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R E P O R T

of the Committee on External Economic Relations

on industrial and infrastructure investments in Poland

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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 a majority of the current Members of Parliament for rejection or amendment

**I

= Cooperation procedure (first reading)

= Parliamentary assent which requires the votes of a majority of the current Members of Parliament

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At the sitting of 11 June 1990 the President of Parliament announced that in accordance with Rule 63 of the Rules of Procedure he had referred the motion for a resolution by Mr Alber, Mrs Braun-Moser, Mr Moorhouse, Miss McIntosh, Mr Brok, Mr Cano Pinto and Mr Pasty on industrial and infrastructure investments in Poland to the Committee on External Economic Relations as the committee responsible and to the Committee on Budgets and the Committee on Economic and Monetary Affairs and Industrial Policy for their opinions.

At its meeting of 17 July 1990 the Committee on External Economic Relations decided to draw up a report and appointed Mr Tsimas rapporteur.

At its meetings of 1 March 1991, 18 March 1991, 3 April 1991 and 29 April 1991 it considered the draft report.

At the last meeting it adopted the draft resolution unopposed with 5 abstentions.

The following took part in the vote: De Clercq, chairman; Cano Pinto, first vice-chairman; Stavrou, second vice-chairman; Moorhouse, third vice-chairman; Tsimas, rapporteur; Da Cunha Oliveira (for Benoit), De Vries, Hindley, Izquierdo Rojo (for Bird), Lemmer, Magnani Noya, Marck (for Estgen), Miranda de Lage, Peijs, Porto, Randzio-Plath, Rossetti, Sonneveld (for Gallenzi), Titley and Visser (for Junker).

The explanatory statement will be published separately.

The Committee on Economic and Monetary Affairs and Industrial Policy decided on 16 October 1990 not to deliver an opinion.

The report was tabled on 2 May 1991.

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 industrial and infrastructure investments in Poland

The European Parliament,

- having regard to recent political changes in Poland and the emergence of a pluralistic, parliamentary democracy in that country,
 - having regard to the critical economic, social, environmental and infrastructure problems facing Poland,
 - having regard to all the attempts made by the Polish Government to improve the economic situation and immediately to set the foundations for a market economy linked to the world economic system,
 - having regard to progress made so far in political, economic and trade relations between the European Community and Poland,
 - having regard to the emergency economic and food aid granted to Poland by the Community and other international organizations and non-EC countries to help it tackle the most critical problems it now faces,
 - having regard to the contribution made by the 24 OECD member states which have cooperated to bolster the economies of the countries of Central and Eastern Europe (the PHARE programme),
 - having regard to all the European Parliament resolutions on developments in Poland and the reports drawn up in this connection by the relevant committees, and notably the Committee on External Economic Relations,
 - having regard to the continuing efforts made by the European Community to upgrade EC-Polish relations and to help this European country, notably by entering appropriate items in the 1991 budget and issuing a mandate for the Commission to open negotiations with the countries of Central and Eastern Europe with a view to concluding association agreements, known as 'European agreements',
 - having regard to its resolution of 18 April 1991 on a general outline for association agreements with the countries of Central and Eastern Europe (A3-0055/91)¹,
 - having regard to the motion for a resolution by Mr Alber et al. on industrial and infrastructure investments in Poland (B3-0848/90),
 - having regard to the report by the Committee on External Economic Relations (A3-0115/91),
- A. having regard in particular to the critical state of the Polish economy which is crippled externally by its enormous foreign debt burden (US \$40 bn) and internally by industrial and infrastructure weaknesses,

