

Towards greater economic integration

The European Union's financial
assistance and trade policy for
central and eastern Europe and
the New Independent States

published by the European Commission



Introduction

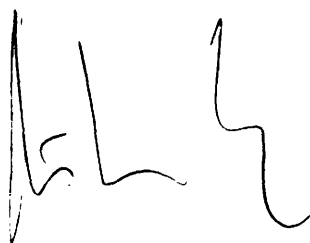
The central and eastern European countries (CEECs) and the New Independent States (NIS) are undergoing a major process of economic, social and political transformation.

Through a wide variety of measures the Union aims to support the countries involved in this transformation process, especially in view of their greater participation in the international economic system. The ultimate aim is to improve prosperity and living standards for the citizens concerned.

It is important that the relationship between the European Union, the CEECs and the NIS is made clear through basic facts and figures. The European Commission therefore took the initiative of preparing a document which outlines the European Union's commercial policy and assistance towards the countries at stake. I hope it will prove to be a practical source of information.

As the information in this brochure shows, the European Union has become the main trading partner, both to the CEECs and the NIS. Moreover it is by far the biggest provider of bilateral assistance.

It is the aim of the European Commission to carry this policy forward with a particular view to opening markets, developing trade and enhancing assistance.

A handwritten signature in black ink, appearing to read 'Hans van den Broek', with a stylized flourish at the end.

Hans van den Broek
Member of the Commission

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Executive summary

There are two main aspects of bilateral economic relations between the European Union, central and eastern European countries (CEECs) and the New Independent States (NIS): trade policy and financial assistance. On both counts the European Union is easily the most important partner of the CEECs and the NIS. It is now the CEECs' main customer and main supplier. The NIS as a whole, for their part, has a big trade surplus with the European Union. Together with its Member States the European Union provides the largest slice of financial assistance to the CEECs and an even bigger share of the aid given to the NIS.

For reasons of statistical consistency (the figures being historic between 1989 and 1994), the figures mentioned below in the document refer to the European Union of the twelve. Austria, Sweden and Finland are considered as part of EFTA. Inclusion of these countries in the European Union will only further increase the significance of the role of the European Union in both trade and assistance.

European Union trade with the countries of central and eastern Europe

The European Union has become the main trading partner of the CEECs, taking US\$ 32 billion in exports, out of their total exports to the countries of the Organisation for Economic Cooperation and Development (OECD) in 1994 of US\$ 39 billion. It is also their main supplier, exporting to them US\$ 38 billion out of total imports from the OECD of US\$ 48 billion.

In recent years, the European Union has been a major contributor to the restructuring and transformation of their trade. Following the break-up of the Council for Mutual Economic Assistance (CMEA), exports to the European Union from the CEECs grew by 115 per cent from 1989 to 1994. There is a similar increase in the CEECs' imports from the European Union, which went up 171 per cent between 1989 and 1994. This evolution reflects the start of the economic take-off of these countries.

The growth in the trade deficit of the CEECs with the European Union is not a result of protectionism on the part of the European Union, but the normal consequence of a transitional situation, preliminary to a period of growth, which was provoked by a shortfall in internal savings and development needs.

The important thing is that the deficit should be sustainable - which means to say that it should not cause excessive debt - and that it goes along with growing trade, which has been the case up to now.

1994 was characterised by a reversal in this trade pattern as the bilateral deficit of the CEECs is stabilising and even diminishing in the context of the economic revival in the European Union.

The years 1995 and 1996 are expected to consolidate this trend with further improved exports from the CEECs to the European Union.

The trade policy which the European Union has proposed has been one of total and asymmetric liberalisation of trade. Since the beginning of 1995, all industrial exports from the CEECs have had virtually free access to the European Union market. This makes an important, enduring and clearly mapped out contribution to the dynamic development of trade that is vital for the CEECs' economic reconstruction.

The pre-accession strategy agreed at the Essen European Council in December 1994, represents a further important step in this direction and emphasises the position taken previously by establishing the process for integration with the CEECs.

European Union trade with the New Independent States

The European Union is just as important a partner of the NIS¹, taking nearly US\$ 33 billion worth out of a total of US\$ 45 billion of exports from the former Soviet Union to the OECD in 1994 and accounting for more than US\$ 25 billion out of its total imports from the OECD of US\$ 36 billion.

As is the case for trade with the CEECs, the European Union's trade with the NIS has been increasing during the past years. Their exports to the European Union rose by 39 per cent between 1989 and 1994, and the European Union's exports to the NIS over the same period went up by 51 per cent. In contrast to its trade surplus with central and eastern Europe, the European Union has a trade deficit with the NIS. The trends recorded until 1993 continued in 1994, which has amplified this movement. 1993 was a period of low growth for the European Union, but was nevertheless characterised by a slight increase in imports from the NIS to the European Union. The European Union has signed or initialled Partnership and Cooperation Agreements with Russia and five other NIS.

¹ For the same reasons of statistical consistency, we have often been obliged to refer to the "ex-Soviet Union" rather than the "New Independent States" (NIS). The Baltic States are sometimes considered part of the CEECs and sometimes they are added with the NIS.

This will boost existing links and accord Russian products even better access to the European market. The European Union intends to pursue this approach with the other NIS.

Financial assistance to the central and eastern European countries

Between 1990 and 1994, the European Union provided 61 per cent of western bilateral aid to the CEECs. Just in terms of grants, which play a crucial role during the initial phase of economic restructuring, the European Union provided over the same period ECU 13 billion out of a total ECU 22.2 billion from the west as a whole. It plays a leading role in most aspects of assistance to the CEECs, notably in technical assistance, where the Phare Programme plays a key role.

Financial assistance to the New Independent States

The benefits that the NIS derive from European Union assistance are similar. Between 1990 and 1994 the European Union and its Member States have provided ECU 57 billion in aid out of a total of ECU 98 billion, or 59 per cent (International Financial Institutions included). If the aid is broken down by category it becomes clear that the European Union and its Member States are generally the principal providers of aid to the NIS: 39 per cent of food aid, ECU 41 billion in export credits out of a bilateral total of ECU 61 billion, 95 per cent of the strategic aid and 51 per cent of the technical assistance given, mainly via the Tacis Programme.

European Union trade with the central and eastern European countries

From the Council for Mutual Economic Assistance to integration in the world markets

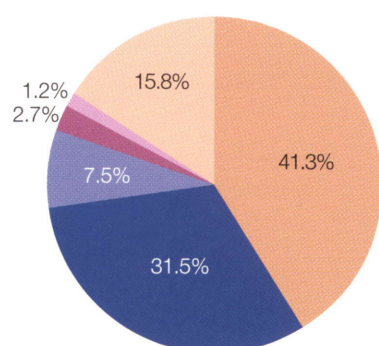
The European Union is far and away the main trading partner of the CEECs where convertible-currency trade is concerned.

