

# INFORMATION

EXTERNAL RELATIONS

YUGOSLAVIA AND THE EUROPEAN COMMUNITY

171/78

## TABLE OF CONTENTS

Political Development	2
1. Community-Yugoslavia relations	3
2. The trade deficit problem	4
3. Implementation of the "Joint Declaration of Belgrade"	6
4. Yugoslavia and generalised preferences	9
5. Yugoslavia and the multilateral arrangement covering trade in textiles	9
6. Yugoslavia and scientific and technical cooperation	10
Annex: Economic profile of Yugoslavia	

Political development

1. The joint declaration of Belgrade of 2nd December 1976 is a major demonstration of the desire of the Community and Yugoslavia to see their relations deepen and diversify. A strengthening of the links between the Community and Yugoslavia is in the Parties' mutual interest politically and economically.
2. Politically, Yugoslavia attaches a great deal of importance to this declaration which it regards as a charter for its future relations with the EEC. It does, in fact, stipulate quite clearly the manner in which Yugoslavia wishes to be treated by the Community: Yugoslavia is a European, Mediterranean and developing country and a non-aligned state.
3. At European level Yugoslavia wishes to maintain relations with the EEC with both Parties on an equal footing. This country has, in fact, always set great store by the links that join it to Europe. The initiative taken at the Belgrade Conference illustrated its interest in security problems. Vice-President Haferkamp's visit on 11th September and that of Mr. Simonet, Chairman in office of the Council, on 22nd September gave the European Community an opportunity to repeat the fact that without a stable, independent Yugoslavia the hoped-for "cooperation and security in Europe" would just be an illusion. With this in mind the Community stressed the importance of strengthening links with Yugoslavia.
4. As a Mediterranean country Yugoslavia does not wish to be classed as an Eastern bloc country and considers that expansion of the EEC and, in particular, Greece's accession, will without doubt have an effect on its relations with the EEC.
5. A developing country: the entire Southern half of Yugoslavia (Montenegro - Kosovo) is still very under-developed. In 1974 per capita income amounted to 1,310 US dollars. It ranges from 520 US dollars in the South to 1,800 US dollars in the North.
6. As a non-aligned state Yugoslavia is an important participant in the North-South dialogue and is actively pressing for a new international economic order which meets the needs of the poorest countries. Yugoslavia, emphasising its status as a non-aligned state, would like the EEC to adopt a "sui generis" solution for its relations with it.

\*

\*        \*

## 1. Community-Yugoslavia relations

The first three-year non-preferential agreement signed in Brussels in 1970 expired on 30th April 1973. It was replaced by a second, five-year agreement signed in 1973 and in force up to 30th September 1978.

Under the terms of this agreement a policy of the most favoured nation applies between the parties in all matters of customs duties and all taxes levied upon imports or exports.

In the agricultural sector the Community has increased the benefits granted to Yugoslavia since 1970 for its imports of a number of categories of high quality beef, so-called "baby beef".

Within the framework of permanent cooperation between the parties, the levy (1) collected at the Community borders is reduced providing that a number of price conditions are respected. The Community may, however, take safeguarding measures in the event of perturbations on the meat market.

The role assigned to the EEC-Yugoslavia Joint Committee is an important aspect of the agreement.

The agreement contains a development clause. Yugoslavia and the Community will be able to develop economic cooperation as a complementary element to trade in areas of joint interest and as a function of developments in the Community's economic policies.

Since 1974 relations between the Community and Yugoslavia have intensified at the levels of both Ministerial meetings and Joint Committee.

Sir Christopher Soames visited Belgrade in April 1974 and was followed by President Ortoli in June 1975.

The President of the Federal Executive Council of the Socialist Federal Republic of Yugoslavia, Mr. Bijedic, visited the Commission on 19th February 1976. This was the first visit of a Yugoslav Head of Government.

---

(1) The levy is a kind of sliding customs duty equivalent to the difference between the lowest price of imported meat and the highest price for the same meat produced on the Community market.

The EEC-Yugoslav Joint Committee met for the first time at Ministerial level on 24th July 1975 in Brussels.