¹ Minutes of the sitting of 18 April 1991, Part II, Point 8

- B. welcoming the breakthrough which was achieved at the recent G7 meeting in New York, when it was agreed that Poland should benefit from debt relief for over a third of its initial debt on condition that it reaches an accord in on-going talks with the IMF on a three-year economic reform programme,
- C. welcoming the decision of the Paris Club to waive 50% of the US\$ 30 billion Polish debts on 14/15 March 1991,
- D. whereas, more than any other international organization, the European Community has a key role to play in helping Poland overcome this economic crisis and in completely overhauling and restructuring the economy with the following steadfast objectives: the development and consolidation of the fledgling Polish democracy, the creation of a market economy and the safeguarding of all social rights of Polish citizens in a climate of general economic and social well-being,
- E. whereas the fact that the Commission of the European Community has assumed the task of coordinating Western aid to Poland (and other Eastern European countries) is a great political success and a mark of international recognition; this should be used to full account both now and in future so as to enable Poland - and maybe other Central and Eastern European countries - to accede to the European Community when conditions are right,
- F. whereas the main task facing the Polish economy today is to create the preconditions for the transition towards a market economy and, in view of the present economic structure, i.e. the system of bureaucratic management of the economy by the state and central planning, the first priority must be to introduce the primary accumulation of private capital, a key stage in the development of a market economy,
- G. whereas under the present circumstances - a centrally planned economy in which relations between the production and distribution of goods and services have largely broken down - the primary accumulation of private capital of production cannot flourish without injections of foreign investment capital, in tandem with a liberalization of the structure of ownership in Poland coupled with the creation of a judicial and ideological superstructure suited to the times and geared to the construction of a completely new democratic, modern, productive and socially just society,
- H. having regard to the memorandum submitted by the Polish Government in September 1989 on its foreign aid requirements containing a number of bold proposals for overcoming the crisis and restructuring the Polish economy with the generous injections of foreign capital from banks and private sources,
- I. whereas Poland's foreign economic relations were until recently determined by Polish membership of COMECON and its principal foreign economic policy objective was to reduce as far as possible Poland's economic and technological dependence on the western industrialized countries, and whereas this situation was aggravated by the west which used the COCOM list as a cold war policy instrument with the result that some 70% of Poland's external trade was conducted with other COMECON countries and

this had devastating consequences for its economy, trade and efforts at technological modernization,

- J. whereas infrastructures (telecommunications, transport, energy, vocational training), are a very important factor in attracting foreign investment capital and in ensuring the success of domestic economic programmes to modernize industry which at present is not only causing irreversible damage to the environment but is also lagging approximately 20 years behind Western Europe as far as technology is concerned,

1. GENERAL PROPOSALS – POLITICAL PRECONDITIONS

1. Welcomes the fact that the Polish leadership and the Polish people have demonstrated their firm commitment to political reform in the process of democratization; the creation of a stable and balanced political system will enable the necessary economic reforms to be consistently pursued and the economic programme announced by the government to be implemented as scheduled;
2. Notes also the need for a sound macro-economic policy programme with the following objectives to be announced and implemented:
 - the curbing of inflation by pursuing a policy of monetary stability,
 - a reduction of public deficits by eliminating unjustifiable and non-productive spending,
 - the efficient and productive use of foreign capital inflows in the form of loans and foreign aid,
 - the international convertibility of the zloty and the development of bank interest rates according to the mechanisms of the free market,
 - taking into account of private property in connection with loans for physical capital formation,
 - incentives for savings capital formation in order to lessen dependence on foreign capital;
3. Calls also on the European Community both in its own right and within the framework of the OECD to play a key role in renegotiating Poland's external debts with the aim of helping to bring about a 50% debt remission;
4. Calls also on the other OECD countries and the international credit institutions to consider the following key questions:
 - how much economic aid does Poland need to overhaul its economy (pay off its debt and make new investments)?
 - how much is it able to pay off today and over the following ten years?
 - how much capital does it need in Western aid?
 - how much in loans at favourable interest rates?
5. Welcomes the Community's initiative – justified in view of its historical responsibilities towards Poland – to give sureties to the European Investment Bank to cover any losses incurred on loans granted to Poland and Hungary, but at the same time stresses that it is not enough to limit this measure to one year – it should be continued to cover any new loans granted by Poland so that efforts to overcome the economic crisis are seen to be part of a multiannual aid programme based on Community financial

forecasts and international capital investment in Eastern Europe, particularly Poland;