In a short space of time the European Union has become the CEECs' main trading partner, replacing their former partners in the CMEA.

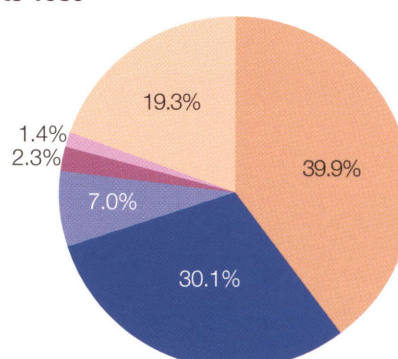
In 1989, exports from the CEECs to the European Union represented only 31.5 per cent of their total exports against 41.3 per cent within the CMEA. Furthermore their imports from the European Union represented only 30.1 per cent of their total imports against 39.9 per cent from CMEA countries. These proportions are reversed totally in 1994 as illustrated below.

Role of different partners¹ in the external trade of the central and eastern European countries² 1989 to 1994 (in %)

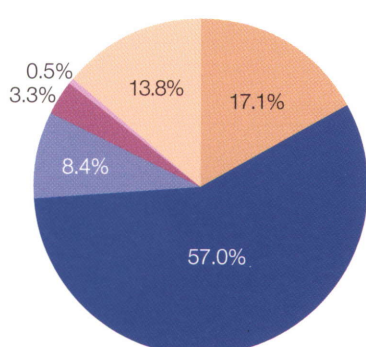
Exports 1989



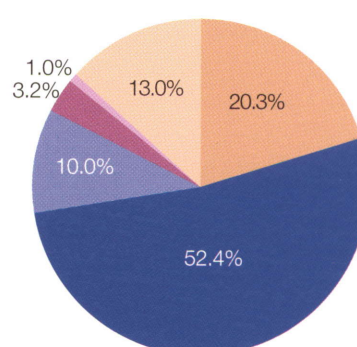
Imports 1989



Exports 1994



Imports 1994



Sources: Services of the Commission, according to department of trade statistics of the IMF, EBRD, UNECE, Planecon, where official IMF statistics are not available.

1 This data is to be used with extreme caution, because of the disparity of the methodology used (notably the rate of conversion of the rouble chosen and eastern Germany's position).

2 Bulgaria, former Czechoslovakia, Hungary, Poland, Romania.

Role of different partners¹ in the external trade of the central and eastern European countries² 1989 to 1994 (in %)

	Exports to		Imports from	
	1989	1994	1989	1994
Former CMEA	41.3	17.1	39.9	20.3
EU	31.5	57.0	30.1	52.4
EFTA	7.5	8.4	7.0	10.0
USA	2.7	3.3	2.3	3.2
Japan	1.2	0.5	1.4	1.0
Rest of the world	15.8	13.8	19.3	13.0

Sources: Services of the Commission, according to department of trade statistics of the IMF, EBRD, UNECE, Planecon, where official IMF statistics are not available

1 This data is to be used with extreme caution, because of the disparity of the methodology used (notably the rate of conversion of the rouble chosen and eastern Germany's position).

2 Bulgaria, former Czechoslovakia, Hungary, Poland, Romania.

In the aftermath of the demise of the CMEA, the CEECs have redirected their trade flows towards the European Union. Between 1989 and 1994 there was a dramatic increase in the Visegrad countries' (Czech Republic, Poland, Hungary and Slovakia) trade in terms of both imports and exports. The picture is more mixed for the Balkan countries but the overall volume of their trade is smaller.

The European Union's imports from the CEECs rose by 115.5 per cent in five years. The exports of the European Union swelled by 171.1 per cent. This comparatively bigger increase in European Union sales spawned a relatively large and widening trade deficit to the detriment of the CEECs.

That deficit should, however, be seen in the light of the significant expansion of trade between the two groups and the fact that the CEECs' economies are just getting off the ground. As they have a structural deficit in terms of savings, these countries also have a current account deficit. In this context a trade deficit is not surprising.

The evolution in 1992/93 is due, to a large degree, to the negative economic climate which prevailed in the European Union at the time and which led to a quasi-stagnation of purchases from abroad.

The statistics for 1994 show a notable improvement in the trade balance of the CEECs with the European Union. In 1994 their exports to the European Union increased by more than their imports from the European Union (especially with respect to Poland and Romania, which itself is nearing a balance in trade).

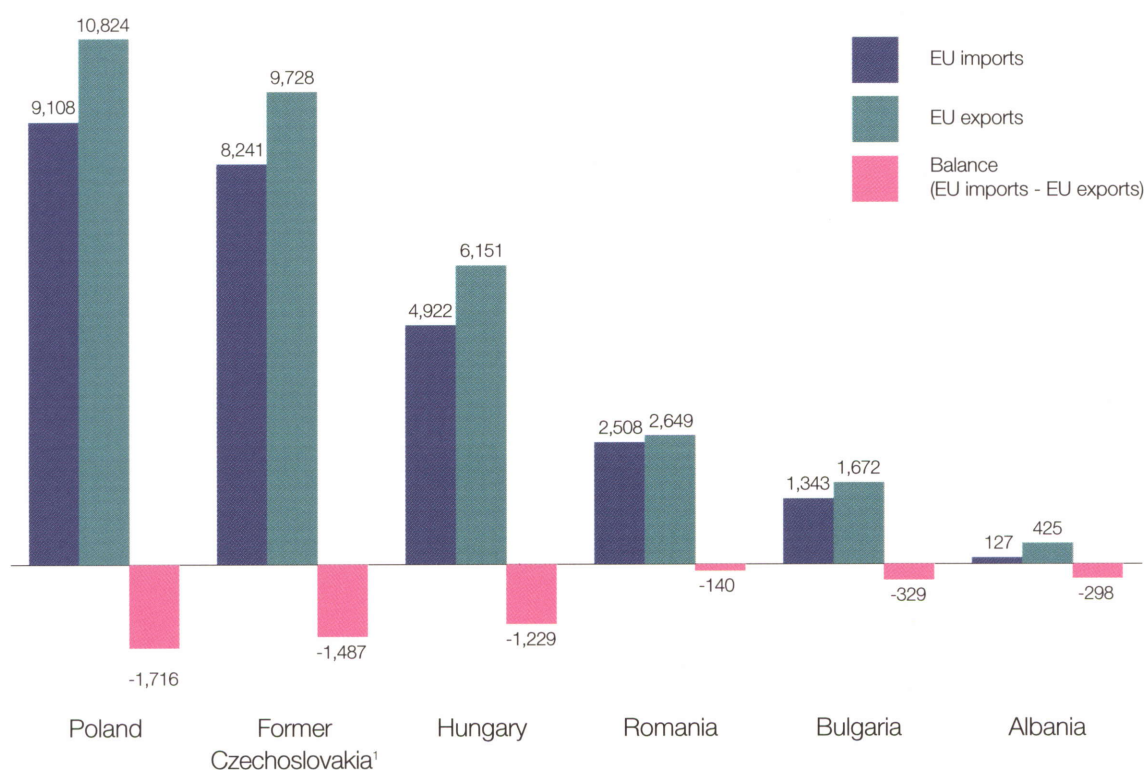
Trends in trade between the European Union and the central and eastern European countries 1989 to 1994 (ECU million)

