

INFORMATION

EXTERNAL RELATIONS

YUGOSLAVIA AND THE EUROPEAN COMMUNITY

138/76

The President of the Council of Ministers, Mr. Van der Stoep, will be paying an official visit to Belgrade on 1 and 2 December, accompanied by Mr. F.O. Gunderlach, a Member of the Commission.

We thought it desirable to use this opportunity of sending you an information note on the relations between Yugoslavia and the European Community.

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On 15 November 1976, the Council of Ministers made the necessary arrangements to enable its spokesmen to secure the agreement of the Yugoslavian authorities in an expression of the importance which the Community and Yugoslavia both attach to their future relations, and their joint desire to strengthen them.

1. THE RELATIONS BETWEEN THE EEC AND YUGOSLAVIA ARE GOVERNED BY THE NON-PREFERENTIAL TRADE AGREEMENT SIGNED IN LUXEMBOURG ON 26 JUNE 1973 AND EXPIRING IN 1978 (1)

By this agreement, the parties undertake to grant most-favoured-nation treatment in all matters regarding duties of customs and duties of whatever sort levied on the import or export of goods.

In regard to agriculture, the Community increased the advantages conceded to Yugoslavia since 1970, concerned with its imports of certain categories of high-quality beef known as "baby beef". As part of a permanent cooperation between the parties the levy (2) charged at the Community frontiers is reduced, provided certain price conditions are fulfilled. The agreement also makes it possible for the Community to take safeguard measures in the event of there being disturbed conditions in the meat market.

An important factor in the agreement is the part to be played on the EEC-Yugoslavia Joint Committee, which meets at least once per year.

The task of this Committee, apart from supervising the right functioning of the agreement, is to seek ways and means to promote the development of economic and commercial cooperation between the Community and Yugoslavia to the extent that this may promote the development of commercial exchanges.

In the first stage, this cooperation seeks to eliminate non-tariff and para-tariff obstacles, to encourage commercial prospection and promotion and favour the extension and diversification of the trade.

The agreement includes an evolutive clause. The contracting parties will be able to develop economic cooperation in fields of mutual interest, and in conformity with the development of EEC economic policies, as a factor supplementary to their trade.

At the time of signature of the agreement, the two parties exchanged letters regarding the position of Yugoslav manpower in the member countries of the Community.

(1) Official Journal of the European Communities, No. L 224 dated 18.8.73.

(2) The levy is a kind of adjustable import duty equal to the difference between the (lower) price of imported meat and the (higher) price of the same meat produced in the Community market.

2. TRADE BETWEEN YUGOSLAVIA AND THE EEC

The growth: Yugoslavia was formerly 23rd on the list of the customers of the EEC and it has now risen to 8th place. As a supplier to the EEC market it remains in the 21st place.

In 1975, more than 22.8% of Yugoslavia's exports were consigned to EEC countries and 41% of its imports were of EEC origin.

<u>EEC (9 nations) trade with Yugoslavia</u>						
	EEC exports	EEC imports (million EUR)	EEC Balance	I N D E X		
				Exports (1968 = 100)	Imports	
1968	807	479	+ 328	100		100
1973	1,757	1,150	+ 604	217		240
1974	2,704	1,140	+ 1,564	335		238
1975	2,619	979	+ 1,640	324		204

Problems raised by the Yugoslavia-EEC trade

Yugoslavia's trade balance with the Community shows an increasingly large deficit. This is partly because imports are particularly high, mainly because of the equipment for Yugoslavian industry; and partly because the export trade is structurally weak, with 40% of its content consisting of basic and agricultural products (including meat, maize and wine).

Yugoslavia's trade deficit with the EEC was 40% of its total external deficit in 1974, and 62% in 1975.

The main categories of Yugoslavian exports to the EEC are as follows :

	<u>1/XII - 1974</u>	<u>1/XII - 1975</u>
industrial goods	61.5%	61.8%
agricultural products	18.3%	18.2%
basic products	20.2%	21%

Nearly 90% of Yugoslavian imports from the EEC consist of industrial goods.

The sale of Yugoslavian beef to the EEC is still a difficult trading point.

Belgrade was particularly concerned by the EEC's application of a safeguard clause to its beef imports. The export of beef to the EEC represents 25% of Yugoslavia's total exports.

Yugoslavia was very disturbed at the suspension on 17 July 1974 of imports of beef into the EEC, on account of the surplus available in nine-nation Europe. In April 1975 the Commission decided on a gradual re-opening of the Community market to certain imports of beef.

3. YUGOSLAVIA AND THE GENERALISED PREFERENCES

The system of generalised preferences (SGP) consists of a total waiver of customs duties on all manufactured non-agricultural goods, and a partial waiver for certain processed agricultural products without any ceiling restriction.

Maximum amounts, or "buffer stops" are fixed for each of the beneficiary countries. The effect is to limit the maximum proportion of the quotas and ceilings laid down for various products which may be used by any particular country.