6. Points up, in addition, the important role of the EBRD, the PHARE programme and future financial protocols for establishing a positive climate for investment; believes that financial cooperation must extend beyond 31 December 1992 and underscores the need for the activities of the EIB and EBRD and bilateral cooperation involving the Member States to be coordinated by the EC;

2. SOURCES OF INTERNATIONAL FINANCIAL AID FOR POLAND

7. Considers that the main source of aid for Polish efforts to restructure and overhaul the economy should be private foreign capital making productive investments in joint ventures primarily with SMUs with Polish capital;
8. Points out that foreign investors must be able to purchase business sites, since this will strengthen their long-term interest in investment and, as a result, they will not take their profits out of the country;
9. Stresses that the second most important source should be the Community which should make provision in the Community budget for emergency aid and the implementation of specific programmes in key areas (vocational training, infrastructures, energy, the environment and technology) and conclude loans with the EIB and EBRD; however, this financial aid should be granted subject to specific guarantees of effectiveness:
 - (a) it must be based on specific studies and shared out evenly among the areas requiring assistance following the selection by the government, in collaboration with the Commission, of the most suitable areas on the basis of priorities, in order to ensure compatibility,
 - (b) a commitment must be forthcoming to channel a considerable proportion into infrastructure projects so as to benefit directly productive investments in both the private and public sectors chiefly in the fields of transport and tourism, telecommunications, the environment, technology transfer, energy and energy supply infrastructures,
 - (c) it must aim to increase productivity since this will have a knock-on effect in other areas in the long term (economies of scale);
10. Warns all the remaining OECD countries that they should let the Community undertake this historical economic intervention programme for Poland by itself and should not be tempted to think that their own responsibilities are limited to increasing trade with Poland and plundering this 'virgin' market;
11. Warns the governments of the Community Member States that these financial and economic efforts in favour of Poland and other Eastern European countries must not be undertaken by diverting appropriations already earmarked for existing Community programmes and policies aimed at promoting its internal development, its economic and social cohesion and its regional policy in the less-prosperous Member States;

3. INVESTMENT PRIORITIES

12. Proposes that the Polish Government should launch a large-scale information campaign directed at potential investors worldwide, setting up a data bank in Warsaw, 'information investment desks' and 'Euro-information investment desks' in Poland and abroad to provide information for and assist private investors in deciding where, how and when to invest in Poland. To the same end, the Polish Government should organize, at regular weekly intervals, information exchange reports, business weeks and generally take every step to encourage the two-way flow of economic, statistical and commercial information to and from foreign countries;
13. Reminds the Polish authorities that, as regards infrastructure improvements, top priority should be accorded to those areas which increase the productivity of private investments (for instance, telecommunications, transport and tourism, housing construction, banking system) and broaden the productive base of the economy;
14. Emphasizes that the 'human assets' will play a key role in this effort and advises the Polish authorities and the Community that special importance must be attached to social programmes for training and retraining a significant proportion of the workforce in vital sectors, notably in business administration; a fair number of Social Fund social programmes may be used in this connection, but new programmes must also be adopted, specially attuned to the needs of the countries of Central and Eastern Europe on the basis of Community initiatives;
15. Stresses that Poland's environmental problems must be tackled forthwith, by investing in up-to-date, clean technology and environmental technology, since otherwise all efforts to redress the economy will prove fruitless; it should be noted in this connection that
 - 35% of the population lives in polluted areas, and
 - a sum of US \$24 billion - 50% of Poland's present external debt - is needed merely to clean up and protect the waters of the Baltic;
16. Considers therefore that solutions to environmental problems must feature prominently in the Polish Government's plans and the Community's action programmes, and that between 20% and 25% of all appropriations allocated to Poland should be used for environmental measures; considers also that these are transboundary problems which cannot be effectively tackled by actions restricted to Polish territory;
17. Calls therefore for a pan-European forum to be set up to draw up a special environmental protection action plan for Central Europe and hopes that the non-EC countries of Central Europe will express a strong interest in taking part in such an initiative;
18. Stresses that, if costly adjustment measures are later to be avoided, the Community must ensure that environmental action programmes are included from the outset in regional development projects;
19. Calls on the Commission, in close cooperation with the Polish authorities, to take immediate measures to gather and evaluate data regarding Poland's

scientific and technological potential, with a view to drafting action programmes in this critical sector;