The Community expressed its interest in seeking measures to check the increase of Yugoslavia's trade deficit vis-à-vis the Nine. The two parties decided to implement the development clause of the 1973 agreement by setting up two sub-committees for agriculture and industry with the respective tasks of collecting information required for purposes of developing economic cooperation in areas of common interest and of studying projects intended to develop this cooperation both on Community or Yugoslav markets and on markets of other countries.

As for financial cooperation, the Council of Ministers on 20th January 1976 expressed its agreement to an arrangement whereby Yugoslavia could ask the European Investment Bank to contribute up to 50 million European units of account at market conditions to the funding of projects which were of joint European interest, thereby demonstrating the importance it places on cooperation with Yugoslavia.

## 2. The trade deficit problem

### Development in trade between Yugoslavia and the European Community (2)

Yugoslavia fell from 12th position among Community customers in 1968 to 16th in 1976. It occupied 25th place among Community suppliers in 1968 and 1975 and 24th place in 1976.

In 1976 more than 27.3% of Yugoslav exports went to the Community and 39.1% of its imports were of EEC origin.

---

(1) EUA = 1.11805 US Dollar

(2) Source: Community Statistical Bulletin 58-76.

Community exports to Yugoslavia (million EUA)

Year	1968	1973	1974	1975	1976	1977(a)
	808	1785	2828	2783	2671	3793
% Growth	100	221	350	344	331	469

Community imports from Yugoslavia (million EUA)

Year	1968	1973	1974	1975	1976	1977(a)
	480	1169	1193	1041	1455	1601
% Growth	100	244	249	217	303	333

Community Trade Balance with Yugoslavia (million EUA)

Year	1968	1973	1974	1975	1976	1977(a)
Balance	+328	+ 616	+1635	+1742	+1216	+2192

(a) estimate for the year based on results of first nine months.

Yugoslavia's trade balance with the Community is showing an increasing deficit. This is due both to its import drive, based primarily on efforts to equip Yugoslav industry and also to the structural weakness of its exports, 40% of which are still basic commodities and agricultural products (meat, maize, wine etc.).

Yugoslavia's trade deficit with the Community totalled 53% of its overall deficit with foreign countries in 1974, 62% in 1975 and 1976 and 50% (1) in 1977 (2). Exports only cover 37% of its imports.

Yugoslav exports to the Community may be broken down into large product categories as follows:

	1.12.1974	1.12.1975	1.12.1976
Industrial products	77.2	76.3	75.5
Agricultural products	22.8	23.7	24.5

Some 95% of Yugoslavia's imports from the Community are industrial products.

The sale of Yugoslav beef to the Community remains a sensitive component of trade.

As a result of the surpluses prevailing within the Nine member states the Community applied the safeguard clause to the beef and veal sectors from 17th July 1974 to 1st April 1977.

Modifications were, however, introduced to the way in which this clause is applied in 1975 and 1976.

### 3. Implementation of the "Joint Declaration of Belgrade"

The Joint Committee met in Brussels on 29th March 1977 at Ministerial level.

The Yugoslav and Community delegations ascertained the necessity of commencing preparations for negotiations aimed at the conclusion of a new agreement with a wider field of application to replace the current agreement.

---

(1) OECD statistics January to October 1977

(2) Although Yugoslavia's trade deficit with the Community has increased, it has increased to an even greater extent with the world as a whole.

This new agreement was to facilitate in particular a more dynamic development of trade and to encourage new forms of cooperation covering the areas cited in the Joint Declaration.

The Joint Committee, desiring to give a concrete follow-up to the guidelines laid down in the Declaration, decided to set up a sub-committee with the task of identifying sectors and of studying projects along the lines of the Declaration.

A second meeting of the Joint Committee was held at Ministerial level on 27th October 1977 in Belgrade.

Both parties stressed the progress achieved by the sub-committee for economic cooperation set up at the meeting in March 1977. This sub-committee which met on 24th May 1977 in Brussels and on 22nd September 1977 in Zagreb, pinpointed the sectors in which intensified cooperation was to be pursued: medium-term economic policy, balance of payments, access for Yugoslavia to capital markets, transport, environment, labour, scientific and technical cooperation.

During the second half of 1977 a number of leading European personalities visited Yugoslavia.

