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R E P O R T

of the Committee on External Economic Relations

on a general outline for association agreements
with the countries of Central and Eastern Europe

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*	= Consultation procedure requiring a single reading
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**II	= Cooperation procedure (second reading) which requires the votes of a majority of the current Members of Parliament for rejection or amendment
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**I	= Cooperation procedure (first reading)
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***	= Parliamentary assent which requires the votes of a majority of the current Members of Parliament
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By letter of 1 October 1990 the Committee on External Economic Relations requested authorization to draw up a report on a general outline for association agreements with the countries of Central and Eastern Europe.

At the sitting of 26 October 1990 the President of the European Parliament announced that the committee had been authorized to report on this subject and that the Committee on Youth, Culture, Education, the Media and Sport had been asked to deliver an opinion.

At its meeting of 31 October 1990 the Committee on External Economic Relations appointed Mrs Randzio-Plath rapporteur.

It considered the draft report at its meetings of 29 January 1991, 7 February 1991 and 1 March 1991.

At the last meeting the committee adopted the motion for a resolution unopposed with one abstention.

The following took part in the vote: De Clercq, chairman; Cano Pinto and Stavrou, vice-chairmen; Randzio-Plath, rapporteur; Braun-Moser, Ceyrac, Gallenzi, Izquierdo Rojo (for Bird), Lemmer, Magnani Noya, Melandri (for Aglietta), Miranda de Lage, Peijs, Titley, Tsimas and von Wechmar (for de Vries).

The opinion of the Committee on Youth, Culture, Education, the Media and Sport is attached to this report.

The report was tabled on 13 March 1991.

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

MOTION FOR A RESOLUTION

on a general outline for association agreements
with the countries of Central and Eastern Europe

The European Parliament,

- having regard to its resolution of 10 July 1990 on scientific and technological cooperation between the EC and the countries of Central and Eastern Europe (A3-0174/90)¹ and its resolutions of 13 July 1990 on political developments in Central and Eastern Europe including the Soviet Union and the European Community's role (A3-0172/90)² and on the additional priority tasks for the European Community as a result of the changed political situation in Central and Eastern Europe and the improved economic performance of the EC (B3-1478/90)³,
 - having regard to the communication from the Commission on a general outline for association agreements with the countries of Central and Eastern Europe (COM(90) 398 final),
 - having regard to the final declarations of the CSCE Conference in Bonn in May 1990 on economic cooperation and the CSCE Conference in Paris in November 1990 on political cooperation in Europe,
 - having regard to the Council's negotiating brief to the Commission on association agreements with Poland, Czechoslovakia and Hungary,
 - having regard to Rule 121 of its Rules of Procedure,
 - having regard to the report of the Committee on External Economic Relations and the opinion of the Committee on Youth, Culture, Education, the Media and Sport (A3-0055/91),
- A. whereas the political and economic upheavals in Central and Eastern Europe have opened up new prospects for cooperation between the EC and its Member States on the one hand and these countries on the other,
- B. whereas relations between the countries of Central and Eastern Europe are changing and new forms of regional cooperation to resolve problems of mutual interest will become possible,
- C. whereas it is incumbent on the EC and its Member States to encourage by all the means at its disposal the introduction of democracy, the multiparty system, the rule of law, respect for human rights and the transition to a free, socially and environmentally-oriented market economy compatible with

- D. having regard to the economic and financial support given to the countries of Central and Eastern Europe by the 24 Western industrial nations, in addition to bilateral forms of aid, particularly under the PHARE programme,
- E. having regard to the trade and cooperation agreements concluded by the EEC with the countries of Central and Eastern Europe, including the USSR,
- F. whereas, although these agreements are a welcome first step towards improving trade relations and economic cooperation, in view of the problems faced by these countries, cooperation over and above these agreements is needed as part of an association that must be seen in the context of the possible accession of these countries to the EC, an opportunity open to any democratic state in Europe under Article 237 of the EEC Treaty,
- G. having regard to the links in timetable and substance between the talks with the EFTA countries on setting up a European economic area and talks with the countries of Central and Eastern Europe on association with the EC,
- H. having regard to Article 238 of the EEC Treaty, which provides that association agreements can only be concluded with the assent of the European Parliament,
1. Welcomes the talks on association with Poland, Hungary and Czechoslovakia, and supports the Commission and Council in their efforts to conclude association agreements as soon as possible, so as to facilitate progress in political and economic reconstruction;
 2. Deems it necessary for the countries of Central and Eastern Europe to negotiate free trade agreements with the EFTA countries at the same time as negotiations proceed on the association agreements, so as not to hamper the formation of a European economic area;
 3. Considers that it would be desirable for the countries of Central and Eastern Europe to develop forms of multilateral cooperation between themselves and that it is necessary to include in the European agreements a horizontal political dimension to support such cooperation;
 4. Welcomes the fact that the association agreements are being extended to cover political, environmental and cultural cooperation to make close coordination possible in all areas;
 5. Emphasizes the particularly urgent problem of safeguarding the pluralist nature of the news media in the countries of Central and Eastern Europe, and in particular of the audiovisual media;
 6. Deems it necessary for the preamble to each association agreement to stress the open nature of the Community and the possibility of acceding to it under Article 237 of the EEC Treaty and to contain a timescale for the earliest possible application for accession by each country;
 7. Considers that the preconditions set out in the preamble to the Commission communication - political reform and economic reconstruction - already exist in the three countries with which the Community has opened talks;

8. Approves the goal of establishing a linkage between liberalization and reform in the association agreements as called for by the Paris CSCE Conference;
9. Takes the view, nevertheless, that the role allocated to the European Parliament in the negotiating brief is inadequate, and therefore calls on the Commission and Council to involve the EP in the negotiations now, so as to ensure that the association agreements receive the required assent of the EP;
10. Considers that it is essential for the association agreements to help enhance and consolidate the role of the associated states' parliaments;
11. Emphasizes that the conclusion of the association agreements must not create the slightest doubt about the European Parliament's powers as enshrined in the Single European Act nor uncertainty about the extension of these powers at a future review of the treaties during the Intergovernmental Conferences on Political and on Economic and Monetary Union;
12. Calls on the parliaments of the future associated states to bring pressure to bear on their governments to ensure that they insist, in their negotiations with the EC, that parliamentary involvement of this kind is written into the association agreements;
13. Calls for the European Parliament to be consulted in accordance with the EEC Treaty provisions applicable to the policy area in question whenever decisions of the association council are transposed into Community law;
14. Welcomes the creation of a free trade area as a prelude to a possible customs union and the establishment of a Europe-wide economic area;
15. Welcomes the beginnings of a step-by-step and asymmetrical liberalization of economic relations, considers that after a set period a review of the political and economic reforms implemented is essential in order to fix the date for final liberalization and deems the following changes to the EC's position to be necessary:
 - (a) as far as the trade in goods is concerned, calls for the immediate and complete opening of the Community market to industrial products in order to promote investment in the associated countries;
 - (b) notwithstanding this, deems it possible to adopt a step-by-step approach in sensitive sectors such as textiles;
 - (c) has every understanding for the attitude on farm trade, but would draw attention to the special problems a lower level of liberalization for agricultural products will cause certain associated countries; sees the liberalization of agricultural trade in particular products by means of annually agreed quotas as a way of reconciling the interests of both sides;
 - (d) considers immediate freedom of movement for workers and immediate right of establishment in the Community to be counterproductive if

economic conversion, corporate restructuring and the boosting of private investment in the associated countries are to succeed;

- (e) nevertheless considers it essential to introduce immediate improvements in the legal status of persons already employed in the EC;
 - (f) calls, furthermore, for workers from the associated states to be granted access to the EC employment market - not least with a view to improving opportunities for education and continuous training - under fixed, temporary employment contracts and annually agreed quotas;
 - (g) advocates that young people from the associated states should not only have the valuable opportunity of youth exchanges, but also the possibility of gaining experience by working in the Community in the holiday period;
16. Calls for all non-tariff barriers to trade, particularly rules of origin, to be reduced to ensure that they do not unnecessarily complicate industrial cooperation by firms from the Community and from the EFTA states with firms in Central and Eastern Europe;
 17. Points out that the establishment of a free-trade area and a customs union conflicts with the restrictions imposed by the COCOM list;
 18. Therefore calls on the EC Member States to lift these restrictions on trade before the association agreements enter into force and to press for a radical revision of COCOM and its mechanisms;
 19. Considers it essential that agreements on trade cooperation between the EC and associated countries are compatible with the GATT;
 20. Believes the possible free-trade area and the subsequent customs union between the EC and its association partners will help put trade relations between the countries of Central and Eastern Europe on a new footing;
 21. Calls on the Commission to consider whether the possibility of cumulation should be introduced when defining the origin of goods, in order to promote trade between association partners and between them and the Community;
 22. Calls, in this context, for greater cooperation between the countries of Central and Eastern Europe in the realm of macro-economic coordination and calls on the Commission to make its experience in this area available for that purpose;
 23. Calls, in addition to the continuation of the PHARE programme, for financial cooperation with the countries of Central and Eastern Europe in the form of financial protocols requiring Parliament's assent and stresses that there must be coordinated cooperation between the institutions of the Community, the EIB, the Bank for Reconstruction and Development and bilateral financial cooperation with EC Member States;
 24. Calls for the inclusion of measures in the form of subsidies to help relieve balance of payments difficulties;