20. Believes that moves must begin to give Poland and other Eastern European countries immediate access to the Community's scientific, technological and research programmes and calls on the Commission therefore to review the present framework programme for research and technological development for 1990-1994 which will be wholly unable to satisfy such requirements, unless there is a drastic increase in the budget, and consequently, in the Community's own resources; in this connection, the Community must immediately abandon the outdated cold-war COCOM policy, except - for the present - in so far as it concerns security matters, arms and the Community's foreign policy, another reason being that the restrictions imposed by the COCOM list conflict with the objective, under the association agreement, of a free-trade area;
21. Reminds the Commission and the Council that the dynamic ties now being forged with the EFTA countries must be turned to good account in granting aid to Poland and the Eastern European countries; this group of countries which is involved in cooperation with the Community must help create a single economic and social area in Central Europe by acting as a bridge between the European Community and the former COMECON states, notably as regards investments and in the technological and commercial spheres; they should also assume specific responsibilities and address the needs of Poland and other Eastern European countries without shirking the economic costs this may entail and not merely opt for an easy way out by upgrading and improving their relations with the Community, without incurring the slightest cost, particularly with the other countries of Central and Eastern Europe;
22. Takes the view that the Community must make great efforts to tackle these problems owing both to the feeble resources currently available in the budget for science and research and the absence so far of a single European policy for this sector; if this state of affairs continues, widespread fears of Japanese and American encroachment will, unfortunately, come true;

4. INDUSTRIAL COOPERATION AND DEVELOPMENT FRAMEWORK

23. Proposes the introduction as soon as possible of the relevant framework in the economic, industrial and commercial sector geared to the economic conditions of the market and open to the foreign economic environment, placing special emphasis on achieving the necessary compatibility between the two different economic and industrial models existing in the West and Poland. To this end, immediate legislative regulations must be introduced as a basis for adjustment and compatibility in the following sectors:
 - customs legislation
 - collection, analysis and exchange of statistical information
 - company law, the law on cooperatives and joint ventures
 - working conditions in the private sector
 - tax system governing physical and legal persons, notably ensuring rights to market shares in privatized state industries and the export of profits
 - modernization and compatibility with accounting systems

- confirmation of ownership rights and implementation as soon as possible of the arrangements adopted to resolve the issue of ownership in connection with expropriated business and land, this being an essential prerequisite for investment,
- operation of a banking system to serve private investors too,
- assistance for SMUs,
- introduction of specific rules on competition,
- granting of mortgage loans (physical capital),
- authorization for foreign banks to extend foreign currency loans to Polish firms (or joint ventures),
- arrangements governing the acquisition of business sites,
- establishment of a land register for registering land owners,
- establishment of chambers of industry and of commerce and foreign trade and industrial associations,
- arrangements giving practical expression to freedom to trade,
- the abolition of the cumulation ban in connection with the rules of origin;

24. Proposes also that the Polish Government give greater attention to the creation of SMUs which have proved to be more flexible and more profitable in the present climate. It should also turn its attention to new industrial sectors, notably light industry, consumer goods and the services sector;
25. Draws attention to the critical role played in industrial cooperation by the limitation and final abolition of obstacles to industrial patents, certification procedures and trials for industrial products. For this reason, proposes that the Polish Government contribute to the work of the specialist body for standardization and certification within the framework of the association agreement (CEN, CENELEC, ETSI);
26. Proposes that the Commission consider immediately the possibility of extending in the medium-term the BC-NET (BUSINESS COOPERATION NETWORK) to Poland which will speed up contact of likely investors with developing investment conditions and investment bodies in Poland;
27. Notes also that the modernization, restructuring and wider privatization of agriculture, with a view to creating a new agricultural industry in Poland with Community know-how, constitutes - in the medium-term - the best solution for Polish industry, as this sector in particular will contribute a large share of the added value of Polish industrial output which is essential for the Polish economy in view of its enormous foreign debt;