	EU imports from			EU exports to			Balance (EU imp - EU exp)				
	1989	1993	1994	% inc. 94/89	1989	1993	1994	% inc. 94/89	1989	1993	1994
Poland	3,857	7,578	9,108	+136.1	3,944	9,966	10,824	+174.4	-87	-2,388	-1,716
Former Czechoslovakia ¹	2,557	6,001	8,241	+222.3	2,384	7,297	9,728	+308.1	+173	-1,296	-1,487
Hungary	2,586	3,949	4,922	+90.3	2,987	4,963	6,151	+105.9	-401	-1,014	-1,229
Romania	2,548	1,687	2,508	-1.5	688	2,320	2,649	+285.1	+1,860	-633	-140
Bulgaria	530	950	1,343	+153.5	1,476	1,346	1,672	+13.3	-946	-396	-329
Albania	100	81	127	+27.6	121	400	425	+251.2	-21	-319	-298
Total CEECs	12,178	20,246	26,249	+115.5	11,600	26,292	31,449	+171.1	+578	-6,046	-5,199

Source: Eurostat.

1 for recent years, trade with Slovakia and the Czech Republic added together.

Balance of trade of the central and eastern European countries with the European Union in 1994 (ECU million)



Source: Eurostat.

¹ trade with Slovakia and the Czech Republic added together.

From the sectoral point of view there has been no major shift in the make-up of the European Union's trade with the Visegrad countries (the only ones for which we have a historical perspective following the entry into force of the Association Agreements). "Sensitive" products such as agricultural products, textiles and steel account for around 50 per cent of total exports from Poland and Hungary to the European Union and around 35 per cent of total exports from former Czechoslovakia. Imports of those products from the Visegrad group into the European Union have forged ahead since 1991.

Comparison with other western nations

The European Union is by far the main trading partner of the CEECs². For example, in 1994 its imports from those countries were more than fifteen times the corresponding figure for the United States.

The volume of the European Union's exports to the CEECs was more than twenty times that of the United States.

Moreover, trade flows between the CEECs and their non-European Union western partners have not matched those with the European Union. Since 1989, trends of trade flows between the CEECs and other western partners have fallen below those between the CEECs and the European Union (although these percentages focus on extremely small amounts).

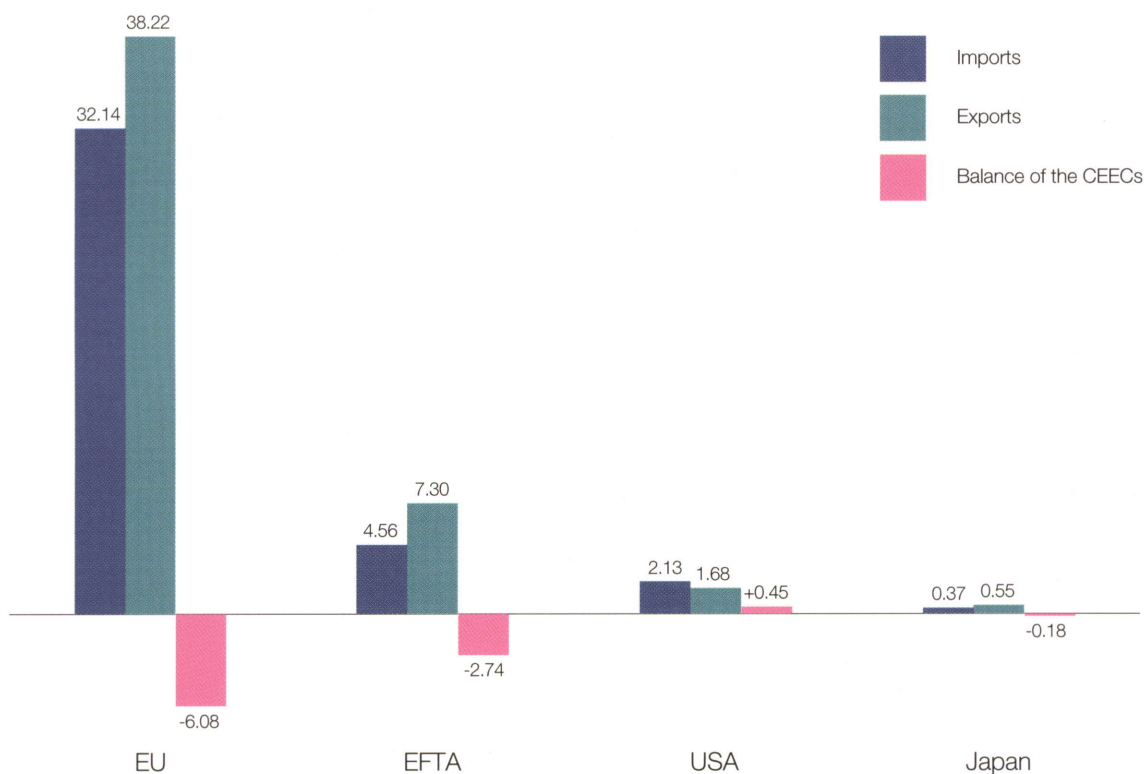
² Poland, Hungary, former Czechoslovakia, Romania, Bulgaria and Albania.

Trade between the central and eastern European countries, the European Union, EFTA, the United States and Japan in 1993-1994 (US\$ billion)

	Imports from CEECs by:		Exports to CEECs by:		Balance (imports-exports)	
	1993	1994	1993	1994	1993	1994
EU	23.74	32.14	30.60	38.22	-6.86	-6.08
EFTA	2.63	4.56	4.40	7.30	-1.77	-2.74
USA	1.53	2.13	2.05	1.68	-0.52	+0.45
Japan	0.31	0.37	0.49	0.55	-0.18	-0.18
Total	28.21	39.20	37.54	47.75	-	-

Sources: Comtrade + Comext Eurostat.

