

# INFORMATION

EXTERNAL RELATIONS

THE EUROPEAN COMMUNITY AND THE EASTERN EUROPEAN COUNTRIES

163/77

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The year 1976 and the first half of 1977 marked an important stage in relations between the Community and the European State-trading countries<sup>1</sup>.

This Note, which updates Note No 91/75, describes the main lines along which the Community's relations with the countries concerned have recently been developing.

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<sup>1</sup>The Community's relations with China and the other Asian State-trading countries will be dealt with in a separate Information Note.

### Trend of East-West trade

In 1974, 1975 and 1976 the Community's trade with the countries of Eastern Europe was a stabilizing factor in an otherwise unfavourable economic climate.

The Community's trade with the rest of the world<sup>1</sup> amounted to 162 299 million EUR<sup>2</sup> in 1973, 234 097 million EUR in 1974, 231 780 million EUR in 1975 and 264 642 million EUR in 1976.

The Community's trade with the Eastern European countries increased from 12 200 million EUR in 1973, to 17 200 million EUR in 1974, 19 000 million EUR in 1975 and 21 000 million EUR in 1976.

The proportion of the Community's world trade accounted for by the Eastern European countries has increased. It accounted for 8.2% and 8.0% of total Community trade in 1975 and 1976 respectively, compared with 7.4% in 1974 and 7.5% in 1973.

In 1974 the total volume of the Community's trade with the Eastern European countries was 41.0% up on the preceding year. The 1975 volume was only 10.5% up on the 1974 level, and the same percentage increase was registered in 1976.

The Community's imports from the Eastern European countries reached 7 726 million EUR in 1974, an increase of 33% over 1973. They rose to 7 947 million EUR in 1975, which was only 2.9% up on the 1974 level. From 1975 to 1976, however, they increased by 25.4% to 9 964 million EUR.

Of the Eastern European countries the USSR is the Community's main supplier; in 1975 it accounted for 45% of imports from those countries (in 1976: 49%). Poland came next (with 18.8%), ahead of a group consisting of Romania (10.3%), Czechoslovakia (9.8%), Hungary (8.2%) and the German Democratic Republic (5.4%) (excluding trade between the FRG and GDR).

In 1976 the percentages for the above group of countries were 9.6%, 8.7%, 7.5% and 5.1% respectively.

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<sup>1</sup>Trade between the Member States of the Community is not included in these figures.

<sup>2</sup>1 EUR = 1.13 EUA in 1976 = ₤ 1.27.

In 1976 imports from Eastern European countries accounted for 7.1% of total Community imports. This compares with 6.7% in 1975, 6.2% in 1974 and 7.0% in 1973.

Imports from the Eastern European countries into the Community of Nine<sup>1</sup>  
million EUR

<u>Country</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>INDEX</u>		
					<u>1974/73 =</u> 100	<u>1975/74 =</u> 100	<u>1976/75 =</u> 100
USSR	2 236	3 417	3 572	4 889	153	105	136
GDR <sup>2</sup>	308	439	433	513	142	99	118
Poland	1 103	1 401	1 497	1 739	127	107	116
Czechoslovakia	664	758	777	870	114	103	112
Hungary	627	674	651	748	107	97	115
Romania	645	798	815	959	124	102	117
Bulgaria	215	217	179	225	101	83	125
Albania	10	22	21	21	212	95	100
<b>Total</b>	<b>5 809</b>	<b>7 726</b>	<b>7 947</b>	<b>9 964</b>	<b>133</b>	<b>103</b>	<b>125</b>

<sup>2</sup>Trade with the Federal Republic of Germany excluded.

In 1974 the Community's exports to the Eastern European countries amounted to 9 469 million EUR, 47.9% more than in 1973. In 1975 they totalled 11 039 million EUR, 16.6% up on 1974. In 1976 they were 11 026 million EUR, 0.1% down on 1975. The USSR is the Community's number one client among the Eastern European countries, taking 42% of exports to those countries in 1975, followed by Poland 22.6%, Romania 8.9%, Czechoslovakia 8.7% and Hungary 8.2%. In 1976 the percentages were as follows: USSR 41%, Poland 22.6%, Czechoslovakia 9.9%, Romania 8.7% and Hungary 8.4%.