25. Sees the creation of an East European payments union in particular as a way of preventing the collapse of intra-regional trade in Central and Eastern Europe and making an important contribution to the achievement of full convertibility of the currencies of those countries in the medium term;
26. Emphasizes that such practical financial cooperation on the part of the EC could make a valuable contribution towards clearing the debts of the associated countries and encouraging monetary and price reforms, thus giving substantial encouragement to private investment capital;
27. Welcomes the extensive cooperation under the agreements and calls for the involvement of the European Parliament in the practical implementation of these agreements in accordance with the procedures proposed in this report, and stresses the importance of the trade infrastructure projects, especially the completion of energy, transport and telematic links;
28. Stresses the need for close cooperation over the harmonization of laws and technical standards, leading to successful indigenous development and integration in a pan-European economic area;
29. Considers technical cooperation essential in all areas in which the two sides have the necessary powers;
30. Points out in this context that the association partners require a great deal of assistance in the form of advice;
31. Welcomes cooperation in basic and further training, but considers it necessary to implement plans that go further than current programmes, in order to speed up the processes of adjustment and modernization; calls for particular emphasis to be placed on the training of both civil servants and managers in the private sector in financial and management skills;
32. Considers it vital that cooperation includes a shake-up of economic and administrative organization and decision-making, both public and private;
33. Is convinced that the association agreements reflect both the concern of these countries to support their own reform processes and the Community's concern to ensure the orderly evolution of this transition and the abolition of the prosperity gap between Eastern and Western Europe;
34. Calls on the Council and the Commission to open talks with the other countries of Central and Eastern Europe on the conclusion of association agreements as soon as they have made appropriate progress in political and economic reform;
35. Understands why the Commission and Council wish to base cooperation with the USSR on the existing trade and cooperation agreement, but points out that other forms of closer cooperation should not be ruled out for the future;

36. Calls on the Commission to report to the European Parliament once a year on the functioning of the association agreements;
37. Instructs its President to forward this resolution to the Council, the Commission and the governments and parliaments of the Member States, Poland, Czechoslovakia, Hungary, Bulgaria, Romania and the Soviet Union.

EXPLANATORY STATEMENTI. Introduction

With its communication to the Council and the European Parliament on a general outline for association agreements with the countries of Central and Eastern Europe the Commission is preparing the ground for further important developments in the relationship between the European Community and its Central and Eastern European neighbours, in accordance with Parliament's express wishes.

In 1974 the European Community offered bilateral trade agreements to the countries of Eastern and Central Europe. Romania was the only European Comecon country to respond. In 1976 Comecon itself offered the Community a draft for a comprehensive framework agreement to govern cooperation between the two sides in fields, in trade policy, for example, which far exceeded Comecon's own powers. The Community did not find this acceptable. An agreement of this kind would have allowed the USSR, which dominated the other Comecon countries, to control their individual trade relations with the Community. The sole outcome was a trade agreement restricted to industrial products with Romania, which was taking an independent line.

Fresh negotiations had to wait until Mikhail Gorbachev's policy changes. On 25 June 1988 a joint declaration by the Community and Comecon was signed in Luxembourg. Although this declaration was purely formal in nature, and real cooperation had to await agreements yet to be negotiated, it did act as a catalyst. The Comecon countries regarded the joint declaration as Moscow's approval for country-by-country agreements governing their relations with the Community.

September 1988 saw the conclusion of a comprehensive trade and cooperation agreement with Hungary in recognition of its democratic and economic reforms. As the process of reform advanced in Central and Eastern Europe, the Community concluded similar agreements with other Comecon countries: with Poland in September 1989, with the USSR in December 1989, with Czechoslovakia, Bulgaria and the then GDR in May 1990. After Ceausescu had fallen, negotiations began with Romania. They were broken off in summer 1990 on account of the violent repression of demonstrations, breaches of human rights and the reversal of the reform process. The agreement was signed only on 20 October 1990, and has now been given the European Parliament's assent.

It was soon clear that this network of agreements would not be enough to cope with the thorny process of social and economic reconstruction. The Comecon countries did indeed have new access to the Community's markets, but they could not use them as, as is clear from the minor increases in their exports to the Community, they did not have goods of the right quality to sell. Moreover, the agreements did not provide for any financial cooperation. New forms of cooperation and assistance were therefore needed to prevent political reform from being undermined for lack of an economic base.

The 'PHARE' (Pologne et Hongrie: Assistance à la Restructuration Economique) programme was set up by 24 western industrialized countries to provide fresh cooperation and assistance. The funds were initially intended for Poland and Hungary alone; they have since been extended to the other countries of Central

and Eastern Europe apart from the USSR. Other financial cooperation measures are under discussion, as the PHARE programme alone is not enough.

If we look beyond present difficulties, developments in Central and Eastern Europe call for a lasting rearrangement of relations between all countries of Europe. The association agreements are an attempt at an interim solution.

II. Objectives of the agreements

According to the Commission communication (COM(90) 398 final) of 27 August 1990) the association agreements should be the foundations of the new European architecture and enable partners in Central and Eastern Europe to participate in the wider process of European integration. They are linked to completion of the Community internal market and the intensification of relations with the EFTA countries. By calling them 'European agreements' the Commission wishes to highlight the special nature of these relations.

This concrete step towards reintegration in the political and economic life of Europe is in both parties' interests. The aim is to avoid the failure of political and economic reform, and to support economic and social reconstruction.

In addition to the goal of stabilizing Central and Eastern Europe and its reincorporation in a pan-European economic area, the Commission gives other more economically-oriented aims. The European agreements would thus help improve the climate for trade and investment especially in the private sector, and the transition from command economies and an artificial division of labour to more rational economic structures and full participation in the international economic system. They will also improve the transparency and coherence of financial support and enable it to adapt to new priorities. Finally, they would strengthen cultural links and foreign policy cooperation. This fresh approach to cooperation between association partners underscores the importance of the European agreements.

The Commission has deliberately left open the question of possible links between these agreements and subsequent full membership of the Community. It considers that the European agreements should not affect subsequent membership of the Community either way.

This is neither adequate nor appropriate. The association agreements should provide clear guidance to the timing of negotiations on future membership of the partner countries. Accession/association of this kind is not new. This is clear from the Greek and Turkish cases. A signal of this kind is politically and psychologically important to the associated countries. The Community's credibility is at stake here, as it was in the case of Spanish, Portuguese and Greek accession. There too membership was granted on political rather than economic grounds. What is important is a mutual commitment to consider the future accession of associated countries hand-in-hand with the implementation of the association agreements. Such a commitment must be incorporated in the agreements.

III. Content of the agreements

The description of the content of the agreements is based on the Commission communication and on the negotiating brief the Council issued to the

Commission on 18 December 1990 for the negotiations with Poland, Czechoslovakia and Hungary. Negotiations with these three countries formally began in late December 1990; the first round of negotiations began in February 1991.

The European agreements will be preferential agreements on the basis of Article 238 of the EEC Treaty to govern all economic and trade relations between the parties, taking account of the specific characteristics of each partner. They will also, for the first time, cover political dialogue. They will be concluded on behalf of the three European Communities (EEC - ECSC - EURATOM) and, as regards the EEC, will require the assent of Parliament. Where they relate to political and cultural cooperation they will fall within the sphere of the Member States, in which respect they will need the approval of the national parliaments.

The preamble will express the will of the parties to establish close and lasting relations and the importance represented by the association link in creating a system of stability in Europe and a new climate for reciprocal economic relations, in compliance with the rights and obligations arising out of the GATT. The preamble will also include a reference to the desire of the parties to strengthen economic and political freedoms and a reference to the Helsinki process. A link will be therefore established between the concessions under the association agreements and the actual accomplishment of political and economic reforms, in the spirit of the 1990 Bonn and Paris CSCE conferences. The new dimension of relations incorporating political dialogue and cultural cooperation will be emphasized.

Political dialogue will be institutionalized in the agreement, of which it will be an essential component. It will accompany political and economic reform and allow exchanges of views on European and international matters. It will take place at ministerial level in the framework of the Association Council. There will also be an advisory Parliamentary Association Committee.

Appropriate bodies will be set up for all parts of the agreement.

The free movement of goods will be achieved in two stages, each with a duration of five years, the aim being to create a free trade area. Transition to the second stage will be linked to a decision by the Association Council. By moving faster along the path of free trade, the Community will be helping economic restructuring in the three countries.

