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R E P O R T

of the Committee on External Economic Relations

on investments in the countries of Central and Eastern Europe and the guarantees for those investments

Rapporteur: Mr Jean-Paul BENOIT

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A Series: Reports - B series: Motions for Resolutions, Oral Questions, - C Series Documents received from other Institutions (e.g. Consultations)

*	=	Consultation procedure requiring a single reading	**II	=	Cooperation procedure (second reading) which requires the votes of the majority of the Members of Parliament
**I	=	Cooperation procedure (first reading)	***	=	Parliamentary assent which requires the votes of the majority of the current Members of Parliament

C O N T E N T S

At its sitting of 11 December 1989 the President of the European Parliament announced that he had forwarded the motion for a resolution by Mr Siso Cruellas on the drawing up of an agreement on the reciprocal protection of investment between the European Community and the countries of Eastern Europe, pursuant to Rule 63 of the Rules of Procedure, to the Committee on External Economic Relations as the committee responsible and to the Committee on Economic and Monetary Affairs and Industrial Policy for its opinion.

At its meeting of 30 May 1990 the Committee on External Economic Relations decided to draw up a report and appointed Mr Benoit rapporteur.

At its meetings of 17 October 1990, 22 January 1992 and 22 April 1992 the committee considered the draft report.

At the last meeting the Committee on External Economic Relations adopted the motion for a resolution unanimously.

The following took part in the vote: De Clercq, chairman; Stavrou and Juncker, vice-chairmen; Benoit, rapporteur; Chabert, Guillaume, Janssen van Raay (for Gallenzi), Marck (for Lemmer), Moorhouse, Peijs, Price, Rossetti and Suarez Gonzalez.

The Committee on Economic and Monetary Affairs and Industrial Policy decided on 18 April 1990 not to deliver an opinion.

The report was tabled on 23 April 1992.

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

A

MOTION FOR A RESOLUTION

on investments in countries of Central and Eastern Europe and the guarantees for those investments

The European Parliament,

- having regard to the motion for a resolution by Mr Siso Cruellas on the drawing up of an agreement for the reciprocal protection of investment between the European Community and the countries of Eastern Europe (B3-0453/89),

- having regard to the political changes in Central and Eastern Europe since autumn 1989,

- having regard to the rapid developments in the former USSR, particularly since summer 1991,

- having regard to the EC investment programmes, PHARE, which are designed to aid the development process in the countries of Central and Eastern Europe,

- having regard to the cooperation agreements concluded with Poland, Hungary and Czechoslovakia,

- having regard to the growing array of economic and commercial links between the EEC and the countries of Central and Eastern Europe,

- having regard to its many reports on all aspects of rapprochement between the countries of Central and Eastern Europe and the EC,

- having regard to the report of the Committee on External Economic Relations (A3-0162/92),

A. whereas these countries cannot improve their economic conditions unaided;

B. noting the determination of Western countries to contribute to the development of Central and Eastern Europe, but also the inadequacy of the resources currently being marshalled for that purpose,

C. recognizing the need for a financial impetus to foster the market economy in these countries,

D. noting, also, that management and administrative practices and procedures in these countries hamper development,

E. whereas these countries have a sizeable economic and human potential which should ultimately be turned into effective performance,

F. recognizing the need for long-term aid designed to enable these countries gradually to take responsibility for their own development,

1. Takes the view that the Community should assist these countries in implementing an investment promotion and management policy, in close cooperation with the national economic and other authorities, business representatives and G 24;

2. Takes the view that - if they have not already done so - all Member States should conclude investment protection agreements with the countries of Central and Eastern Europe, in order to promote investments and guarantee their protection for the length of time agreed;

3. Takes the view, likewise, that in order to simplify matters, investment protection agreements concluded by Member States with the countries of Central and Eastern Europe must as far as possible have the same content and, if possible, be based on a standard Community text;

4. Takes the view that the Community should coordinate the work of institutions which guarantee or facilitate credit, such as COFACE in France, the Export Credit Guarantee Department in the United Kingdom, and the AKA in Germany;

