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ICC Background Brief

EC-EASTERN EUROPE RELATIONS

The Joint DEclaration¹ signed in Luxembourg on 26 June 1988 established official relations between the European Economic Community and the Council for Mutual Economic Assistance (COMECON). This paved the way to the establishment of diplomatic relations between the EC and the individual East European countries (except Romania, which has announced its intention of doing so shortly).

Historical Background

As far back as 1963 an EC aide-mémoire to the Soviet Union expressed the hope that relations between them could be normalized.

In 1974, the Community offered to conclude bilateral agreements with each of the East European countries in view of the introduction of the common commercial policy. Romania accepted this and a trade agreement was concluded in 1980.

It was not until 1986 that the USSR accepted the Community's parallel approach: working relations with COMECON, (in areas to be determined), trade relations being the subject of separate agreements with COMECON members.

Agreements

EC Romania the 1980 agreement is relatively modest and as early as 1985 the EEC had planned its enlargement with a view to completing the trade provisions on agriculture and cooperation. Negotiations began in 1987 but were suspended on 24 April 1989 for reasons that were both economic (Romania did not respect its obligations under the 1980 agreement) and political (deterioration of the human rights situation).

After the overthrow of the Ceaucescu regime, a relaunch is planned. First of all the EEC-Romania Joint Committee will meet shortly; the Commission could then ask the Council to revise the 1986 mandate so as to negotiate a new enlarged agreement, similar to the ones concluded with Hungary, Poland and the USSR.

EC Hungary signed on 26 September 1988 a ten-year trade, commercial and economic cooperation agreement which came into force on 1 December 1988.

The trade provisions of the 1988 agreement cover trade in industrial and agricultural products with some exceptions. Hungary undertook to improve conditions for Community businessmen in Hungary. But key provisions on access to the EC market for Hungarian products were re-written by the EC Council of Ministers on 6 November 1989 in the context of the PHARE Action (1) Programme. The Council scrapped the 7-year timetable for the elimination of all specific quantitative restrictions (QRs) (2) on imports from Hungary and decided to eliminate them from 1 January 1990 instead. The Council also decided to suspend non specific quantitative restrictions (i.e. those that apply to other third countries) for a period of one year from the same date.

The EC Council extended the Community's Generalized System of Preferences for 1990 to Hungary under the PHARE action plan (for details see section on PHARE).

The agreement of 1988 includes provisions for economic cooperation aimed at promoting joint ventures and other forms of industrial cooperation. Main sectors are industry, mining, agriculture, energy research, transport, tourism and environmental protection. A Business Forum organized by the Commission and the Hungarian Chamber of Commerce, in Budapest, on 3-4 October 1989 brought over 120 Community businessmen together with potential Hungarian partners.

First meeting of the Joint Committee set up by the Agreement on 12 and 13 December 1988, the second on 29 and 30 November 1989.

The Commission on 6 December 1989 asked the Council for a mandate to conclude a 5-year borrowing programme for maximum 1 billion ECUs covered by a Community budgetary guarantee.

Objective: to help Hungary to overcome its structural adjustment problems. First tranche available in the first quarter of 1990. The Community's offer is subject to an agreement being reached between IMF and Hungary.

The 1990 austerity programme approved at the end of December 1989 by the Hungarian Parliament opens the way to the conclusion of Hungary's negotiations with the IMF.

The Commission intends to open a Delegation in Budapest this year.

EC Czechoslovakia : a four-year agreement signed on 19 December 1988. Only covers trade in industrial products.

The first meeting of the Consultation body (held on 1-2 June 1989) finalized some liberalisation measures.

(1) PHARE - Poland Hungary Aid for Restructuring of Economies.

(2) QRs: Specific quantitative restrictions, so called to distinguish them from the QRs which apply to the Community's imports from other market economies and GATT signatories.

The current agreement which entered into force on 1 April 1989 is a simple trade accord. Following a démarche last December with President Delors by the Czech Prime Minister, informal conversations have already begun between the Commission services and the Czech Delegation in Brussels with a view to examining the possibility of extending the current agreement, notably to economic cooperation, and the elimination of quantitative restrictions.

EC Poland : a five-year Trade and Cooperation Agreement signed on 19 September 1989 provides for trade cooperation aiming at development and diversification of exchanges.