Mr. W. Haferkamp, Vice-President of the Commission, responsible for external relations, visited Belgrade from 11th to 13th September 1977 with a view to investigating ways and means of strengthening cooperation between Yugoslavia and the Community.

Mr. Henri Simonet, then President of the Council of Ministers of the Community, during an official visit to the Yugoslav capital on 23rd and 24th September 1977, stressed the importance of even closer relations between the Community and Yugoslavia.

Mr. Yves Le Portz, Chairman of the European Investment Bank (EIB) had talks in Belgrade on 3rd and 4th November 1977, most notably with the Secretary of State for Finance.

Following these talks the Chairman of the EIB signed a contract granting a loan for a sum equivalent to 25 million EUA (approximately 525 million dinars) to be used in funding the construction of an electricity supply grid.

On 18th November 1977 the Commission sent the Council of Ministers of the Community a formal communication and proposals for directives recommending that negotiations be started with Yugoslavia with a view to concluding a framework agreement for cooperation.

On 17th January 1978 the Council approved the proposed directives for the commencement of negotiations with Yugoslavia. It made provision for a five-year framework agreement for cooperation of a non-preferential nature, in accordance with the wishes of the Yugoslavs.

The agreement was to be of an evolutive nature with no area of cooperation excluded a priori.

As regards cooperation in trade both parties would apply the benefit of the most favoured nation clause.

Growth and diversification of imports and exports would be encouraged in order to promote smooth development of trade between the two parties at the highest possible level.

As for economic cooperation, industrial cooperation would, in particular, facilitate joint investment and exchanges of technology.

Agricultural cooperation would seek further areas in this sector and changes, in accordance with the respective development of Yugoslav and Community agriculture.

Existing financial cooperation would be extended. Once the European Investment Bank had exhausted the total sum of 50 million Units of Account that it is currently authorised to loan to Yugoslavia, it would be a question of opening a new line of credit.

In the field of transport the contracting parties would aim at improving infrastructure which was of joint interest and at promoting a greater flow of information regarding respective transport policies.

As for environment, Yugoslavia and the Community would implement specific, priority campaigns.

The two parties would also cooperate in the fishing sector.

Whilst awaiting the conclusion of an agreement between Yugoslavia and the Community, the Council of Ministers approved a six-month extension, up to 30th June 1978, for the bilateral agreement between Italy and Yugoslavia granting Italian fishermen access to Yugoslav waters.

At an institutional level a new joint body would be set up to replace the existing Joint Committee. The nature and title of this body would be determined in the light of the negotiations.

An exchange of correspondence relating to the situation of Yugoslav labour within the Community, annexed to the



agreement, would make provision for exchanges of opinion regarding the situation of Yugoslav labour within the Community and regarding the question of facilitating re-integration of migrant workers into the Yugoslav economy, notably through increased economic cooperation.

#### 4. Yugoslavia and generalised preferences

The system of generalised preferences consists in complete freedom from customs duty on all manufactured, non-agricultural products and partial immunity for certain processed agricultural products without any ceiling.

"Buffers" or maximum amounts are fixed for each country benefiting from the scheme. These place a limit in the form of a given percentage, on the maximum portion which each country is entitled to use of the ceiling and quotas laid down for the different products.

Yugoslavia is one of the countries which has derived most benefit from the generalised preferences system introduced by the Community on 1st July 1971. It made greatest use of the system in 1976, reaching the figure of 383,607 million EUA. Yugoslavia is one of the countries for which customs duty has had to be re-introduced most frequently for "buffer" reasons.

This illustrates the particularly important position that Yugoslavia occupies with regard to utilisation of Community preferences. Sensitive industrial sectors have found themselves faced with a number of problems.

In order to permit a fairer spread of the advantages of the preferences system among the countries benefiting from it and in order to bring down the number of products subject to Community tariff quotas, the Council decided in 1975 to apply a special "buffer" to sixteen Yugoslav products equal to 15% of the ceilings. The same system was applied in 1976 and 1977 and is still being applied in 1978.

It should be noted that in 1978 horses for meat and other horses were added to the list of processed agricultural products benefiting from preferences in order to make allowance for Yugoslavia's special interests in this sector.

This represents an increase in potential Yugoslav exports of some 35 million EUA.

