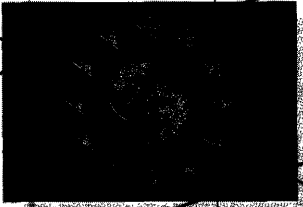


**ECONOMIC AND SOCIAL
CONSULTATIVE ASSEMBLY**

1992



**EC relations
with the countries of
Central and Eastern Europe**

*EUROPEAN
COMMUNITIES*

*ECONOMIC AND
SOCIAL COMMITTEE*

Brussels 1991

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PREFACE

The text in this booklet is an Additional Opinion to one the Economic and Social Committee of the European Communities adopted in March 1990 when it made recommendations on the economic and social strategies to adopt towards Central and Eastern European countries both immediately and in the medium term. Since then the Committee's Section for External Relations has drawn up an Information Report on the economic and social situation in eight Central and Eastern European countries and prepared an ESC Opinion on the Community and German unification.

In this Additional Opinion the Committee carries its analysis further. It believes that at a time of major political changes and regeneration in the countries of Central and Eastern Europe, where the aim is to introduce market economies and democratic social systems enabling our Eastern neighbours to make serious efforts to liberalize foreign trade and become an integral part of the world economy, the historic opportunity must be seized to (a) forge closer and more stable relations with these countries, and (b) lay the foundations for a Europe, for a common European House, which accepts all European countries and leaves no one outside in the cold.

After an introductory section summarizing the Committee's most important views and recommendations, the Opinion looks first at the economic prospects in Central and Eastern Europe before analyzing developments starting from the Joint Declaration between the European Community and the Council for Mutual Economic Aid (25 June 1988) and going up to the Association Agreements currently being negotiated with Poland, Czechoslovakia and Hungary.

In the view of the Committee, these Association Agreements should lay the foundations for the establishment of closer political, economic and social ties between the European Community and our neighbours in Central and Eastern Europe. At the same time, however, intra-Community consolidation must not be endangered by inadequately prepared steps towards pan-European integration.

The removal of economic imbalances between the Western and Eastern parts of Europe is one of the most urgent tasks to be addressed. The Committee therefore welcomes the so-called European Agreements and regards them as an important instrument for improving both trade and political dialogue. The Opinion, drawn up by the Rapporteur, Mr Jens Peter PETERSEN (Employers, Germany), also argues the case for properly taking into account the many different social questions, incorporating the social dimension of European integration in the preambles to the Treaties, and bringing economic and social interest groups within the institutional framework of the Agreements.

ADDITIONAL OPINION
of the
Economic and Social Committee
on
EC relations with the countries of Central and Eastern Europe

On 24 April 1990 the Economic and Social Committee, acting under the third paragraph of Article 20 of the Rules of Procedure, decided to draw up an additional Opinion on

EC relations with the countries of Central and Eastern Europe.

The Committee's comments on the Community's continuing association negotiations with Czechoslovakia, Poland and Hungary essentially relate to the position in mid-June 1991. The Committee reserves the right to comment separately on the most recent developments in Eastern Europe, with particular reference to the Baltic States and the USSR, and to make changes, where necessary, to individual passages of the present Opinion.

The Section for External Relations, Trade and Development Policy, which was responsible for preparing the Committee's work on the subject, adopted its Opinion on 12 September 1991. The Rapporteur was Mr PETERSEN.

At its 289th Plenary Session (meeting of 26 September 1991) the Economic and Social Committee adopted the following Opinion unanimously:

* * *

INTRODUCTORY COMMENTS

Given the length of this Opinion the Committee believes that it would be appropriate to begin by summarizing its most important views and recommendations on the European Agreements:

The Committee thinks it imperative to use the present historic opportunity to establish closer, more stable relations with the countries of Central and Eastern Europe and to lay the foundations of a **Common European House** for all European countries.

The Committee considers that top priority should go to removing economic and social imbalances between the Western and Eastern halves of Europe.

The Committee considers that existing **trade and cooperation agreements** are a possible means of strengthening inter-state dialogue; they are also likely to provide an economic underpinning for the political reforms now under way in Eastern Europe.

The Committee welcomes the idea of **Association** since it is calculated to secure and promote closer political, economic and social relations between the European Community and its Eastern neighbours.

The Association Agreements (European Agreements) also form an institutional framework for **political dialogue**, capable of including exchanges of views about pressing bilateral and multilateral problems.

The Committee considers that it should be possible in the next few years to build up a **network of European Agreements** with the Community's Eastern neighbours. At the same time, it urges that concrete negotiations be started as soon as possible with the Baltic States of Estonia, Latvia and Lithuania with a view to concluding European Agreements. At the same time, the Committee assumes that the European Commission will continue its careful, comprehensive monitoring of political and economic reforms and will analyze their chances of success impartially. Only when this has been done should association negotiations proper be opened. It would be disastrous if intra-Community consolidation - Single Market, Economic and Monetary Union, Political Union - were delayed or even watered down because the successive steps towards pan-European integration had been inadequately prepared.

The Committee endorses the opening of association negotiations with **Czechoslovakia, Poland and Hungary**. It approves in principle the content of the draft treaties negotiated so far provided that its critical comments and recommendations are duly heeded.

The Committee urges the contracting parties to also refer in the preamble to the social **dimension** of European unification and to mention the **Community Charter of the Fundamental Social Rights**

of Workers adopted, albeit not unanimously, by the Heads of State or Government of the European Community in December 1989. Closer relations with our Eastern neighbours, and Community assistance, should not be confined to economic, technical and financial fields but should also adequately take into account the many different social aspects.

In the interests of establishing the necessary climate of confidence, the Committee supports the contracting parties of Eastern Europe in their desire to incorporate in the preamble their **wish to become members of the Community**. However, it does not think that the preamble should specify a time horizon for membership applications.

The Committee further proposes that the preamble contain a statement to the effect that the contracting parties of Eastern Europe unconditionally accept the "**acquis communautaire**" and undertake to approximate their respective countries as closely as possible to the current level of Community integration over the two five-year stages envisaged.

The Committee welcomes the willingness of the contracting parties to uphold the principle of free trade and abide by **GATT provisions** in particular.

The Committee calls on the contracting parties to ensure that economic and social interest groups are brought within the organizational framework embracing institutions of association. It recommends the creation of a **consultative committee**, made up of ESC members and members of a similar grouping from the associated countries.

As regards the provisions of the European Agreements covering the **free movement of goods**, the Committee would emphasize the following points in particular:

It regrets the decision taken in the course of negotiations not to apply the **two-stage approach** (consisting of two five-year periods) to the liberalization of the movement of goods. As far as foreign trade in industrial products is concerned, a stage approach - enabling the course of further market liberalization to be reviewed at the end of the first five-year period - would have been of intrinsic value and crucial importance.

The Committee supports without reservation the Community's **asymmetrical approach** to the creation of a free-trade area but wonders whether five years are needed to throw open the Community's markets completely to **industrial goods** from Eastern Europe. Given the major restructuring problems facing these countries, the Community should consider whether more convincing efforts should not be made to open up its markets by the time the treaties come into force.

In the case of **sensitive sectors** - textiles, ECSC products and agriculture - the Committee would draw attention to the relevant GATT provisions that no sector can permanently be protected from the open market.

The Committee wonders whether trade in **textiles** might not benefit from a speedier opening up of markets than originally proposed. The liberalization process could certainly be speeded up in the case of **outward processing traffic**.

The Committee thinks that the Commission must get together with the Community's associated partners to draw up as soon as possible a convincing blueprint with a clearly defined timetable for the restructuring of the **steel industry** in Eastern Europe and a correspondingly gradual liberalization of the steel markets. The blueprint should not only satisfy steel undertakings on both sides but should also be suitable for inclusion in the free-trade area agreements in conformity with GATT.

The Committee believes that the solution to the problem of steel supplies would be to dispense with voluntary restraint agreements with our three partners in Eastern Europe after a transitional period which would make sufficient allowance for the restructuring and rationalization of their steel industries. At the same time, the Community's Eastern European partners would have to agree to stop non-GATT compatible practices in their trade with Community countries. This would be achieved in particular by accepting the ECSC rules on aid.

The Committee understands the reasons for the compromise proposal to suspend import duties on coal during the first five-year period of the European Agreements, after which quotas and similar measures should be applied more flexibly - subject to constraints set out in the Agreements - with a view to their complete elimination by the end of the ten-year transitional period.

Since **agricultural products** have a vital role to play in the foreign trade of the three Eastern European countries, the Committee agrees with the European Commission that these three associated countries and the Community will have to make mutual concessions regarding agricultural products covered by EC market regimes. In agreeing on concessions, account will have to be taken of the sensitivity of the products, the Common Agricultural Policy and the outcome of the GATT Uruguay Round. In this connection, the European Commission must ensure that the difficult problems associated with the CAP are not aggravated.

The Committee welcomes the **accompanying measures** proposed in connection with the creation of a free-trade area. It assumes that the **GATT anti-dumping and subsidy codes** will be fully observed. It also thinks that the Eastern European partners should align their national **competition law** as closely as possible on the corresponding Community rules from the outset. In addition, it endorses their call for **cumulative rules of origin**.

The Committee approves the inclusion of policies on the **free movement of persons, services and capital** in the European Agreements, but warns that certain passages in the Agreements have been made too abstract in an attempt to achieve a compromise.

