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TOGETHER IN EUROPE

EC NEWSLETTER FOR CENTRAL AND EASTERN EUROPE

RELATIONS WITH THE COMMUNITY

GREEK PRESIDENCY OF THE EU

Greece, who assumed the presidency of the European Union on 1 January 1994 for the next six months, will have to handle a number of difficult tasks. It will be up to the Greek Presidency to ensure practical implementation of the Treaty on European Union. It will have to ensure that the conclusions of the Brussels Summit of the EU, on the growth, competitiveness and employment are rapidly carried out. It will also have to chair the successful conclusion of accession negotiations with Austria, Finland, Sweden and Norway. The task of the Greek presidency is also to reach agreement between the 12 Member Countries on the way in which "joint actions" under the two mostly inter-governmental pillars of the European Union, ie Common Foreign and Security Policy and Internal and Judicial Affairs, will be financed.

The Greek Presidency will present its programme to the European Parliament on January 19. Readers will recall that the European Council which will be held in Corfu on June 24-25 will be chaired by Greek Prime Minister Andreas Papandreou. Mr. Theodore Pangalos, Greek Deputy Foreign Minister and Minister for European Affairs is chairing the General Affair Council meetings. COREPER is chaired by Mr. Alexander Zafiriou (who replaced, at the beginning of December Ambassador Evangelidis). The EU's "Troika" will consist of Greece, Belgium and Germany (which takes over the presidency on 1 July). The first General Council meeting is scheduled for February 7-8.

Mr. Pangalos outlined in Brussels the priorities that Greece desires for both the internal and external development of the EU. Regarding external policy, the main priority is **enlargement.** In addition, the Greek presidency has a special priority to ensure that **fundamental progress is made on applications for accession by Cyprus and Malta.** It may be noted that on January 19, on the same day that the Greek Presidency presents its programme to the European Parliament, the Council and the Commission will make statements on the requests for accession from Cyprus and Malta. Another Greek priority concerns the development of relations with Mediterranean and Middle East Countries.

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Central & eastern Europe :

Concerning relations with central and eastern Europe, Mr. Pangalos indicated a will to respect the wish of Poland and Hungary to hold the first Association Councils as soon as their full Association Agreements come into force on 1 February 1994. Mr. Pangalos said that the two Association Councils will be held in March.

During the Greek Presidency, a Joint Committee meeting with Bulgaria to supervise the implementation of the Interim Agreement will be held. A Joint Committee meeting shall also be held with Albania within the framework of the existing trade agreement. Mr. Pangalos underlined that the EU shall make a special effort to facilitate its relations with the Balkan countries, which are facing more serious problems than other central and east European countries. It is not sufficient to promise to this region only more stability and security, but it is necessary to promote economic cooperation between the EU and these countries.

The first EU General Council meeting shall also issue a detailed mandate for the Commission to negotiate new agreements with the three Baltic States.

Ex-USSR :

The Greek Presidency stated, that once the Partnership agreement between the EU and Russia is initiated, then Greece will take over the negotiations. Negotiations on the Partnership Agreement shall continue with Ukraine, Belarus and Kazakhstan and efforts shall be made to open, still during the Greek Presidency, negotiations with Armenia, Georgia and Turkmenistan.

Speaking on international cooperation, democracy and freedom, Mr. Pangalos underlined that one of the main priorities of the CSFP of the European Union will be the implementation of common actions to strengthen the worldwide democratic process. The Presidency will be encouraging relations with Russia and with Ukraine, which is said to have a special role "which it can play in achieving stability in Europe".

Agriculture and eastern Europe :

The Greek Minister of Agriculture Mr. Georges Moraitis, who now chairs the Agricultural Council, confirmed recently that the Greek Presidency expects to be handed over the Commission's draft proposal on improvements in the relations between the EU and central and east European countries in agriculture around March-April.