Yugoslavia is one of the countries which has derived most benefit from the system of generalised preferences which the Community brought into effect on 1st July 1971. In 1974, Yugoslavia was the biggest user of this facility and is currently second only to Brazil.

For four consecutive years (1972-75) Yugoslavia exported to the full amount of the buffer stop 12 sensitive or quasi-sensitive products. These were: leather footwear; worked asbestos; bricks tiles and slabs; electric lighting equipment; shaped aluminium bars; generators; braid wire; electric cables; seats and furniture.

Yugoslavia is in fact one of the beneficiaries under the system of generalised preferences, against which it has most often been necessary to reintroduce the import duties, owing to the operation of the buffer stop.

This indicates the particularly important place taken by Yugoslavia as a user of the Community preferences. There were in fact a number of problems confronting the trade under the "sensitive" industrial headings.

On 2nd December 1974, as part of a general decision about the utilisation in 1975 of the system of generalised preferences, the Council of Ministers decided to apply to 16 classes of goods from Yugoslavia a special buffer stop amounting to 15% of the ceilings. This made it possible to diminish the number of articles subject to community tariff quotas and to balance the preference advantages between the beneficiary countries. The same system was used in 1976.

4. EEC-YUGOSLAVIAN AGREEMENT ON COTTON

When the Community was working out the details of its offer of generalised tariff preferences, it had taken the view that tariff preferences should be granted in respect of cotton and assimilated goods to countries which were members of the L.T.A. (1) or who were not members, but were willing to give similar undertakings to those required by the L.T.A. With Yugoslavia as a non-member, the EEC had made an agreement on cotton goods to continue till the end of 1973. In this, Yugoslavia undertook to apply such measures as might be necessary to keep her exports of cotton goods to the Community within certain fixed quantitative limits.

(1) L.T.A. = Long-term Agreement on Cotton Textiles.

The long-term agreement on cotton textiles expired on 31 December 1973. Negotiations, which had been in progress in Geneva since July 1973, bore fruit in December in a multilateral arrangement on the trade in textiles as a whole. This became known as the "Multifibres Agreement" (M.F.A.) and was accepted on the part of the European Community by decision of the Council of Ministers on 21 March 1974.

Yugoslavia is not only an exporter of cotton goods, but also of considerable quantities of synthetics and wool. All these are covered by the new multilateral arrangement; but Yugoslavian exports to the Community have increased considerably in recent years.

When the ALT came to an end in 1974, the EEC and Yugoslavia agreed to keep it in operation de facto pending the conclusion of a new agreement under the M.F.A., of which Yugoslavia was now a member.

Following a period of negotiation, an agreement to cover the years 1976-77 was initialled on 25 June 1976. It lays down quantitative limits for exports to the Community of cotton fabrics and household linen and provides a consultation procedure for made-up textiles and certain other products.

The new provisions proposed for the generalised preferences in 1977 :

- set up a link between the MFA and the SGP ; and
- maintain the volume of the SGP as at present, with provision for an annual increase of 5%.

Pending the definite link with the multifibres arrangement, the SGP textile concessions will be made available on a temporary basis to all developing countries and territories.

There will no longer be any distinction drawn between cotton textiles and other textiles, which results in a considerable simplification, both in administration and in the use of the system.

5. YUGOSLAVIA AND SCIENTIFIC AND TECHNICAL COOPERATION (COST)

Since May 1971, a representative of Yugoslavia has been attending the meetings of COST (Group for Cooperation in Science and Technology), which operates under the aegis of the Community Council of Ministers and includes, besides the nine nations of the Community, the governments of Norway, Austria, Finland, Portugal, Sweden, Switzerland, Greece, Turkey and Spain.

Yugoslavia has entered into agreements on telecommunications, metallurgy, nuisances and atmospheric and water pollution.

In Brussels, on 11 October 1973, Yugoslavia signed a convention for setting up a European medium-term weather forecasting centre, to be located at Shinfield Park (Berkshire - UK).

Under the agricultural headings, the set of proposals put forward by Belgrade were accepted in July 1974. These included :

- a campaign for maize as basis for a complete food programme in intensive stock-farming ;
- research on the problems of enriching basic crop products (wheat, maize and sugar-beet) in their minerals content.

Various systems put forward for cattle-feeding are being studied. These include the use of amino-acids in the feeding of non-ruminants and the early weaning of pigs.

6. DISCUSSION CONTACTS BETWEEN EEC AND YUGOSLAVIA

The importance of continuity in discussions between the Community and Yugoslavia at various levels has been brought out during the mutual visits of european and yugoslavian personalities, in the foregatherings of experts and at the meetings of the joint Committee.

Exchanges of views at the political level. Sir Christopher Soames, the Vice President of the European Commission in charge of External Relations, paid an official visit to Yugoslavia on 27 April to 1st May 1974. He had discussions with several members of the Government, including Mrs. Bijedic, President of the Federal Executive Council and Mr. Ludviger, Federal Secretary for External Trade.