In the case of the **free movement of persons**, the Committee regrets that there are no arrangements covering workers from Czechoslovakia, Poland and Hungary working illegally in the Community. Community rights and obligations affecting residence, employment and mobility should apply without restriction to legal immigrant workers and their families.

The Committee thinks that the proposal to facilitate the **immigration** of workers as from the second stage of the ten-year transitional period, but under certain conditions, should be accompanied by a reference to the fact that the Community has limited scope for action, even in the medium term.

In view of the redundancies brought about by reform in the Eastern European States, the West must not only provide financial and technical aid, but also ensure sustained support for the necessary **training of workers**.

Whilst the Committee endorses in principle the arrangements on **freedom of establishment**, it feels that "dramatic" reductions in the domestic market shares of our Eastern partners can scarcely be a justification for protectionist measures.

With regard to the **freedom to provide services**, the Committee supports the proposed liberalization but assumes that the Association Council will at all times prevent social dumping.

The Committee regrets that the negotiating parties have not yet agreed on a timetable for the liberalization of **capital movements** which would clearly indicate when various categories of financial transaction are to be integrated into a "fully liberalized system".

The Committee regrets that the draft agreements fail to fix priorities for the **approximation of legislation** in, for example, the fields of environmental, competition and subsidy law and in respect of worker and consumer protection. The "two-stage concept" should have been specified in the relevant passages of the agreements.

With regard to **economic cooperation**, the Committee welcomes the explicit assurance of the contracting partners that the environmental aspects of economic measures will be taken into consideration from the outset. **Environmental policy** affects the whole of Europe and must be integrated with other policy areas. At the same time, the Committee feels justified in questioning whether joint projects can be implemented in all the (approximately 150 economic) areas specified in the nineties.

It therefore calls for a rigorous **action plan** based on attainable priority objectives. In the first instance, these should relate to such areas as **infrastructure, nuclear power and education and training**.

The Committee thinks that clear **financial cooperation** priorities should likewise be agreed with the Eastern European partners and taken into account in drawing up multi-year plans. It also calls for the creation of a Community **Task Force** to supervise all the aid provided (a) by the Community (including bilateral assistance), (b) other OECD countries and (c) international finance institutions, and to monitor the use to which it is put, to correlate funding and spending in the Association Committee and to monitor how efficiently resources are used in conjunction with the Eastern European partners. The Association Council should be regularly informed of the results of these activities.

1. Introduction

At a time of major political changes and regeneration in the countries of Central and Eastern Europe, where the aim is to introduce market economies and democratic social systems under which these countries can make serious efforts to liberalize foreign trade and become an integral part of the world economy, the Committee believes that the historic opportunity must be seized to forge closer and more stable relations with these countries and lay the foundation for a Europe, for a **Common European House** which accepts all European countries and leaves no one outside in the cold.

The Economic and Social Committee has analyzed the radical, complex changes taking place in Central and Eastern Europe in a number of Opinions. The Committee's aim in the past has been:

- to obtain a picture of the likely economic and social impact of political reforms in neighbouring Central and Eastern Europe countries,
- to assess the measures already taken by the European Community (a) as an emergency response and (b) to put relations with Eastern Europe on a new footing,
- to draw up recommendations on the economic and social strategies to adopt towards Central and Eastern European countries both immediately and in the medium term⁽¹⁾.

In the middle of 1990 the Section for External Relations, Trade and Development Policy followed these Opinions up with an Information Report on the current economic and social situation in eight Central and Eastern European countries⁽²⁾. In November of the same year the Committee delivered an Opinion on the European Commission's Communication on The Community and German Unification⁽³⁾. This latter Opinion also emphasizes the Committee's positive attitude to the reform movements in Central and Eastern Europe.

Developing and strengthening democratic structures, as well as opening up frontiers, is of vital importance if political, economic and social cooperation with our Central and Eastern European neighbours is to be intensified. Only through cooperation will mutual trust be created and only through cooperation can this climate of trust be consolidated and further improved. In this respect the prospects for cooperation are now much brighter than hitherto seemed possible.

The Committee considers that top priority in the widest sense of the term should be given to removing economic and social imbalances between the Western and Eastern halves of Europe. After the ups and downs of oil prices in the seventies and the debt crisis of the eighties, this is the third big challenge of the second half of the twentieth century. The Committee believes that if we act with perseverance and if our common interests are presented convincingly, promising solutions can be found. It nevertheless recognizes that it will take longer than the present decade to fully meet this challenge.

(1) CES 459/88 and CES 381/90
(2) CES 492/90
(3) CES 1378/90

Nothing is more absurd than a situation where people with exactly the same capabilities, intelligence and application live in prosperity and enjoy high living standards in one half of Europe whilst there are frequently shortages and poverty in the other half. The most striking example of this is the contrast between the Federal Republic of Germany and the former GDR, where people with the same history, language and traditions have worked for more than forty years under different political and economic systems. If the results have differed so widely, this is clearly not because of some human factor but because the systems themselves have varied a great deal in terms of efficiency.

The growing interdependence of the world economy, the mutual dependence and close interweaving of political, economic and social aspects, reinforce the call for a transformation of the systems of Central and Eastern European countries, for a changeover to free market economies (with social components). What is required is a courageous reform policy which does not get bogged down in small-scale measures. The road from a socialist command economy to a social market economy is hard and strewn with obstacles. The setting of quantitative goals, state planning targets and the use of money solely as a bookkeeping unit of account (as happened in intra-Comecon trade for years) have had all sorts of negative consequences which cannot be eliminated overnight.

The European Community should also remember that although the social market economy is rooted in firm principles, it can be applied flexibly. The social market economy is a necessary if not sufficient prerequisite for pluralistic democracy, respect for human rights and freedom of speech. It is also important to bear in mind that despite many features in common each individual country runs its economy under different conditions and in accordance with different traditions. Diversity on the continent of Europe is a reality, the result of political decisions and different historical processes. Every European nation will therefore go its own way and will have to find its own answers to the challenge of change.

2. Macro-economic prospects in Central and Eastern Europe

The democratic and economic reforms in Central and Eastern Europe have made the Eastern economic union, the **Council for Mutual Economic Aid (Comecon)**, an empty shell. The formal dissolution of Comecon - decided at its 46th and last Plenary Session at the end of June this year - marked the end of a process of decline which had begun in the mid-Eighties. Since then, visible intra-Comecon trade had been shrinking. In 1990, two of its cornerstones (multilateral cooperation and the coordination of national economic planning) were abandoned. German unification removed one of the reasons for Comecon's existence and when, in January 1991, the members finally decided to conduct intra-Comecon trade in dollars rather than transfer roubles (the common unit of account), Comecon was to all intents and purposes disbanded.

As yet it is unclear whether the countries concerned will develop a new form of (close) economic cooperation. There has been a wide variety of proposals. Many politicians advocate a **successor institution**, such as an "Organization for international economic cooperation", whilst others quote the example of the Western European Payments Union (EPU), established in 1950, which provided clearing and credit facilities for its member countries. It would, however, seem more realistic in the first instance to establish only a **consultative forum** to regulate cooperation between former Comecon members situated in Europe. At the beginning of February 1991, the three reformist States - Hungary, Poland and Czechoslovakia - meeting in Visegrad in Hungary decided on the route to be taken. They agreed to cooperate closely with a view to bringing their overall economic performance up to the Western European level and developing stable democratic relations following the collapse of the communist system. Hungary's Prime Minister, Josef ANTALL, defined the common objective as "complete integration in the European political, economic, security and legal system".

Democracy and dictatorship, the social market economy and the planned economy are antithetical concepts which cannot be reconciled by any "third way". Certain Eastern European countries have recognized this and promptly initiated the indispensable process of reform, whereas others are still searching for the right plan. They are struggling with a trial-and-error approach involving a "policy mix" based on planning and control mechanisms combined with half-hearted reforms. Such a policy

cannot solve economic and social problems. On the contrary, it merely obstructs the indispensable structural adjustment of the economy, deferring it to what hardly seems likely to be an easier future and thus intensifying the problem.

The inherent weaknesses of the Eastern economic system - technology gaps, productivity lag, lack of capital, wasted resources, environmental pollution, supply shortages and character deficiencies (independence, creativity) are obvious and largely undisputed. Moreover, experience in the former GDR confirms that transition to a social market economy is a far more radical process than expected - even a few months ago. Notwithstanding massive economic and financial aid, the overall economic situation in the new Federal Länder is still characterized by falling production and employment. Whether the hoped-for upturn will occur by the end of the year is far from certain. This makes it all the more urgent to know how long other reformist countries are likely to need to switch from a planned to a social market economy. A Conference Board study mentions twenty to thirty years, whilst the Centre for Economic Policy Research suspects "that ten years is the minimum time-span that will be required by the East European reform process, with two or three decades being perhaps a more realistic estimate"⁽⁴⁾.

A more optimistic note is sounded in a PROGNOSES study which outlines development scenarios for eight Eastern European countries and provides a qualitative analysis and evaluation of the individual factors involved⁽⁵⁾. Proceeding from the (reasonable) assumption that macro-economic development will follow a J curve, this Institute distinguishes three phases: contraction, re-orientation and growth. The intensity and duration of the individual phases will differ from country to country. In addition to the former GDR, Hungary, Poland and Czechoslovakia enjoy favourable conditions which should enable them to succeed in the difficult task of transforming the system. The Institute thinks that the recovery process could produce tangible results in two to three years in those three countries with the possibility of significant economic growth (above 4%) in the second half of the nineties.