It is expected that the Commission's report would propose easing controls over agricultural exports from central and eastern Europe into the EU, but that the reactions from some member states would be that the problem "needs more detailed examination", so that some concrete decisions will come only towards the end of the year. On the other hand, several steps will be rapidly made to establish relations with central and east Europe allowing much closer cooperation in agriculture, as a base for forthcoming concessions to me made by the EU.

Trans-European Networks :

Mr. Georges Papantoniou, the current President of the ECOFIN Council asserted that one of the main priorities for the ECOFIN during the Greek Presidency will be to strengthen relations with central and eastern Europe and the way to this shall be closer cooperation in making choices for the Trans-European Networks. ■

NEGOTIATIONS WITH BALTIC STATES

The EU General Council held just before Christmas discussed the European Commission proposal for the scope of negotiations on new agreements with the three Baltic states. The EC heads of State and Government requested, during their Copenhagen Summit in June 1993, that negotiations with Lithuania, Latvia and Estonia on a free trade area start soon and the Summit accepted the need to conclude even more comprehensive "Europe Association Agreements" (ie agreements similar to those concluded with the four central European countries and with Bulgaria and Romania), with the Baltic States as soon as the necessary conditions have been met.

The European Commission has held, since the Copenhagen Summit, intensive talks with the three Baltic States and in December 1993 it presented to the EU Council a draft negotiation mandate for approval.

The Council, however, regarded the Commission's proposal as inadequate and too restrictive. The Council charged COREPER and the Commission to examine the possibility of further widening of the negotiating mandate so that it allows the expansion of the already existing agreements into **free-trade area agreements** and then that those offer a rapid change

of these agreements into **association agreements** when the time is right.

Mr. W. Claes, the President of the Council said at the end of the meeting that "The idea is to work pragmatically so that European Union can give to the three Baltic States a feeling of security and stability".

The Commission's officials suggested that a new draft negotiating mandate would be ready for approval by the Council for its first 1994 year meeting planned for early February, so that the first round of negotiations may start soon afterwards. It is expected that some 4-5 rounds of negotiations will be necessary. Thus the agreements could be initiated possibly in early summer and formally signed during the autumn of this year.

During the discussions within the Council, some EU Member States even suggested that "Association Agreements" with Baltic States are negotiated immediately and without passing the intermediate stage of free trade area agreements. This, however, was not followed by other member States. There were also contradictory discussions concerning the problem of free-trade area agreements which were concluded earlier between the three Baltic States and the Nordic Countries currently negotiating their accession into the Europe Union, which is likely to take place in January 1995. The three Nordic States (Finland, Sweden and Norway) do not want to give away, when becoming full members of the European Union, their privileged and close ties with the Baltic States. The Council suggested that the changed negotiating mandate shall be such that it also facilitates enlarging negotiations with the three Nordic countries.

The three Nordic countries confirmed, during the fifth round of negotiations on the accession to the EU held just before Christmas, that they want to maintain the free-trade agreements in force with the Baltic States. They also hoped that the negotiations between the EU and the Baltic States start immediately so that there are no delays in including the Baltic States into the European Economic Area which came into force on 1 January 1994 and consists of 12 countries of the European Union and five (out of seven) member countries of EFTA. ■

INTERIM AGREEMENT WITH BULGARIA

The Interim Agreement with Bulgaria signed on March 8 1993, finally entered into force on December 31 1993. As we briefly indicated in No.40, p5 of December 15, the EU Council of Foreign Ministers, after long discussion, took the long awaited decisions concerning the "Community Trade Defence Instruments". Readers will recall that the lack of a decision on the EU trade defence instruments caused a six month delay in the entry into force of the Interim Agreement with Bulgaria.

The date of **December 31 1993,** as the date of entry into force, however, has some significance, and shows the will of the EU to at least partly offset the lack of benefits from the agreement caused by delays in the conclusion of the Interim Agreement. Under normal procedure, the conclusion of the agreement in December, would allow the entry into force of the agreement only on February 1 1994. However, the decision was taken to mark December 31 1993 as the date of entry into force. Article 52 of the Interim Agreement which was signed on March 8 1993 stipulated that **if the agreement enters into force on 31 December 1993 at the latest, the date of *1 January 1993 is the date into entry in relation to obligations taking effect after the date of entry.* This simply means that the timetable for the application of the trade provision would be** as if the agreement entered into force on time.