5. Proposes the establishment of an investment observatory which would have the task of proposing incentive, guarantee and protection mechanisms covering Community investment in third countries and, more particularly, in Central and Eastern Europe, and of analysing the inadequacies of their economic, judicial and tax systems where competition and the market economy are concerned;

6. Takes the view that this observatory should be linked with the multilateral monitoring committee;

7. Considers that this observatory should submit an annual report to Parliament's Committee on External Economic Relations on the implementation and progress of investment in the countries of Central and Eastern Europe, which would be debated in Parliament;

8. Calls, therefore, on the Commission, the Member States and all public or private bodies able to contribute, to develop networks for the exchange of legal, commercial, economic and fiscal information between the EEC and the countries of Central and Eastern Europe, with a view to setting up a market economy;

9. Calls for the BERD to be given a key role in implementing this policy, and urges it to adapt its operational and funding arrangements accordingly;

10. Calls for closer cooperation among SMUs/SMIs in the Community and between Community SMUs/SMIs and their counterparts in Central and Eastern Europe;

11. Considers that this closer cooperation should be brought about by coordinating the work carried out by the investment observatory, and under the various Community initiatives, in particular EUROTECHNET, in an appropriate manner;

12. Considers that the observatory should be able to draw on a network of correspondents in each of the countries of Central and Eastern Europe and the new republics of the former USSR; proposes the setting up of economic observatories and high-level research institutions specializing in the economic development and laws of the countries of Central and Eastern Europe, able to provide the Community institutions and economic operators with useful information on investment in these countries, thus encouraging the establishment of undertakings and investment in these countries;

13. Urges that the aid to the various states and the various newly-independent republics of the former USSR should not result in a fragmentation or dilution of investment detrimental to the collective interests of the EC and the recipient countries;

14. Takes the view that the successful implementation of an investment policy will make for economic development and political stability in the countries of Central and Eastern Europe and the republics of the former USSR;

15. Takes the view that the G7 decisions will contribute to the success of an economic modernization policy in these countries, and hopes to see a significant increase in financial commitments by the United States and Japan in relation to these countries;

16. Considers that an investment policy can succeed only if the leaders and citizens of these countries make clear economic and legal choices and are able to marshal their efforts to put them into practice;

17. Instructs its President to forward this resolution to the Council, the Commission and the Member States, and to the governments of the countries of Central and Eastern Europe.

B

EXPLANATORY STATEMENT

INTRODUCTION

1. An initial frantic desire to invest in Eastern Europe

This period of enthusiasm lasted about a year and coincided more or less with the year 1990. It followed the political changes which occurred in these countries during the autumn of 1989. The outward-looking attitude of these countries is easily understood. Lack of foreign exchange and a heavy debt burden, the need to modernize their economies by appealing for outside assistance and to integrate themselves into the world economic system by all possible means coincide with the desire of the current authorities to give pledges of their desire to introduce thorough economic reforms and implement them effectively.

On the Western side, interest has been great for economic as much as political reasons. Investors who operate at an international level know that it is essential to be the first on the new market even if the profitability of that cooperation emerges only in the long or even very long term.

There was therefore a certain degree of coincidence between commercial and political points of view on the Western side during the initial phase.

2. A commitment soon to give way to disappointment and disillusion

A turnround occurred as early as January 1991.

Cases where investors are managing to establish themselves are not encouraging. The infrastructure must certainly be modernized or even completely revamped. Profitability, if any, will be a very long-term affair. Only investors who are able to wait quite a long time and invest enough can persist. The weakest are immediately excluded. All that remains are States, multinationals and certain very powerful national groups. There is thus a tendency for the potential flow of investment to the countries of Eastern Europe to be reduced to a relatively modest level, which in turn could hamper the efficacy of the reforms and of the efforts of the government authorities by being inadequate to meet their needs.

PART ONE: ASSESSMENT OF THE SITUATION

I. SIMILARITIES AND DIFFERENCES

1. Similarities

The decision-making process is thus based on criteria which are administrative rather than economic.