The Eastern European countries accounted for 8.9% of total Community exports in 1976 and 9.7% in 1975, compared with 8.7% in 1974 and 8.1% in 1973.

<sup>1</sup>Source: Statistical Office of the European Communities (SOEC)  
SOEC Special Issue on External Trade 1958-75, No 3/77  
Supplements 6/75, 5/76 and 2/77.

Exports from the Community of Nine to the Eastern European countries  
(million EUR)<sup>1</sup>

Country	1973	1974	1975	1976	INDEX		
					1974/73 = 100	1975/74 = 100	1976/75 = 100
USSR	2 126	3 190	4 631	4 538	150	145	98
GDR <sup>2</sup>	293	407	430	490	139	106	114
Poland	1 612	2 343	2 492	2 493	145	106	100
Czechoslovakia	733	961	963	1 087	131	100	113
Hungary	618	1 019	902	927	165	89	103
Romania	740	1 050	977	962	142	93	99
Bulgaria	268	469	614	504	175	131	82
Albania	14	29	31	24	210	107	75
<b>Total</b>	<b>6 403</b>	<b>9 469</b>	<b>11 039</b>	<b>11 026</b>	<b>148</b>	<b>117</b>	<b>100</b>

<sup>1</sup>Source: SOEC.

<sup>2</sup>Trade with the Federal Republic of Germany is excluded.

Trade balance

The Community's trade surplus with the Eastern European countries as a whole increased by 77% in 1975, but in 1976 was down to 34% of the 1975 level.

The sharp increase in the Community's trade surplus in 1975 was due to a change in the situation with regard to the USSR, which ran up a trade deficit with the Community of 1 059 million EUR, whereas it had had a surplus of 110 million EUR in 1973 and of 227 million EUR in 1974.

The Community's trade balance with Eastern European countries<sup>3</sup>

	USSR				Other Eastern European countries				Total			
	1973	1974	1975	1976	1973	1974	1975	1976	1973	1974	1975	1976
Imports	2236	3417	3572	4889	3573	4309	4375	5075	5809	7726	7947	9964
Exports	2126	3190	4631	4538	4277	6279	6408	6488	6403	9469	11039	11026
Trade balance	-110	-227	+1059	-35	+704	+1970	+2033	+1413	+594	+1743	+3092	+1062

<sup>3</sup>Source: Statistical Office of the European Communities.

Composition of trade between the Community and Eastern Europe

The Community's imports from the countries of Eastern Europe still consist mainly of primary products despite the pretty advanced degree of industrialization of the countries concerned.

The following table shows the relative importance of the various categories of products in 1973, 1974, 1975 and 1976:

	<u>1973</u> <sup>1</sup>	<u>1974</u> <sup>1</sup>	<u>1975</u> <sup>3</sup>	<u>1976</u> <sup>1</sup>
Foodstuffs, beverages, etc.	19.0%	11.6%	11.4%	8.6%
Energy products	16.5%	23.4%	33.1%	37.5%
Raw materials	19.8%	18.7%	15.2%	14.3%
Chemicals	4.8%	5.7%	5.3%	5.3%
Machinery and transport equipment	7.7%	6.0%	7.6%	7.0%
Other manufactures	28.9%	25.3%	26.4%	26.1%

The proportion of agricultural products, foodstuffs, raw materials and other manufactures fell from 67.7% in 1973 to 55.6% in 1974, 53% in 1975 and 49% in 1976<sup>2</sup>.

Most of this decline was compensated by the increase in the proportion of energy products, which went up from 16.5% in 1973 to 37.5% in 1976.

The Community's exports to the Eastern European State-trading countries consist mainly of capital goods and consumer goods.

The following table gives the relative importance of the various categories of products in 1973, 1974, 1975 and 1976:

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<sup>1</sup>Source: SOEC microfilms.  
<sup>2</sup>Nine months.