Trade between the central and eastern European countries, the European Union, EFTA, the United States and Japan in 1994 (US\$ billion)



Sources: Comtrade + Comext Eurostat.

Trade and other agreements

Agreements have been signed between the European Union and all the CEECs to draw the latter further into the flow of trade¹. This is a process already well under way in some of them.

With the exception of the EFTA countries, which have also concluded free trade agreements with the six CEECs similar to those concluded by the European Union, none of the other western countries has negotiated agreements with those countries as far-reaching as the Europe Agreements.

A substantial opening-up of the European Union market occurred when the Interim Agreements (which took over the trade provisions of the Europe Agreements) entered into force. Provision was made for a very short timetable (5 or 6 years) for liberalisation, which would take place rapidly and permit substantial access to be acquired in stages.

Since 1 March 1992, more than half the Visegrad countries' total exports have been allowed into the European Union free of duty and quantitative restrictions. By 1 January 1993, the percentage was 60 per cent. By 1 January 1998, the level should be 85 per cent, the balance being agricultural products.

The Agreements sought to establish free trade gradually over a maximum period of ten years, on the basis of reciprocity and asymmetry in the CEECs' favour (the pace of liberalisation would be faster on the European Union side).

The two aims of this asymmetry were to give the countries in question a short period of free access to the European Union market, and to allow them time to restructure their economies before they had to compete freely with European Union goods.

The timetable for industrial products provided for the European Union to abolish all tariff and non-tariff barriers over five years, except in the case of textiles, where duties and quantitative restrictions were to be eliminated over six years. Poland was to do the same over seven years (except in the case of vehicles); the other five countries were to have nine years. Where agricultural products were concerned, beyond the binding of GSP advantages and confirmation that the European Union would eliminate quantitative restrictions, the parties agreed to grant each other concessions on a reciprocal basis. Special provisions were made for fishery products.

The Association Agreements, meanwhile, contain a safeguard clause, anti-dumping provisions and a shortage clause. Also included was an "emerging industries" clause allowing the signatories of the Europe Agreements to implement exceptional and special tariff measures for a maximum of five years. Special safeguard measures were introduced for agricultural products and textiles.

At the Copenhagen European Council (22 and 23 June 1993), the European Union decided to accelerate unilaterally the opening-up of its market to the signatories of the Europe Agreements. The five-year liberalisation period for industrial products (general arrangements) in the Association Agreements was shortened by two years (giving free access by 1 January 1995 instead of 1 January 1997 for the Visegrad countries and by 1 January 1996 instead of 1 January 1998 for Bulgaria and Romania). The Essen European Council has led to the decision to align the liberalisation timetable included in the Europe Agreements signed with Bulgaria and Romania with that of the Visegrad countries.

¹ Following the dissolution of the CSFR, two separate Europe Agreements were signed and Protocols were established to deal with the application of the Interim Agreement to the two new republics.

It was also decided to bring forward by six months the concessions planned in the Association Agreements for agricultural products.

The duties on direct imports of textiles are to be abolished in five years instead of six.

The remaining import duties on steel are to be eliminated sooner than originally planned (four years instead of five for the Visegrad countries and three years instead of four for Bulgaria and Romania).

The Europe Agreements with Hungary and Poland came into force in February 1994. The Agreements with the Czech Republic and Slovakia, Romania and Bulgaria came into force in February 1995. The Europe Agreements with the Baltic States were signed in April 1995 and an Agreement with Slovenia has been initialled.

The Essen European Council of December 1994 reinforced these orientations by adopting a pre-accession strategy which consists of progressively integrating the CEECs into the internal market of the European Union by harmonising their legislation to that of the European Union (especially as far as competition is concerned). Some measures have been planned or envisaged for financing infrastructure, cross-border cooperation, investment promotion, economic development, integration of agriculture through the adaptation of the Phare Programme. Before the European Council at Cannes in June 1995, the European Commission adopted a White Paper concerning the preparation of the CEECs for entering the internal market.

Trade policy

The textiles and clothing sectors illustrate how the European Union has undertaken a major policy of liberalisation. The European Union will phase out duties over five years, that is to say by 1 January 1997. Duties which applied to certain categories of outward processing trade were abolished immediately upon the entry into force of the Interim Agreements. Quotas are to be eliminated on 1 January 1998. Therefore, the phasing out of quotas is to take place over a time period which is half that agreed in the Uruguay Round.

The CEECs have benefited from significant increases in quotas in recent years, and there is now little evidence that these countries are constrained suppliers. The rate of utilisation of quotas in 1994 by the CEECs was low, as the table below shows (this implies that it is no longer possible to say that these sales are restricted).

Quota utilisation in 1994

Textiles and clothing	Direct quota utilisation in 1994
Poland	42 %
Hungary	30 %
Czech Republic	61 %
Slovakia	34 %
Romania	41 %
Bulgaria	67 %

Source: Commission services.

The entry into force of the Interim Agreements led to the abolition by the European Union of the quantitative restrictions applied to steel imports from the CEECs. In addition, the European Union has progressively phased out its customs duties over a period of four years, which means that after the end of 1995, steel imports from the CEECs will not longer be subject to customs duties.

Bilateral European Union, Japanese and United States trade with the CEECs stood as follows at the beginning of 1995.

European Union, United States and Japan - grants of trading preferences to the central and eastern European countries

	European Union			United States		Japan	
	Bilateral agreement in force	Europe Agreement status	MFN/GSP	MFN	GSP	MFN	GSP
Hungary	Europe Agreement	in force	superseded by bilateral free trade agreement ¹	yes	yes	yes	yes
Poland	Europe Agreement	in force	superseded by bilateral free trade agreement ¹	yes	yes	yes	yes
Czech Republic	Europe Agreement	in force	superseded by bilateral free trade agreement ¹	yes	yes	yes	yes
Slovakia	Europe Agreement	in force	superseded by bilateral free trade agreement ¹	yes	yes	yes	yes
Romania	Europe Agreement	in force	superseded by bilateral free trade agreement ¹	yes	yes	yes	yes
Bulgaria	Europe Agreement	in force	superseded by bilateral free trade agreement ¹	yes	yes	yes	yes
Estonia	Free Trade Agreement	signed	superseded by bilateral free trade agreement ¹	yes	yes	to be offered ²	yes
Latvia	Free Trade Agreement	signed	superseded by bilateral free trade agreement ¹	yes	yes	to be offered ²	yes
Lithuania	Free Trade Agreement	signed	superseded by bilateral free trade agreement ¹	yes	yes	to be offered ²	yes
Slovenia	Co-operation Agreement	initialled	non-reciprocal preferential agreement	yes	yes	yes	yes
Albania	Trade and Co-operation Agreement	–	yes	yes	yes	no	no

Sources: OECD, Commission services.