This meeting was the first at the political level between the Commission and Yugoslavia, since the entry into force of the trade agreement in 1973.

Central topics discussed included the mediterranean policy of the Community, its relations with the countries of Eastern Europe, the application of generalised preferences and the development of cooperation.

On 22 November 1974, the President of the Commission, M. Ortoli, and the Vice-President Sir Christopher Soames, received a visit from Mr. Minic, Vice-President of the Federal Executive Council of Yugoslavia and Federal Secretary for Foreign Affairs.

President Ortoli went to Yugoslavia from 12 - 14 June 1975.

Mr. Bijedic, the President of the Federal Executive Council of the Yugoslavian Socialist Federative Republic visited the European Commission on 19 February 1976. This was the first visit to the Commission by a head of the Yugoslavian Government.

The EEC-Yugoslavia joint Committee, at its meeting in Brussels on 3 February 1975, again considered the problem for Yugoslavia, resulting from its growing trade deficit with the European Community.

The Yugoslavian delegation was anxious to have a depth-discussion of the problems of cooperation. This would be a matter of considering what action would be likely to facilitate the extension of cooperation on mutually advantageous terms in industry, scientific research, finance, migrant workers, joint action in outside countries and in agriculture, especially in relation to lines of production in which the Community is less than self-sufficient.

In Brussels, on 28 April 1975, Sir Christopher Soames, Vice-President of the EEC Commission and Mr. Janko Smolé, Member of the Federal Executive Council of Yugoslavia, reviewed the cooperation proposals put forward in February at the meeting of the EEC-Yugoslavia joint Committee.

They promised quicker development and the diversification of economic relations between the EEC and Yugoslavia.

The EEC-Yugoslavia joint Committee held its first meeting at the ministerial level in Brussels on 24 July 1975. The Community expressed its interest in seeking solutions likely to halt the rapid increase in Yugoslavia's trade deficit with the Nine.

Two sub-committees -- for agriculture and for industry -- were set up. Their mandate is, to collect all necessary information for the development of economic cooperation in fields of mutual interest; and to examine projects designed to develop this cooperation, both in Community and Yugoslavian markets and in the markets of other countries.

The industry and agriculture sub-committees had a thorough exchange of views in Belgrade on 11 and 12 May 1976.

As provided in the 1973 agreement, an initial discussion was held on the position of Yugoslavian manpower in the nine EEC countries.

In connexion with financial cooperation, the Yugoslavian delegation will be informed of the decision of the Council for meeting the wishes of the Yugoslavians.

On 20 January 1976, the Council of Ministers, having regard to the political importance it attaches to the cooperation with Yugoslavia, made a declaration of its agreement, that this country may seek from the European Investment Bank, finance for projects of common European interest on normal market terms and up to an amount to be fixed.

This is the first time that a country with a centrally planned economy has had access to the lending facilities of the EIB. The credit of 30 million EUR opened for Belgrade is to finance various infrastructure projects.

7. TOWARDS NEW LINKS BETWEEN YUGOSLAVIA AND THE EUROPEAN COMMUNITY

At the end of October 1976, a Commission delegation went to Belgrade for exploratory conversations about a strengthening of the links between Yugoslavia and the European Community.

A P P E N D I X

THE YUGOSLAVIAN ECONOMY

Yugoslavia has a population of 21.3 million inhabitants. Its social product in 1974 was 407 300 million dinars, or 8 100 million EUR.(1) After two years of rather hesitant growth the product increased in 1974 by 8%.

At present Yugoslavia has to face several economic difficulties. Chief among these are, the high rate of inflation, the big deficit in the trade balance and the need for skilled workers.

The rate of inflation is the primary worry. The cost of living index in 1975 was up by 24% compared with 20% during 1974.(2).

The large scale imports of intermediate goods for industrial consumption helped to exacerbate the inflation because of the price rises in the world markets and successive devaluations of the dinar which made the external buying more and more costly.

A continued increase in the scale of imports has been required for developing the industrial structure. This helped to increase the deficit which was already affected by the national industrialisation programme.

Yugoslavia is also at a difficult turning point in regard to its supplies of manpower. It derives various benefits from the emigration movement, largely because of the homeward remittances from its nationals working abroad; but there is a danger that this may be outweighed by the difficulties set up by the emigration itself and the resulting shortage of skilled manpower.

Despite these problems, Yugoslavia has maintained a considerable degree of economic expansion which leaves it in a good position among the countries of Europe.

The industrial production indices for the past three years were as follows compared with the agricultural indices.(3)

1973, industry up 6%, agriculture up 7% on 1972
1974 " " 11% " " 6% on 1973
1975 " " 6% " down 2% on 1974

The sixth 5-year plan (1976-80) forecasts economic growth of between 6.5 and 7.5%. For 1971-75 the forecast was 7.5% and the actual average was 6.3%.

(1) 1 EUR = 50 BF = 1.25 \$ = 22

(2) Eurostat. Index of consumer prices 1975

(3) Yugoslavian statistical manual, 1975