	<u>1973</u> <sup>1</sup>	<u>1974</u> <sup>1</sup>	<u>1975</u>	<u>1976</u> <sup>1</sup>
Foodstuffs, beverages, etc.	8.5%	5.4%	3.7%	5.5%
Energy products	1.1%	0.8%	0.9%	1.0%
Raw materials	3.6%	3.0%	2.5%	2.5%
Chemicals	11.5%	15.3%	13.3%	14.9%
Machinery and transport equipment	37.1%	33.4%	41.1%	39.2%
Other manufactures	36.2%	39.0%	37.5%	35.8%

The proportion of machinery and transport equipment and other manufactures fell from 73% in 1973 to 72% in 1974. It rose to 79% in 1975 and fell temporarily in 1976 to represent only 75% of exports. The fall in the Community's agricultural exports explains the drop in the proportion represented by primary products. From a level of 13% in 1973 it fell to approximately 9% in 1974 and to 7% in 1975. A recovery is currently taking place, the figure for 1976<sup>2</sup> being 9%.

#### The common commercial policy

Since 1 January 1973 any commercial policy negotiations relating to State-trading countries<sup>3</sup> have been the exclusive responsibility of the Community - this was already the case for other non-member countries.

Nearly all the long-term trade agreements negotiated by the Member States with the Eastern European countries expired on 31 December 1974, the remainder expiring on 31 December 1975.

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<sup>1</sup>Source: SOEC microfilms.

<sup>2</sup>Nine months.

<sup>3</sup>It should be pointed out that relations with the German Democratic Republic are now subject to the Community rules, both contractual and autonomous, that govern relations with all State-trading countries. (Inter-German relations are still of course governed by the Treaty Protocol on German Internal Trade and connected problems.)

The Council accordingly announced in 1974 that it was willing to enter into Community trade agreements with each of the State-trading countries which already had contractual relations with any of the Community Member States. For this purpose it finalized on 7 November 1974 a model agreement indicating the main lines of possible trade agreements between the Community and the State-trading countries in question. During the first half of November 1974 the Commission sent copies of this model agreement to the State-trading countries whose agreements with Community Member States were now due to expire.

The model agreement envisages long-term non-preferential trade agreements with reciprocal advantages and obligations in which the parties would express their determination to establish their trade relations on a basis that would make for the development of such relations. The agreements would of course take into account the special features of trade with the different countries and include provisions for resolving constructively any trade problems arising between those countries and the Community. For this purpose the Community proposed the inclusion of a most-favoured-nation clause in the tariff section of the agreements, subject to the usual exceptions. Provisions for agriculture are also included. The model agreement provides for the setting up of a joint committee and suitable safeguard machinery on the usual lines.

In the context of this offer of negotiations, which covers all areas of trade, the Community made an additional proposal with regard to textiles. The Arrangement of 20 December 1973 regarding International Trade in Textiles provides for the possibility of bilateral negotiations among the participants with a view to the elimination of quantitative restrictions. In the absence of any reaction from the Eastern European countries to the general offer of negotiations, the Commission sent a letter on 24 March 1975 to the Eastern European countries which were signatories of the Arrangement (Hungary, Poland and Romania) with a new invitation to negotiate this time on products covered by the Arrangement.

Romania was the first country to respond favourably to the Community offer and a textile agreement with that country was initialled on 10 November 1976.

This was the first trade agreement concluded by the Community with an Eastern European country. It applies to the products covered by the Multifibre Arrangement and flax. The agreement, which is applicable until 31 December 1977, provides for restraint on Romanian exports of 11 categories of products; a further 17 categories are covered by a compulsory consultation clause.

Poland and Hungary have also agreed to negotiate a textile agreement with the Community.

#### Current negotiations on fisheries

The Council had observed the increasing tendency for important sea-fishing countries to extend their fishing zones unilaterally to 200 miles without awaiting the conclusions of the United Nations Conference on the Law of the Sea; in their turn the Member States therefore decided on 3 November 1976 to take concerted action to extend their fishing limits to 200 miles as from 1 January 1977 (North Sea and North Atlantic).

On 12 November 1976 the Presidency of the Council brought the resolution on the creation of 200-mile fishing zones to the notice of the non-member countries concerned - notably, the USSR, the German Democratic Republic and Poland. They were informed that the Community was ready to begin negotiations with them promptly for new fisheries agreements.

To ensure compliance with the provisional fishing quotas fixed in December 1976 for certain non-member countries, the Council decided on 18 January 1977 to send a communication to the USSR, the German Democratic Republic and Poland inviting them to limit the number of their vessels fishing in Community waters during the first quarter of 1977. On 28 January 1977 the Council adopted a regulation setting up the licence system and the detailed arrangements for its application to those three countries.