PROGNOS considers that the conditions for economic stabilization are "far less favourable" in the case of the USSR. Here, the economic reform process is complicated and has not become any simpler after the failed putsch. The construction of a "new democratic system" is still in the midst of being carried out. The economic union which the Soviet Republics would like to see has so far only been sketched out in rough outlines. No doubt each of the sovereign Republics will "work out and implement its own programme for the transition to the market system", in accordance with the compromise programme "Guidelines for economic stabilization and transition to a market economy" approved in October 1990. This means that the individual Republics will move towards the market economy at different speeds.⁽⁶⁾ In fact there is a possibility that in individual Republics unfavourable political factors (e.g. nationalist conflicts and the resistance of doctrinaire elements) will also impede the establishment of reliable market-orientated structures. Any attempt to limit, with any degree of reliability, the time needed for economic stabilization and the application of market principles in the USSR, is therefore bound to fail. The words of Mikhail GORBACHOV spoken in February 1991 remain relevant: "We cannot change to a market economy overnight; that would be too risky. Soviet society must be prepared. There will then be a transitional period, and this will last for some time."

The other former European Comecon states⁽⁷⁾ are **Bulgaria and Romania**. Since the industries of both countries were fully integrated in the division of labour of Comecon, they possess neither "the technical resources nor the qualification which would enable them to participate in future oriented structural developments". PROGNOSES thinks that the two economies will contract for several years, which will involve increasing scarcity and, possibly, political problems. Although the two economies could begin to stabilize in the second half of the nineties, the Institute does not think that higher growth rates can be expected for the time being. Both countries seem likely to face a race against time which can be won only if the driving forces of a new economic and social order are released as quickly as possible - and at all levels - by a convincing change of direction.

(4) The Impact of Eastern Europe monitoring European Integration. In: Annual Report 1990. Centre for Economic Policy Research. London 1991.

(5) Entwicklungspotentiale im Osten - Standorte und Märkte. PROGNOSES AG - Europäisches Zentrum für Angewandte Wirtschaftsforschung. Basel 1991.

(6) J. JOUDANOW, Die wirtschaftliche Umgestaltung in der Sowjetunion: Probleme und Wege zur Lösung. (Beiträge zur Wirtschafts- und Sozialpolitik, 190) Institut der deutschen Wirtschaft, Köln 1991.

(7) No macro-economic projections exist as yet for the three Baltic States with their approximately 8 million inhabitants. In the PROGNOSES study of December 1990 they are still regarded as members of the 15 Soviet Republics.

Obviously, the political and economic imponderables, the numerous procedural and statistical inadequacies and lack of knowledge about the depth and extent of the reforms initiated make it hazardous to try and define the likely duration of the economic transformation process in Eastern Europe. The probability of error is certainly far beyond the level accepted in conventional long-term macro-economic projections which, in the majority of cases, amount to no more than the extrapolation of (simple) trends. At the same time, attempts to forecast the intensity and duration of the reform process have their value. They at least confirm and provide empirical evidence for the belief that the political and economic transformation of certain Eastern European countries cannot be completed in the nineties and seems likely to be prolonged some time into the next century.

The Committee has repeatedly welcomed the wide-ranging support and encouragement provided by the Community for the reform process, either through trade and cooperation agreements or under the multilateral support programme of the Group of 24 which the Commission has been coordinating on behalf of the Paris Economic Summit since mid-1989. In this connection, the Committee recommends the early establishment of an inventory of all Community aid including the numerous forms of bilateral aid to Eastern Europe. Discussions should be held with the Member States with a view to identifying how this assistance can best be coordinated and used even more effectively. Such aid should also be made increasingly available to those of our Eastern European neighbours which are just beginning to initiate political, economic and social reforms. The Committee unanimously agrees that any EC economic or technical assistance should be made conditional on respect for human rights, constitutionality and the protection of ethnic minorities. There are signs that political reform could be used as an excuse for renewed discrimination against ethnic minorities in certain Central and Eastern European countries.

3. From the joint declaration to European agreements

After year-long efforts a **joint declaration** was signed on 25 June 1988 between the European Community and the Council for Mutual Economic Aid. Although the declaration was limited to matters of procedure, the Committee sees the agreement as a decisive step towards the long-awaited normalization of relations between the European Community and individual CMEA countries. The Community's **two-track approach** had finally won the day: in parallel with the establishment of official relations between the EC and the CMEA, each individual CMEA country is able to take its own decisions on the establishment of diplomatic relations and on the opening of trade negotiations with the European Community. At the same time this finally put an end to the CMEA's repeated call for an EC/CMEA umbrella.

Diplomatic relations and the conclusion of **trade and cooperation agreements** with practically all Central and Eastern European countries over a period of less than two years (September 1988/May 1990) constitute the foundations of the new European edifice. The cornerstones of such agreements are the liberalization of Community imports and the gradual removal of quantitative restrictions by 1995. The Committee considers that such agreements are a possible means of strengthening interstate dialogue; they are also calculated to provide an economic underpinning of the political reforms underway in the countries of our Eastern European neighbours. At its meeting in Dublin towards the end of June 1990 the European Council also "expressed its deep satisfaction at the progress already made and the prospect towards overcoming the divisions of Europe and restoring the unity of the continent whose peoples share a common heritage and culture."

There is no doubt that **first generation agreements** have paved the way for the next stage in the process of pan-European integration, namely the raising of cooperation with Central and Eastern European countries to a new and improved level. Our neighbours in Central and Eastern Europe have, as the European Commission itself explains, recognised that relations between the Community and the European Free Trade Association have been moving in an encouraging direction, and have declared that they too would like to be involved more closely in a process leading to the ever-closer integration of the economic areas of the Community and EFTA.

Acting in a spirit of solidarity with democratic forces in Central and Eastern European countries, but also in the interests of the Community, the European Commission has drawn up an outline plan for **Association Agreements**. This outline plan was approved by a special meeting of the European Council at the end of April 1990. The main objectives of these new agreements with our Central and Eastern European neighbours are as follows:

- to create a climate of trust and stability favouring political and economic reforms;
- to consolidate the basis for a new European order;
- to lastingly improve the trade and investment climate;
- to promote the transition towards competitive economic structures and make it easier for them to be part and parcel of the international division of labour;
- to improve the transparency and coherence of the Community's financial aid schemes, and to make them more flexible;
- to step up the exchange of information and cultural cooperation.

The Committee welcomes the association concept since it is, ipso facto, likely to guarantee and expedite the establishment of closer political, economic and social relations between the European Community and our neighbours in Central and Eastern Europe.

The agreements at the same time form an institutional framework for **political dialogue**, capable of including exchanges of views about pressing bilateral and multilateral problems. The Committee is of the view that intensive East-West political dialogue, based on mutual trust, is of paramount importance at a time when new forms of cooperation are taking shape in Europe and there is talk of building a "Common European House". Taking up this metaphor of the Common European House, Mikhail GORBATCHOV said back in 1985: "We live in a common house although some use one entrance and some another. We must work together to make sure that people in this house talk to one another". This statement underscores the Soviet Union's new policy, adopted at the CPSU's 27th Congress, of focussing more attention on Europe. A positive role has also been played by PERESTROIKA, the aim of which is of course the introduction of a series of reforms designed to make the bureaucratic-dictatorial system in the Soviet Union "less ossified and more open, transparent, flexible and effective".

The second generation agreements, more correctly termed **European Agreements** on account of the inclusion of political dialogue, may in principle be concluded with any Central and Eastern European countries for an indeterminate period of time. Naturally, in the case of the Soviet Union (a world power with global responsibilities) or the Federation of Democratic States (after the entry into force of the new Treaty of Union), it is necessary to work out a carefully tailored approach taking into account not only the particular geographical and economic situation of the Republics, but also the interests which are likely to be shared between the European Community and the planned Economic Union.

The Committee considers that it should be possible in the next few years to build up a network of European Agreements with the Community's Eastern neighbours. At the same time it urges that concrete negotiations be got under way as soon as possible with the Baltic States of Estonia, Latvia and Lithuania with a view to concluding European Agreements.

Given the content and political importance of European Agreements, the European Commission considers that the appropriate legal base is EEC Treaty Article 238 which empowers the Community to conclude agreements "establishing an association involving reciprocal rights and obligations, common action and special procedures". However, since the concept of "association" eludes a universally applicable definition, the European Commission has come up with a more concrete definition of the content of European Agreements in advance of the bilateral association negotiations, by saying that such (preferential) agreements regulate comprehensive mutual obligations whereby the associated country accepts certain regulations and practices in existence in the Community.

Before such Agreements can be concluded, two conditions must be fulfilled in the countries applying for association with the Community: the rejuvenation of political, social and economic life must be proceeding satisfactorily in the associated countries and the point of no return must have been reached with regard to the introduction of democracy and the market economy. The Committee takes it for granted that the European Commission will continue its careful, comprehensive monitoring of political and economic reforms and will analyze their chances of success impartially. Only when this has been done should association negotiations proper be opened. It would in fact be disastrous if intra-Community consolidation - Single Market, Economic and Monetary Union, Political Union - were unnecessarily delayed or even watered down because the successive steps towards pan-European integration had been inadequately prepared.

The common framework for European Agreements consists principally of:

- political dialogue;
- free movement of goods;
- free movement of persons, services and capital;
- approximation of legislation;
- economic cooperation;
- cultural cooperation;
- financial cooperation;
- institutions of association.