1 Bilateral agreements provide for free trade in industrial products to be achieved in an asymmetric manner, with the EU dismantling its own tariffs and non-tariff barriers earlier and faster than each of the CEECs.

2 Japan is to offer MFN status upon each country's acceptance of the previous Japan-Soviet Agreement.

European Union trade with the New Independent States

The NIS' largest convertible-currency trading partner

The European Union is also by some margin the New Independent States' largest convertible-currency trading partner.

In 1989, the Soviet Union traded mostly with its CMEA partners. According to the secretariat of the UN's Economic Commission for Europe, only 26.9 per cent of the Soviet Union's total exports in 1989 went to the OECD countries, while 46.4 per cent went to the rest of the CMEA.

Similarly, only 31 per cent of the Soviet Union's total imports came from the OECD countries, while 48.8 per cent came from the rest of the CMEA.

Though less marked than is the case with the central and eastern European countries, a considerable change in the pattern of trade has occurred¹.

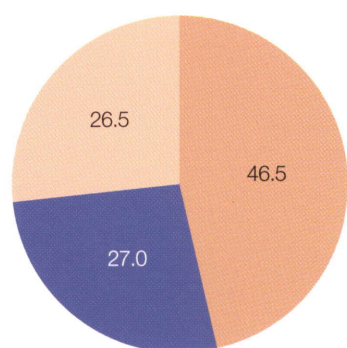
The European Union is trading more and more with the former Soviet Union, and the latter's surplus is growing. Between 1989 and 1994, FSU exports grew 51.3 per cent, reaching a value of ECU 23.0 billion. This produced a surplus in favour of the former Soviet Union of ECU 5.5 billion, which represents at least a doubling of the figure achieved in 1989.

The main reason for the trade imbalance between the European Union and the NIS is the European Union's purchases of energy and minerals (mainly in Russia).

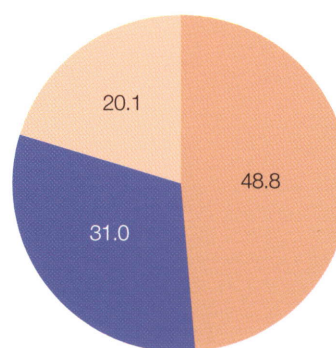
¹ Statistical data refer generally to the former Soviet Union: i.e. all the NIS plus Baltic States for historical reasons. For 1989 it was not possible to obtain statistical data for the Baltic States outside the former Soviet Union.

Structure of the Soviet Union's trade in 1989 (in %)

Exports



Imports

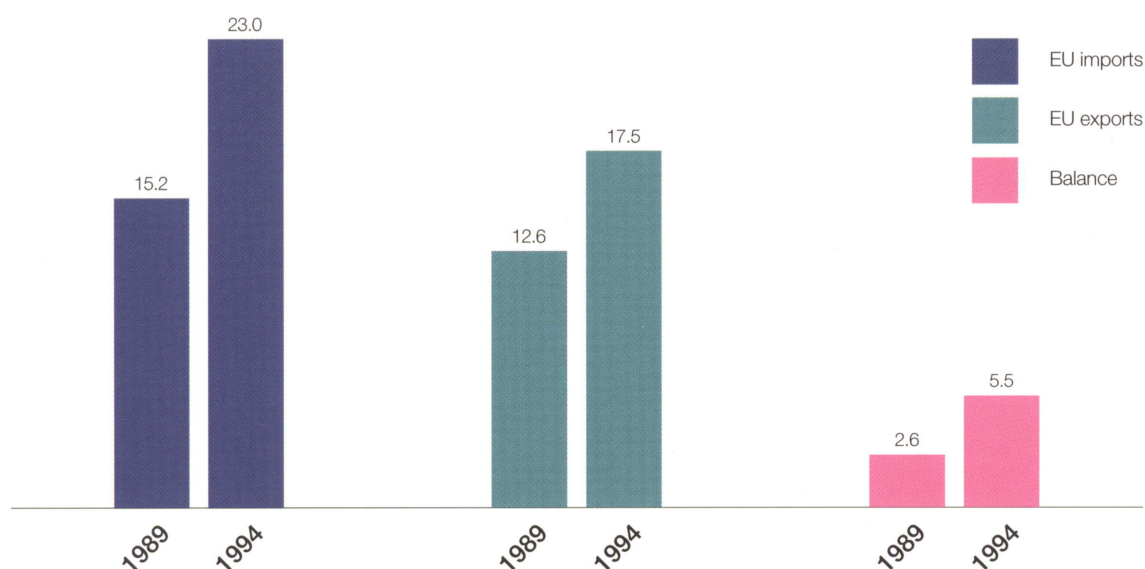


In %	Exports	Imports
CMEA	46.4	48.8
OECD	26.9	31.0
Rest of the world	26.4	20.1



Sources: United Nations Economic Commission for Europe.

The pattern of trade between the former Soviet Union and the European Union between 1989 and 1994 (ECU billion)



	1989	1993	1994	Increase in % 94/89
EU imports	15.2	18.4	23.0	+51.3
EU exports	12.6	15.7	17.5	+38.9
Balance (EU imports - EU exports)	+2.6	+2.7	+5.5	-

Source: Eurostat.

Comparison with other western nations

The European Union does more convertible-currency trade with the NIS than all the latter's western partners put together.