#### 5. Yugoslavia and the Multilateral arrangement covering trade in textiles.

The so-called "Multi-fibre Agreement" (MFA) agreed by the

Council of Ministers on behalf of the Community on 21st March 1974, which itself replaced the long-term agreement governing international trade in cotton textiles, has just been renewed for a period of four years at the Council of Ministers on 20th December 1977. The first agreement covering the years 1976 and 1977 was initialled on 25th June 1976. The second agreement was recently concluded, on 23rd December 1977.

This agreement provides that Yugoslavia shall limit its exports of a number of textile products of Yugoslav origin.

The main products subject to this auto-limitation are the following:

- cotton thread
- cotton fabrics
- discontinuous man-made fibre fabrics
- knitted undergarments
- pullovers
- trousers for men and women
- women's blouses
- men's shirts

Quantities of other sensitive products are subject to monitoring. The new generalised preferences system put forward for 1978 establishes a link between the multifibre agreement and the GPS.

#### 6. Yugoslavia and scientific and technical cooperation (COST)

Since May 1971 a Yugoslav delegate has been attending meetings of the "Scientific and technical cooperation" (COST) group which operates under the auspices of the Council of Ministers of the Community and includes, in addition to the nine Community countries, Norway, Austria, Finland, Portugal, Sweden, Switzerland, Greece, Turkey and Spain.

Yugoslavia took part in the agreement in the fields of telecommunications, metallurgy, harmful substances and pollution of air and water, which were signed in 1971 and which either expired in 1974/5 or were extended.

On 11th October 1973 Yugoslavia signed an agreement in Brussels bringing into being the European centre for medium-range meteorological forecasting, located at Shinfield Part, Berkshire in the United Kingdom.

In July 1974 a number of proposals put forward by Belgrade were included in the agricultural sector, in particular:

- a programme covering maize as the base of a full-ration feed in intensive live-stock farming.

- research into the problems of mineral enrichment of basic crops: wheat, maize and sugar beet.

Two further programmes are currently under preparation, these being early weaning of piglets and the use of molecular proteins in feed for non-ruminants.

Yugoslavia is actively participating in preparations for two other projects in the field of foodstuff technology.

### Conclusion

From the Community point of view a number of novel provisions in the new agreement covering cooperation in the field of transport, environment and fishing show the economic significance of closer relations with Yugoslavia, with a view to future expansion.

## Annex

### Economic profile of Yugoslavia

Yugoslavia has a population of 21.6 million. In 1976 its gross national product totalled some 37.6 billion US dollars, i.e. 33.6 billion EUA.

In 1976 the GNP increased by 3.6% in absolute terms, some 2% below forecasts.

The 4% growth rate, in real terms, in private consumption was more or less according to plan.

Investments, with a 2.5% increase, were well below the planned figure of 7.5%. However, the volume of investments in 1977 should show an increase of 6.8% on the 1976 figure.

The cost of living index was brought down from 24% in 1975 to 11% in 1976. During the first half of 1977, however, the rate of inflation rose to 17% and production stagnated with mean salary increases of 16%.

Unemployment affected 11.4% of the active population in 1975 as opposed to 10.4% in 1976. In April 1977 the rate of unemployment rose by some 15%. This sharp increase was due, in particular, to the return of some 80 000 Yugoslav workers out of a total of 780 000 working abroad in 1976. Despite continued expansion, particularly in industry, the number of unemployed passed the 700 000 mark for the first time ever during the first quarter of 1977.

In spite of these problems Yugoslavia has kept up considerable economic expansion which puts it in a good position among European countries.

Industrial production which accounts for 45% of the Yugoslav GNP increased by 3.4% in 1976. In the period from January to May 1977 industrial production, on the increase since the end of 1976, was up 11.3% on the corresponding figure for the previous year.

Agricultural production which accounts for 15% of the Yugoslav GNP and employs 40% of the active population increased by 3% in 1976 (with the private sector accounting for 70% of this).

Future prospects: the current five-year plan for 1976-1980 provides for an average economic growth rate of 7% (8% for industry and 4% for agriculture), i.e. one percent more than the growth rates achieved during the two previous plans.

Investments are to increase by 8% taking priority over social expenditure (+7%) and private consumption (+6%).

---