5. THE FUTURE OF EC-POLAND RELATIONS

28. Welcomes wholeheartedly the proposal put forward by the Commission and the Council's mandate forthwith to begin negotiations with Poland (and other Eastern European countries) with a view to concluding an association agreement with the Community; this initiative will further reinforce the Community's role in the continent of Europe and lay the foundations for a new political structure unifying and encompassing the whole of the European continent which must no longer be rent by divisions;

29. Welcomes also the Council's proposal to set up simultaneously an association council and a joint parliamentary committee to give priority to the political dialogue, in the context of association agreements, and upgrade in institutional and practical terms the European Parliament's role in the Community's external relations. At the same time, the Council should realize that its innovative decision must be continued in future and extended to other issues and in other directions;
30. Reminds the Commission and the Council that association agreements require the assent of the European Parliament and therefore insists that the Commission and the Council ensure that Parliament is kept fully involved in the negotiations at all stages;
31. Reiterates its strong objection to the fact that Parliament was not consulted in connection with this mandate and the terms of this mandate, in breach of the Single Act which provides that association agreements can only be adopted and ratified with the assent of the European Parliament (Article 238/EEC);
32. Instructs its President at the same time to enter into negotiations with the Commission and the Council in order to reach a binding interinstitutional agreement that works out the institutional set-up in the Association Agreements in detail;
33. Considers that these new 'European Agreements' and the trade cooperation agreements already concluded with former COMECON countries will also constitute an appropriate statutory framework for attracting private investments to these countries, and will at the same time further open Community trade markets to products from these countries;
34. Takes the view that Poland and the Community must conclude protection agreements for foreign investment and intellectual property to safeguard foreign investors in Poland and to bring about a stable and sound investment climate, which is what the countries of Eastern Europe need above all else;
35. Considers that, as part of measures and programmes to support Poland, provision must be made for monitoring committees composed of technical experts to monitor the implementation of aid initiatives in Poland, to avoid financial maladministration and circumvent bureaucratic barriers and other practical problems;
36. Emphasizes that the Member States must fully understand at an early stage that the time has come for the Community's own resources to be drastically and generously increased to enable it to play its role on the European and world stage and to honour all the commitments it has entered into in connection with:
 - the Single European Act
 - German Unification
 - Economic and Monetary Union
 - the future Political Union
 - its agreement to help the countries of Central and Eastern Europe;

the present limited budget which amounts to only 1.2% or so of Community GNP is inadequate to attain these major historic objectives.

37. Instructs its President to forward this resolution to the Council and the Commission, the OECD Secretariat and the Polish Government.

MOTION FOR A RESOLUTION (B3-0848/90)

by the following Members: Alber, Braun-Moser, Moorhouse, McIntosh, Brok, Cano Pinto and Pasty

pursuant to Rule 63 of the Rules of Procedure

on Polish industrial and infrastructure investments

The European Parliament,

- having regard to its resolutions on the political and economic situation in Poland, February 1990,
- A. drawing attention to the need to provide finance of the necessary scale to enable investments in Polish industrial modernization and infrastructure and, in particular, to the memorandum of the Polish Government of November 1989 to the Commission of the European Communities,
- B. mindful of the economic reforms introduced on 1 January 1990 in conformity with recommendations by the International Monetary Fund, which included the internal convertibility of the zloty, the progressive removal of subsidies on staples, the setting of interest rates at market-related levels and the abolition of the command economy,
- C. aware of the Polish external debt burden estimated at \$40 billion,
- D. concerned to ensure that a free democratic Poland develops with a reliable economy, capable of satisfying normal debt and investment conditions,
- E. inviting Member State governments and private companies to encourage private investment in Poland,
- 1. Calls for examination of Poland's estimated financial requirements and debt obligations and for appropriate recommendations;
- 2. Calls on its competent committee to make budgetary recommendations for a Community role in Polish industrial and infrastructure renewal;
- 3. Requests its President to transmit this resolution to the Commission, the Council and the Polish Government.