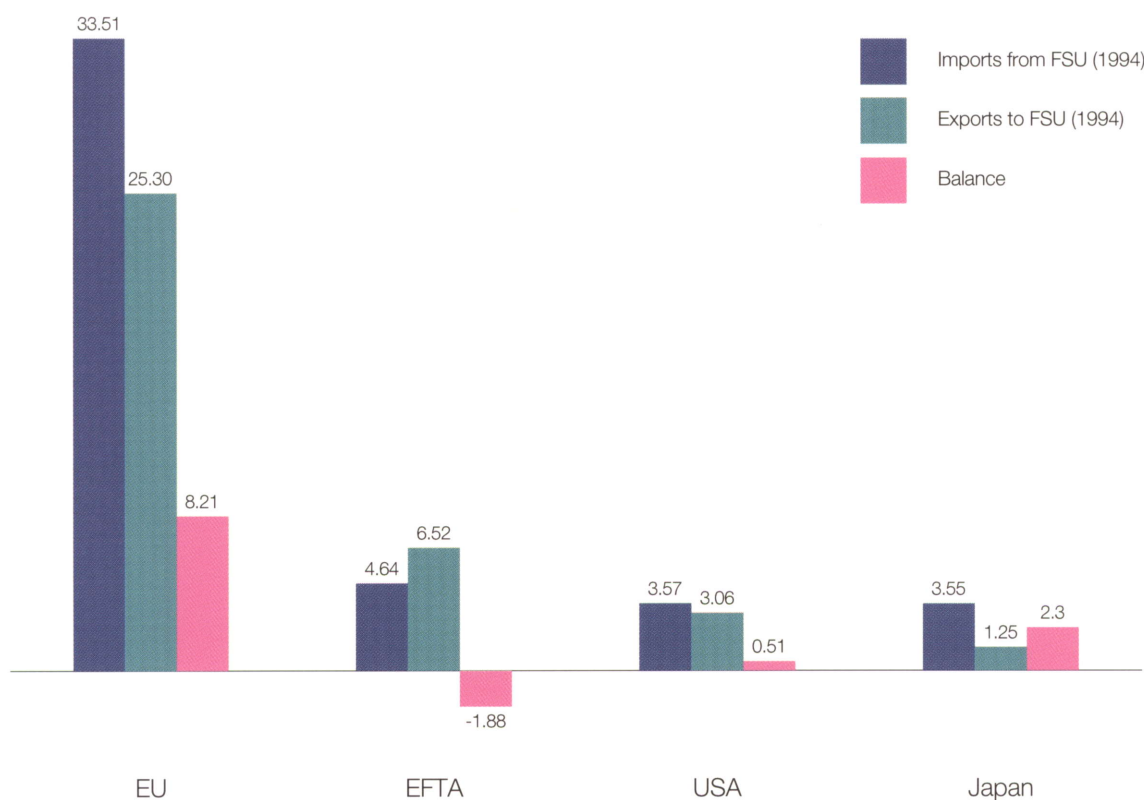
Its imports from the former Soviet Union were worth US\$ 33.5 billion in 1994, compared to US\$ 4.6 billion for all of EFTA, US\$ 3.5 billion for Japan and only US\$ 1.9 billion for the US.

Moreover, the former Soviet Union's trade surplus with the European Union was a significant US\$ 8.2 billion in 1994. Its surplus with Japan was only 2.3 billion and with the US only US\$ 0.5 billion, and it had a deficit of US\$ 1.8 billion with EFTA.

Data for the first three months of 1994 largely confirm trends observed throughout 1993, with the exception of a notable increase of imports from the United States and exports to EFTA.

Much of the former Soviet Union's trade surplus with the European Union is accounted for by Russia.

The former Soviet Union's trade with the European Union, EFTA, the United States and Japan in 1993-1994 (US\$ billion)



	Imports from FSU		Exports to FSU		Balance (imports-exports)	
	1993	1994	1993	1994	1993	1994
EU	21.61	33.51	18.46	25.30	+3.15	+8.21
EFTA	3.80	4.64	3.30	6.52	+0.50	-1.88
USA	1.93	3.57	3.26	3.06	-1.33	+0.51
Japan	3.00	3.55	1.70	1.25	+1.30	+2.30
Total	30.34	45.27	26.72	36.13	-	-

Trade policy

The existing trade concessions will be expanded under the Partnership and Cooperation Agreements negotiated by the European Union with several of the NIS.

The European Union market is already extremely open to Russian exports. The European Union's tariffs on imports from Russia are very low. The 1989 Agreement on trade and economic cooperation gave the former Soviet Union MFN (Most Favoured Nation) status. The Partnership and Cooperation Agreement confirms this. Furthermore the European Union has given Russia access to the Generalised System of Preferences (GSP).

Even disregarding the GSP, 83 per cent of imports from Russia are free of duty, and the weighted average tariff on industrial products as a whole is an estimated 1.1 per cent. This is accounted for by the high proportion of unrefined products (oil and minerals) among these imports. Approximately 10 per cent of imports from the former Soviet Union are eligible for GSP treatment. The Commission thinks that the average tariff rate on industrial products as a whole could be brought down to 0.3 per cent if optimum use is made of the GSP.

Specific quantitative restrictions (which apply only to state-trading countries) were lifted on 1 August 1992, in advance of the dismantling due to be completed by 1995 under the terms of the agreement on trade and economic cooperation.

Non-specific quantitative restrictions applying to Russia were suspended by the EC Council on the 7-8 February, 1994.

The safeguard clause has so far been used only in connection with aluminium.

Anti-dumping measures are currently in force for eleven varieties of Russian goods, and four investigations are under way. If the investigations culminate in anti-dumping measures, the volume affected would represent less than 1 per cent of total trade.

Bilateral European Union, United States and Japanese trade with the NIS stands as follows (at the beginning of 1995).

European Union, United States and Japan - grants of trading preferences to the New Independent States

	European Union			United States		Japan	
	Bilateral agreement ¹	Partnership and Cooperation Agreement	MFN/GSP	MFN	GSP	MFN	GSP
Russian Federation	Covered by TCA with ex-USSR	signed, interim agreement	yes	yes	yes	yes	no
Ukraine	Covered by TCA with ex-USSR	signed, interim agreement	yes	yes	yes	yes	yes
Belarus	Covered by TCA with ex-USSR	signed, interim agreement initialled	yes	yes	yes	to be offered	yes
Moldova	Covered by TCA with ex-USSR	signed, interim agreement	yes	yes	yes	to be offered	yes
Kazakhstan	Covered by TCA with ex-USSR	signed, interim agreement initialled	yes	yes	yes	yes	yes
Kyrgyzstan	Covered by TCA with ex-USSR	signed, interim agreement initialled	yes	yes	yes	yes	no
Turkmenistan	Covered by TCA with ex-USSR	exploratory discussions	yes	yes	–	yes	no
Uzbekistan	Covered by TCA with ex-USSR	exploratory discussions	yes	yes	yes	yes	no
Tajikistan	Covered by TCA with ex-USSR	–	yes	yes	–	yes	no
Armenia	Covered by TCA with ex-USSR	under negotiation	yes	yes	yes	to be offered	yes
Azerbaijan	Covered by TCA with ex-USSR	under negotiation	yes	yes	–	to be offered	no
Georgia	Covered by TCA with ex-USSR	under negotiation	yes	yes	–	yes	yes

Sources: OECD, Commission services.

1 The Trade and Cooperation Agreement (TCA) signed in 1989 with the ex-Soviet Union will remain the contractual base for the regulation of trade in goods until the commercial clauses in the separate country Partnership and Cooperation Agreements come into effect.

The future outlook

The CEECs and the NIS did not feel the effects of a slight reduction in the external trade of the European Union in 1993, and the outlook for the future is perceptibly more favourable.

