

EUROPEAN PARLIAMENT



session documents

ENGLISH EDITION

1 April 1993

A3-0130/93



REPORT

of the Committee on External Economic Relations

on the Commission proposal for a Council decision on the conclusion by the European Economic Community of the Interim Agreement between the European Economic Community and the European Coal and Steel Community, of the one part, and Bulgaria, of the other part, on trade and trade-related matters

(COM(93) 0046 final - C3-0132/93 - 4900/93)

Rapporteur: Mr Konstantinos STAVROU

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PE 204.425/fin.
Or. DE

consultation procedure requiring a single reading
operation procedure (first reading)

**|| Cooperation procedure (second reading) requiring the votes of a majority of the current Members of Parliament
*** Parliamentary assent requiring the votes of a majority of the current Members of Parliament

A

DE

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PT

C O N T E N T S

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By letter of 24 March 1993 the Council consulted the European Parliament, pursuant to the Solemn Declaration on European Union, on the Commission proposal for a Council decision on the conclusion by the European Economic Community of the Interim Agreement between the European Economic Community and the European Coal and Steel Community, of the one part, and Bulgaria, of the other part, on trade and trade-related matters.

At the sitting of 19 April 1993 the President of Parliament announced that he had referred this proposal to the Committee on External Economic Relations as the committee responsible and to the Committee on Foreign Affairs and Security for its opinion.

At its meeting of 17 March 1993 the Committee on External Economic Relations had appointed Mr Stavrou rapporteur.

At its meeting of 1 April 1993 it considered the Commission proposal and the draft report.

At that meeting it adopted the draft legislative resolution unanimously.

The following took part in the vote: de Clercq, chairman; Cano Pinto, vice-chairman; Stavrou, vice-chairman and rapporteur; Balfe (for Hindley), Marck (for Chabert), Miranda de Lage, Ortiz Climent (for Lemmer), Rossetti, Sainjon, Suarez Gonzalez and Visser (for David Martin).

At its meeting of 23 March 1993 the Committee on Foreign Affairs and Security decided not to deliver an opinion.

The report was tabled on 1 April 1993.

The deadline for tabling amendments will appear on the draft agenda for the part-session at which the report is to be considered.

A

DRAFT LEGISLATIVE RESOLUTION

embodying the opinion of the European Parliament on the Commission proposal for a Council decision on the conclusion by the European Economic Community of the Interim Agreement between the European Economic Community and the European Coal and Steel Community, of the one part, and Bulgaria, of the other part, on trade and trade-related matters

The European Parliament,

- having regard to Article 113 of the EEC Treaty,
 - having regard to the draft agreement on trade and trade-related matters initialled by the Commission (COM(93) 0046 final),
 - having been consulted by the Council pursuant to the Solemn Declaration on European Union (C3-0132/93 - 4900/93),
 - having regard to its resolution of 18 April 1991¹,
 - having regard to the report of the Committee on External Economic Relations (A3-0130/93),
1. Approves the conclusion and entry into force, in accordance with international public law and international practice, of the Interim Agreement between the European Economic Community and the European Coal and Steel Community, of the one part, and Bulgaria, of the other part, on trade and trade-related matters;
 2. Instructs its President to forward this opinion to the Council and Commission, and to the governments of the Member States and of the Republic of Bulgaria.