The economy is three-pronged:

(a) **The centre**, i.e. the politico-administrative machine as a whole which defines the strategy and more particularly, the allocation of investment by sector and the production levels desired. The maximalist principle: produce as much as possible with the available resources, leads to an emphasis on quantity rather than profitability.

(b) **The economic operators**: undertakings (which produce) and managers (administrations which organize the activity of a sector or a branch and thus control the undertakings).

By negotiating with the centre, where the distribution of resources by sector is decided, they endeavour to obtain as much money as possible and seek to achieve the most spectacular results so as to justify their claims. There is thus a certain amount of competition, but between branches of activity taken as a whole, not between undertakings working in the same sector. This competition is therefore a factor of inefficiency which perverts the system rather than a regulatory factor.

(c) **The users**: undertakings (when they buy), administrations (when they buy) and consumers.

Undertakings are in a position of strength when they are selling and of weakness when they are buying. Consumers depend on the goodwill of the sellers. Schematically speaking, one may say that it is not the customer but the seller who is king. This is a very different position from that experienced by operators in a market economy. One can imagine the difficulties which partners used to a market economy and those used to a state economy encounter in adapting to each other.

The mode of production is generally inefficient and productivity is falling. Productivity of labour apparently varies between 55% and 70% of the level in the West. Productivity of capital is apparently particularly bad. The maintenance at all costs of a high level of employment contributes to lowering production or at least to keeping it at a mediocre level.

The resulting produce is impossible to sell on western markets. The lack of competition and therefore of innovation and selection by market forces leads to supply which is inadequate in both quantity and quality.

The notion 'international system' as applied to the economy of these countries is very specific and differs fundamentally from that of the western world.

New difficulties are arising as a result of the disappearance of COMECON, which had some merits: that of maintaining a market for these countries' manufactured products. It has even been claimed that the USSR paid higher prices than it should have done for manufactured products from these countries. Conversely, Eastern Europe obtained Soviet oil at prices below world prices. The reduction in relations between the former COMECON countries to the lowest possible level led to a reduction in the sales of Soviet oil in 1990 of 15 to 20% over 1989 and to a parallel drop in purchases of manufactured products from the countries of Eastern Europe. Thus the countries of Eastern Europe have simultaneously lost the possibility of providing their industries with cheap raw materials and energy and possible outlets for their products. The new operating rules presuppose that trade will be carried out on the basis of world prices and payment in strong currencies. The cost of such a change will be high.

A possible solution would be gradually to transform COMECON into a free trade area, but this solution, which presupposes that the USSR will be integrated into it, seems very unlikely in the new political climate.

2. Differences between States

(a) **The GDR still exists**, no longer as an official state, but as a geographical and human entity which is still distinct from the FRG.

The luck of the former GDR is naturally to have the advantage of the German context into which it is now integrated. It is to be noted that foreign investors are often eliminated for the benefit of West German investors. The GDR remains a German matter which for the moment tends to be settled among Germans.

(b) **Certain countries have clearly opted for the western model, namely Poland, Hungary and Czechoslovakia.** These countries are known to wish to become fully integrated into the West, which has led them openly to express the desire to join the EC. The courage shown by their political leaders and sacrifices which have been made to allow the necessary transition suggest that this transformation should succeed in the long term.

(c) **Two other countries seem to stick to their former positions: Bulgaria and Romania.** There seems to be a very wide gap between political changes (or attempts at political change) and the economic situation, where thorough-going reforms are late arriving.

(d) **Two countries are breaking up without finding new models on which to rebuild: Albania (to a certain extent) and Yugoslavia.** Political difficulties here have taken on such proportions that these countries are torn by centrifugal movements which place their very existence in danger: religious, ethnic, regional, and other conflicts. It is clear that the priorities, or even emergencies, cannot be compared with those of the other countries of Eastern Europe.