The advantages of the European Commission's common framework are self-evident. On the one hand it provides a firm foundation for all European Agreements; on the other hand it is sufficiently flexible to accommodate the particular features and needs of associated countries. Only through flexibility can due account be taken of the varying speeds of economic change in Central and Eastern European countries and only through flexibility can the process of forging closer links with the European Community be tailored to individual needs. With this in mind our Eastern neighbours have pointed out that, after decades of oppression, the manner of their linkage to the European venture should take account of their individual situations and priorities. Ultimately this means that the main elements of the common framework are to be found in all European Agreements but may vary in terms of concrete expression.

4. European Agreements with Czechoslovakia, Poland and Hungary

Czechoslovakia, Poland and Hungary declared at an early stage that they were seeking association with the European Community and would later be applying for full membership. As early as late August 1990 the European Community proposed exploratory talks with these states which had made most progress towards political democratization. In the meantime all three states have indicated to the Community that their political reforms have by and large been completed.

The Committee endorses the opening of association negotiations with these three states. It approves in principle the content of the draft treaties negotiated so far provided its own critical comments and recommendations are duly heeded.

Preamble

The Committee would underline the determination of the contracting partners, as expressed in the preamble to the Agreements, to establish close and lasting relations on the basis of mutual interest, to help the strengthening of political and economic freedoms and to hold regular political talks on bilateral and multilateral questions. The Committee particularly appreciates the willingness of the contracting parties to act in unison to assist the transition to a new political and economic order in the young democracies of Central and Eastern Europe. The foundations of this new order are the **rule of law, respect for human rights, the creation of a multi-party system, free and democratic (secret) elections, economic liberalization in accordance with market principles and social justice**. The Committee welcomes the explicit support of the contracting parties for the results of the Helsinki CSCE conference and the principles enshrined in the final acts of subsequent CSCE conferences.

The Committee urges that these very general passages of the preamble to the European Agreements be expressed in more concrete terms and amplified to include declarations by the Bon CSCE Conference on "Economic Cooperation in Europe". Merely referring to the conclusions of this conference is too vague and lends itself to widely different interpretations.

The Committee would appeal to the contracting parties to also refer in the preamble to the **social dimension** of European unification and to mention the **Community Charter of the Fundamental Social Rights of Workers** adopted, albeit not unanimously, by the Heads of State or Government of the European Community in December 1989. This Charter, as Jacques DELORS himself points out, "will form a keystone of the social dimension in the construction of Europe in the spirit of the Treaty of Rome supplemented by the Single European Act"⁽⁸⁾. Closer relations with our Eastern neighbours, and Community assistance, should not be confined to economic, technical and financial fields but should also adequately take into account the many different social aspects.

Given the social and cultural conditions prevailing in Europe today, an "economic area" which is not at the same time a "social area" would be unthinkable. This should be remembered in particular by those politicians in neighbouring Central and Eastern European countries who claim that a market economy can be established without the adjective "social". The Committee is convinced that a social market economy and the spirit of a People's Europe are central pillars of political and social progress towards European Union. They must be seen as essential elements of Community policies. The two factors do much to explain the appeal which the European Community has for the fledgling democracies of Eastern Europe.

In the interests of establishing the necessary climate of confidence, the Committee supports the contracting parties of Eastern Europe in their desire to incorporate in the preamble their wish to become members of the Community. Such a step would also make it clear that both sides are serious about establishing much closer relations in due course. The Committee, however, is unable to go along with the European Parliament's suggestion that a time schedule for EC membership applications should be included in the preamble of each European Agreement. It is not yet possible to foresee with any real accuracy what road economic reforms will take in individual Central and Eastern European countries, so concrete dates for accession negotiations cannot be fixed at present.

The Committee further proposes that the preambles should contain a statement to the effect that the contracting parties of Central and Eastern Europe unconditionally accept the "**acquis communautaire**" and undertake to approximate their respective countries as closely as possible to the current level of Community integration over the two five-year stages envisaged: What the procedure will be during the period of validity of European Agreements when European integration and Community legislative systems move further ahead remains to be seen. According to existing Treaty legislation, associated countries can neither be "accepted as lower-grade" members nor participate meaningfully in the European Community's decision-taking process. "The Community's decision making process cannot be fragmented without undermining the Community itself with its delicate built-in balance"⁽⁹⁾. On the other hand some policy areas require a global European approach more than ever before, with trans-European networks urgently needed in the fields of energy, transport and telecommunications. Given this background, Frans ANDRIESEN has recently proposed that applicants for EC membership be made members (with seats and votes) for the purpose of those areas (energy, transport and telecommunications once more) where they are able to accept the appropriate rights and obligations without difficulties. The Committee supports this proposal and calls upon the European Commission to find a way out of the dilemma and offer a compromise which will both satisfy European economic policy requirements and be compatible with Community law.

The Committee welcomes the willingness of the contracting parties to uphold the principle of free trade and abide by **GATT provisions** in particular. There is no doubt that GATT will carefully monitor

(8) ISBN 92-826-0973-1

(9) P. GILSDORF, Assoziierungsabkommen der Europäischen Wirtschaftsgemeinschaft: Entwicklung und Perspektiven. (Vorträge, Reden und Berichte aus dem Europa-Institut, Nr. 220). Saarbrücken, 6 July 1990

European Agreements to see whether they are compatible with the General Agreement on Tariffs and Trade. In view of the conspicuous problems which have emerged in the Uruguay Round since early 1987 - and which are still partly the subject of controversy - the Committee is aware that the contracting partners find themselves in a difficult situation. Without going into details there are chiefly two types of problems deserving of particular attention: (a) provisions governing the material pre-conditions for the creation of free-trade areas (to be gone into later); (b) the further expansion of regional associations. This phenomenon by no means exists solely in Europe since regional associations of countries with similar or identical economic objectives have also sprung up in other parts of the world. Integrated economic associations have in fact been set up in Central and South America with the Latin American Free Trade Association (LAFTA), in Africa with the West African Economic Community (CEAO), and in Asia with the Association of South East Asian Nations (ASEAN). All the signs are that the USA is in the process of setting up a North American Free Trade Area (NAFTA) which is intended - as emerged from the mid-term conference of the GATT Uruguay Round in Montreal - to act as a counterweight to the creation of a European Economic Area (EEA) and so be the "biggest and richest free trade area in the world".

In other words, what was intended to be an exception when GATT was founded has now become the rule, and the idea of world trade organized on a multilateral basis is becoming more and more of a farce. The international division of labour is now increasingly influenced by the triad of economic giants: the USA, Europe and Japan. Because of this the European Community has come to bear a special responsibility for world trade. Article 110 of the Treaty establishing the EEC explicitly commits the Community, in the common interest, to a liberal trade policy. As an advocate of world trade the Community is now under increasing pressure. It must therefore help to ensure worldwide that subsidies which distort competition are cut back, and that strategies which restrict competition under the infamously-known catchwords of "laser beaming" and "industrial targeting" are in fact discontinued. Such practices are in clear contradiction with the verbose declarations made time and time again in GATT, the OECD and various "world economic summits": The international division of labour will only achieve the best results for all concerned if it is accepted, without strings, under conditions of free markets and fair competition.

Political dialogue

Political dialogue within the framework of the **Association Council** is designed to (a) make it easier for the associated countries to settle into the family of democratic nations, (b) increase the tempo at which the contracting partners of Central and Eastern Europe move in the direction of the European Community, and (c) widen and consolidate the consensus on international issues. Additional instruments and mechanisms help to underpin political dialogue, e.g. full use of diplomatic channels and inclusion of the associated countries within the group of countries regularly informed about European political cooperation.

The Committee sets great store by political dialogue and regards it as a pointer of pan-European integration. At a time when Eastern European economies and societies are being regenerated from top to bottom, consultation and the exchange of information have a crucially important role to play. Because of the regularity of the meetings within the Association Council, political decision-makers find that they have to justify and explain the decisions and measures they have taken. Anomalies can be corrected at an early stage and the discipline imposed by having to respect meeting deadlines tends to mean that measures can be introduced and implemented which would otherwise have been delayed or never even taken because of conflicting domestic political interests - a problem the young democracies of Eastern Europe no doubt have to contend with quite frequently.

The creation of a **Parliamentary Association Committee** is welcomed by the Committee without reservations. As a forum for cooperation between members of the European Parliament and parliamentarians of the associated countries, its main purpose is to facilitate an indepth exchange of information and ideas. In the current phase of closer European integration and multilateral cooperation, the importance of such an institution of political dialogue cannot be underestimated, especially since the Association Committee is also entitled to make recommendations to the Association Council.

The Committee calls on the contracting parties to ensure that economic and social interest groups are brought within the organizational framework embracing institutions of association. Even the Commission seems to have come to the realization that there is no chance at all of creating a pan-European economic area if economic and social interest groups are kept in the background. Such groups are vital elements of a pluralistic society and pillars of Europe's social and political life. The Committee therefore proposes that a **consultative committee** be set up within the institutional framework. The new body, consisting of members of the Economic and Social Committee and members of a similar grouping in the associated countries, would be consulted by the Association Council on economic and social questions which relate to the European Agreements and are of common interest. The consultative committee should also be given the right of initiative so that its members could, on their own initiative, take up urgent social and economic issues associated with pan-European integration and put forward constructive proposals.