¹ OJ No. C 129, 20.5.1991, p. 142

B
EXPLANATORY STATEMENT

I. INTRODUCTION

1. The European Community and the old (Central and Eastern European) member countries of the Council for Mutual Economic Assistance (Comecon), including the former Soviet Union, took nearly thirty years to establish their dealings on a normal footing. Once they had finally succeeded in doing so, however, the pace of change in East-West relations speeded up dramatically. Following the EC-Comecon Joint Declaration of June 1987, the Community concluded trade and cooperation agreements with each of the Central and Eastern European countries in turn, in which it undertook, as far as commercial policy was concerned, gradually to abolish the quantitative access restrictions to which Eastern European products were subject on Community markets, to apply most-favoured-nation treatment, and to foster cooperation in areas of mutual interest and shared responsibility. An agreement along the above lines was concluded with Bulgaria in November 1990.
2. The collapse of the Eastern bloc and the Soviet Union marked the beginning of far-reaching political and economic reform processes, and Bulgaria has likewise been affected¹. Since February 1991, after the Communist dictatorship was ousted from office, the Bulgarian Government has been pursuing an ambitious programme of economic reforms². The upheavals are posing entirely new challenges for the EC. Independently of its own wishes, the Community is now being called upon, for the first time, to uphold the stability of the European continent, that is to say, not just its economic stability.
3. The EC, in some cases working in collaboration with the other OECD Western industrialized nations, has met its new responsibility by adopting comprehensive programmes providing technical and financial assistance and, where necessary, food aid (PHARE, TACIS) as well as by negotiating association agreements with the Central and Eastern European countries or partnership agreements with the succession states of the former Soviet Union. Free-trade areas are to be set up under the association agreements, and a political dialogue and cultural cooperation are to proceed in parallel to the existing economic cooperation. Moreover, the agreements will open the way for the associated countries to join the EC. The possibility of future accession is, from the political point of view, the most significant innovation.
4. After Europe agreements of the type described above had been concluded in late 1991 with Poland, Hungary, and what was then - still - the Czech and

¹ for a discussion of political developments in Bulgaria, see the Rawlings report, drawn up on behalf of the Committee on Foreign Affairs and Security (PE 202.918)

² on this subject, and for a discussion of the economic situation in Bulgaria, see the Stavrou report, drawn up on behalf of the Committee on External Economic Relations (PE 204.099)

Slovak Federative Republic¹, the EC opened negotiations in early 1992 with a view to concluding Europe agreements with Romania and Bulgaria. The Agreement with Romania was initialled on 17 November 1992 and signed on 1 February 1993, and the Agreement with Bulgaria was initialled on 22 December 1992 and signed on 8 March 1993. The main cause of the delay was the protracted attempts to form a government in Bulgaria.

5. By virtue of its substance, the Europe Agreement with Bulgaria is a 'mixed' agreement, that is to say, it has to be ratified by the EC Member States as well as by the contracting parties, the EC and Bulgaria. The process involved is a time-consuming one: the Europe agreements with Poland and Hungary, for example, have still not come before the parliaments of all the Member States over a year after they were signed. To cover a possible hiatus, the trade provisions of the Europe Agreement with Bulgaria, which fall within the Community's exclusive sphere of competence, are to enter into force under an Interim Agreement that need be ratified only by the Bulgarian Parliament and can be concluded by the Council, on behalf of the Community, after it has consulted the EP.
6. Article 113 of the EEC Treaty constitutes the necessary legal basis. The EP is not explicitly given a say, but, when the Solemn Declaration on the European Union was issued in July 1983, the Council promised to consult Parliament before concluding any significant international agreements. The Interim Agreement between the EC and Bulgaria must unquestionably be classed as a 'significant international agreement'. Although there is no doubt that the EP has to be consulted, the procedure nevertheless entails a further problem to the extent that Parliament will be required to give its assent pursuant to Article 238 of the EEC Treaty when the Europe Agreement proper comes to be ratified. By allowing the agreements to be split, Parliament is not forfeiting any of its rights with respect to the forthcoming ratification procedure. Interim agreements should be concluded purely as a stopgap measure and must not be misused for the purpose of undermining the prerogatives which the EP may exercise when association agreements are concluded.

II. AIM AND SUBSTANCE OF THE INTERIM AGREEMENT

7. The Interim Agreement is the means whereby the provisions to establish a free-trade area, liberalize trade in services and capital movements, and regulate competition and state aids, as laid down in the Europe Agreement, are to enter into force in advance of the Europe Agreement proper. The corresponding provisions of the 1990 trade and cooperation Agreement will accordingly be suspended. The term of validity of the Interim Agreement will cease when the Europe Agreement has entered into force. Contrary to the provisions of the agreements with Poland and Hungary, no date has been specified, since it was considered desirable to avert the risk that the Interim Agreement might expire before completion of the ratification procedure - if the latter were to be subject to lengthy delays - and consequently have to be extended. This is one instance in which the EC has learned from experience.

¹ Separate association agreements are currently being negotiated with the two succession states.

8. Article 1 of the Agreement explicitly states that cooperation between the two parties is to be based on respect for the principles of democracy and for human rights as enshrined in the Helsinki Final Act and the Charter of Paris for a New Europe. Democracy and human rights are thus made an integral part of the Agreement. The Interim Agreement also contains the following provisions:

(a) Free movement of goods

During the ten-year transitional period the two parties will gradually establish a free-trade area based on mutual and balanced obligations. Initially, however, the Community will move more rapidly towards free trade than will Bulgaria.