(e) **The USSR remains a world apart.** It is obvious that its huge size alone distinguishes it from the other countries of Eastern Europe. There are certainly enormous difficulties: an economy to be reconstructed, separatist movements which are causing the Union to break up, hesitations about the nature and scope of the political and economic reforms to be carried out. The list is a long and familiar one. On the other hand, it is a country with enormous natural resources, a large population which could very quickly be in a position to develop those resources, an immense potential market and the ability to achieve self-sufficiency which makes various solutions possible and, despite everything, there is the fact that the USSR remains an actor on the world political stage.

3. <u>Difficulty of forming a true idea of these countries and of comparing their performance either with each other or with us by employing only our own assessment criteria</u>

In these countries in which prices were regulated, 'full employment guaranteed' and external trade strictly controlled, there are no statistics reflecting possible major economic imbalances.

The earlier statistics from these countries over-estimated growth. The new ones have yet to take into account the new goods and services produced and it is, for the moment, almost impossible to get an idea of the real competitive position of undertakings.

4. <u>It is necessary to know the specific cyclic operation of these countries and to understand the resulting investment policy</u>

(a) The economy of the countries of Eastern Europe works on a four-phase cycle:

- **Take-off**: investment authorizations increase, building sites proliferate. Projects absorb only limited material and human resources in the initial phase.

- **Acceleration:** construction sites grow, investment expenditure accelerates and its share of national revenue increases. Shortages develop. The construction sites, which are too numerous and more costly than expected, start to lack cement, steel, labour, etc. The shortages reach consumer goods. Thus, the cement which is lacking on the construction sites is taken from the building of housing. Steel is withdrawn from branches of manufactured consumer goods (cars for example) and allocated as a matter of priority to engineering.

- **Slow-down**: the worsening of shortages and proliferation of unfinished construction sites induces the centre to reduce the level of new investment authorizations and to allocate resources as a priority to the completion of projects already commenced.

- **Recession and recovery:** in order to bring shortages back to their normal level, the Centre freezes all new investment and speeds up the bringing into service of outstanding projects. As new production capacity starts functioning, supplies improve and external trade picks up. Recovery gets under way when the centre can relaunch investment.

(b) **Morbid hunger for investment and over-investment**

The Centre's ambitions always exceed the real capacity of the economy. It is impossible for the central decision-makers to estimate in advance the scale of error. This is only known once the error has been committed.

The struggle for access to resources requires excessive and scattered investment which is, therefore, inefficient. In addition, in order to obtain authorization to invest and an initial release of funds, applicants systematically understate the cost of their projects (often by 20-30%, but sometimes by 50% or more). The idea is that once construction sites are under way, they will have to be finished one day. This is indeed the case but the time taken to complete them is often very long and they have sometimes lost their raison d'être before they are completed.

(c) Consequences for foreign investors

It is necessary for investors to supervise the operation of construction sites at the closest possible level to that at which the work is actually done, in other words they need to have direct contacts with the undertakings where production is actually carried out. But investors are usually obliged to use other channels: the authorities in their own country, who in turn get in touch with the public administrations of the countries of Eastern Europe. It can be understood that these potential investors tend to give priority to contacts with the real decision-makers and to place their confidence in them rather than getting bogged down in technical considerations of the most trivial kind, which is normally the concern of the local authorities.

PART TWO: INVESTMENT PROMOTION AND PROTECTION IN CENTRAL AND EASTERN EUROPE

I. RELATION BETWEEN FOREIGN INVESTMENT BY A COUNTRY AND PROMOTION OF INVESTOR COUNTRIES' EXPORTS

1. Distinction between financing and investment

Financing consists of using oneself or - more often - entrusting to an entrepreneur capital which is shared out among the various production factors. Theoretically, the main value of an investment in the form of financial capital lies in the flexibility of its use and the possibility of measuring the profitability of the use of the capital. This type of investment is that made by bankers, who are investors par excellence.