The agreement had not even come into force before its key provisions on access of Polish products to the EC market were revised by the EC Council of Ministers on November 6 under the PHARE action plan. The 5-year timetable for the complete liberalization of Polish exports subject to specific quantitative restrictions was jettisoned, and a European Commission proposal eliminating all such restrictions from 1 January 1990 was adopted. The Council also suspended the non-specific quantitative restrictions applied to Poland. At the same time the Council extended the Community's Generalized System of Preferences (GSP) to Poland for 1990, thus giving the country's exporters greatly improved access to the EC market. (For details, see the section on the PHARE action programme).

Key feature of the agreement, is economic cooperation, in industry, in agro-industries, in the mining sector, energy, transport, tourism, protection of the environment, scientific research.

First EEC-Poland Joint Committee was held on 4 and 5 December in Brussels.

Whilst Poland's legal framework provides wide opportunities for direct investment and for trade and economic cooperation, further improvements needed in the infrastructure for economic operators. Both parties agreed to work together in the promotion of direct investment and other forms of cooperation between the Community and Polish firms.

A Delegation of the Commission in Warsaw will be opened this year.

First meeting (on 12 January 1990) of the Committee responsible for the management of the counterpart funds resulting from the sale to the Polish population of foodstuffs offered free of charge by the EEC. Commissioner Mac Sharry attended. The Community has an examination right on the management of these counterpart funds.

EC USSR : after three rounds of exploratory talks with the Soviet Union, on 12 June 1989 the Commission obtained negotiating directives for a wide-ranging trade-and-cooperation agreement. Three rounds of negotiations in July, October and November led to agreement on 26 November on a text which was signed in Brussels on 18 December. Given the Community's interest in nuclear research and nuclear safety in the Soviet Union, the agreement includes Euratom as a party, but otherwise is very similar to those concluded with Hungary and Poland. The 10-year agreement provides for the abolition of all specific QRs on USSR exports to the Community by the end of 1996, subject to exceptions for sensitive products. In return, the USSR will grant non-discriminatory treatment for Community exports as regards QRs, licensing and the allocation of currency. The USSR also undertakes to facilitate the operations of Community businessmen in that country. Economic cooperation is foreseen in a wide range of sectors (the environment, energy, transport, science and technology, financial services, etc.)

Moscow envisaged as the site of a Commission Delegation in 1991.

EC Bulgaria : negotiating mandate for trade and cooperation agreement adopted by Council on 20 February 1989. Formal negotiations began on 6-7 April 1989. A second round took place on 29-30 May 1989.

Negotiations were interrupted due to the political situation. Since last November the situation has changed significantly.

Last December Bulgarian Prime Minister, M. Atanasov, approached President Delors to request a relaunch of the negotiation. Informal discussions took place on 14-15 December 1989. Negotiations are likely to be re-opened shortly.

The Bulgarian authorities have also requested that the benefits of the GSP be extended to Bulgaria.

EC German Democratic Republic (: After three rounds of exploratory talks with the GDR, (third round on 18-19 January 1989), the Commission prepared draft negotiating directives for a trade and cooperation agreement with that country, which were adopted by the Council on 22 December 1989. To reflect the remarkable political developments in the GDR, the Commission has decided to propose a much broader and more favourable agreement than was originally foreseen. It will be on the lines of the recent Soviet agreement, with a cut-off date for the removal of QRs, and with an extensive list of areas in which cooperation is to be developed between the EC and the GDR. At the same time counter-concessions will be provided for which will reflect the still unreformed condition of the GDR economic system and encourage change in it. The first round of negotiations will be held in Brussels on 29 January.

The agreement will not affect the provisions in force concerning inner-German trade; if this raises problems, they will be discussed within the Community between the Federal Republic of Germany and the other Member States.

EC Sectoral Agreements with East European Countries

Self-restraint Arrangements covering steel currency in force with Bulgaria, Czechoslovakia, Hungary, Poland, and Romania : Hungary and Poland have proposed extension to the areas of coal and steel of their agreements; this will be done by separate agreements, for which mandates are under discussion in the Council.

Textile Agreements : concluded with Bulgaria, Czechoslovakia, Hungary, Poland, Romania and the USSR. The Commission is preparing a mandate for a textile agreement with the GDR.