Thus for example the Community had to reduce custom duties on imports of products listed in the Annex IIa (nearly 100 products), by 50 % on the date of entry and "one year after the date of entry into force the remaining duties shall be eliminated". **Thus as of 1 January 1994, the Community has had to eliminate completely duties on products listed under IIa.** The same principle applies to the other trade provisions and individual protocols. This is especially important for processed agricultural goods where higher quotas and more reduced duties and levies will apply immediately.

Thus for example for Bulgarian "Yoghurt" the situation shall be as follows : basic rate of duty (applied until the end of 1993) was 13% + MOB, then the agreement stipulated that on the entry into force it shall be 6.5% + MOB and after one year 0% + MOB. Thus from January 1 1994 the duty applied shall be 0% + MOB.

Similarly, Bulgaria had to abolish customs duties on products listed in Annex IV immediately, and then a year later, reduce the duties on products for example in Annex IV or Annex VI to 80 %. It is duty

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reduced to 80 % which has been applied since January 1 1994.

Another example may be Annex VIII, related to the provisions of Article 7 which stipulated the **timetable for abolishment by Bulgaria of charges on large passenger cars** (after 5 years). So since 1 January 1994 the charge has been reduced to 8 %.

An integral part of the Interim Agreement is a number of "Joint" and "Unilateral" declarations stipulating the way in which provisions of certain articles are to be carried out as well as several "Agreements" in the form of exchange of letters.

Details on the content of the Interim Agreement were published in No 25 especially as they concern the following fields:

-- free movement of goods
-- free movement of labor
-- establishment and services
-- movement of capital
-- competition policy, aid schemes, intellectual property
-- economic and financial cooperation. ■

CENTRAL AND EAST EUROPE STATISTICAL AGREEMENTS

An Agreement has been signed in Brussels between Eurostat the EC Statistical Office in Luxembourg, and Bulgaria, Hungary, Poland, Romania, Slovenia, and the Czech and Slovak Republics. The agreement is aimed at providing systems that will enable people in these countries to be able to compare their statistics to those of the European Union, EFTA, and other countries in the world. Effectively it will take several years and much assistance from Eurostat, to establish a uniform statistics service.

Present at the signature of the Agreement was EC vice-president Mr. Henning Christopherson, who acknowledged that the countries were seeking accession to the European Union, but before this could occur, "accurate, reliable and impartial statistics are vital for the purposes of the negotiations" he said. Commenting on the steps required in a long progression to accession, Christopherson said that "a statistical system in tune with the rest of Europe - and democratic nations beyond Europe - is one of the most basic (steps)". ■

EUROPE AGREEMENTS WITH POLAND AND HUNGARY

The full Europe Agreements establishing an association between the European Union and Hungary and Poland enter into force on February 1 1994. The EU Council concluded the agreements in December.

Readers will recall that the provisions stipulate that agreements enter into force on the first day of the second month following that in which the ratification procedures were completed. However, only the EU Council meeting in mid-December took long awaited decisions concerning the trade defence instruments (see No 40, pp5-7). With this problem settled, the Council was then able to conclude Europe Agreements with Poland and Hungary.

The entry into force of the agreements allows the **first meeting of the Association Councils** to be held at ministerial level. This is also the level at which the principal political dialogue shall take place. The Greek Presidency of the EU has already announced it intends to call the meetings of the Association Councils with Poland and Hungary for March.

The Interim Agreements so far applied basically contained parts of the Europe Agreements related to trade issues :

-- Title II - General provisions;
-- Title III. - Free movement of Goods;
-- Title V. - payments, Competition and other Economic provisions;
-- Title IX - General and Final Provisions;

Thus, as of February 1 1994 the remaining Titles of the Europe Agreements as well as some articles from the above indicated Titles will enter into force. This includes:

-- Title V - Movement of Workers, Establishment, Supply of Services;
-- From Title V - the remaining articles and especially those concerning with approximation of laws;

-- Title VI - Economic Cooperation ie some 24 articles establishing the framework for cooperation in all fields;

-- Title VII - Cultural Cooperation;

-- Title VII - Financial Cooperation;

-- Title IX - remaining articles in addition to those already included in the Interim Agreement (institutional, general and final provisions).