For industrial products, during the first stage the Community will consolidate the advantages already granted under the GSP and should adopt tariff disarmament measures in favour of the countries. During the second stage, the Community will continue to dismantle duties and the associate countries will open up their markets to the Community. Special arrangements will be made for textile products, ECSC and processed agricultural products. For agricultural products, reciprocal concessions are envisaged, without, however, being precisely defined. In the case of Poland, they will also be linked to substantial progress on the EEC-Poland fisheries agreement.

In order to facilitate the process of creating a free trade area, the agreement provides for certain back-up measures. These will include a standstill clause, consultations in the case of dumping, a safeguard clause, arrangements concerning competition and State aid, public undertakings, settlement of disputes and the effective protection of intellectual property.

A protocol concerning rules of origin - which will be preferential in nature - and methods of administrative cooperation will be annexed to the agreement. In conclusion, provisions relating to trade will take into account the measures taken in the Act of Accession of Spain and Portugal to the Communities.

As regards free movement of workers, during the first stage there will be improvements in the situation of workers legally employed in the Member States and of the members of their families. During the second stage, methods of improving the free movement of workers will be examined. In addition technical assistance will be provided for setting up an adequate social security system.

Regarding freedom of establishment and the services sector, the agreements must include provisions concerning the liberalization and mutual opening-up of the services market and opportunities for technical assistance by the Community, and the framework for this kind of assistance, in particular covering financial services, insurance, transport, telecommunications and engineering. The agreements will adopt a two-stage approach. In the second stage, ways of creating the conditions for freedom of establishment and improving freedom of movement for services will be studied by the Association Council.

Concerning the movement of capital, liberalization of payments relating to trade in goods and services and development and protection of investments must be implemented by the countries during the first stage. During the second stage the Association Council will be instructed to study ways of enabling Community rules on the movement of capital to be applied in full.

In order to allow economic integration of the countries into the Community system, they should endeavour to approximate their legislation to Community law in a large number of sectors and in particular customs law, company law, taxation, rules on competition, etc. The Community may also give technical assistance in this area.

Economic cooperation should be guided by the sustainable development approach and thus fully incorporate environmental considerations from the outset. There will be measures to foster the integrated development of the region. As in the preceding cooperation agreements, numerous cooperation sectors will be provided for as follows: industrial cooperation, approximation of laws, investment promotion and protection; industrial standards, cooperation in science and technology; education and training, agriculture and the agro-industrial sector, energy, the environment, transport, telecommunications, financial services, regional development, social cooperation, tourism, information and the audiovisual media, customs, statistical cooperation, economics and finally drugs.

Financial cooperation has yet to be finalized. Experience gained from PHARE will be used to assess the chief needs and the absorption capacity of those countries. The scope of operations in the chosen priority sectors, the advisability of proposed projects and the degree of Community intervention will be decided in consultation with the government of each of the countries. As regards financial instruments, including existing Community instruments, a decision will be taken during the negotiations on whether it is possible to make reference to them in the agreement.

Political and cultural cooperation are new elements. Political cooperation is designed to coordinate the foreign policy positions of the Twelve with those of the associate countries. Regular consultation and the comprehensive and rapid exchange of information on foreign policy developments should gradually introduce the countries of Eastern and Central Europe to EPC, but without restricting the Twelve's room for manoeuvre. Taking into account the solemn declaration on European Union, cultural operation is to be promoted, encouraged and facilitated.

IV. The role of the European Parliament

Article 238 of the EEC Treaty, the legal basis, requires Parliament's assent for association agreements. However this again raises the question of Parliament's democratic participation in the formulation and operation of association agreements.

The EP has on several occasions urged closer relations with Central and Eastern Europe. Thus in January 1987, even before the democratic revolutions in Central and Eastern Europe, Parliament had called for improved relations between the Community and the Comecon countries and the creation of a pan-European free trade area, as well as close and comprehensive cooperation. Within the Community, Parliament has from the very beginning urged the Commission, Council and Member States to put aside their reservations and actively and constructively exploit the opportunities in Eastern and Central Europe.

We now have to consider the EP's role.

1. in the preparation, negotiation and conclusion of agreements,
2. in the context of the association, and
3. in the implementation of decisions by the association partners.

1. Parliament's role in the preparation, negotiation and ratification of agreements is governed by the 'Luns' procedure (first two) and by Article 238 of the EEC Treaty for the third stage.

Parliament has repeatedly criticized the inadequacy of this procedure as it no longer does justice to Parliament's political and democratic responsibilities. In particular, after the Single European Act, which gives Parliament the right of co-decision in the conclusion of association agreements, Parliament has expressly asked to be more closely involved in the preparation of negotiations, rather than be restricted to assent or rejection. In Rule 33 of its Rules of Procedure Parliament lays down procedures to this effect, which, however, where they go beyond the Luns procedure, have no binding effect on the other institutions.

Parliament is asking the Council to be officially consulted on the negotiating brief before it is issued to the Commission. Experience shows that once the negotiating guidelines have been established, the content of an agreement to be negotiated is practically already decided. Official consultation on the draft negotiating guidelines would give Parliament the opportunity it desires

to make its own views known on the content of such agreements; it would also solve the information problem.

Parliament's right to co-decision also needs to be considered. A greater role for Parliament in the negotiation of international treaties is rightly being discussed at the Intergovernmental Conference on Political Union. The institutional reforms which seem to be emerging do however require Council and Commission to involve Parliament even now in the preparations for negotiations more than they are required to under the letter of the Treaties.

This is also true of the negotiations themselves. Here Parliament should be given a role similar to that of the Member States in the committee assisting the Commission in the negotiations pursuant to Article 113 of the EEC Treaty. There is nothing in Article 113 to oppose this. Without playing a direct part in the negotiations - which is the Commission's role - Parliament should be given observer status, represented for example by the chairman of its committee responsible or its rapporteur.

Only with its role in the preparation and conduct of negotiations thus strengthened will Parliament have its full power of assent to the conclusion of association agreements. If we go into this matter at some length in this report, this has to do both with the importance of the agreements and with the impending institutional reforms. In practical terms this means from Parliament's viewpoint that the Council must take Parliament's chief demands into account although the negotiations have already begun. The Commission for its part should indicate its readiness to give Parliament observer status in its negotiating delegation, as has already been the case with the GATT negotiations and the negotiations with the EFTA countries, on the basis of the statement by the President of the Commission to the EP on 13 February 1990 on increased cooperation with Parliament in the field of external relations.

2. Both the Commission communication and the negotiating guidelines provide that a Parliamentary Association Committee comprising Members of the EP and of the parliaments of the associate country shall be set up in addition to the Association Council and the Association Committee at government level.

This structure largely reflects the Community's own institutional arrangements, as does the division of responsibilities. The Association Council is the supreme political body, takes the decisions required to implement the agreement and will decide on the transition from the first to the second stage in the liberalization of the movement of goods, services, capital and persons (the 'four freedoms'). Decisions of the Association Council are binding on both sides, but have to be transposed into Community or national law in the case of the association countries. The Association Committee is responsible for preparatory work and the day-to-day operation of the agreement. The Parliamentary Association Committee is intended as a forum for meeting and discussion; it may make recommendations to the Association Council.

It has to be welcomed that the agreement itself provides for a parliamentary association body. Earlier association agreements, apart from the Convention of Lomé, contain no such provisions. In considering whether the responsibilities conferred on the Parliamentary Association Committee are adequate we must examine the legal nature of the association. It involves a treaty in international law. Both sides may indeed adopt binding decisions within the framework of the association, but they are not directly legally

enforceable. They have to be transposed into Community law or the national law of the associate country. This requires the participation of the parliaments in question.

On the other hand, at association level itself, it is enough for a parliamentary body to play an advisory and supervisory role in the work of the Association Council and the Association Committee. It should also be given the opportunity to take the initiative by making proposals and recommendations to the Association Council. Past experience with the ACP-EEC Joint Assembly is in favour of a solution along these lines. That Convention is a development-oriented association with 69 African, Caribbean and Pacific States and is not intended to establish such close relations as the European agreements are. The experience gained of public debate between democratically legitimated representatives of both sides exercising influence on the form and operation of the association can however be applied to the European agreements. The Parliamentary Association Committee should however also be given a share in decisions commensurate with the closeness of the association.

3. While the advisory, supervisory and initiating role of the Parliamentary Association Committee may seem adequate in the context of the association, full parliamentary involvement and co-decision are all the more necessary in the transposition of the decisions of the Association Council into Community law. These involve decisions both implementing the agreements and on moving from the first to the second stage of the establishment of free trade areas and the Customs Union. The transposition of association decisions into Community law has to be made in accordance with the provisions of the European Treaties applying to the policy area concerned. This means that Parliament has to be consulted on the proposals under either the consultation or cooperation procedure.

The decision to make the transition from the first to the second stage in establishing the Customs Union is of particular importance in this respect. Such a decision implies that both contracting parties agree that the economic situation in the associate country is now comparable with that inside the Community. The transition to the second stage will also constitute a preparation for possible full membership of the associate country. The implications of this decision require Parliament to be involved in determining the Community position under the assent procedure.