The CEECs and the NIS have slightly increased their market share in Europe in a difficult economic climate.

In 1993, the external trade of the European Union stagnated. In this delicate economic climate the CEECs and the NIS slightly increased their market share in European Union imports from third countries (from 3.9 per cent to 4.2 per cent for the CEECs and from 3.6 per cent to 4 per cent for the ex-Soviet Union).

Viewed individually, all the CEECs have seen their market share increase with the exception of Hungary for whom one notes a quasi-stagnation. This favourable trend continued in 1994 since the CEECs' trade represented 4.9 per cent of the external trade of the European Union. The growth in market share has applied to all countries except Albania, where quantities in any case are not significant. The NIS also increased their market share from 4 to 4.3 per cent.

Shares of the central and eastern European countries and New Independent States in the European Union's imports (from third countries)

Imports as % of total EU imports

In origin from	1992	1993	1994
Poland	1.45	1.56	1.69
Former Czechoslovakia	1.14	1.24	1.53
Hungary	0.82	0.81	0.91
Romania	0.29	0.35	0.46
Bulgaria	0.19	0.20	0.25
Albania	0.01	0.02	0.02
Total CEECs	3.90	4.18	4.86
Former USSR	3.62	3.96	4.27

Source: Eurostat.

The economic predictions on the external trade of the European Union for 1995-96, which are currently in our possession, support the assessment described above.

Founded upon a better understanding of the evolution of trade flows in 1993-94, they confirm our first impressions about the position of the CEECs and the NIS in the European Union's external trade.

If the exports of the CEECs and of the NIS towards the European Union have not risen to the level hoped for in 1993, it is above all due to the disappointing economic situation which prevailed in the European Union and not due to any measures taken by the Member States of the European Union.

In 1993, the European Union's global imports fell. This phenomenon had a direct impact on the external trade of the CEECs and of the NIS, for whom the European Union had become a major commercial partner. The improvement of the economic situation in 1994 and 1995 (increase in European Union exports of 9.6 per cent in 1994 and of 7.9 per cent forecast for 1995 and increase in imports of 7.7 per cent in 1994 and of 7.1 per cent forecast for 1995) ought to have an immediate and direct effect on exports bound for the European Union, as much for the CEECs as for the NIS.

International trade (rate of growth in volume) (in %)

	1994	1995 (predictions)	1996 (predictions)
1 Imports			
of the EU	7,7	7,1	6,8
of the rest of the world (-EU)	11,6	9,6	8,7
of the CEECs-NIS	7,4	6,0	10,3
of which the CEECs	8,4	4,8	7,9
of which the NIS	5,7	8,0	14,3
2 Exports			
of the EU	9,6	7,9	7,0
of the rest of the world (-EU)	10,1	9,6	8,9
of the CEECs-NIS	8,2	5,6	7,1
of which the CEECs	9,4	8,8	7,8
of which the NIS	6,9	2,5	6,3

Sources: economic predictions of the services of the European Commission.

Financial assistance to the central and eastern European countries

The European Union is by far the greatest single source of assistance to the CEECs. It coordinates western aid in the G-24 and has generally provided more than its share of assistance to the CEECs, which was initially estimated at half of the total. The accession of the new members will of course increase the European Union's share of the burden and it will decrease the share of the countries of EFTA.

Between 1990 and 1994 the European Union furnished more than 61 per cent of the west's bilateral aid to the CEECs (excluding International Finance Institutions (IFIs)).

The European Union and its Member States are by far the biggest source of the various types of aid received by the CEECs as a group¹.

In the period from 1 January 1990 to 31 December 1994 the European Union provided ECU 33.8 billion for the CEECs (ECU 11.3 billion from the European Union as such), while the EFTA countries provided ECU 6.5 billion, Canada ECU 1.7 billion, Japan ECU 3.1 billion and the United States ECU 9.5 billion.

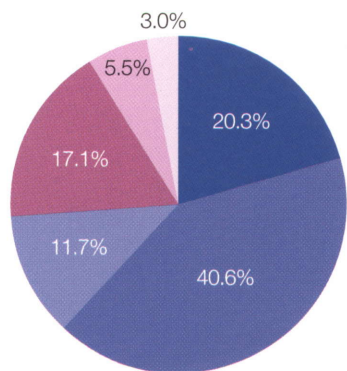
The G-24 countries and the IFIs together provided a total of ECU 74.7 billion in that period. When the ECU 19.3 billion from the IFIs is subtracted, the European Union and its Member States accounted for more than 61 per cent of the west's bilateral aid to the CEECs during this period.

Grant finance

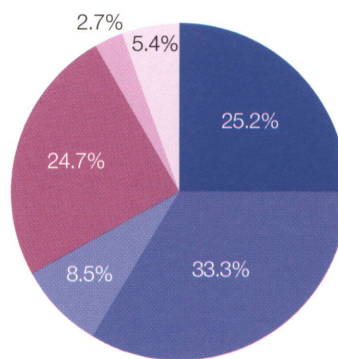
Taking only grants into account, the European Union and its Member States gave the CEECs ECU 13 billion in the period from 1 January 1990 to 31 December 1994. The EFTA countries gave ECU 1.9 billion, Canada ECU 1.2 billion, Japan ECU 0.6 billion and the United States ECU 5.5 billion.

This type of aid is crucial because it does not increase debt. Given that the G-24 as a whole contributed ECU 22.2 billion, the European Union and its Member States once again emerge as the CEECs' principal source of funding. The European Union and the Member States alone account for 58 per cent of the bilateral grant aid received by the CEECs.

Total assistance from the G-24 countries to central and eastern Europe¹ in the period 1 January 1990 to 31 December 1994



overall assistance (excluding IFIs)



of which grant



¹ including Albania, Slovenia and the Baltic States.

Total assistance from the G-24 countries to central and eastern Europe¹ in the period 1 January 1990 to 31 December 1994 (in ECU billion)

	overall assistance	of which grants
European Union and Member States	33.8	13.0
(European Union alone)	(11.3)	(5.6)
EFTA	6.5	1.9
United States	9.5	5.5
Japan	3.1	0.6
Canada	1.7	1.2
G-24 total (excluding IFIs)²	55.4	22.2
G-24 total (including IFIs)	74.7	22.2

Source: G-24 Scoreboard.

Different types of assistance

The European Union and its Member States provided more than 52 per cent of all food aid received by the CEECs¹, whereas the United States provided just over 39 per cent. The European Union's share of emergency non-food aid has been no less substantial; it has supplied more than 58 per cent of the total, compared with 28 per cent from the United States.

