

# COMMISSION OF THE EUROPEAN COMMUNITIES

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## COMMUNICATION FROM THE COMMISSION

The development of the Community's relations  
with the countries of central and eastern Europe

## INTRODUCTION

During the first half of 1990 all the Community's partner countries in central and eastern Europe will have put in place the basic legislation needed to move towards democracy and market-oriented economic systems and will have held elections for new parliaments or constituent assemblies. The prospects for the consolidation of these reforms are bright but the pace of their further development will vary according to the political and economic situation of each country. The imminence of German economic and monetary union and the prospect of unification clearly indicate that the German Democratic Republic is a specific case and, as such, is the subject of a separate Communication to the European Council.

For other reasons, notably the scale of its economy and the particular features of its reform process, the USSR raises specific questions in the context of future relations with the Community. The Community will seek to obtain the highest level of reciprocal benefits from the new trade and cooperation agreement which has just entered into force. In particular the Community should be ready to encourage the USSR to play a fuller part in the open international economic system. Careful consideration should be given to the further development of relations between the Community and the USSR, taking fully into account the wider significance of recent changes in central and eastern Europe.

By the end of June the Community's network of first generation trade and cooperation agreements will be complete, allowing for the normal development of commercial and economic relations. Already, however, our neighbours are looking beyond normalization to a special type of relationship reflecting geographic proximity, shared values and increased interdependence. They view the Community as an essential partner, links with which can assist them to "rejoin Europe", ending the artificial divisions of past decades. They have noted the promising developments in relations between the Community and the European Free Trade Association and have indicated their willingness to be more directly involved in this process as the economies of the Community and EFTA become more closely integrated.

The Community should respond positively to the interest of neighbouring states in associating themselves with the European enterprise, both as a sign of solidarity with democratic forces and because such a response is in the Community's own interest. This response should take two forms : at the bilateral level, when the necessary political and economic conditions are in place, the Community should be ready to negotiate a new generation of association agreements, creating the basis for a special relationship with its neighbours in central and eastern Europe.

This relationship will provide an institutional framework for political dialogue enabling the parties to exchange views regularly on pressing issues of mutual concern. Political dialogue will be especially important as new structures take shape in Europe and the reform process takes on new dimensions. Association agreements will aim at eventual free trade to be achieved through appropriate stages and will involve enhanced cooperation in many fields as well as multiannual funding.

At the multilateral level, the Commission will vigorously pursue its coordination of assistance from the industrialized countries within the G-24 framework. At the meeting of the G-24 at high official level on 16 February, it was agreed to extend coordination to the GDR, Czechoslovakia, Yugoslavia, Bulgaria and Romania. The Commission will present an action plan for Community and G-24 assistance to these countries at the forthcoming Ministerial Meeting in June, taking into account discussions under way with the multilateral financial institutions and the need for adequate arrangements to tackle structural economic problems.

Coordinated action will be reinforced by the activities of the European Bank for Reconstruction and Development, the European Training Foundation and the Youth Exchange Scheme (TEMPUS) launched at the European Council in Strasbourg last December.

The Commission's responsibilities and the expectations of partner countries have given it a key role in helping to create the conditions for economic well-being, stability and confidence in Europe. The Community, drawing on its particular experience, has been able to make an important contribution to the recent CSCE Economic Conference in Bonn and to other interessional events. The central role of the Community in overcoming divisions in Europe should also be fully reflected through appropriate participation in the forthcoming CSCE Summit, and in other relevant fora such as the OECD, Council of Europe and the Economic Commission for Europe and in further developments.

The Strasbourg European Council of 8-9 December 1988 concluded that the Community will "continue its examination of the appropriate forms of association with the countries which are pursuing the path of economic and political reform". The purpose of the present Communication is to provide to the European Council and to the Parliament further indications concerning the ways in which the Community's relations could develop with the countries concerned both in the bilateral and the multilateral context.

## EUROPE AGREEMENTS : TOWARDS AN ASSOCIATION NETWORK

The Community's trade and cooperation agreements with the countries of central and eastern Europe constitute the point of departure for the further development of its relations with the countries concerned. These agreements, which are about to be completed, should be used to achieve the highest possible level of mutual benefits. As the reform process in each country takes root, the Community should accelerate timetables for dismantling remaining restrictions and should consider other forms of liberalisation. In this respect the achievement by these countries of full external convertibility would be beneficial.