Special institutional procedures such as that included in the agreement of 12 September 1963 on the implementation of the EEC-Turkey Association Agreement are inadvisable. Article 2 stated that the applicability of decisions and recommendations of the Association Council which under the EEC Treaty fell within the sphere of competence of the Community would be decided by unanimous decision of the Council after an opinion of the Commission. For one thing this extends the requirement of unanimity to fields of Community policy in which the Treaties provide for majority decision, and on the other, Parliament is bypassed as a consultative organ. The Council and Commission are therefore urged not to attempt to avoid democratic supervision of the transposition of association decisions.

The Community-level preparation of decisions by the association bodies is also an important factor in the Community's independent decision-making. Before meetings of the Association Council the Council establishes a common Community position on decisions to be taken at that meeting, binding on the Community in the deliberations of the Association Council. Under existing association

arrangements Parliament has no opportunity to influence the common position. This is unsatisfactory, as the common position normally foreshadows the decision of the association bodies. Here too democratic participation therefore needs to be strengthened using the cooperation procedure. It would then take place not within a parliamentary committee but in the European Parliament in plenary sitting.

V. The Community's trade relations with Central and Eastern Europe⁴

Since the beginning of the Eighties the Community's trade with Central and Eastern Europe has regularly been in deficit. Between 1980 and 1989 this totalled ECU 67.5 bn, corresponding to a good two thirds of the net indebtedness of those countries in convertible currencies at the end of 1989. Trade with Central and Eastern Europe is dominated by trade in goods with the USSR, which in 1989 accounted for 56% of Community imports and 52% of Community exports. Imports from those countries, apart from the USSR, for the most part exceeded the Community's exports to them.

After the USSR, Poland is the Community's main trading partner in Eastern Europe. Poland takes roughly one third of the Community's trade with the other five countries of Central and Eastern Europe, followed by Hungary, Czechoslovakia, Romania and Bulgaria. Hungary and Bulgaria are the exceptions, as the Community's trade with them is regularly in surplus. Romania has a particularly good trade balance. By the end of 1989 Romania's net foreign currency indebtedness was \$US -0.1 bn. Its strategy for avoiding indebtedness was however only possible by draconian restrictions on internal consumption.

The countries of Central and Eastern Europe are however far less important to the Community's foreign trade than are the EFTA countries. In 1989 they (including the USSR) accounted for 6.5% of the Community's foreign trade, compared with 24.5% for EFTA. The trade relations of the countries of Central and Eastern Europe consisted mainly of the trade in goods between themselves. Intra-Comecon trade accounted for over two thirds of their total trade in goods. However, these figures largely reflect the situation before the political and economic change of course. In the future we have to look to a substantial increase in East-West trade, while East-East trade can be expected to decline sharply.

From what figures are available for the more recent period, these trends are already discernible. Thus in 1989 trade between Comecon countries declined by 2% in volume, while over the same period it increased by 5% with western market economies. In 1990 the trend has been even more pronounced, while the trade in goods between Comecon countries has drastically declined. Provisional estimates assume a fall of about 15%.

In their trade with the Community the countries of Central and Eastern Europe increased their exports by 16.4% by value in 1989, while their imports from the Community increased by 24.1%. In the first nine months of 1990 this rate of increase has slackened off. Recent developments in the individual countries are also interesting. Here in particular those countries which have made the most progress with their reforms have produced the highest growth rates. Thus

⁴ Not including the former GDR

in 1989 Hungary's exports to the Community totalled ECU 2587.2 m, a growth of 19.9%. At the same time its imports from the Community rose by 26.9%. For Poland the increase in exports was 14.8% and for imports 43.2%. In the first three quarters of 1990 Poland in particular seems to have exploited its improved access to Community markets. It increased its exports by 20% over the same period the year before, compared with 14.5% for Hungary and only 6% for Czechoslovakia.

The legal framework for liberalizing foreign trade is already largely in place in Hungary, Poland and Czechoslovakia. As a result, in future direct customer relations with suppliers and consumers in the West will replace the State foreign-trade monopolies which were so prominent in the past. Here too, however, as in other areas, enormous difficulties are apparent in the practicalities of economic reconstruction, in particular as a result of the staying-power of the old bureaucracy. Another problem is the limited convertibility. In this respect the countries of Central and Eastern Europe will have to make their own contributions. A favourable climate for investment, to attract the urgently-needed capital from abroad must be created by clear progress towards privatization of the economy and comprehensive arrangements to protect investment.

Improved trade relations with the Community cannot mask the continued importance of the Comecon countries' present trade relationships. For one thing the countries are bound to maintain them because of their foreign currency situation, and on the other the supply structures are still so heavily interwoven that there would be a financial penalty in ending them. At all events, the Community cannot replace the USSR as a supplier of energy in raw materials.

One particular problem for Central and Eastern Europe is that the decades of trade relations have produced specializations and consequent dependency on suppliers. Partly as a result of the embargo on western technology under the COCOM list, the countries of Central and Eastern Europe have often had to develop their own technologies and now cannot find alternative sources of supply in the West. Firms of this kind are especially hard hit by the collapse of the eastern trading system. Despite the adjustments which are required in foreign trade, the continuation of these trade relations must be made possible and facilitated. The Community should therefore encourage these trade relations. An Eastern European Payments Union similar to that set up in 1950 between the Member States of the then OEEC could provide an interim solution.

A payments union of this kind might establish a multilateral clearing system for trade between its member states. Surpluses arising in that system would have to be interchangeable between the participant countries and deficits covered by a joint fund. The resources required to set up such a fund could initially be mobilized by borrowing. They should be made available in the longer term by the Group of 24. All countries of Central and Eastern Europe carrying out market economy reforms would qualify for participation.

The basic currency could well be the ECU. The fact that it is increasingly being used in trade between the countries of Central and Eastern Europe and the Western European industrialized countries is an argument in its favour. The ECU rate fluctuates less than other currencies and is not dependent on any one country's monetary policy. The ECU and its rate of exchange with the

currencies of the participant countries would provide the latter's first links to the European Monetary System and its monetary discipline.

A central body could also be set up with macro-economic supervisory powers to help make the currencies of the participant countries convertible as soon as possible. Here the Community could play a coordinating role. Trade relations between the participant countries, released from bilateral restrictions, could thus be intensified and encouraged.

One possible objection is that after forty years of compulsory multilateral cooperation in Comecon under Russian domination, any form of cooperation, however rational and desirable it may seem, will be greeted with scepticism.

VI. Financial cooperation

Indebtedness is one of the main obstacles to overcoming economic difficulties in Central and Eastern Europe, with rising hard currency debts except in a few countries such as Romania and Albania. The increase in indebtedness has not been matched by exports, which would have improved the debt ratio. Debt service ratios are also on the increase, and hence also balance of payments problems, with Hungary, Poland and Bulgaria the worst-affected.

At the July 1989 Paris World Economic Summit the Commission was instructed to coordinate economic support for Central and Eastern Europe in the form of immediate actions to combat food shortages, and medical supplies, balance of payment loans in cooperation with international financial institutions and the liberalization of trade, fostering cooperation between undertakings and issuing long-term loans for specific projects. This aid programme by the 24 western industrialized countries has now become known as PHARE.

Under the PHARE programme the donor countries of the Group of 24, coordinated by the Commission, have combined their financial aid, which now totals ECU 27.5 bn. The PHARE programme is designed to support short and medium-term economic reconstruction. The newly-founded European Bank for Reconstruction and Development with capital of US\$ 10 bn will also be helping mobilize the investment capital for privatization and company starts. Financial aid totalling ECU 1.15 bn has already been made available to the USSR, outside the PHARE programme, because of its size, for food supplies, agriculture, production-related infrastructure projects (transport, telecommunications), environmental protection and vocational training.

Financial support is now (30.1.1991) ECU 27.5 bn, consisting of ECU 5.7 bn in subsidies, ECU 9 bn in loans and credit, ECU 8 bn from the capital for the BERD to be raised over the next 5 years and ECU 4.6 bn in the form of EIB, World Bank and ECSC loans.

The need for financial cooperation is even more urgent in 1991 as terms of trade have worsened, energy supplies have become less secure and the Gulf War has put a brake on development. Financial support should therefore concentrate on emergency food and energy supply programmes and macro-economic financial aid.

This year the Community has promised aid for food and medical supplies amounting to ECU 100 m for Bulgaria and Romania and ECU 250 m for the USSR. Credit guarantees of a further ECU 500 m for the purchase of agricultural

produce by the USSR are also to be entered in the Community budget. Poland (ECU 125 m) and Romania (ECU 40 m) had already received similar aid. The Community is financing support programmes for Romanian children for up to ECU 20 m. Other financial aid is planned for improving the energy supply in those countries.

The Community and its Member States account for about two thirds of the funding of the PHARE programme, with the EFTA countries, the USA with Canada and Japan each for about 10%. The main beneficiaries of aid, already given or promised, are Poland, with just under 40%, and Hungary with just under 25%.