Free movement of goods

Generally speaking, the European Agreements provide for a transitional period of no more than ten years, divided into two large five-year slices. The Committee is pleased that the Association Council intends to regularly monitor observance of the Agreements and keep a permanent eye on the progress of economic reforms in the associated states, particularly in the fields of price formation, subsidies, monetary policy and foreign trade. At the same time the Committee regrets the decision taken in the course of negotiations not to apply the two-stage approach to the liberalization of the movement of goods. As far as foreign trade in industrial goods is concerned, a stage-by-stage approach - enabling the course of further market liberalization to be reviewed at the end of the first five-year period - would have been of intrinsic value and crucial importance.

A step-by-step, asymmetrical approach is to be adopted in connection with the setting up of a **free-trade area** within no more than ten years. The European Community itself intends to make faster progress towards free trade, abolishing customs duties and other trade barriers for its associated partners within a period of five years, although taking into account the degree of sensitivity of individual products. Special rules are to apply to textiles, ECSC products and agriculture. The Committee supports the Community's asymmetrical approach without reservation but wonders whether five years are needed to throw open the Community's markets completely to **industrial goods** from Eastern Europe. Given the major restructuring problems facing these countries, the Community should consider whether more convincing efforts should not be made to open up its markets by the time the treaties come into force. It should not forget that increased earnings by the reform-states' export sectors are a crucial precondition for continuing economic reorganization, the development of the necessary innovative and investment dynamic and greater competitiveness.

The contracting parties in Eastern Europe will likewise wish to proceed on a step-by-step basis, but will presumably need the whole ten-year period in which to liberalize. The Committee considers that adoption of the Combined Nomenclature in its entirety will ensure that trade between the contracting parties is conducted as smoothly as possible. It would be helpful if a timetable for its adoption could be laid down in the Agreements and if the associated states could make a rapid start on the necessary reorganization of their customs and foreign trade administrations.

The Association Council would be able to accept derogations in the case of fledgling industries or sectors having to contend with serious social problems or painful structural adjustments, but only for a limited period and only provided precise criteria were met. The Committee endorses the derogation provisions but feels that they should not be applicable beyond the ten-year transitional period.

Sensitive sectors (textiles, ECSC products and agriculture) are covered by additional protocols containing provisions which take into account individual sectoral needs. The Committee would recall in this connection the relevant GATT provisions, i.e. the material pre-requisites for the creation of free-trade areas. In the view of the Committee these provisions are primarily concerned with the requirement to abolish customs duties and other trade regulations restricting trade in both directions between the contracting parties for "substantially all trade" (Art. XXIV 8b GATT). In the long run no sector can be protected from the open market if there is to be compliance with GATT.

After expiry of the Multifibre Arrangement (MFA) in mid-1991, and the termination of the associated bilateral voluntary restriction agreements at the end of this year, a new framework will have to be created within the European Agreements for trade in **textiles**. This must provide for improved market access, taking due account of developments in visible trade with the associated partners (including the former GDR). Initially, there will presumably be "interim arrangements", which will remain in force until the GATT negotiations on the future of the MFA (e.g. a transitional period in which this is phased out) have been completed and the inclusion of textiles and clothing in GATT has been decided. Initial reports on the content of the additional protocol indicate that customs duties will be phased out over seven years. Discussion of a further reduction in quantitative restrictions will commence as soon as the results of the Uruguay Round with regard to textiles are known. Here, too, the Committee wonders whether a speedier opening up of markets than originally planned might not be beneficial to both sides. In this case, the Community's three Eastern European partners would have to expressly renounce state subsidies and fully open up their textile and clothing markets to Community products, albeit with a (reasonable) delay.

Particularly in the case of **outward processing traffic**, the liberalization schedule could be improved by providing for customs duty exemptions from the time the Agreements come into force. Measures would nevertheless need to be taken to ensure adherence during the interim to the basic principles enshrined in the EC Regulation establishing economic outward processing arrangements applicable to certain textile and clothing products⁽¹⁰⁾.

The steps to be taken to liberalize **ECSC products** will be dealt with in a second additional protocol.

In the **steel sector**, this will involve not only the dismantling by both sides of customs duties and charges having an equivalent effect, but also the abolition of national import quotas in the Community and the future of the steel-supply agreements with the Community's Eastern European partners which expire at the end of this year. These partners are calling for the complete liberalization of their steel exports to the Community. In the Committee's view, however, voluntary export restriction agreements, national quotas and customs duties are closely intertwined and - bearing in mind the subsidies in Eastern Europe - must be dealt with as a whole. As it is, adjustment is already causing the Community's partners in Eastern Europe economic and social problems, and these would be exacerbated considerably if the Community steel industry were to be obliged by the immediate lifting of all import restrictions to take across-the-board defensive action under GATT against the dumping of subsidized imports from Eastern Europe. The Committee therefore thinks that the Commission must get together with the Community's associated partners to draw up as soon as possible a convincing blueprint with a clearly defined timetable for the restructuring of the steel industry in Eastern Europe and a correspondingly gradual liberalization of the steel markets. The blueprint should not only satisfy steel undertakings on both sides but should also be suitable for inclusion in the free-trade area agreements in conformity with GATT.

When the customs duties and charges having a similar effect are dismantled (the schedule has not yet been finalized), the fact that external customs duties for ECSC products are now low by world standards should be borne in mind. According to reliable estimates their weighted average is just below 5%. Given that most rates of duties in the associated countries have not yet been bound, the Committee suggests that during the ten-year transitional period the requisite harmonization measures be introduced first as part of the blueprint, with the customs duties not being completely abolished, on the basis of reciprocity, until later (e.g. after five years).

Germany, Italy and the Benelux countries have national quotas of their own for certain steel imports from Central and Eastern Europe. These quotas, taken in conjunction with the Community agreements on steel supplies, have the effect of setting unduly low quotas for particularly sensitive products within the framework of overall ceilings laid down in the steel agreements. The decision has already been taken at a political level to extend the trade and cooperation agreements concluded in EEC Treaty areas to ECSC products, and this will result in the abolition of these national quotas. Since the association agreements will probably enter into force after the extension of the trade and cooperation agreements to ECSC products, the inclusion of a commitment to abolish national quotas in the additional protocol for ECSC products is academic.

(10) Regulation (EEC) No. 636/82; OJ No. L 76 of 20 March 1982

Decisions about the future of the steel supply agreements are proving to be extremely difficult. The agreements apply, in each instance, for a period of one year and apart from pricing rules lay down quotas for each country's exports to the Community Member States. In return, the Community pledges not to initiate any anti-dumping or anti-subsidy proceedings. The Commission has repeatedly stressed that current and future voluntary restraint agreements with Poland, Hungary and Czechoslovakia will not be affected by the European Agreements. The Committee thinks differently: in its view, voluntary restraint agreements between partners in a free-trade area are what GATT calls "grey area measures" which should be eliminated without delay. The Committee believes that the only solution would be to dispense with voluntary restraint agreements with our three partners in Eastern Europe after a transitional period which would make sufficient allowance for the restructuring and rationalization of the steel industry in Eastern Europe. At the same time, the Community's Eastern European partners would have to agree to stop all non-GATT-compatible practices in their trade with Community countries after the end of the transitional period. This would be achieved in particular by accepting the ECSC rules on aid.

In the **coal sector**, the negotiations on the liberalization of imports from the associated states appear to be as complicated as the steel negotiations. Although coal imports have been liberalized in most of the EC Member States, a general import-authorization scheme based on quotas is operated by Federal Germany and Spain; this does not apply to hard coal imported into the former GDR, which is free from duty. In the UK, import opportunities are also restricted by the fixed purchasing agreements in the field of coal-based electricity production.

The Eastern partners are essentially seeking the removal of the German and Spanish import restrictions, and of measures having a similar effect. Examples of such measures are the German Iron and Steel Treaty (Hüttenvertrag) and the Century Treaty. In 1985, the former, which obliges the steel industry to purchase some 25 million tonnes of German coking coal annually was extended until the year 2000. Under the Century Treaty - which runs until the end of 1995 - the electricity industry has undertaken to use approximately 40 million tonnes of German steam coal per year for electricity production.

Here, too, a compromise is undoubtedly called for. This must take account of the difficult structural adaptation process in coal mining, the expiry date of existing contracts and the relevant GATT provisions. A variety of compromises are under discussion. The Committee understands the reasons for a two-stage approach which can be fully implemented within the life of the European Agreement and which is in conformity with GATT. This would involve suspending import duties during the first five year period of the European Agreements after which quotas and similar measures should be applied more flexibly during the second five-year period - subject to the constraints set out in the Agreements - with a view to their complete elimination by the end of the ten-year transitional period. The compromise proposal, which takes account of industrial, employment and social factors should also be acceptable for our Eastern European partners. At all events the energy requirements of the associated states will increase as economic recovery proceeds. At the same time, the energy supply links between the former Comecon members will be further loosened, so that it might reasonably be asked whether the associated countries will be in a position to significantly increase their coal exports to the Community in the foreseeable future.

Processed agricultural goods not listed in Annex II to the EEC Treaty will be the subject of special provisions contained in a third additional protocol. Although not much is known about them as yet, the agreements will contain provisions on the dismantling of customs duties and charges of equivalent effect - and presumably on the abolition of quotas. Concessions with regard to **trade in agricultural products** based on balance and reciprocity are likewise expected. In the **fisheries sector** the Agreement with Poland will embrace trade, fishing rights and future cooperation, as part of a single package. Preferences will also take account of the EC-Poland fisheries agreement.