Investments frequently take another form, namely in training and supplies of machines or technology as such. The entrepreneur then receives the staff to provide the training or the desired equipment. This practice is carried out in particular if the country benefiting from the investment is not in a position to provide the services itself and if it becomes advantageous to supply it to them directly. It is also the case when an investor is an entrepreneur who has men or equipment which he wishes to see used by his partners or subcontractors.

2. Description of investment - export interaction

It is useful to take a look at the organic link which exists between these two notions. The country which wishes to sell its production to another must naturally produce sellable goods and services of a nature and quality acceptable to a potential buyer, but this is only one facet of trade. The buyer country must have the necessary foreign exchange to pay for the products or at least be in a position to exchange them for other products which must also be of a type and quality desirable on the external market to potential buyers. Experience shows that a well-conducted investment policy is nearly always profitable in the long term.

II. HOW TO INVEST IN THESE COUNTRIES

1. Investors' margin for manoeuvre

These countries need capital, especially foreign exchange, but for most of the time this is not the most important thing. Above all they need new technologies, or at least those on a par with ours, and training for management, trade and in general to learn everything to do with western-style economic relations.

They are therefore obliged to accept the presence of many foreigners and to open their borders to our products. Any attempt to return to their old ways condemns them in advance to stagnation or regression. Internal political developments might of course lead to such behaviour. One might imagine certain countries choosing poverty or economic regression in order to keep their independence or out of an attachment to ideological concepts.

2. There is sometimes a wide gap between the priorities desired by these countries and those sectors in which the Western world can act.

Reciprocal interests do not necessarily coincide. The countries of Eastern Europe wish to succeed in developing their natural resources on a vast scale and on a long-term basis and Western undertakings are looking for quick profitability in high-performance sectors. The notion of complementarity of economies is not clear. The undertakings of Eastern Europe can often hope to be little more than subcontractors, which places them entirely in the hands of Western undertakings.

The priority traditionally given to heavy industries which the West considers out-of-date and unprofitable is another example of the difficulty of cooperating. The divergence of interests is increased by the existence of several rival countries in Eastern Europe as regards demand for investment and potential rivals as regards products to be sold.

3. The EBRD is operational but its resources are very limited and its procedures remain to be determined.

The ECU 1 bn it has available amounts to very little when it comes to sharing it out among the various countries. So each project is the subject of increasingly severe conditions. This institution can therefore for the moment only provide top-up aid.

4. **The same applies to the EIB,** which can only play a marginal, though useful, role.

5. The PHARE programme is the channel through which western investments are more or less obliged to pass.

The PHARE programme is a channel which meets the needs but it maintains and even increases the government-to-government nature of the relations.

The result is an undeniable lack of flexibility, but this practice has the merit of taking place in a clearly defined official institutional framework, in theory adapted to current conditions. One of its major disadvantages is that it automatically excludes potential small investors to the benefit of those whose power enables them to have high-level discussions with national leaders.

6. Principal objectives and areas covered by the PHARE programme: reminder of the principal projects

(The 1990 budget provided ECU 500 m in direct aid, the 1991 budget ECU 820 m).

- two multidisciplinary technical assistance programmes (ECU 10 m) for professional training and the promotion of trade and investment in Central and Eastern Europe;

- the implementation of the programme of trans-European mobility for higher education - Tempus (ECU 25 m) to modernize higher education, improve vocational training and foster contacts with Community institutions with the same aim: beneficiaries GDR, Hungary, Poland and Czechoslovakia.

  These countries benefit from 'personalized' aid in the following sectors:

  - imports of plant protection products;
  - environmental protection;
  - basic technical assistance for the Privatization Agencies;
  - sectoral programmes of food imports for animals and food additives for animals;
  - sectoral programmes of imports and technical assistance for SMUs;
  - imports of equipment for agriculture and the agri-food industry.

In general, it can be seen that the programmes concern very specific sectors which are part of the administrative field rather than direct investment in undertakings.