The Group of 24 has decided to concentrate support on the development of market economies and privatization, free price formation, the conversion of public undertakings, development of small and medium-sized undertakings and modernization of the service industries. A positive investment climate will be encouraged in order to accelerate the development of the market economy by private investment.

The Community will be providing Hungary with a further US\$250 m in balance of payments support in addition to a US\$1 bn loan already approved, and US\$500 m for economic reform in Czechoslovakia. Romania and Bulgaria's financial needs to stabilize their balance of payments total US\$1.8 bn. The Community is planning to finance 50% of the standby funds if the IMF grants the other half. The EIB, which grants long-term loans, will be helping Poland and Hungary restructure their economies. Funds of ECU 215 m will be granted via the EIB. They will be spent, in part with the cooperation of the World Bank, to improve infrastructures, and to support private investment in industry and investment in small and medium-sized undertakings. Joint ventures will also have access to EIB loans. The EIB is lending to Poland, Hungary and Yugoslavia, and is preparing to do so to Czechoslovakia, Bulgaria and Romania.

The European Bank for Reconstruction and Development (BERD) will be supporting economic development in Central and Eastern Europe. Loans to potential investor companies, especially small and medium-sized undertakings, and financing production-related infrastructure investment up to 40% of the funds available will help the countries of Central and Eastern Europe, including the USSR, restructure their economies. It is clear from the BERD's limited endowment and funds to be deployed that this will be only one contribution among many to solve the problems of Central and Eastern Europe. But it too can help reduce the political and economic risks incurred by the associate states.

The coordination of financial cooperation between the Group of 24, the Community and the international financial institutions is the proper course, as the resources needed are beyond the Community's capabilities and on political grounds it would be undesirable to Europeanize financial cooperation with the countries of Central and Eastern Europe.

The EIB should also be involved in financial cooperation with the associate countries as it is a good mobiliser of financial resources on the international and national capital markets, and is therefore very well able to meet the special needs of the borrowing countries, as well as having great experience in the selection of suitable projects. It would also be desirable to extend financial cooperation to multiannual loans via financial protocols under the Association Agreements and to coordinate the activities of the Community, the EIB, the BERD, the IMF and the World Bank.

VII. The partners in the Association Agreements

The negotiating brief for the first Association Agreements covers Czechoslovakia, Poland and Hungary. However, by the nature of the association agreements, other partners are not excluded. Parliament therefore advocated, on the basis of the conclusions of the extraordinary meeting of the European Council of 28 April 1990, that association negotiations be conducted with the countries of Central and Eastern Europe once the conditions for those countries were met (Doc. A3-172/90). We therefore have to consider, in respect of the three associate countries and for the other states, how far political and economic reform meet the conditions for potential association.

1. Czechoslovakia (with the assistance of Mrs Maria MAGNANI NOYA)

Political reform has made further progress, with parliamentary elections, the most recent being the local authority elections in November 1991. Freedom of association and of the press have been introduced. The new constitutions will not be adopted until summer 1991 because of a demarcation dispute between the federal level and the republics. Political reform is at special risk from the inter-nationality conflict and the growing influence of the Slovak independence movement, in a constantly deteriorating economic situation.

Economic reform is only just beginning, so last year's figures for the downturn in production (3%) and unemployment (less than 1%) and are not significant. Reconstruction of the command economy is not complete and has encountered great problems. The consequences of inflation (estimated at 30% for 1991), unemployment (estimated at 10% for 1991) and the decline in output are incalculable. It is expected that about 30% of establishments will close.

Economic reform mainly involved the privatization of the large state concerns, other privatization legislation and the protection of private property. Laws to this effect have been enacted, as has the transition to internal convertibility of the crown on 1 January 1991. The reform programme also includes opening up the financial markets and reforms in the banking and financial systems, together with a legal ban on restrictions of competition, and the prevention of monopolies. A value added tax is to be introduced in 1993.

The expansion of the small- and medium-sized sector has already begun. The first successes have been mainly in the commercial sector. Industrial restructuring is presenting problems. Small-scale and large-scale privatization has not yet been completed. The difficulties are compounded by the claims of previous owners. Czechoslovakia will depend on foreign investors for privatization of manufacturing.

Freedom of trade, freedom of competition and free price formation are other free market elements which have yet to be introduced in full. 86% of prices were decontrolled by the 1 January 1991 price reform. The cost of energy, rents, foodstuffs and public services will still be state-controlled for an interim period. 25% price rises are expected. The risk of inflation has thus risen, and the still amazingly low unemployment rate. Despite internal convertibility, black market transactions are on the increase. Economic problems are also increasing as energy supplies from the USSR have dramatically declined and had to be replaced, for they do not cover industrial and domestic energy needs. The decline in supplies from the USSR has also

been one reason for the convertible currency trade and payments deficit. A balance of payment deficit of US \$ 2.5 billion is forecast, although in 1990 Czechoslovakia was already placing 20% of its exports in the western world.

Further pressures on Czechoslovakia's foreign trade position in 1991 will come from the collapse of Comecon trade, German unification, the conversion to hard currency and the Gulf crisis, in addition to the imports needed for structural adaptation.

2. Poland (with the assistance of Mrs Karin JUNKER)

With its first democratic presidential election Poland has taken a further step in its political reforms. Political parties are allowed. The new constitution is to be adopted in 1991 and will contain provisions protecting human rights, and freedom of association, information and opinion. Censorship will be lifted. The first democratic general elections are scheduled for autumn 1991.

Poland's greatest problems lie in its high debts and the decline in agricultural and industrial output. At the end of 1990, indebtedness was US \$ 48.2 billion. If there is no remission of this debt, it will be almost impossible to reform and rebuild the Polish economy. There are more and more examples of debts being written off for political reasons. The present government is not responsible for the debts. Although Poland's proposal for the remission of 80% of its debts has recently been rejected by the Paris Club, solutions must be found in which the Community must play a part. The success of the Association Agreement will depend on it.

Economic reform will therefore be difficult. The previous Polish Government's economic shock therapy did indeed stabilize the Polish currency. The official zloty/US \$ dollar exchange rate, set on 1 January 1990, is still holding, so there has been no stampede into foreign currency. Poland achieved a trade surplus of US \$ 2.5 billion in 1990, in trade both with the Comecon countries and the western industrialized countries. Trade with the European Community increased in 1987-1989, with the share of imports and exports rising from a quarter to a third. In 1990 the average wage rose from US \$ 30-40 to 130. There were improvements in consumer goods structure and the upturn in activity by small- and medium-sized undertakings. 1600 joint ventures were formed in the first three quarters of 1990. Subsidies have been reduced. Only 5% of prices, for energy and transport for example, are fixed by the state. Prices have been decontrolled for 95% of products and services. Tight monetary and wages policies, higher interest rates and anti-inflationary measures have been successful. Inflation fell between December 1989 and December 1990 to 250%, although it is again on the rise. Output is, however, up by about 25%, investment has fallen by 10%, there has been a loss in real purchasing power of 28%, interest on loans has risen by 43% and unemployment increased to 1.1 million (unemployment rate at 31 December 1990: 6.1%). Land reform and privatization of state enterprises are making slow progress. In November 1989 the privatization of the first five large state enterprises began. Privatization of small- and medium-sized enterprises is proceeding successfully.

3. Hungary (with the assistance of Mr André Sainjon)

Democratization in Hungary has made great progress. After the general elections, there were local authority elections in autumn 1990. Human rights,

the rule of law and the division of powers have been incorporated in the constitution. Freedom of the press, information and association have already been introduced. Much of the print media is already in private ownership.

Hungary has made great efforts to convert the command economy to a market economy. They include the protection of private property and freedom of trade. Hungary's high foreign debt is an obstacle to further economic success and progress towards economic reform. With the highest per capita indebtedness of the countries of Central and Eastern Europe, Hungary will be unable to transform its economy without debt rescheduling programmes on easier terms and balance of payments subsidies.

Improvements to competitiveness and adaptation to conditions on international markets are still at the initial stage. Hungary has, however, made a start with the removal of production and consumer subsidies. Convertibility has been introduced and competition legislation enacted. As part of the privatization process begun three years ago, the large state-owned concerns (85%-90% of all large-scale enterprises) are to be sold. In three years time only 50% of them should still be in state ownership. Support is being given for the expansion of small- and medium-sized undertakings. Reform is being hampered by a lack of private capital and foreign investment.

During the reforms industrial output has fallen by 20% on average, but has risen in the small- and medium-sized sector. GDP fell by 5%, wages and consumption have fallen by 5% and 8% in real terms. Despite a tight monetary policy, inflation was about 30%, with a sharp increase in nationally controlled prices. Despite price reform 10%-15% of prices, especially in the fields of energy, transport and basic foodstuffs, are still fixed by the state. The state also controls a substantial proportion of prices, especially for consumer goods, by setting profit margins for state-owned undertakings. The high degree of concentration of industry also undermines free price formation and competition. One plus point is that the budgetary deficit, 54 billion forint in 1989, had fallen to 1.4 billion forint in 1990.