As far as industrial products are concerned, the two parties are to dismantle their tariffs, a general process to be phased over four years in the case of the Community and nine years in the case of Bulgaria; most quantitative restrictions and measures having equivalent effect will be abolished once the Agreement has entered into force. Trade in textile products, products falling within the scope by the ECSC Treaty, and processed agricultural products is covered by specific protocols. Under the 'ECSC' protocol, Bulgaria will be authorized to grant subsidies to restructure its steel industry over a five-year transitional period, and the Community will have the option of implementing safeguard measures. Furthermore, the Community will be required to phase out tariffs within five years, this being one difference from the Agreement with Romania, in which a six-year period has been laid down.

With regard to agricultural products, the two parties will grant specific reciprocal tariff concessions that will be implemented over a five-year time-scale; a safeguard clause applies in this instance. The wine sector is excluded from the scope of the Europe Agreement and will be covered by an *ad hoc* agreement (Bulgaria sets great store by the outcome). Under a future developments clause, also covering the fisheries sector, further reciprocal concessions may be agreed at a later date.

The chapter of the Agreement relating to free movement of goods sets out a number of accompanying measures, for example standstill and safeguard clauses, and also includes protocols on rules of origin and administrative cooperation and the specific provisions necessary to allow for measures laid down in the Act of Spanish and Portuguese Accession to the Community.

(b) Establishment and services

The stipulations of the Agreement relating to freedom of establishment and the provision of services are based on the following principles:

- as regards establishment, national treatment is to be granted on a footing of reciprocity, albeit with a limited number of exceptions. Moreover, Bulgaria will be given a longer time (possibly up to the end of the ten-year transitional period) to apply national treatment in the financial services sector. Again while the transitional period is running, it will be able to lay down exceptions to the fundamental principle of national treatment to apply in sectors undergoing restructuring or in difficulty or to protect infant industries;

- the provision of services is to be gradually opened up, on a basis of reciprocity, to include services rendered by companies or persons domiciled on the territory of one party to recipients domiciled on the territory of the other party.

There are specific provisions governing shipping, and the two parties will negotiate separate agreements on civil aviation and inland transport.

(c) Current account and capital movements

The provisions of the relevant chapter relate in particular to:

- the right to use convertible currencies for current account payments;
- free movement of capital for direct investment, realization, and repatriation of profits;
- an undertaking to refrain from introducing fresh exchange restrictions on capital moving between residents of the Community and Bulgaria.

During the first stage of the transitional period both parties will take the steps required gradually to pave the way for the enforcement of Community rules on capital movements.

(d) Competition and other economic provisions

The Agreement contains a number of provisions modelled on the EEC Treaty that prohibit infringements of free competition both as regards state aids and as regards concerted practices on the part of firms and abuse of a dominant position. Bulgaria will eventually be required to observe the principles of Community law where public corporations are concerned.

In addition, the Agreement allows the parties, under certain conditions, to make an exception to the general rule and adopt restrictive measures in the event of an imminent risk to or serious difficulties with the balance of payments.

With regard to intellectual, industrial, and commercial property, Bulgaria will take steps in the five first years with a view to affording a similar degree of protection to that existing in the Community. Public contracts are also to be opened up under the Agreement, on a basis of reciprocity and in accordance with the principle of national treatment.

(e) Institutional machinery

Given that the Interim Agreement is intended merely as a stopgap, it all but dispenses with setting up specific institutions. The only relevant provision stipulates that the Joint Committee established under the trade and cooperation Agreement shall also be responsible for implementing the Interim Agreement. There are no parliamentary bodies or a ministerial-level council of the type provided for in the Europe Agreement.