III. HOW CAN INVESTMENT IN THE COUNTRIES OF EASTERN EUROPE BE PROMOTED AND PROTECTED? PLAN PUT FORWARD BY THE COMMISSION[1]

1. **Investment flows must be considerably increased in a direct form** so as to **slow down the increase in the debt of the countries concerned and to familiarize them with the possibilities of the private sector.**

2. **The network of investment protection agreements between the Member** States **and the countries of Central and Eastern Europe is incomplete and must be completed as soon as possible.**

The Community credit insurance market is partitioned. Agencies in each Member State can provide cover only for enterprises established in that Member State. Coordination between national agencies providing export credit insurance is extremely limited. This increases the price and reduces the availability of cover for exporters and thus distorts competition. In many cases political and economic risks are judged too great, especially by smaller firms, and potentially profitable business opportunities are missed.

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[1] See SEC (90) 2123 final

3. **Particular efforts must be made to promote guarantees and credit insurance systems.**

- Extend insurance cover to increase the possibilities of financing exports to these countries;

- Improve the assessment of not only political but also commercial risks, in particular those arising from current reforms;

- Facilitate industrial cooperation in the Community, in particular to preserve the competitive position of Community exporters;

- Bring the risk cover policies of credit insurance agencies closer together, to reduce the handicaps of exporters where the policy is more restrictive.

4. **Joint ventures should play a major role under the PHARE programme,**

- to identify new projects and potential new partners;

- to take steps to set up other joint ventures;

- to provide a solution to capital requirements;

- to provide technical assistance where necessary to other joint ventures.

5. **Financial services should be strengthened in countries where Community undertakings are established.**

Community aid should concentrate on the creation of banking and credit insurance services and the development of securities markets to raise capital.

6. **The legal framework for investment must be more clearly and fully defined in the countries concerned.**

An end must be put to the vagueness surrounding company law, tax legislation, profit taxes, property rights, etc. in these countries, which is particularly great at a time when reforms are under way but where implementation is still incomplete.

7. **Information on business opportunities in these countries must be improved: extension of the staff and functions of the Commission's information offices in these countries**

Fairs, exhibitions, data banks, activities of chambers of commerce and undertakings should be made available by all possible channels and in particular official channels represented by our information offices, whose activities should perhaps be reconsidered and adapted to the host countries.

8. **Develop subcontracting**

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In the interests of brevity, we shall not describe the methods generally used to guarantee the financing of international investments.

IV. CERTAIN PROBLEMS ARE STILL UNSOLVED

These are either difficulties which have not yet arisen in practice or matters for which legislation must be finalized. Here are some examples:

1. **Reciprocity** of treatment for undertakings, in particular joint undertakings, established in the countries of Eastern Europe and the EC as regards investment opportunities, taxation, repatriation of profits, etc;

2. The **settlement of disputes** between undertakings, between undertakings and the authorities of the host countries, etc.;

3. The **assessment and payment of any damages and interest** arising as the result of a dispute;

4. The **different treatment** to be given where appropriate to partners according to their size: multinationals, large national groups, SMUs or SMIs. Generally speaking, SMUs need guarantees and protection. Legally speaking they are poorly placed to cope with the unknown situations which they encounter in foreign countries and hesitate to invest. Multinationals on the other hand sometimes encroach and one needs to be forearmed against abuse of dominant positions. They must be protected but others must also be protected against them;

5. **Reversion** to the previous situation remains theoretically possible: renationalization, return to a state economy, etc. Then what would happen to foreign investment in these countries? In fact the practicalities of doing without foreign investment would probably determine the solution adopted by the States concerned. The growing interdependence of the countries of the whole world should lead to relatively flexible solutions.

V. WHAT THE TECHNIQUES AT THE INVESTORS' DISPOSAL SHOULD MAKE POSSIBLE

1. Avoid casting the net too wide

This serves no useful purpose. It is necessary to determine in which country, in which sector of activity in that country, and at what level investment is profitable for the investor and useful for the country in which the investment is made.

2. Protect both public and private investment

The safest technique seems to be to create a mutual guarantee fund supplied by the Community budget and open as a priority to undertakings specializing in activities which yield a quick return on investment.