Beyond these improvements the Community should be ready when conditions justify it to create a special relationship with its neighbours in central and eastern Europe by negotiating a network of association agreements (or "Europe Agreements") based on Article 238 of the EEC Treaty. The Community will expect decisive steps to have been taken in the creation of systems based on the principles of democracy and of the market economy as a condition for the passage from cooperation to association. These steps should be in the areas of :

- the rule of law
- respect for human rights
- the establishment of multiparty systems
- the holding of free and fair elections
- economic liberalisation with a view to introducing market economies.

The calendar for the conclusion of association agreements and their maintenance in force will depend on performance as well as commitments in the above-mentioned areas.

Association agreements have a special value in themselves and should be distinguished from the possibility of accession to the Community, as provided for by article 237 of the EEC Treaty. This possibility would not be affected by the conclusion of association agreements.

### Political dialogue

Association agreements will provide an institutional framework for political dialogue within which views can be exchanged on pressing bilateral and multilateral issues and the flow of information can be improved. Such exchanges will be especially valuable during the transition to new forms of European integration and cooperation in which the Community will play a central role.

An association council will be set up under each agreement to provide a forum for discussion and decision-making. Cooperation between the European Parliament and its counterparts in associated countries will take place through joint bodies.

### Trade and freedom of movement

The goal will be reciprocal free trade; this will be achieved by a phased approach which allows changes in a country's situation and reforms concerning pricing, subsidies, taxation, monetary policy and the external trade system to be taken into account. These reforms will have to bring the relevant countries' systems into line with the multilateral trading system, thereby exposing them to international competition. In the gradual shift towards free trade, the Community will move faster than associated countries, thereby contributing to their economic recovery.

For their part, associated countries will undertake to open up their markets according to flexible timetables tailored to their particular situation. This should also encourage them to liberalise access to each other's markets as part of their evolution towards more open market-oriented systems.

Once associated countries' economies have been brought substantially into line with the Community's, consideration can be given to the free movement of persons, services and capital. The possibility will also be examined of approximating the economic legislation of associated countries with that of the Community.

### Economic cooperation

Economic, scientific and technical links will be developed and diversified. This cooperation will back up structural change in associated countries and help integrate them into the international trade system. Particular weight will be given to promoting transfers of technology and encouraging investment. Areas of cooperation will include : vocational training, the environment, modernising agriculture and agro-industry, renewing the industrial fabric, research and scientific projects, energy, mining, transport, tourism and other services, telecommunications, health and medical equipment and standards.

Joint projects will be developed in specific areas, particularly transport and telecommunications.

### Cultural cooperation

Cultural cooperation programmes will be drawn up with the associated countries. These programmes will help revive cultural links throughout Europe, thereby affirming Europe's common cultural identity.

### Financial cooperation

Funds corresponding to each country's needs will be allocated for cooperation and technical assistance on a multiannual basis. The Commission has proposed that the financial perspectives for the years 1990-1992 be revised accordingly. These funds will be distinct from those allocated in the framework of structural policies applying within the Community itself.

Special attention will be given to investment projects aimed at developing the private sector. Financial cooperation, tailored to each recipient's needs will involve grants (technical assistance, interest rebates), loans from the European Investment Bank, ECSC and EURATOM as well as venture capital and other instruments. Closer cooperation between Member States should also be developed in the field of export credit and export credit insurance.

### DIALOGUE AND COOPERATION : STRENGTHENING THE COMMUNITY'S ROLE

The creation of a network of association agreements should be complemented by reinforced cooperation at the multilateral level. Other partners wish to participate, together with the Community, in assistance to the countries of central and eastern Europe, other fora for dialogue and cooperation have proved their value and new forms of cooperation may emerge.

### G-24 coordinated assistance

The decision of the Paris Summit of the seven most industrialised countries in July 1989 to confer on the Commission the responsibility of coordinating their assistance to Poland and Hungary has been rapidly implemented. Priorities for assistance identified by the Commission, in contact with the IMF, World Bank and OECD, now form the basis for the assistance to these countries of the Community itself and of the G-24. Since the beginning of 1990, the Community's assistance has become fully operational with the launching of programmes and projects designed to contribute to restructuring and, especially, to the growth of a healthy private sector.