We will return to details of the Europe Agreements with Poland and Hungary in later issues. ■

QUOTAS FOR CZECH AND SLOVAK REPUBLICS

The additional protocols to Interim Agreements between the European Union and the Czech and Slovak Republics were finally concluded on December 20 1993. Readers will recall that the Interim Agreement with the Czech and Slovak Federal Republics entered into force on March 1 1992. The Federal republic ceased to exist on December 31 1992. The validity of the interim agreement was expanded to the Czech and Slovak Republics on the basis of their agreement over the allocation of quotas. The Community formally concluded separate additional Protocols on December 20 1993, and the conclusion of these protocols was followed in late December by the Publication of Commission Regulations indicating the distribution between the two successor States, of the Community concessions granted in the Interim Agreement. The separate quotas have applied since January 1 1994. ■

JOPP FINANCIAL INTERMEDIARIES MEETING

Financial Intermediaries of JOPP, the EC program established within the framework of PHARE to "facilitate the creation and expansion of joint ventures in the countries of Central and Eastern Europe", met in Luxembourg, on 17 January 1993 at the presence of EC Commission Vice-President, Henning Christophersen.

The meeting gave EC officials the opportunity to present the new rules concerning the program, which have been introduced in particular for facilitating access to long-term financing for those EC SMEs concluding joint ventures with SMEs of central and eastern European countries.

JOPP assistance intervenes at different stages in the creation and development of a joint venture, "from the feasibility study and pilot projects to training and technology transfer, including financing requirements in the joint venture".

The existing network of approximately 50 financial intermediaries provides the "link between the beneficiary and the EC Commission". Businesses wishing to benefit from the program must submitt their project to the financial intermediaries, which are also responsible for the management of disbursement of EC assistance and for the monitoring of the program.

EC Vice-President, Mr. Christophersen recalled the principle data of JOPP since its establishment in 1991: with a budget of Ecu20m, more than 250 dossiers have been approved. "If the projected investments outlined in the projects are achieved" he said, "this would represent more than Ecu500m of productive investments in the countries concerned".

In consideration of these positive results, the EC Commission has decided to extend the program to 1994, with a supplementary budget of Ecu27.5m. ■

ANTIDUMPING PROCEDURE

As we go to press the Commission initiated anti-dumping procedure concerning imports of unwrought magnesium originating in Russia, Ukraine and Kazakhstan.

The Commission also introduced provisional anti-dumping duties on imports of hematite pig iron originating in Russia, Poland, Ukraine and Brazil.

Hematite pig iron is used to manufacture cast iron for high-quality machine and machine-tool castings for use mainly in the motor vehicle industry.

Readers will recall that the European industry initially lodged a complaint against import from the USSR and Turkey already in 1991. One year later, the complaint against Turkey was withdrawn, but

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DEVELOPMENTS WITHIN THE EC

ENLARGEMENT: THE COMMITMENT TO CONCLUDE THE NEGOTIATIONS BY 1 MARCH 1994 IS RESTATED, THOUGH MANY ISSUES REMAIN OPEN

One of the goals of the Greek Presidency of the Council of the Union is to conclude enlargement negotiations with Austria, Finland, Sweden and Norway by the deadline agreed, 1 March, but the Presidency admitted, in its detailed programme for the next six months, that major chapters of the negotiations such as agriculture, regional policy, structural funds, budgetary arrangements, alcohol monopolies and issues particularly sensitive for one or other of the applying countries, such as energy, fisheries or road transit remain open. The Greek Presidency is willing to do its utmost in order to settle all these issues, and Theodoros Pangalos, Minister in charge of European affairs, said that supplementary Foreign Ministers meetings would certainly be necessary in order to achieve this ambitious goal, and perhaps even an extraordinary European Council, which would have to be held in February. "If we want to succeed, concessions will be needed on everybody's part, and therefore also from applicant countries, and not just by the present Union's Member States", he said. At the same time, the Greek Presidency also stressed that it would not neglect enlargement to the South of Europe, and that the applications by Cyprus and Malta should be dealt with more expeditiously.