3. **Determine the eligibility threshold of projects**

In other words, investors' plans should be studied and monitored by officials of an economic 'observatory' specialized in the analysis of the economic activities of the countries of Central and Eastern Europe. This means that the guarantee fund should be accompanied by a market survey fund to be carried out before investment actually takes place.

4. **Obtain an increase in capital at Community level with a view to ensuring a greater flow of investment to the countries of Central and Eastern Europe.**

(a) Obtain an increased capital endowment for organizations such as the EBRD;

(b) Increase the financial resources available from public funds in the banking sector;

(c) Set up a programme such as PHARE.

5. **An illusion which must not be encouraged**

For private investors, investment goes hand-in-hand with risk. Business can never be risk-free. There can be no question of using public funds to guarantee risks inherent in bad business deals, bad management or bad commercial policy. Protection of investors can only be relative.

VI. CONCLUSIONS

1. Investing in the countries of Eastern Europe remains difficult and uncertain. Their precarious economic conditions, the vagueness of their laws and the social and institutional insecurity arising from the upheavals experienced by these countries are all obstacles;

2. Investing in a balanced manner is no less difficult. Effective account must be taken of the mutual interests of partners who appear very different as regards both their financial or technical means and their social structures and needs;

3. There exists the potential danger of colonial-type relations growing up between the highly industrialized countries and poor countries ready to accept unequal conditions of trade in order to ensure their survival. We have known since 1960 that such relations are not only bad in themselves but that the victims do not succeed in getting out of the system thus set up. We must therefore avoid going into it;

4. The most satisfactory solution presupposes even greater integration of the whole of the European continent into a continental whole with a central pivot represented by the EC and involving all the countries of EFTA and all the countries of Central and Eastern Europe in balanced political, economic and institutional conditions;

5. Finally, we may suggest the setting up of an 'agency for development and investment in these countries' as an integral part of Community organization and action by the Member States, which will be able to act in the light of the real situation in these countries without adding to local bureaucracy.

Main sections of activity on which western investors should concentrate by country

Investment in these sectors should be the most profitable and lead to investment in other sectors.

I.	USSR	- agri-food industry - transport - energy - telecommunications
II.	GDR	- heavy industry exploiting coal, natural gas, copper, lignite and silver - production of capital goods and semi-finished products
III.	Hungary	- diversified consumer goods, in particular motor cars
IV.	Czechoslovakia	- nothing very obvious despite substantial success in certain sectors: glass, ceramics, porcelain, wood, paper, paper pulp and printing
V.	Romania	- an economy which is too chaotic for the moment but which has possibilities for tourism, in particular winter tourism
VI.	Bulgaria	- Mediterranean-style tourism
VII.	Yugoslavia	- the political situation prohibits any plans for the moment - transport infrastructure (rail, roads, ports) is a natural sector for EC investment
VIII.	Albania	- oil and tourism

Annex II

MOTION FOR A RESOLUTION (B3-0453/89)
pursuant to Rule 63 of the Rules of Procedure
by Mr SISO CRUELLAS

on the drawing up of an agreement for the reciprocal protection of investment between the European Community and the countries of Eastern Europe

The European Parliament,

A. whereas the Member States of the European Community must help to consolidate the moves being made towards democracy in Eastern Europe,

B. whereas this kind of support must help, essentially, to consolidate new financial structures which will strengthen the economies of the Eastern European countries,

C. whereas for this reason it is essential to set up mechanisms for the reciprocal protection of investments, in order to guarantee that the economic entities of the Member States contribute, by their investments, to the social and economic changes in the countries of Eastern Europe.

1. Calls for an agreement to be drawn up between the European Community and the State-trading countries ensuring the reciprocal protection of investments;

2. Urges that this agreement should provide an adequate framework to safeguard the investments of Community businesses in Eastern Europe;

3. Recommends that this agreement should be ratified by the parliaments of the countries signing the agreement;

4. Instructs its President to forward this resolution to the Council and the Commission of the European Communities.