The Committee is aware that agricultural products have a vital role to play in the foreign trade of the three Eastern European countries. It is essential for these countries - and particularly Poland and Hungary - to be able to earn hard currency by also exporting to the European Community agricultural products subject to EC agricultural market regimes. The Committee agrees with the European Commission that the Community and the three associated countries will have to make mutual concessions regarding agricultural products covered by EC market regimes. In agreeing on

concessions, account will have to be taken of the sensitivity of the products, the Common Agricultural Policy and the outcome of the GATT Uruguay Round. In this connection, the European Commission must ensure that the difficult problems associated with the CAP are not aggravated.

For many years now the Community has had to contend with structural surpluses in agricultural markets. These serious difficulties must not be exacerbated by the importation of particularly sensitive products from Eastern European countries. The Common Agricultural Policy is currently in a state of upheaval and it would be irresponsible to jeopardize further CAP reforms. The Agricultural Council accordingly finds itself with the difficult task of having to incorporate in the European Agreements a politically reasonable compromise which is consistent both with CAP's long-term prospects and GATT regulations. Since these Agreements represent a realignment of East-West economic relations, such a compromise is likewise of fundamental importance. Seeking to solve problems by domestic price support, as in the association agreement with Cyprus, is hardly advisable. The three contracting partners are agricultural producers on too large a scale for that.

Now the US Congress has voted by a clear majority for a two-year extension of the negotiating brief for the GATT Uruguay Round, the prospects for negotiating a satisfactory agreement in agriculture have improved considerably. However, the GATT negotiations are still a long way away from the original aim of exercising more discipline in the use of subsidies and other measures directly or indirectly influencing the agricultural market. After more than 40 years of GATT, traditional agricultural exporting countries are entitled to reliable international trade rules observed by all countries. Such rules would be expected to prevent any further upheavals in world agricultural markets and ensure fair access to markets for all countries.

The Committee also recommends that a substantial proportion of agricultural surpluses produced in associated countries be exported to other neighbouring Eastern European countries. The USSR and other former members of COMECON will need to import large quantities of agricultural products for the foreseeable future. The Community should make funds available so that agricultural products from Poland, Hungary and Czechoslovakia can be exported directly to these countries for hard currency. Such help should last several years; it would at the same time constitute a positive contribution to the economic development of Eastern Europe. The Committee also proposes - as it did in its Opinion on the Community and German unification - that consultations be held with its Eastern European partners on a set-aside and extension programme to stabilize agricultural production and improve the environment in rural areas. Such a programme would also have to receive financial support from the Community within the limits of the funds available.

To help create a free-trade area, the European Agreements contain a number of **accompanying measures**. These include standstill agreements, consultations in the case of dumping, safeguard agreements, provisions on competition and state aid, public-sector enterprises, procedures for solving disputes and the effective protection of intellectual property. An additional protocol clarifies the rules of origin, which will be preferential in kind, whilst yet another protocol refers to specific transitional provisions contained in the Acts of Accession of Spain and Portugal. The Committee welcomes the measures since they will help in essence in the early identification and removal of sources of trade friction, particularly during the ten-year adjustment period. The frequent reference to the appropriate GATT rules is welcome and the Committee assumes that any advances in the current round of GATT negotiations will be automatically incorporated into the agreements.

The Committee considers that the consultation procedures applicable to all cases of **dumping** are particularly important. The Committee assumes that the GATT anti-dumping and subsidy codes will be fully observed. At the same time the associated countries should unequivocally state at a suitable point in the Agreements that they fully support the Community's tough line on subsidies. In the Community's textile and clothing sectors, for example, there is growing concern, reflected by more and more vociferous calls for price clauses offering protection against subsidies. It is not certain, when the "normal value of goods" is fixed, whether the associated countries will be treated as countries without a market economy (as the former state-trading nations were) or whether they will be considered, from the time the Agreements come into force, as belonging to the group of countries with functioning market economies. The Committee feels that this issue needs to be clarified.

The Committee finds the provisions on **competition** and **state aid** convincing and approves them without reservation. All agreements and concerted practices which prevent, restrict or distort competition are to be prohibited. Any abuse of a dominant position is also prohibited. State aid which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods is likewise to be regarded as incompatible with the Agreements. Effective rules on competition are the *sine qua non* for a properly functioning market economy. Competition is a central pillar of the Common Market; without it there is no guarantee that the advantages of the Single Market can be advantageously exploited. The Committee agrees that, from the very start, the contracting partners of Eastern Europe should align their national competition laws as closely as possible on those of the European Community.

Free-trade arrangements can only be enjoyed if there is concrete proof of the **origin of products (proof of preference)**. The requirements to be met by the concept of "origin" are laid down in an additional protocol. During the association negotiations the negotiating partners of Eastern Europe have called for "**multilateral cumulation**" and insist that components of third-country origin (from the three Eastern European countries as well as EFTA states) should not affect the origin of the product. The Committee supports the desire of Eastern European countries to win acceptance for cumulative rules of origin but asks the European Commission to clarify whether the rules of origin of all countries taking part in "cumulation" must be completely identical. The advantages of multilateral cumulation are undisputed: they not only strengthen the agreement to establish closer cooperation reached by Czechoslovakia, Poland and Hungary in mid-February 1991 but also make it easier for the Community's partners in Eastern Europe and the EFTA countries to move closer together - a necessary condition for achieving pan-European integration. The Committee would also point out that the Commission has likewise endorsed cumulative rules of origin in the Lomé Convention between the Community and the ACP States, as well as in the agreement concluded with the Maghreb states.

Free movement of persons, services and capital

In addition to free movement of goods, the basic freedoms pursued by the European unification process are above all **freedom of movement for workers, freedom of establishment, and freedom of movement for services and capital**. As key factors in the creation of a "real" single market, they have paramount economic importance and great symbolic value. The Committee welcomes the inclusion of such policies in the European Agreements, but warns that certain passages have been made too abstract in an attempt to achieve a compromise.

Free movement of persons concerns first and foremost the integration of workers legally employed, and their family members legally resident, in the Member States. Over the first five-year period after the Agreements have come into force, every possibility for improving the situation of this group of people will have to be examined and fully utilized. Whilst the Committee unreservedly supports this proposal it would also welcome agreements covering workers from Poland, Czechoslovakia and Hungary who are employed illegally in the Community. According to reliable sources, the total has now reached six figures.

The Economic and Social Committee, which has already discussed migration from third countries in a number of Opinions⁽¹¹⁾ calls for legally resident immigrants in the Community to be given their full place in the "People's Europe". Steps should be taken to ensure that Community rights and obligations affecting residence, employment and mobility also apply without restriction to this category.

In its most recent Opinion on the legal status of immigrant workers from third countries⁽¹²⁾ the Committee once again tackles the "internal" aspects of a **Community immigration policy**, and calls upon the Member States and the EC Commission to bring about Community-wide harmonization

(11) OJ No C 343 of 24.12.1984; OJ No C 188 of 29.07.1985

(12) CES 560/91

without significant delay of legal provisions, instruments and measures necessary for the social integration of immigrants. In addition, conditions should be laid down (at last) under which immigrants from third countries enjoy freedom of movement on an equal footing with Community citizens. Only in this way, in the Committee's view, can discrimination be removed, the operation of the single market supported and the aim of creating a unified Community labour market achieved. The dubious alternative would be national labour markets with legally and socially differing conditions for workers from third countries.

In the second stage of the transitional period the Association Council intends to examine ways of facilitating the immigration of workers from the associated countries. A precondition for this is for the economic and social factors in the associated states to approximate those of the Community to a considerable extent. A further condition is the (future) employment situation in the Community. The Committee regrets the failure to make specific mention in the Agreement of the fact that the Community has limited scope for action, even in the medium term, with respect to freedom of movement. The expectations aroused as a result (including political hopes) will probably lead to bitter disappointment after a few years. On the one hand, concessions in existing agreements (Turkey) (already) limit immigration possibilities for workers seeking jobs, while, on the other hand, the evidence suggests that the Community labour market will have no significant need for additional labour from third countries in the foreseeable future. According to the most recent estimates, the Community's rate of unemployment is not likely to fall for some time. Job losses in the territory of the former GDR, which are not yet included in the Commission's data, make matters worse and are by no means at an end. This assessment is supported by the McKinsey Report drawn up for the German Federal Government, which states unequivocally that a reduction in the number employed in the territory of the former GDR from about 9.25 million (end of 1989) to about 5 million is to be expected, and is now a certainty, and that the radical switch from a mismanaged economy to a functioning market economy is making deeper wounds than any previously known structural change within an economic system.

Against the background of the empirical labour market figures in the Community, and taking account of the redundancies brought about by reform in the neighbouring Eastern states, help from Western countries must be comprehensive and its individual elements must be rationally coordinated. Not only financial and technical aid is required but also continuing promotion of the necessary training of workers. This must be regarded as an investment in the future, and must take account of the new, more stringent, requirements arising over a broad area from technical change. The Committee supports in this context the specific proposals made in mid-May of this year by the Economic and Social Sub-Committee of the EFTA Consultative Committee⁽¹³⁾ :

- Transfer of know-how needed for the establishment of suitable worker/employer relations and principles;
- Organization of training programmes for Eastern European managers and trade unionists;
- Examination of possibilities for temporary employment of workers from Eastern European states (e.g. under training contracts);
- Bilateral agreements (lasting from 12 to 18 months) designed to give workers additional specialized knowledge⁽¹⁴⁾;
- Agreement on work and service contracts with Eastern European companies⁽¹⁵⁾;
- Closer cooperation between national labour market authorities.