Self-restraint agreements covering agriculture Products with most East European members of COMECON.

Fourth round of negotiations in Moscow on 12/13 February 1990 for a USSR agreements on fisheries first round of negotiations for a fisheries agreement with the GDR took place in Brussels of 12/13 December 1989; negotiations on a fisheries agreement with Poland are envisaged to start soon.

Phare Operation (Poland/Hungary: aid for restructuring of economies).

The Paris Summit (Summit of the Arch, 14-16 July 1989, Heads of State and Government of the Seven (1) and the Commission) decided that along with interested countries they should give coordinated economic aid to Poland and Hungary. To give both moral and material support to the Hungarians and the Poles in their effort at democratic reforms. The Commission was given the task of coordinator of this operation.

1 August 1989. First coordination meeting of the Group of 24 for economic assistance to Poland and Hungary, (12-EC, members of EFTA, Canada, USA, Japan, Australia, New Zealand and Turkey).

Categories of action being coordinated: food aid to Poland, facilitating investment (creation of joint ventures), access to Western markets, cooperation regarding the environment and vocational training.

First consignment of food aid from the Community to Poland was delivered in October 1989. "Counterpart funds" resulting from the sale in Poland of emergency food aid to finance action for restructuring and training in the agricultural sector.

The Commission launched a trainee plan to develop the financial system in Poland and Hungary. (21 September 1989).

On 26 September 1989 in Brussels second coordination meeting of the Group of 24.

Action plan launched by Commission involving an EC Budget subsidy of 200 million ECU, rapid removal of Community GAs, additional agricultural concessions, access to EEC preferences (GSP) and to European Investment Bank (EIB) loans.

(1) The "Group of Seven" highly industrialized countries : Federal Republic of Germany, France, Italy, UK, Canada, Japan, USA, plus the Commission.

- Hungary and Poland urged to reach an early agreement with IMF.
- Support for investment in Poland and Hungary. Poland urged to complete procedures enabling it to participate in the multilateral Investment Guarantee Agency.
- Most Favoured Nation status granted or to be granted to Poland and Hungary. Extension of the Generalized System of Preferences (GSP).
- In the environment field, specific projects embarked upon by the 24.

A third meeting of the G-24 at senior level took place in Brussels on 24 November 1989. The 24 noted that:

- more than one third of the 336 million ECU (\$370 million) pledged for food assistance had been supplied.
- The Community decided to increase the financial means for economic cooperation with Poland and Hungary in 1990 to 300 million ECU.
- Most members of the 24 including the Community have decided to improve access to their markets for Polish and Hungarian exports notably through an extension of the GSP.
- Identification of projects in the 4 priority areas defined by the 24: agriculture, training, environment and investment, is under way.

A meeting of coordination at ministerial level was held on 13 December 1989. This meeting, already called "the Brussels Conference", was the first political occasion after the PARTS SUMMIT in July 1989 where the initiative was taken for coordinated support in favour of Poland and Hungary.

Particular reference was made to food supplies delivered to Poland. Several participants, not members of the European Community, indicated their interest in participating in this action as well.

Decision by the G-24 to create a stabilization fund (billion dollars) in favour of Poland.

Also Adjustment Loans (billion dollars) for Hungary.

All participants subscribed the conclusion that future action of the G-24 could well be extended to other countries of Eastern Europe fulfilling the political conditions

European Bank for Reconstruction and Development (EBRD)

The European Council, Strasbourg, 8-9 December 1989, approved the creation of a European Bank for Reconstruction and Development. Its aim will be to promote, in consultation with the IMF and the World Bank, productive and competitive investment in the States of Central and Eastern Europe, to reduce, where appropriate, any risks related to the financing of their economies, to assist the transition towards a more market-oriented economy and to speed up the necessary structural adjustments. The States of Central and Eastern Europe concerned will be able to participate in the capital and management of this Bank, in which the Member States, the Community and the European Investment Bank will have a majority holding. Other countries, and in particular the other Member countries of the OECD, will be invited to participate.

Meetings took place in Paris on 15-16 January on the creation of the EBRD. 32 countries attended.

A second meeting is planned for 19-20 February.