In February 1977 the USSR and Poland requested that negotiations be held, and were followed in March by the German Democratic Republic.



The European Community and the USSR, Poland and the German Democratic Republic are aiming at the conclusion of a framework agreement to regulate reciprocal fishing rights within 200-mile zones.

Up to now there have been three series of negotiations with the three countries concerned.

Since the negotiations were still under way, the Council decided on 5 April 1977 to extend until 31 May the autonomous interim measures laying down the fishing possibilities accorded to the USSR, Poland and the German Democratic Republic. These interim measures were then extended until 30 June and have now been extended (with a number of adjustments in the case of the USSR) for an additional period of three months.

#### Autonomous commercial policy

Pending the negotiation of trade agreements between the Community and the various State-trading countries in question, and for the purpose of maintaining the continuity of trade with those countries, the Council adopted unilateral import arrangements for those non-member countries<sup>1</sup> on 27 March 1975.

The Decision of 27 March 1975 establishes the quotas and other import facilities to be made available to the State-trading countries in 1975 by the Member States for goods subject to quantitative restrictions and sets out the rules and procedures for any changes in those import arrangements.

On 14 December 1976 the Council fixed the quotas to be opened in 1977. On average they were 5% up on the 1976 level, except for certain sensitive products, for which smaller rates of increase were adopted.

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<sup>1</sup>On 2 December 1974 the Council had provisionally extended for 1975 the import arrangements operating in 1974.

Although quota restrictions still play an important part in trade with the State-trading countries, progress has nevertheless been made towards liberalization. Of the 1 098 CCT headings, the Community liberalization list for trade with those countries now comprises 767 headings plus 99 part-headings.

In the matter of tariffs the Community is anxious, in conformity with its declaration of 12 November 1974, not to compromise the growth of trade and is continuing to apply most-favoured-nation treatment to the State-trading countries, subject to the usual exceptions.

Other Community activities affecting the countries of Eastern Europe

1. Cooperation agreements

On a proposal from the Commission, the Council decided on 22 July 1974 to introduce an information and consultation procedure for cooperation agreements between Member States and non-member countries. Since most of the Member States have entered into agreements of this type with the various Eastern European countries, the Council Decision is of special interest for relations with those countries.

The new procedure enables the Commission and the Member States to inform one another not only of the content of the cooperation agreements themselves but also of the measures and commitments envisaged in connection with them. Consultations may be held either at the request of a Member State or on the initiative of the Commission.

The target is threefold: to ensure that the cooperation agreements conform to the common policies, particularly the commercial policy, to improve the exchange of information and the coordination of action between Member States, and to establish the desirability of possible measures by the Community to further cooperation.

## 2. Export credit policy

Export credit (and credit insurance) policy is of decisive importance for the future commercial policy of the Community. In 1975 the total of publicly supported credit granted by the nine Member States to the Comecon countries for periods exceeding five years stood at \$2 378 million, whereas in 1963 such credit amounted to no more than \$45 million. More than half of the credit was granted to the USSR.

Over the last decade, the uninterrupted expansion in world trade, at least during the early years, was accompanied and to a certain extent sustained by a parallel growth in the volume of export credits. As competition in world trade intensified and the nations endeavoured to maintain or improve their foreign trade results, the competition extended to export credit.

On 14 March 1977 the Council adopted a decision on the application, on an experimental basis, of guidelines for export credit to non-member countries. The export credit in question is credit backed by the public authorities and provided for two years or more. The guidelines fix:

- (i) the minimum payments to be made up to and including the delivery stage, by reference to the per capita GNP of the country of destination;
- (ii) the minimum interest rate;
- (iii) the maximum credit period.

The Council Decision of 14 March 1977 stipulates that any intention to make an exception to the guidelines on the part of a Member State of the Community or of a credit-supplying non-member country which observes similar guidelines will be notified to the Commission. These notifications will make it possible for the Community to keep a continuous watch on compliance with the guidelines by the Member States and non-member countries.

