of the East European States - particularly the USSR - to the European Communities.

¹ See article 'L'intégration économique dans le monde' in the Soviet journal La Nouvelle Revue Internationale, Paris, August 1973, pp. 157 ff.

Soviet market, and then the economic growth of the other Comecon members would suffer a setback.

One possible path to cooperation appears to lie in the combination of bilateral and multilateral relations, depending on which type appears in each case to offer the greatest advantage to all concerned.

III. Conclusions

45. An analysis of the present situation in Europe gives rise to cautious optimism regarding the stabilization of peaceful relations by reducing differences. The Political Affairs Committee welcomes this development. The committee hopes that regard for the security of all concerned will remain the most important criterion for the form and content of future cooperation. At the same time, however, it considers cooperation between the Communities and all Comecon countries or Comecon itself to be an important factor of security.

46. The European Communities must not allow themselves to be forced into the - non-existent - alternative seen by many people as a choice between good relations on the one hand with the United States or, on the other, with the USSR and state-trading countries or with Comecon.

At least since the improvement in Soviet-American relations it should have become obvious that between the super-powers political actions are increasingly influenced by the advantages of peaceful cooperation between their peoples.

47. The possibilities of cooperation with the Community as a partner are not limited to economic matters, although these are of course in the foreground.

The final recommendations of the preparatory talks for the CSCE - confirmed by the communiqué of 7 July 1973 - cover a number of subjects (including the environment, education, exchange of information) on whose importance for the development of intra-European relations the Political Affairs Committee lays great stress. The Communities are competent in these spheres; they should therefore take active steps to conclude international agreements with the Eastern European State-trading countries.

The Committee will take careful note of the results of the CSCE talks and reserves the right to review its opinion accordingly.

48. The Political Affairs Committee calls upon the Commission and the Council to make full use of the Community's powers and not to limit the talks to purely economic matters where there is a genuine readiness for discussions by the Eastern side. It must also be ensured that the Community policy does not come into conflict with Member States' policies. This must be done by coordination machinery which would give priority to Community interests. This includes