III. ASSESSMENT

9. Since the Europe Agreement and hence the Interim Agreement with Bulgaria are modelled largely on the earlier corresponding agreements with Poland and Hungary, to which the EP gave its assent in September 1992, Parliament can endorse both the substance and the procedure. However, the Agreement now proposed for conclusion differs in some respects from the existing agreements, as is essential in order to take account of Bulgaria's specific characteristics and to learn the lessons of experiences with the agreements with Poland or Hungary.
10. Variable asymmetry: although, under the Agreement between the EC and Bulgaria, the removal of customs barriers is to proceed on an asymmetrical basis, the timetable for opening up Bulgarian markets to EC products is more ambitious than that laid down for Hungary but less rigid than that laid down for Poland. When Bulgaria is compared with Hungary, the findings are surprising to the extent that the differences are plainly not attributable to the performance capacity of the two countries. It is obvious that Bulgaria has some ground to make up. The real purpose of the differences, which in fact are of no great consequence, is to ensure that the EC-Bulgaria free-trade area is fully in place at the same time as the EC-Poland and EC-Hungary free-trade areas, notwithstanding the fact that the preparations began 18 months later. Moreover, the EC and Bulgaria may both exercise the option of accelerating the pace of progress towards free trade if they consider it possible and desirable to do so (Art. 9).
11. Fair competition on open markets: Central and Eastern European countries are quite capable of exploiting the opportunities afforded by open markets, as has been demonstrated in the past year by Poland, Hungary, and the Czech and Slovak Republics. Their exports to the EC have increased sharply, and the EC's trade surpluses with Central and Eastern Europe have shrunk to virtually nothing. Although the Interim Agreement has not yet entered into force, Bulgaria has benefited from the improved terms of trade brought about by the trade and cooperation Agreement and from the tariff concessions granted under the Generalized System of Preferences (GSP) and has likewise expanded its exports (see tables 1 - 3). This trend is certain to be consolidated further once the Agreement has entered into force. Since the pressure of competition thus generated will in many cases be brought to bear on EC industrial sectors in crisis, and which are undergoing painful adjustment processes, steps must be taken to ensure that exports proceed under fair conditions, in other words that their price must not be artificially lowered as a result of government subsidies or unacceptable exploitation of labour or the natural environment. The Commission, which will serve on the Joint Committee, will have to insist on compliance with Article 34(4), the provision governing the forms of state aid that Bulgaria will be authorized to grant for a five-year period. At all events, entry into force of the Agreement must not lead to immediate disruption on EC markets, since the EC would be compelled in that case to take protective measures, invoking Article 34(6).
12. The special cases of steel and agricultural products: special arrangements have been laid down for the steel and agricultural sectors, differing to some extent from the provisions of the agreements with Poland or Hungary. Not least in view of the most recent problems caused by cheap Central and Eastern European imports, a special protection clause (Art. 5)

has been included in Protocol No. 2, governing steel trade with Bulgaria. The concessions made to Bulgaria in the agricultural sector are fairly sweeping in some cases, for instance as regards wine, but relatively less generous as far as other agricultural produce is concerned. Generally speaking, trade in agricultural produce is less important for Bulgaria than for, say, Poland or Hungary.

13. Rules of origin: in this area too, which, though technically highly complicated, is essential from the practical point of view in order to full effect to the free-trade preferences, the basis provided by the existing agreements has been expanded. To give an example, bilateral cumulation does not only apply to the EC and Bulgaria (under Article 2 of Protocol No. 4): a further form is permitted, involving Romania and Bulgaria. Under the relevant provisions, goods containing a given proportion of Romanian primary products are still deemed to originate in Bulgaria (and vice versa). This additional possibility for cumulation is greatly to be welcomed, since it will enable the two neighbouring countries to work out a sensible division of tasks. The one cause for irritation is that the possibility is formally set down only in the Agreement between the EC and Romania (Article 3 of Protocol No. 4 to the EC-Romania Agreement), whereas no comparable provision exists in the Agreement between the EC and Bulgaria. Furthermore, the EC should allow all Central and Eastern European countries and those EEA countries with which similar free-trade arrangements have been concluded to apply cumulation in the additional form described above with the aim of moving towards a genuine Pan-European free-trade area. The necessary adjustments would also have to be made to the stringent rules on territorial continuity (Protocol No. 4, Article 9) in order to lay the foundations for industrial cooperation among all the countries concerned.
14. Rules on competition and aids: the fact that Community law on competition and aids is to a large extent to be taken over, barring the above-mentioned special arrangements in the steel sector, can only be welcomed. It is to be hoped that the Interim Agreement will not prove difficult to implement because it does not incorporate any other areas of Community legislation on trade-related matters. Unlike the Association Agreement on which it is based, the Interim Agreement does not lay down obligations to approximate laws in other fields. The case for early ratification of the Europe Agreement is thus made even stronger, not only in the light of the numerous general political considerations, but also on grounds more directly related to commercial policy. On the other hand, the Europe Agreement is itself somewhat vaguely worded as regards the proposed moves towards approximation of laws on, for example, environmental protection, working conditions, or foodstuffs. It therefore remains to be seen what practical action the two parties will take as the Association progresses. The object of the Association, after all, is to bring about Bulgaria's ever-closer *rapprochement* with the EC, leading ultimately to full membership. The Interim Agreement is intended to be merely the first step in that process.