### 3. Generalized preferences and the Eastern European countries<sup>1</sup>

On 31 January 1972 the Romanian Government sent a letter to the Council of the European Communities asking that Romania be granted generalized preferences. In response to that request, which has to be seen in the context of the progressive normalization of relations between Romania and the EEC, the Council decided on 4 June 1973 to include Romania as from 1 January 1974 among the beneficiaries of the generalized preferences granted by the Community. It was understood that suitable arrangements would have to be made to take account of Romania's special situation.

The criteria taken into consideration relate to Romania's level of development and economic structure, on the same lines as those applied to the economies of other beneficiaries under the generalized system of preferences (GSP).

In 1976 and 1977 the Community made a number of improvements to the preferential treatment applied to Romania. In 1976 Romania took the fifth place as beneficiary under the Community's GSP.

#### Relations between the Community and the CMEA.

Following the approach made in Copenhagen on 27 August 1973 by Mr Faddeev, Secretary of the Council for Mutual Economic Assistance (CMEA, also referred to as Comecon), to Mr Nørgaard, President of the Council of Ministers, the Council stated on 20 September 1973 that it was with the Commission that the matter should be raised. In May 1974 Mr Faddeev was reminded of this reply by the Ambassador of the Federal Republic of Germany to Moscow and on 16 September Mr Faddeev sent a letter to the President of the Commission inviting him to go to Moscow to discuss possible guidelines and forms for relations between the two organizations. In its reply the

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<sup>1</sup>Since 1 July 1971, the Community has been applying a system of duty-free entry known as "generalized preferences" to manufactures and semi-manufactures originating in developing countries.

Commission accepted the idea of a visit to Moscow at the appropriate time, either by its President or Vice-President with special responsibility for external relations, but proposed that in the meantime preparatory talks should be opened at the level of officials.

In accordance with that proposal, a Commission delegation led by Mr Wellenstein, the Director-General for External Relations, had initial talks in Moscow with a delegation from the CMEA Secretariat from 4 to 6 February 1975. The purpose of these discussions was to familiarize the two delegations with each other's activities and to seek out fields in which an exchange of information and possibly regular contacts could usefully be established between the Commission and the CMEA Secretariat.

The Commission delegation asked a number of questions about the working and areas of competence of the CMEA Secretariat and gave an account of the areas for which the Community had responsibility. The two delegations agreed that the work should continue at a further meeting, in Brussels, but the CMEA Secretariat did not follow up this proposal.

On 16 February 1976 Mr Gaston Thorn, President of the Council of the European Communities, received Mr Gerhard Weiss, Chairman of the Executive Committee of the CMEA, who handed him a message from the CMEA to the EEC proposing the conclusion of an agreement on relations between the two organizations. At a press conference given in Moscow on 15 February 1976, Mr Faddeev, Secretary of the CMEA, stated that his organization did not consider its proposal as a text that could not be changed but as one that was open to any suggestion or counterproposal from the Community.

On 18 November 1976 the Council sent a letter in reply to the CMEA proposal made in February with a proposed draft agreement setting out the forms and detailed procedures for the relations to be established between the Community and the CMEA. These could take the form of working relations for exchanges of information and contacts in the fields of statistics,

economic programming and the environment. At the same time the Council stressed the importance it attached to the development of the Community's relations not only with the CMEA but with each of its individual member countries.

On 18 April 1977 Mr K. Olszewski, Chairman of the CMEA Executive Committee, gave the United Kingdom Ambassador in Warsaw a message for Dr Owen, the UK Foreign Secretary and President of the Council. The CMEA proposed an exchange of views between the Chairman of the Executive Committee of the CMEA and the President of the Council on the arrangements for future negotiations. In a reply sent on 15 July 1977, the Community accepted the idea of such a meeting, in the course of which the President of the Council of the European Communities would introduce Mr Haferkamp, Vice-President of the Commission, to the Chairman of the Executive Committee of the CMEA. This was necessary as the Commission would represent the Community at all stages of the negotiations.

When Sir Christopher Soames visited Romania from 7 to 9 January 1976 (the first visit to a member of the CMEA by a Vice-President of the Commission with responsibility for external relations, he clearly stated the Community position: there was no reason, he said, why the development of bilateral relations between the Community and each of the member countries of the CMEA should hamper or be hampered by the development of constructive relations between the EEC and the CMEA as such.