In the meantime, a new round of talks at expert level are starting with the four countries, while ministerial sessions with them will take place in February. Last week, the present EFTA Council chairman, Pertti Salolainen, who is Finland's Minister of Foreign Trade, took the opportunity of a meeting in Brussels with Commissioners Hans van den Broek and Sir Leon Brittan (convened after the entry into force, on 1 January 1994, of the European Economic Area agreement) to stress the need to keep the 1 March deadline. The Minister was quite optimistic, especially since, in his opinion, a "breakthrough" was possible on agriculture, because, he said, the Union now accepts to focus the negotiations on the issue of their permanent aid that Finnish farmers could be granted when Finland joins instead of insisting on settling first, the issue of transitional periods. In Vienna, Franz Fischler, Austrian Minister of Agriculture, was rather more critical towards the European Commission and, emphasizing that Austria would do its best to conclude negotiations at the set date, He demanded greater efforts on the Commission's part, saying that it should "propose a binding timetable.... and show more readiness to take the interests of Austrian farmers into consideration".

The European Commission, assessing the progress made up to now in the negotiations, said that Austria and Norway are now behind, while Sweden, and also Finland, seem closer to the goal accession. Thus, for Sweden 18 chapters of the negotiations out of 29 are now closed, while this is the case of 15 chapters for Finland, 13 for Austria and only 11 for Norway; significant progress, though, is noted also in many of the open chapters. The Commission, despite these differences in timing, stresses that the "parallelism" in the negotiations with the four applicant countries is maintained, but that major difficulties with one country would not block progress for the others.

On the Union's side, Member States still have to react to the solutions suggested on several issues, such as regional policy, fisheries and Economic and Monetary Union. On this last question, the Twelve are in disagreement among themselves, with Spain rather isolated saying that the decision on the possible beginning of EMU's third stage (and, therefore, of the single currency), in 1997 should be taken only by the present Members. Financial and budgetary provisions are being kept for the very end of the negotiations, when it will be possible to assess the financial commitments made in the different chapters.

Enlargement is also one of the main concerns of the European Parliament, which is very broadly in favour of it, but also stresses that it wants to be consulted properly on such an important issue. Some MEPs doubt that this will be possible if negotiations are not wrapped up in due time, and they fear that Parliament will end up giving its "assent" hastily and without sufficient debate. Of course, enlargement was discussed at length and in a detailed way by the relevant committees, but the plenary obviously wants to discuss it adequately. Will Parliament be able to do so at its March session, which begins on 7 March ? Admitting that the deadline set for the negotiations is kept, this would mean that Parliament would have less than a week to assess the results. Otherwise, Parliament will

have to vote on the accession agreements either in its April session (from 18 to 21 April) or in the May session (2 to 6 May), the last one before the June European election.

One of the enlargement issues where Parliament showed its particular sensitivity was the institutional question. On several occasions, the plenary approved resolutions which deplored seeing this issue treated for the time being, as a simple arithmetical adjustment (of numbers of MEPS, Commissioners, majorities in the Council), postponing the major question of the future institutional balance and proper functioning of a Union of 16 countries. The Belgian Presidency deemed it fit not to deal in depth with the problem, and the Greek Presidency has inherited this delicate issue. We must know in which direction the European Union is going, said Mr Pangalos, who therefore thinks that preparation of the Intergovernmental Conference of 1996 on institutional reform should begin as of now. "I am quite pragmatic", he said, "and I would not exclude that the discussion will end up with the drafting of the first European Constitution", which might involve a "federal structure" for Europe". Mr Pangalos suggested that an ad hoc group should be constituted on institutional reform, along the lines of the Spaak Committee and the Dooge Committee (which led to the "Single European Act"), with the applicant countries represented as observers. After the first European Commission meeting with the Presidency, at the beginning of January in Athens, Mr Pangalos said that he had been "pleasantly surprised" to hear that Jacques Delors backed this idea of setting up a working group on institutions (stressing that he preferred to use he definition "working group" rather then "Wise Men Committee", which is not liked by everybody). ■