Community trade with Bulgaria, 1981-1991

1000 ECU

	EC-imports (cif)	EC-exports (fob)	Balance
1981	577,562	1,002,767	425,205
1982	627,420	1,059,384	431,964
1983	577,863	1,143,791	565,928
1984	556,422	1,253,150	696,728
1985	586,052	1,638,973	1,052,921
1986	548,909	1,472,341	923,432
1987	517,341	1,453,145	935,804
1988	461,695	1,405,823	944,128
1989	530,993	1,477,246	946,253
1990	582,964	900,827	317,863
1991 (1)	733,451	969,726	236,275
1991: average 1980/81/82=100	128.6	101.4	
1991 (2)	751,840	1,030,193	278,353
January-October: 1991 (2)	612,077	845,351	233,274
1992 (2)	731,616	877,764	146,148

Source: COMEXT, EUROSTAT

Production: European Parliament/Statistical Service

(1) D (W) only

(2) D (W) and D (E)

Community trade with Bulgaria by commodity classes, 1991				
	EC-imports (cif)		EC-exports (fob)	
	1000 ECU	- % -	1000 ECU	- % -
Total	751,847	100.0	1,032,908	100.0
of which:				
SITC 0+1	167,882	22.3	153,833	14.9
SITC 2+4	76,740	10.2	28,562	2.8
SITC 3	17,580	2.3	16,913	1.6
SITC 5	79,753	10.6	111,280	10.8
SITC 7	99,955	13.3	450,839	43.6
SITC 6+8	291,831	38.8	228,509	22.1

Source: CRONOS-FRIC, EUROSTAT

Production: European Parliament/Statistical Service

Note: SITC 0+1: Food, beverages and tobacco

SITC 2+4: Raw materials

SITC 3 : Energy

SITC 5 : Chemicals

SITC 7 : Machinery and transport eq.

SITC 6+8: Other manufactured products

Community trade with Bulgaria					
EC-imports (cif)	1000 ECU				
	1991		January-October:		
	1000 ECU	-%-	1991	1992	Index 92/91
Total	751,840	100.0	612,077	731,616	119.5
of which:					
France	73,144	9.7	62,426	79,838	127.9
Belg.-Luxbg	35,133	4.7	24,096	34,209	142.0
Netherlands	35,348	4.7	28,372	37,200	131.1
Fr Germany	257,305	34.2	212,690	240,569	113.1
Italy	135,741	18.1	113,334	155,008	136.8
Utd. Kingdom	54,573	7.3	43,754	55,996	128.0
Ireland	833	0.1	801	374	46.7
Denmark	11,006	1.5	6,587	11,642	176.7
Greece	125,904	16.7	101,437	89,488	88.2
Portugal	3,024	0.4	2,491	2,865	115.0
Spain	19,831	2.6	16,089	24,427	151.8

EC-exports (fob)					
	1991		January-October:		
	1000 ECU	-%-	1991	1992	Index 92/91
Total	1,030,193	100.0	845,351	877,764	103.8
of which:					
France	220,384	21.4	168,760	158,367	93.8
Belg.-Luxbg	37,683	3.7	32,088	30,410	94.8
Netherlands	43,761	4.2	37,443	39,867	106.5
Fr Germany	386,961	37.6	322,667	335,883	104.1
Italy	193,156	18.7	166,999	130,349	78.1
Utd. Kingdom	50,025	4.9	39,602	60,747	153.4
Ireland	230	0.0	213	207	97.2
Denmark	13,645	1.3	10,080	13,568	134.6
Greece	70,770	6.9	55,505	92,227	166.2
Portugal	4,087	0.4	3,940	4,725	119.9
Spain	9,492	0.9	8,054	11,416	141.7

Source: COMEXT, EUROSTAT

Production: European Parliament/Statistical Service