At the same time, the Committee would draw attention to sectoral initiatives which, in its view, offer opportunities that have been little used to date. The most striking example is provided by the Community steel industry, which is seeking to intensify the necessary transfer of know-how from West

(13) EFTA/GSC/ES 1/91 of 13 May 1991

(14) Agreements of this kind already exist between the Federal Republic of Germany and Hungary since December 1989, and the FRG and Poland since June 1990

(15) At present 35,000 workers from East European states are employed in the FRG under such special contracts.

to East with a broad range of proposals. First, it would like to involve Eastern European experts in national and international Community organizations where notes are compared on industrial questions. (Concretely, this means inviting them to participate in the work of the technical committees and the bodies responsible for transport, energy, the environment and similar issues). In addition, Western steel works could train both managers and the workforce in the associated countries and send specialists to advise directly on the reorganization of ageing plant.

The Committee recommends that the numerous proposals be examined in detail and if this can be done quickly - annexed to the European Agreements. At the same time, the Commission should follow the lead of the Community steel industry and give greater encouragement to similar broad-based activities in other economic sectors.

As regards **the right of establishment**, the Member States would like businesses and nationals in the associated states to be subject to the same legal framework as their own enterprises and citizens as soon as the European Agreements enter into force. The Eastern contracting parties will make this adjustment in the course of the ten-year transitional period. The associated states will be able to make exceptional arrangements in individual sectors in order to deal with the constraints of structural adjustment or other serious difficulties (including social problems). These measures must be of limited duration (maximum three years) and terminate not more than two years after the end of the transitional period. Protective measures will also be possible in cases where businesses or sectors in the East are forced to accept a "dramatic" loss of their domestic market shares.

The Committee broadly endorses these Arrangements. Freedom of establishment will facilitate the transition to a market system and help to create a modern, competitive economy in the associated states. The Committee also appreciates the need for temporary protective measures in certain exceptional situations. At the same time, "dramatic" reductions in the domestic market shares of our Eastern partners can hardly justify protectionism. The Committee thinks that this passage should be carefully reconsidered and more clearly worded - in particular the "relevant" market variables should be clearly defined.

The Committee approves the (gradual and mutual) liberalization of cross-frontier **services**. In view of the increasing worldwide significance of services markets, the importance of liberalization in this area cannot be overestimated. The Association Council will examine individual measures and take appropriate action to promote the process. Special provisions apply to cross-frontier transport services. All administrative, technical and other barriers to international maritime traffic, which restrict or could discriminate against the provision of services, will be removed. Agreements on air and land-based traffic will be concluded in the light of the Community's common transport policy, with traffic development being coordinated. During the transitional phase of the European Agreements, the associated states intend to bring their legislation into line with Community rules, at least insofar as they facilitate mutual access to transport markets and promote passenger and goods traffic.

The Committee would both stress and applaud the joint desire of the contracting parties to seek a satisfactory result to the Uruguay Round of GATT negotiations, which aims to establish a multilateral framework of principles and rules governing service transactions, and to incorporate this framework in the European Agreements at the appropriate juncture.

The Committee also expects the Association Council to monitor closely the economic and social effects of liberalization measures on Community frontier regions and to prevent social dumping. It would be disastrous if the already difficult recovery process in the former GDR (particularly in the peripheral areas) were to be further impeded and delayed by social dumping practices.

The advantages of a liberalized goods and services sector from the standpoint of location and specialization can be fully exploited only if the free movement of cross-frontier capital is guaranteed. The **free movement of capital** will create favourable conditions for monetary cooperation and reinforce stabilization efforts in the associated countries. The Committee supports all agreements which are designed to increase the free movement of capital between the Community and its partners in Eastern Europe. It particularly welcomes the fact that the contracting parties have undertaken to guarantee

freedom of payments for goods transactions (though apparently not for services) from the entry into force of the Agreements. Investment capital by Community investors will also be liberalized. In addition, the conditions for the gradual application of Community provisions on free capital movements will be created in the first five-year period of the European Agreements. In the second part of the ten-year transitional period, the Association Council will examine ways of taking over all the relevant Community provisions. The Committee regrets that the contracting parties have not yet agreed on a timetable for these liberalization measures which would clearly indicate when various categories of financial transaction are to be integrated into a "fully liberalized system".

Approximation of legal provisions

The approximation of existing legal provisions to Community law represents an important precondition for the economic and social integration of the associated states into the Community. In the context of cross-frontier cooperation, Community enterprises - and those of its Eastern neighbours - are confronted by three different legal systems. These are national laws, Community laws, which are also becoming increasingly important for our Eastern European partners, and the legislation of the country for which the exports or investments are intended. The same situations are frequently evaluated differently and regulated in a contradictory fashion. The main losers in this connection are small and medium-sized enterprises, which often cannot afford to employ highly qualified legal experts. Thus, the earlier the legal framework of the associated states is brought into line with the Community's, the more favourable will be the "environment" for East/West business cooperation and the greater the prospects for an intensification of cross-frontier traffic in goods, services and capital.

Legislative harmonization clearly represents an immense task, involving a great variety of provisions which can be adjusted only gradually and covering such fields as customs law, social legislation, accountancy and corporate taxation, workers' safety, financial services, competition, consumer and environmental protection, indirect taxes, technical requirements and standards, transport, industrial property rights and copyright. The associated states have initiated the necessary harmonization measures but the Committee regrets the failure of the draft Agreements to fix priorities. Thus on ecological and competition grounds, the Committee regards it as urgent for the associated states to transpose Community legislation on the environment, competition and subsidies. Similarly, the safety provisions of the EURATOM Treaty should be adopted without delay. Action is also imperative in connection with worker protection at the workplace and certain consumer-protection directives (e.g. on product liability).

The lack of a time schedule for legislative harmonization is regrettable. As in other policy areas, the Committee would have liked the concept of a two-stage transitional period to have been included in those parts of the Agreements dealing with legislative approximation. Now that the preambles to the European Agreements expressly mention the desire of the associated parties to become full members of the European Community at the appropriate time, our Eastern European neighbours have an obvious interest in selectively transposing the Community's legal framework to their national context. The Community's undertaking to provide technical assistance should greatly facilitate the solution of the problem.

Economic cooperation

The European Community and associated states are proposing to intensify their **economic cooperation** and go far beyond the limits already fixed by the trade and cooperation agreements. These joint activities are to underpin the process of economic and social transformation and development in the associated Eastern countries and facilitate their assimilation into the international production system. In addition to industrial cooperation and the promotion and protection of investment, this action will cover industrial standards, scientific and technical cooperation, education and training, the agricultural and food industries, energy, the environment, transport, telecommunications, financial services, regional development, social cooperation, tourism, small and medium-sized enterprises, customs, statistics, economics and addictive substances. All these areas of cooperation are subdivided into specific fields of action (approximately 150).

Attention should be drawn to the express assurance of the contracting parties to take account of the **environmental impact** of economic measures from the outset. In the Committee's opinion, the environment is a pan-European issue which must be fully integrated with other policy areas. To this end, it must not be guided by the lowest common denominator but must provide for the implementation of all necessary ecological and economic measures. Consequently, both sides must agree to monitor such measures jointly.

The variety of the chosen fields of action is extremely impressive and deserves in principle to be endorsed. At the same time, the Committee feels justified in questioning whether common projects can be executed in all these areas in the nineties - even on the basis of cooperation with Community undertakings. Neither the manpower nor the financial resources of the Community bodies seem sufficient to ensure satisfactory implementation of the whole range of activities during the transitional phase of the European Agreements. Nor should it be forgotten that these measures apply to three partner countries which, in the Commission's view, will be joined by other neighbouring states in the present decade. The Committee feels that it would have been more appropriate to draw up an initial (rigorous) action plan - taking due account of all secondary constraints - which could provide a framework for the definition of specific objectives (to be achieved in accordance with a fixed timetable). Only objectives which, in the opinion of the contracting parties, call for urgent action should be chosen. In this connection, the Committee is less concerned with fundamental discussions involving Community bodies or businesses and economic and social interest groups than with the precise definition of "financial" priorities (schemes with a cross-border impact) which must be initiated by the Community and its Eastern neighbours or by undertakings in the Member States. Here, the Committee is essentially thinking of such policy areas as infrastructure, nuclear power, education and training.

In the field of basic public infrastructure, the Committee believes that the establishment and extension of an efficient **infrastructure** constitutes an important precondition for successful structural reorganization in Eastern Europe. This will require an investment policy capable of meeting higher quality requirements and the demands of a competitive, market-oriented economy. Such an approach implies that infrastructural investment in Eastern Europe should already be considered and evaluated in a European-wide context. It would foreshadow and flesh out the means to be adopted in order to achieve common, pan-European infrastructural planning. Against this background, the Economic and Social Committee has welcomed the Commission proposal to establish trans-European networks - particularly in the fields of transport, telecommunications, energy and training⁽¹⁶⁾. In its earlier Opinion, the Committee calls for an overall, integrated and multi-modal approach which would make it possible to demarcate the reference framework, reduce investment risks, increase the efficiency of Community, national and regional action and take account of long-term requirements⁽¹⁷⁾.