The CEECs have no old debt to the European Union awaiting rescheduling. The Member States, which do have considerable claims, account for a considerable share of the restructured debt and certainly more than the United States.

The European Union and its Member States have also provided 63 per cent of the non-IFI technical assistance received by central and eastern Europe¹, whereas the

United States has provided a little more than 27 per cent. The European Union alone (i.e. as distinct from its Member States) has provided more than 46 per cent of all non-IFI technical assistance to the CEECs, primarily through its Phare Programme.

Since official export credits are mainly in the province of the Member States, the European Union operates almost exclusively through them. The Member States have provided more than 61 per cent of all the official export credits received by the CEECs, whereas the United States has provided just over 27 per cent.

Lastly, the Member States have provided over 69 per cent of official assistance for private-sector investment, an area also beyond the scope of the European Union. The United States have provided just over 15 per cent of the non-IFI total.

¹ including Albania, Slovenia and the Baltic States.

² The difference between the total of the countries mentioned above and that for the G-24 countries is explained by the presence of other (non-listed) donors.

Breakdown of G-24 assistance to central and eastern Europe¹ in the period 1 January 1990 to 31 December 1994 (in ECU million)

	Food aid	Emergency non food aid	Restructured debt	Technical assistance	Official export credits	Official assistance for private investment
European Union and Member States	1,164	1,072	5,594	4,297	9,700	2,002
(European Union alone)	(737)	(868)	–	(3,149)	–	–
EFTA	60	224	1,352	514	1,879	401
United States	877	520	2,065	1,833	2,621	454
Japan	27	1	481	48	581	1
Canada	71	5	1,195	32	446	2
G-24 Total (excluding IFIs)	2,226	1,825	10,689	6,728	15,840	2,873
G-24 Total²	2,226	1,825	10,689	6,728	15,840	2,873

Source: G-24 Scoreboard.

1 including Albania, Slovenia and the Baltic States.

2 The figures are the same because the IFIs do not practise this type of aid.

Financial assistance to the New Independent States

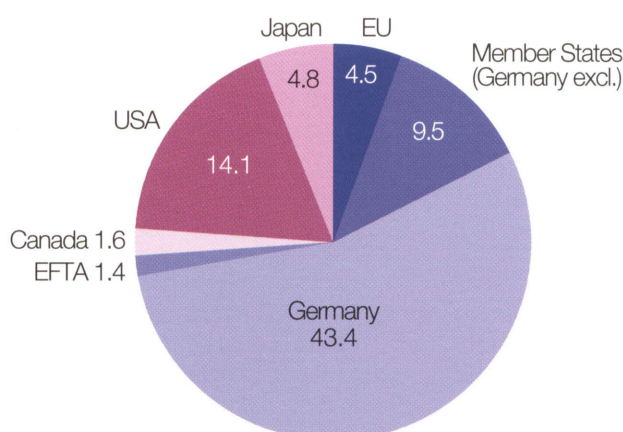
Since the reunification of Germany and the collapse of the Soviet Union, the European Union and its Member States have been by far the greatest source of aid to the former Soviet Union.

The European Union has provided some 59 per cent of all bilateral aid received by the New Independent States in the period 1990-94 (IFIs included). By way of comparison, the United States in the same period provided a little more than 15 per cent of the total and Japan provided just over 5 per cent of the total.

In the period from September 1990 to December 1994, the international community provided the NIS with ECU 98 billion in assistance. Of this total and excluding the IFIs, the European Union and its Member States provided amongst other things 39 per cent of humanitarian aid grants, 67 per cent of loans and credit guarantees and 51 per cent of technical assistance; this represents on average 59 per cent of total bilateral aid or ECU 57.4 billion.

Germany is the largest individual contributor in the European Union, notably because of the export credits and the strategic assistance it accorded the former Soviet Union in exchange for reunification.

Assistance to the former Soviet Union in the period 1 September 1990 to 31 December 1994 (ECU billion)



Total assistance (IFIs excluded)

	ECU billion	%
European Union	4.5	4.6
Member States (Germany) ¹	52.9 (43.4)	53.8 (44.1)
EFTA	1.4	1.4
Canada	1.6	1.6
United States	14.1	14.3
Japan	4.8	4.9
Total (non IFIs)²	87.1	88.6
IFIs	11.2	11.4
Overall total	98.3	100

Source: Commission services.

1 Some Member States of the European Union (including France and the United Kingdom) were not able to provide the global volume of their assistance up to the end of 1994, but only to the middle of 1994. The volume of EU assistance is thus reduced.

2 This includes other States not mentioned, among them South Korea, the Gulf States and Turkey.

Breakdown of assistance by sector

The European Union and its Member States have given the NIS ECU 2.1 billion in medical and food aid (39 per cent of the bilateral total). The United States has provided ECU 3.0 billion and Japan ECU 230 million.

Concerning export credits and credit guarantees, the European Union has provided ECU 41 billion, or two-thirds of the bilateral total, with Germany alone contributing over ECU 30 billion. The United States, in comparison, has provided just over ECU 8.6 billion (14 per cent, excluding IFIs) and Japan a little more than ECU 4.3 billion (7 per cent).

In the area of strategic assistance, i.e. financial help for the withdrawal of Soviet forces and the destruction of strategic missiles, the Member States (primarily Germany) have provided 95 per cent of a total of around ECU 10 billion and the United States, 4 per cent of this total.

The European Union and the Member States have also been in the forefront of technical assistance, contributing over ECU 2.6 billion or 51 per cent of the total. The European Union alone has provided ECU 1.8 billion, or around 35 per cent of the bilateral total, primarily through its Tacis Programme. The United States has provided ECU 2.0 billion (40 per cent) and Japan a little over 2.7 per cent.

Sectoral assistance to the former Soviet Union in the period 1 September 1990 to 31 December 1994 (in ECU million)

	Medical and food aid grants	Loans and guarantees	Strategic assistance ¹	Technical assistance
European Union	645	2,052	–	1,798
Member States (Germany) ²	1,515 (1,351)	39,501 (30,652)	9,106 (9,039)	821 (468)
EFTA	71	1,133	–	159
Canada	11	1,455	–	117
United States	3,019	8,617	398	2,098
Japan	234	4,323	84	141
Total (non IFIs)³	5,507	61,539	9,587	5,156
Overall total	5,507	72,439	9,587	5,438

1 withdrawal of Soviet troops and dismantling of strategic missiles.

2 Some Member States of the European Union (including France and the United Kingdom) were not able to provide the global volume of their assistance up to the end of 1994, but only to the middle of 1994. The volume of EU assistance is thus reduced.

3 This includes other States not mentioned, among them South Korea, the Gulf States and Turkey.



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October 1995