The economic situation is also affected by the poor harvests as a result of drought. Almost 30% of GNP is accounted for by agriculture. This fall in output, the energy supply crisis and the repercussions of German unification have confronted agricultural and foreign trade with serious difficulties in the reorganization of trade relations despite a neutral trade balance. It is true that two-thirds of trade lost with the Comecon countries has been replaced by trade with OECD countries. Exports to the Community rose by 27% in 1990 (imports remaining the same) and now account for 36% of Hungary's total exports.

Other states

The other Central and Eastern European countries, who are increasingly interested in improving in trade relations and cooperation with the Community, do not at present qualify for Association Agreements as their democratic and economic development does not meet the criteria for closer relations with the Community.

Romania (with the assistance of Mr Gary TITLEY)

Political reform is lagging. It is still not clear whether the revolution was not in fact a coup. The new government, the FSN, consists mainly of ex-Communists. There are doubts as to the freedom of the elections last year. Democratization of the decision-making process has not yet been achieved. Human rights are still being violated. There is no freedom of information and opinion, although the opposition parties have begun to publish their own newspapers. The depoliticization of the police and administration and the removal of Securitate members from the public service have not been successfully carried out.

Romania's economic problems essentially stem from Ceaucescu's policy of paying off all foreign debt. In 1990 Romania had practically no foreign debt. The balance of trade was neutral or in surplus as a result of drastic restrictions on imports, and the export of agricultural produce urgently needed for subsistence. After Ceaucescu was toppled, imports rose sharply and exports fell by about 45% in the first 11 months of 1990, resulting in a trade deficit of US \$ 1.4 billion. Bottlenecks in food supply chains could not, however, be eliminated. In 1987 about 60% of Romania's foreign trade was conducted with Comecon countries, 15% with the Community.

Infrastructures and production structures are obsolete. By comparison with other countries of Central and Eastern Europe, Romania's workforce is poorly trained. The collapse of agriculture has still not been remedied. Land reform has ground to a halt. Industrial output and productivity fell substantially in 1990. There was a 45% decrease in investments. After partial liberalization in November 1990, consumer goods prices rose by 23%. Vigorous public objections caused the abandonment of a further decontrolling of prices in January 1991. The privatization of 50% of state-ownership and the modernization of the tax system, introducing a VAT, are only at the planning stage.

Romania and the Community have already concluded agreements on trade in industrial goods (since 1980) and sectoral agreements. A trade and cooperation agreement has now been concluded. Romania is included in the Community's emergency aid programme and the PHARE programme. The IMF has now granted a US \$ 1 billion stand-by credit. Cultural and scientific cooperation, in addition to trade and economic cooperation, is particularly important to Romania, as is the participation of Romanian universities in the TEMPUS programme. Association negotiations must be made conditional on serious and demonstrable progress towards political and economic reform.

Yugoslavia (with the assistance of Mr Michael HINDLEY)

A new constitution is intended to help consolidate democracy in Yugoslavia. Political reform in Yugoslavia is struggling with the burden of conflict between the nationalities and independence campaigns by Serbia, Slovenia and Croatia. The authority of the central government is under threat.

Economic reform began earlier in Yugoslavia than in the other countries of Central and Eastern Europe. Internal political disputes and the disruption of its own internal market and the unresolved budgetary position have been obstacles to reform. The Gulf war, lack of investment, of modern technology and an efficient banking system have, together with hyper-inflation, high

unemployment and 116% price rises despite a drastic programme of reform, helped bring about a deterioration of the economic situation.

An initial trade and cooperation agreement was concluded with the Community in 1980. The recently signed Third Financial Protocol begins with the urgently needed transport infrastructure projects. 730 m ECU of the 807 m ECU will be provided by an EIB loan, and 77 million will be made available from the Community budget. Yugoslavia urgently needs further trade and financial protocols with the Community to stabilize its economic and political situation. Closer cooperation between Yugoslavia and the Community would appear to be desirable, for the sake of stabilization in Central Europe, the integration of Greece and the internal political situation in Yugoslavia. Trade and financial protocols can help here. Negotiations for an association agreement should not be begun until the process of democratization has been concluded and human rights questions settled. The division of powers between the central government and the governments of the individual republics must be settled too. The Community has rightly therefore put off Yugoslavia's request for association until further economic and political reform is discernable. The prematurely signed third protocol intensifies cooperation with the Community.

Bulgaria (with the assistance of Mr Konstantinos TSIMAS)

Since 19 December 1990 Bulgaria has a democratically-elected coalition government. Fresh parliamentary elections will take place in May 1991. A bill on economic reform and the drafting of a new constitution are to be adopted before the new elections. The restructuring of society is being slowed down by political instability although permission for and the protection of private property, freedom of trade, privatization and freedom of association are enshrined in law. Legislation reforming financial services, customs and taxation have been adopted or are in preparation. In early January all parties represented in Parliament reached agreement on the peaceful transition to democracy. It will cover the return of expropriated land, the new constitution and new electoral laws. A 'social contract' doubles the minimum wage and raises wages by 70%. Privatization is to be speeded up. Price controls and subsidies are to be removed.

The economic crisis is an obstacle to the transition to a market economy. Nevertheless, industrial and agricultural products have been partially decontrolled. In 1990 industrial output fell by about 11% by comparison with 1989. The main reasons were bottlenecks in the supply of raw materials and energy, and the downturn in Comecon trade. The food supply system is inadequate. The currency is progressively to be made convertible via a national currency market despite rising inflation. Foreign debt is increasing. When interest payments were suspended in March 1990 debts were US \$ 10 billion. Over the next five years US \$ 4 billion will be due in interest alone.

Bulgaria's foreign trade has been particularly hard hit by the collapse of the Comecon system, the loss of traditional markets in the Comecon countries and the Iraqi embargo. The Bulgarian authorities estimate that as a result of these factors, the balance of payments will worsen by US \$ 3 billion over the next year. The Community has a surplus in its trade balance with Bulgaria. Association negotiations would be premature at the present state of political and economic reform. The scope offered by existing trade and cooperation

agreements should be exploited instead. Bulgaria is now also covered by the PHARE programme.

Albania

Unrest and protest since January 1990 have produced the first reforms even in Albania, covering elections, freedom of confession, freedom of the press and democratization under a comprehensive reform of national legislation. The first multi-party elections, scheduled for 31 March 1991, have been postponed. The exodus of refugees is continuing. Protests, violence and fear prevail. Violations of human rights and the repression of minorities are still being reported. The first of what are now three opposition parties in Albania, the democratic party, has managed to force the government to release hundreds of prisoners, distributes a newspaper and is calling for the de-politicization of police and army. The government programme introducing a process of economic reform provides for economic decentralization, a bonus system based on performance, market-oriented price reform and partial privatizations.

Albania demonstrated its desire to break out of its international isolation by taking part in the CSCE. It has no foreign debt. Its foreign trade balance is in surplus (DM 11 million in 1986). Apart from the Comecon countries, Italy and Germany are trading partners, conducting most of the extremely small volume of trade between the Community and Albania. There are no relations between the Community and Albania. Because of the position in Albania, no broad political gestures at Community level are under consideration. Italy is preparing for bilateral liberalization.

The USSR

Political and economic reforms are taking a menacingly negative course. There is no way of saying how the independent campaigns by the Soviet Republics, the violent confrontations and the use of military force will affect democratization. The disastrous economic situation further increases political instability. Soviet Perestroika is at present far from implementation, in that the Communist party, the President and the government have each lost huge measures of power and authority.

The present deep crisis in the Soviet economy is the result of the interaction of old, chronic, and inherited problems with new problems which have arisen in the course of perestroika, to some extent as a result of measures implementing perestroika itself or as a result of their half-hearted and incoherent implementation. In particular there has been a steep decline in economic growth, stagnating productivity, poor quality and a lack of innovation in manufacturing. There is also a supply crisis. At present there is a 250 billion rouble cash surplus in private hands and undertakings. The gap between supply and demand in consumer and capital goods markets and soaring inflation are the result. The situation is complicated by the fact that the regions and republics are to some extent exacerbating the supply crisis by controlling the trade in goods and reverting to the barter economy. The decline in industrial output is estimated at 10-15%. Even the Soviet GOSPLAN experts assume two-digit negative growth rates for the major economic indicators for 1991. The recent currency reform further shattered public confidence in the reform process. The national budget deficit is estimated at about 26 billion roubles for 1991, in expert eyes and unrealistic attempt to reduce the budget deficit. Foreign debts (own estimates 36 billion roubles, OECD estimate 52 billion US dollars) are rising. Exports fell by about 12%

while more foreign currency was required to pay off debts (9 billion roubles for 1991). The plan is to stabilize the debt position by restructuring. Some hope is also being placed in the possible accession to the IMF.