In Poland substantial programmes financed by a number of countries are in effect ; the Commission has authorised a large programme of materials for agricultural production and projects are under way financed by the counterpart fund. Food supplies have improved, the external account is in surplus and inflation in Poland has fallen from high double digits to four percent a month. In Hungary the substantial loan agreed by the Community is in effect and work is progressing satisfactorily on programmes and projects.

At the Ministerial Meeting of the G-24 in Brussels on 13 December 1989 the decision was taken in principle to extend coordination to the German Democratic Republic, Czechoslovakia, Yugoslavia, Bulgaria and Romania, on condition that they carry out the requisite political and economic reforms. On the basis of a report from the Commission of the results of fact finding missions in the countries concerned, the General Affairs Council concluded at its meeting of 2 April that these conditions had been largely satisfied.

In consequence, the Commission will be presenting to the Council and to the G-24 a new action plan, taking account of each country's specific needs and paying particular attention to coordination of G-24 activities with those of the IMF, World Bank and OECD. This action plan will outline priorities for Community and G-24 assistance, proposing that comparable efforts be made by the Community and its partners in the G-24. The decision to extend coordinated assistance to additional countries and the action plan should be formally endorsed by the G-24 at its Ministerial Meeting in Brussels in June.

The Commission will examine, in close contact with the multilateral financial institutions, proposals building on the Community's experience in providing medium-term financial assistance to Hungary. Other members of the G-24 could be invited to contribute to financial efforts intended to stimulate non-inflationary growth. In all cases care will be taken to avoid debt creation exceeding repayment capacity based on reasonable growth assumptions.

#### The European Bank for Reconstruction and Development (EBRD)

The initiative to establish the European Bank for Reconstruction and Development, agreed at the European Council in Strasbourg last December, has rapidly led to agreement among the forty-two interested parties on draft statutes for the Bank. The EBRD, in which the Community will play a principal part, is important as an instrument both in the coordinated efforts of the industrialised countries and in the Community's own financial cooperation with the countries of central and eastern Europe.

#### The European Training Foundation and Youth Exchange Scheme (TEMPUS)

These initiatives, agreed in Strasbourg last December, respond to requests voiced by all our partners in these countries. They will bring together teachers and trainers from different parts of the Community and of partner countries, improve industry-university links and stimulate the transfer of professional, managerial and vocational skills, strengthening the human dimension of the Community's cooperation activities.

### The CSCE and further developments

As the declaration adopted by the Twelve on 20 February in Dublin recalled, the Community and its Member States are determined to assume their responsibilities wholeheartedly and to play a full part in the CSCE process.

The new relationship between the Community and the countries of central and eastern Europe will be reflected within the Helsinki process, which is entering a new phase as confrontation gives way to cooperation. The Helsinki process will be especially important in providing a framework for the unification of Germany and, more generally, of Europe as a whole in conditions of confidence, stability and peace. The Community made an important contribution to the the Vienna Conference, to the recent Bonn Economic Conference and other intersessional events. The central role of the Community in overcoming divisions in Europe should be fully reflected through appropriate representation at the forthcoming CSCE Summit and within future structures which may emerge within the Helsinki process or according to other proposals recently put forward.

### The Council of Europe

The Council of Europe has an increased role to play in encouraging democratic developments and in providing a forum for discussions relating to fundamental liberties and human rights. This has been recognised by the central and eastern European countries which have applied to participate in the Council of Europe or indicated their interest in doing so.

The Community should welcome these developments and continue to base its relations with the Council of Europe, as agreed in the period of the Netherlands' presidency of the Council of Europe, on an operational complementarity rather than a rigid a priori division of work. The Commission has already indicated that the Community should contribute to democratic dialogue within the Council of Europe and accede to its Convention on Human Rights.

### Stability and the changing relationships in Europe

In general, with the changing relationships in Europe, the Community should recognise the great importance for its neighbours, particularly in central and eastern Europe, of the stability it provides and should ensure that this is fully reflected in multilateral developments yet to be defined.