The Committee regards **increased power plant safety** in Central and Eastern Europe as a second major objective for economic cooperation. The challenge created by Chernobyl of guaranteeing comparable, optimum nuclear safety standards in both East and West, has still not been taken up. Although the agreements on greater exchange of information and mutual assistance in the event of accidents represent initial success for the International Atomic Energy Agency (IAEA), there are still no binding international agreements on minimum safety standards.

The Committee would urge the Community to supplement the assistance programmes of the IAEA and the World Association of Nuclear Operators (WANO) by providing rapid and "unconventional" aid towards the technological improvement of power plants in operation in Central and Eastern Europe. The Committee sees the Commission's recent decision to provide funding for such action under the PHARE Programme as a first (welcome) step in this direction. Although the former Comecon countries adopted a refurbishment programme for old VVER-440 MWe1 pressurized water reactors in 1989, little was done to implement it. In addition to the lack of funds, the project was hampered by the urgent need to operate the plants in the absence of reserve capacity. Nuclear reactors supply almost 50% of Hungary's electricity and a good quarter of Czechoslovakia's. Given this situation, the importance of the Commission's proposed "European Energy Charter", initiated by the Dutch

(16) Towards Trans-European Networks - For a Community Action Programme COM(90) 585 final
(17) CES 805/91

Prime Minister, Mr LUBBERS, can hardly be overestimated⁽¹⁸⁾. The Economic and Social Committee has stressed the extraordinary political scope of this Charter⁽¹⁹⁾ which, in the Commission's opinion, will give the countries of Central and Eastern Europe "the assistance they need for economic recovery and for obtaining energy supplies under conditions allowing a cleaner environment, a better balance between different energy sources and more efficient use of energy".

The third priority for joint action by the contracting parties should lie in the field of education and training; workers' training will play a key role in the economic reform process. Notwithstanding the fact that workers in the Eastern associated countries have received a thorough basic education and generally also possess very good job qualifications, the skills appropriate to a (former) socialist economy are quite different from those required in a competitive market economy - as experience in the new Federal Länder confirms. The principal shortcoming is the lack - at least on the necessary scale - of knowledge and experience with regard to the operation of market-orientated systems, a problem which also applies to the use of modern production, information and communications techniques. There are also shortcomings of a non-technical nature, since independence, initiative and creativity are not called for in a centrally-planned economy. The ability to act independently and in one's own economic interests in a constantly changing market environment has first to be learnt through experience.

There is an urgent need for retraining and further training at all levels. Whilst the proposals already contained in the European Agreements are to be welcomed, they are not sufficient. A comprehensive campaign to improve qualifications is called for. The Committee therefore also urges the Member States to take steps to assist and accelerate the efforts of their Eastern partners to close the qualifications gap. Similarly, Community businesses, acting in conjunction with their (national/European) associations should make specific management information and technical know-how available to employers and workers in their sector in the associated countries of Eastern Europe. The example of the Community steel industry - to which the Committee has referred elsewhere - should be noted by other sectors.

Financial Cooperation

The challenge of structural adjustment in the neighbouring Eastern European states and the task of creating an internationally competitive economy cannot be successfully confronted without effective Western aid. All the countries of Central and Eastern Europe require funds in hard currency; their need for financial support has grown steadily since the beginning of the economic reform movement. Between 1986 and 1990 the foreign indebtedness of the three Eastern neighbours rose from 57,000 million US dollars (1986) to 77,000 million US dollars (1990). The OECD estimates that in 1990 debt servicing amounted to a good 70% of export earnings in Poland, 65% in Hungary and 25% in Czechoslovakia. In the meantime several reputable institutions have attempted to calculate, with the help of mathematical models, the likely medium-term financial requirements of the countries of Eastern Europe in order to restructure their economies. The projections nevertheless vary enormously. Depending on the particular methodological approach adopted, the results vary for Hungary, Poland, Czechoslovakia, Romania, Bulgaria and Yugoslavia, taken as a group of six, from 14,000 million US dollars to over 420,000 million US dollars.

The draft agreements indicate that the PHARE Programme is to be continued until the end of 1992 in the context of **financial cooperation**. Thereafter, grants and Community loans from the European Investment Bank (EIB) are to be provided - on a multi-year basis - under PHARE or a new financing mechanism. At the request of its associated partners, the Community will examine how, in the context of financial cooperation, the transition to currency convertibility can be facilitated and safeguarded.

The Committee endorses the EC's approach and agrees that Community aid can be reasonably contemplated only on the basis of a multi-annual plan extending over a number of years. Initially, at least, this period should not last more than three to five years and should form an integral part of the first stage of the transitional period provided for by the European Agreements. Whilst there

(18) Commission Communication on a Community Energy Charter (COM(91) 36 final)
(19) CES 880/91

are (officially) still no proposals with regard to overall funding, the Committee assumes that the basic amounts will largely be determined by existing and future Community financial resources; the ability of the associated countries to repay EIB loans on time is equally important. The final Community funding would therefore have to be approved in the light of the absorption capacity of the East and in the light of the new agreement on budgetary discipline which is to replace the current inter-institutional arrangement.

The Council's negotiating brief of December 1990 for the Association Agreements indicates that experience gained under the PHARE programme will be used to determine the most pressing needs and absorption capacity of the contracting states. The Committee does not agree with this approach without reservations; it would rather reiterate its urgent call for a clear definition of priorities - in conjunction with the partners to the agreement - in the broad context of economic cooperation. These priorities can then provide a point of reference for the preparation of the multi year financial framework and the spreading of expenditure over individual years in order to ensure optimum attainment of the goals.

The Committee fully endorses the coordination of Community funding (including bilateral assistance) with financial aid provided by other OECD countries or international finance institutions (IMF, World Bank and the European Bank for Reconstruction and Redevelopment). In this context, it also proposes the creation of a Community task force to monitor all aid provided and the use to which this is put on an on-going basis, to correlate funding and spending in the Association Committee, and to monitor how efficiently resources are used in conjunction with the Eastern European parties. The Association Council should be regularly informed of the results of these activities.

Done at Brussels, 26 September 1991.

The Chairman
of the
Economic and Social Committee

François STAEDLIN

The Secretary-General
of the
Economic and Social Committee

Jacques MOREAU

APPENDIX

RECENT DEVELOPMENTS IN RELATIONS BETWEEN THE COMMUNITY AND THE COUNTRIES OF CENTRAL AND EASTERN EUROPE

- June 1988 :** Community and a Comecon delegation sign the Joint Declaration on mutual recognition in Luxembourg.
- September 1988 :** EC-Hungary cooperation agreement signed.
- December 1988 :** Trade agreement concluded with Czechoslovakia.
- July 1989 :** EC asked to coordinate Western aid to Poland and Hungary by the Paris G-7 Summit. "Group of 24" created.
- September 1989 :** EC-Poland trade and cooperation agreement signed.
- November 1989 :** EC Heads of Government discuss aid to Eastern Europe at a special summit in Paris. On the eve of the meeting, EC foreign ministers agree on a joint strategy to facilitate advanced technology transfer to Eastern Europe.
- December 1989 :** EC Summit in Strasbourg agrees to set up the European Bank for Reconstruction and Development to provide credit for Eastern Europe. The ERBD was established by 42 countries on 25 May 1990 in Paris. With headquarters in London, it began operating on 15 April 1991.
- December 1989 :** Group of 24 meets in Brussels to adopt an aid programme for Poland and Hungary and announce its willingness to help other Eastern European countries "once the necessary political and economic reforms" have been initiated.
- December 1989 :** EC-USSR trade and economic cooperation agreement signed.
- April 1990 :** Special EC Summit agrees on measures for the integration of the former GDR into the Community. Senior Community representatives also decide to offer individual Eastern European countries a new form of association agreement.
- May 1990 :** GDR and Bulgaria sign trade agreement with Community. Limited 1988 agreement with Czechoslovakia updated.
- May 1990 :** Group of 24 agrees to extend PHARE Programme to other Central and Eastern European countries.
- July 1990 :** GDR enters into monetary, economic and social union with the Federal Republic and thus becomes a de facto member of the EC Customs Union.
- October 1990 :** GDR-FRG State Treaty enters into force, uniting the two parts of Germany in the Federal Republic and making the territory of the former GDR part of the European Community.
- October 1990 :** EC-Romania trade and cooperation agreement signed.
- November 1990 :** European Parliament adopts package of measures covering integration of the five new Federal Länder into the Community.
- December 1990 :** EC Council approves the Community measures.

- December 1990 :** Rome European Council approves food aid worth 750 million ECUs to USSR. Aid to other Central and Eastern European countries increased.
- December 1990 :** EC Council authorizes the Commission to initiate association negotiations with Poland, Hungary and Czechoslovakia. The negotiations begin in February 1991.
- January 1991 :** Commission announces that Romania now qualifies for aid under the Group of 24 support programme for reformist Eastern European states.
- March 1991 :** Commission adopts the joint support plan for the new Federal Länder, which will receive Community aid totalling DM 6000 million in the 1991-1993 period.
- June 1991 :** Council for Mutual Economic Aid (COMECON) disbanded.
- August 1991 :** Failed putsch in the Soviet Union followed by an acceleration in the process of transforming the USSR into a Federation of Democratic States.
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"EC relations with the countries of Central and Eastern Europe"

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