An agreement on trade and economic cooperation with the EEC was concluded in 1989. The Community is providing another four aid programmes. These are an emergency aid package, short and medium-term loans, long-term credit to support the reform process and the convertibility of the rouble, strengthened EEC/EURATOM - USSR trade relations under the 1989 trade and cooperation agreement. At the December Rome Summit aid under the first two options was decided on: 1.15 billion ECU to be made available as support and loans by the end of 1991. Of the 1.15 billion, 250 m ECU are food aid, 500 m ECU credit guarantees and 400 m ECU technical and administrative aid. The Rome decisions have been temporarily suspended, but the Community's emergency aid is still in operation.

VIII. Assessment

The conclusion of association agreements is in Poland, Czechoslovakia and Hungary's interests, and of course in the Community's own interest, as stabilized reform processes also help stabilize Europe. They are a factor for peace and prosperity in Europe. Political stability is impossible without economic stability. The cooperation and liberalization under the association agreements must therefore be successful if European security, and better economic relations between Central and Eastern Europe and the Community are to be achieved. The agreements are of political and psychological importance to the associate countries, as they can help them break out of isolation and move progressively nearer in political and economic terms to the Community. Political and cultural cooperation are therefore important elements in the agreements. Political cooperation, via comprehensive information campaigns in the associate countries on European political cooperation and the Community's political attitude towards third countries or in international institutions can produce a coordinated approach, facilitate possible subsequent accession, and underpin political reform.

The association agreements rightly have the same structure for each associate country, in order to govern and stabilize relations between them and the Community. Their specific interests must however be taken into account.

Thus the opening of the door to membership of the Community in the agreements themselves is given varying importance, although all three are seeking membership. The approximation of laws and technical and quality standards are vitally important in helping them move closer to the Community. This process, which can only be achieved in effective cooperation between the Community and the associate countries, may help facilitate the establishment of a free trade area and a possible customs union. It will also help change political and economic thinking and action. This is the vital advantage of association agreements; for political and economic reconstruction in the associate countries needs the cooperation of the Community as well as their own efforts. There is similar experience with recent member countries, Spain, Greece and Portugal, after the fall of their dictatorships.

The association agreements must be concluded simultaneously and soon. Account must be taken of the specific difficulties and interests of the associate countries. Market access for agricultural products, for processed agricultural products and for textiles is more important to Hungary and Poland

for example than to Czechoslovakia. Access to markets for engineering products and vehicles is more important to economic development in Czechoslovakia and Hungary than Poland. In these areas, as in respect of coal and steel, flexible arrangements are needed to take account both of the interests of the associate countries and of their need for development support, and to the difficult position of agriculture and the textile and steel industries in the Community. Without largely free access for coal and steel, textile and agricultural products, the associate countries would be deprived of essential benefits of a free trade zone.

Nor can competition with the developing countries be ignored. The importance of the safeguard clauses or the permissibility of state aid in association agreements and the still dominant market position of many large-state enterprises has to be investigated. They must not be used to permit either price dumping or 'wage' dumping, where wage cost advantages are sought by ignoring ILO minimum standards. Progressive liberalization is what is required, by the associate countries as well. This can have a positive effect, especially in financial services in all three countries. Freedom of movement is of equal political importance in all three countries, but of greater economic importance to Poland. Aid with balance of payments and debt rescheduling will boost economic development more in Hungary and Poland than Czechoslovakia. The early approximation of legislation, standards and statistics, marketing and corporate structures will have a universal effect on the speed of adaptation. The required increase in productivity will depend on both vocational and management training, and on individual and collective adaptation. The association agreements should play a positive part here.

In the interests of all parties, not all four internal market freedoms can be fully introduced on both sides. In respect of industrial goods the Community can however open its markets wide and soon, while the internal markets of the associate countries will have to be prepared for full liberalization only by stages.

The progressive approach of the association agreements includes asymmetrical trade structures. The transition from asymmetrical to symmetrical trade relations, leading to equal treatment of both partners can be better achieved by this means, for it allows the Central and Eastern European partners time to adapt to integration.

One further problem arises from the fact that Article 115 of the EEC Treaty still allows individual Member States to impose quantitative restrictions or import licensing. This should be prevented under the new agreements, so that discrimination against goods from Central and Eastern Europe may be ended in the interest of better political and economical relations.

The Community still allows Member States a limited degree of export control (Regulation 2603/69, special edition 1969 II, p. 590). It would have to be coordinated with progress towards liberalization, so that the asymmetrical liberalization in the associate agreements achieves the desired effects.

Bilateral trade restrictions still include the COCOM lists, which bar access by the associate countries to modern technology, machinery and processes. Such technologies are, however, urgently needed to modernize their economies and in particular to improve their infrastructures. The COCOM countries have already agreed on a review of List 2 in particular. This covers advanced technology products with both civilian and military uses. No further

exemptions are however to be allowed. The negotiations must also aim to raise the barriers represented by the COCOM lists. Unhampered access to Western computer and telecommunications technology is vital to the rapid modernization of economic structures in Central and Eastern Europe. It must include both the supply of modern equipment and the transfer of new processes.

In view of the difficulties facing the Common Agricultural Policy, not much can be expected from the EC in this field. However, as it is particularly important to the associate countries, the Community should be prepared for gradual progress, opening its markets to agricultural produce by way of annual quotas.

The associate countries will, however, not be in a position to reap the full benefit of a free trade area with the Community until they have succeeded over the next few years in overcoming the problems of transition from state monopoly foreign trade to trade based on relations with private sector customers. This is the universally-proclaimed goal of reform policies but it calls for the establishment of a private sector legal framework and a reappraisal of attitudes by economic operators. This cannot be accomplished in the time it takes to enact legislation. The Community can and should provide aid in the form of training programmes.

When the service sector is liberalized, financial services, transport, tourism and the temporary provision of labour, for example in the form of labour gangs, will be prominent. The latter might raise problems of price and social dumping. The association agreements do, however, provide for consultation and protective mechanisms in this respect. In the case of financial services, the Eastern and Central European countries will be largely dependent on support from banks and insurance companies from the Community countries. The associate countries' justified interest in developing their own banking and insurance industries will have to be taken into account.

The sensitive sector of free individual travel is another case where progressive solutions will be required. Freedom to travel and the free movement of populations are indeed closely associated with the democratic revolutions, but economic reconstruction will be more difficult if the free movement of persons includes the right to work and reside in the Community at the present moment. Nor would the Community find a wave of immigration easy to handle. In addition to improving the legal status of individuals from the associate countries already resident in the Community, a firm set of arrangements would therefore be valuable. A fixed number of people from the associate countries, entitled to work in the Community countries under fixed and fixed term employment contracts, should be given access to the labour market in the Community. Their work and their practical training can moreover help with the modernization and conversion of production and organizational structures. This is true both of young people during holiday periods, who would be able to obtain occupational experience and knowledge in addition to valuable youth exchange schemes. In this respect the Community labour market must be opened to a further limited extent.

Cooperation is vitally important in all sectors to prepare the countries for the 1991 internal market and the European economic area. This is especially true of the approximation of laws, technical standards and diplomas. Cooperation with the association countries should take place in all areas of mutual interest. This is especially true of energy, environmental protection, transport and tourism, as well as vocational training and the rapid

modernization of transport and telecommunications infrastructures, as the gaps are widest here. The PHARE programme plays its part here.

The draft European Energy Charter, designed to promote security of supply, more effective exploitation of energy resources and environmental protection, already reveals a willingness for cooperation. The same can be said of cooperation on the environment and science, vocational training and law, foreign trade and administrative reform.

Cultural co-operation is an especially important means of bringing rapprochement and mutual comprehension. The Community must seek the cooperation of the Council of Europe, UNESCO and the European Cultural Foundation. Although the first step will be to breach linguistic cultural barriers, all Community cultural activities must include central and eastern Europe. There must be an increased exchange of information. Europe's shared cultural heritage must be emphasized and fostered. New cultural trends must also be encouraged, especially those which help foster the joint cultural identity among young people.

Financial cooperation is important as it demonstrates a genuine desire to cooperate. The PHARE Programme should be shorn of its red tape and made more rapidly effective than in the past, but without relinquishing control. Otherwise the desired stimulus will be too little or too late. Bilateral negotiations should be phased out and Community coordination strengthened. The selection of projects should be tailored more to the needs and interests of the recipient countries.

The associate countries political and economic chances and those of the former Comecon partners depend on a solution of the debt problem. The association agreements will be able to make positive political and trade contribution to development when the macro economic environment is right. High foreign debt and balance of payments difficulties hamper this and reduce the scope for independent development.

The situation does however widely vary. The new OECD data for 1990 show gross foreign debts of US\$ 48.2 bn for Poland, US\$ 21.7 bn for Hungary and US\$ 7.9 bn for Czechoslovakia. By comparison, indebtedness for the other Comecon countries is US\$ 2.3 bn for Romania, US\$ 10.4 bn for Bulgaria and US\$ 52 bn for the USSR. All these countries need large amounts of credit over the next few years, and cannot therefore be expected to reduce their foreign debt over that period. That is why financial cooperation is especially important. We are talking about specific co-operation to settle the debts crisis with international financial institutions and concrete aid for balance of payments.

The transition from dictatorship to democracy and from a command to a market economy is fraught with risk. Economic and financial crises jeopardize economic and political stability. The IMF's radical surgery in the developing countries has produced protests and toppled governments. The Community must therefore be extremely flexible. It must join in varying but coordinated solutions involving for example, remission or partial remission of debts, moratoria or measures to maintain liquidity. At the same time, difficult economic and financial situations call for reforms to proceed with dispatch. It will also have to decide the conditions on which capital will be made available for economic construction and re-construction.

The associate countries must therefore be helped speed up the process of re-construction to mobilize both popular savings and foreign investment to turn over their obligations. This is where they get into a vicious circle: their debts will increase and their liquidity decline if there is no investment. Investment will however take place only under stable conditions as the example of the former GDR shows, which cannot however be read directly across to the associate countries. Outside programmes for support and co-operation can be effective only if the transformation of the system is rapid and drastic.

Pride of place in the process of re-construction will be taken by a rapid assimilation to the Community. The comprehensive cooperation approach contained in the association agreements is therefore the right one. The end of Comecon marks the end of artificial and forced cooperation between the former Comecon countries, but cannot mean the destruction of all relationships which have grown up. There is no further need for Comecon as a regional organization. It took the former state-trading countries too far into an international economic limbo. The links must not however be broken. Comecon will no longer be needed as a clearing house. Trade on hard currency terms makes it redundant in this respect.

The collapse of the Warsaw Pact and the dissolution of Comecon do however raise the question of a new order in central and eastern Europe. Bilateral treaties should replace the treaties of friendship and support signed under duress. Nevertheless, a new form of regional co-operation will be important to strengthen traditional trade relations and to offset the hard currency weaknesses of all former Comecon countries. For one thing they are still dependent on Russian energy supplies, and for another varying exchange rates between the eastern European currencies will affect trade, capital flows and travel. The former Comecon countries' chances for the future cannot be improved by subsidies and loans alone. They need organized mutual co-operation and support from the Community so that a pan-European economic area may be established.

The difficulties in making the transition to a market economy show the value of establishing structural macro-economic co-operation. This transition will be vitally effected by the timing of decisions on prices, loans, currencies and property. Reliable statistical data are also essential.

Memories of the European Payments Union with its unforgotten contributions to reconstruction may however lead to a loose form of regional co-operation in collaboration with the Community and in particular establishing a loan pool to promote trade. A macro-economic framework might also be established to the benefit of all former Comecon countries. New economic regions in central, eastern and northern Europe must be made viable and cooperate with Community support.

OPINION

of the Committee on Youth, Culture, Education, the Media and Sport

Letter from the Chairman of the Committee to Mr DE CLERCQ, Chairman of the Committee on External Economic Relations

Brussels,

Subject: Communication from the Commission to the Council and the Parliament on the Association Agreements with the countries of Central and Eastern Europe: a general outline (COM(90) 398 final)

Dear Mr De Clercq,

At its meeting of 19 December 1990, the Committee on Youth, Culture, Education, the Media and Sport considered the above-mentioned communication and adopted the following conclusions unanimously⁵.

1. Following the political upheavals in Central and Eastern Europe and the USSR in 1989 and 1990, the Community has concluded trade and cooperation agreements with most of these countries. However, this is only the first step towards their closer association with the Community. In its communication, the Commission notes the interest expressed by the countries of Central and Eastern Europe in closer links with the Community and proposes to conclude association agreements with these countries based on of Article 238 of the EEC Treaty aimed at
 - (a) implementing freedom of movement for persons, goods and services,
 - (b) creating the conditions for economic cooperation in sectors including vocational training and higher education,
 - (c) strengthening cultural cooperation and mutual exchanges of information,
 - (d) establishing financial cooperation.

20 December 1990

⁵ The following were present for the vote: Barzanti, chairman; Simeoni, Fayot and Banotti, vice-chairmen; Maibaum (for Gallo), draftsman; Canavaro (for Vandemeulebroucke), Coimbra Martins, Dührkop Dührkop, Elliot, Estgen (for Fontaine), Galle, Glinne (for Laroni), Gröner, Harrison (for Buchan), Kellett-Bowman (for Rawlings), Lambrias (for Formigoni), Larive, Oostlander, Roth, Schwartzberg (for Mebrak-Zaïdi), Stewart-Clark and Taradash

2. However, in the view of the Committee on Youth, Culture, Education, the Media and Sport, the European Community should, above all, pursue the aim of introducing and spreading the democratic system of values in Central and Eastern Europe. Cultural cooperation has a major role to play in this process and should include a targeted information policy and the creation of appropriate establishments in the Eastern European countries:
 - in the short term: information offices for industrial concerns
 - in the medium term: European sections in existing cultural institutes
 - in the long term: 'European institutes'.
3. Before entering into the detail of the measures falling within the terms of reference of the Committee on Youth, Culture, Education, the Media and Sport, it should be noted that the USSR is not included in this network of future association agreements owing to the political and economic uncertainty surrounding its future. It was for this reason that the European Council of 26 and 27 October 1990 instructed the Commission to carry out a study into the shape major commercial, scientific and technical cooperation agreement with the Soviet Union might take, as an alternative to association.
4. As regards vocational training and higher education, the Commission proposes that appropriate measures should be carried out in coordination with the European Training Foundation and the Tempus programme so as to dovetail with existing projects. The Committee on Youth approves this approach which is aimed at efficiency but would, at the same time, like the participation of the countries of Central and Eastern Europe in decision-making to be guaranteed. It also calls for the question of the headquarters of the European Training Foundation to be settled quickly to enable it to begin work and meet the pressing needs of the countries undergoing the reform of their economic systems.
5. The Commission and the Committee on Youth, Culture, Education, the Media and Sport point to the importance of reviving traditional cultural ties and promoting new cultural movements to assert Europe's shared cultural identity, especially among young people.

The following are examples of areas in which cooperation should take place:

- literature, translations, theatre
 - art, joint exhibitions
 - audio-visual media: exchanges of documentary films (MEDIA dubbing and subtitles)
 - promotion of historical and architectural heritage
 - exchanges of curators of monuments, which will require an increase in the appropriations allocated for this type of measure
 - information exchanges, particularly in the area of archives and libraries
 - study of the languages of Central and Eastern Europe and the Soviet Union, beginning with Russian.
6. These are all positive measures leading to closer links between the two halves of Europe. They could also include the promotion of exchanges between young people, and the twinning of Community towns with towns in

Central and Eastern Europe to help overcome the isolation of the people in Central and Eastern Europe which has lasted decades.

Exchanges of important opinion-formers should also be encouraged, e.g.:

- journalists,
- heads of further education institutes
- representatives of cultural associations
- interpreters.

It is also important to give women a role in the exchanges to be organized.

7. However, before the Community commits itself to concluding these association agreements, it must satisfy itself that the fundamental rights of individuals and minorities are respected in the countries concerned and that pluralism of information and freedom of journalists are guaranteed. The same applies to freedom of expression and religion and artistic freedom.
8. The accession of the countries of Central and Eastern Europe to the European Convention on Human Rights would certainly provide the Community with a minimum guarantee before it committed itself to new association agreements which will lead to accession to the Community for some of these states.
9. In the federal states such as Yugoslavia and Czechoslovakia, a clear definition of the division of responsibilities for cultural affairs between central government and the federated republics would be welcome so that cultural cooperation can be targeted to take into account the specific features of each State. In particular, we should expect the institutional framework of the association (Council, Committee, Parliamentary Association Committee) to reflect the cultural diversity of the federal states and the federated republics to be represented in those bodies, as is the case, with the Community.
10. Finally, the future major commercial, scientific and technical cooperation agreement with the Soviet Union should include a cultural section, on the basis of the principles set out above, since some of its republics have close links with European culture and history.
11. The Committee on Youth, Culture, Education, the Media and Sport regrets, in this connection, that the planned Foundation for Eastern European Research (see Pelikan report), which should in fact have provided important information for the preparation of the association agreements, and carried out studies on special problem areas, has still not come into being. It points out that, in the 1991 budget, in the face of the Commission's inaction, the relevant budget heading (A-308) has been changed to 'Research on Central and Eastern Europe, including the USSR, and on the Balkan region'. The Committee on Youth therefore calls on the Commission to use the appropriations adopted for this budget heading to carry out the studies needed to identify the needs of Central and Eastern Europe, not forgetting the cultural sphere. It will return to the question of the Foundation in the report currently being drawn up on cultural relations between the European Community and the countries of Central and Eastern Europe.

12. The Committee will likewise monitor the activities relating to Central and Eastern Europe of the Council of Europe, UNESCO, and the European Cultural Foundation (in Amsterdam) very closely and will include them in its report on cultural relations between the EC and the countries of Eastern Europe.

The Committee on Youth, Culture, Education, the Media and Sport therefore asks the Committee on External Economic Relations to take all these factors into consideration when drafting its report, and it reserves the right to table amendments in order to assert its views.

Yours sincerely,

Gepa MAIBAUM
(Draftsman)

Roberto BARZANTI
(Chairman)