EMPLOYMENT, FREE-TRADE AND RELATIONS WITH EASTERN EUROPEAN COUNTRIES DOMINATE THE AGENDA OF THE TRANSATLANTIC SUMMIT

The Transatlantic Declaration signed in November 1990 by the then European Community and the United States provides, among other things, for semiannual summits between the Presidents of the United States, of the European Council and of the European Commission, to be held once in America and once in Europe. If these meetings, because of their regular nature, may sometimes seem mere routine, the last transatlantic summit, on January 11 in Brussels, was of considerable interest, because it coincided with Bill Clinton's first official trip to Europe.

Before his meeting with the European Council's President Andreas Papandreu and with Commission's President Jacques Delors, Bill Clinton had an opportunity to confirm the United States' attachment to Europe in a speech to a group of young Europeans, where he admitted in particular that the Americans have things to learn from Europe (for example, as far as vocational training and retraining are concerned), while European can also learn something from the Americans (job flexibility and mobility being the examples he quoted).

In his speech, Bill Clinton also stressed the need for Western Europe to open up its markets to exports from the Eastern part of Continent, and this prompted a quick reaction by President Delors, who admitted that "we are aware of our historic responsibility to extend to all these countries the values of peace and trade and to help them develop a market economy and democracy", but assessed: "Of course, we can do better, but it should be recalled that the European Union provides most of the efforts made to assist these countries, donating 60% of all assistance to Central and Eastern Europe and importing 78% of all products bought from those countries by OECD member countries".

President Clinton took up again this issue himself at his press conference with Andreas Papandreu and Jacques Delors following the transatlantic summit, saying that not only the European Union, but also the United States, should explore "additional ways in which we can further open our markets to the nations to the East".

Stressing the importance of the opening of markets for the world economy on the whole, the American President also said that the United States and the European Union could not do it alone, and wished for a bigger contribution in this field by the other large economic power in today's world, Japan. Now that the Uruguay Round is completed, we must look at the agenda "after the Round", noted President Clinton, quoting the impact of environment protection on trade, the protection of workers' rights and competition policies among the issues to be tackled in the "post-GATT" period.

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"A strong relationship between us is good for America, it can help generate more jobs, more growth, more opportunities for workers and business at home as well for those in Europe", Bill Clinton told the press, stressing that employment must be at the centre of all economic growth plans, and of the discussions of the next Group of Seven summit, in Naples at the beginning of July. ■

FIRST MEETING OF THE EUROPEAN MONETARY INSTITUTE - PRESIDENT LAMFALUSSY CANNOT IMAGINE EUROPEAN INTEGRATION "WITHOUT A SINGLE CURRENCY"

The European Monetary Institute (EMI) set up by the Treaty on Economic and Monetary Union held on 11 January, in Frankfurt, its first meeting, which was devoted mostly to organizational problems. On this occasion, Maurice F.Doyle, Governor of Ireland's central bank, was appointed by the EMI Council as the deputy to President Alexandre Lamfalussy (who is Belgian), and it was agreed that a transitional period, of probably six months, would be necessary before the Institute could move to Frankfurt. It will be recalled that, after much wrangle, Frankfurt was chosen by the extraordinary European Council of October 1993 as the seat of the future European Central Bank and, until then, of the Monetary Institute. During this transitional period, Mr Lamfalussy and his staff will go on working in Basle, where the Committee of Governors of Central Banks (which is replaced by the European Monetary Institute) worked over the last years, thanks to the hospitality of the Bank for International Settlements. At the end of this year, the EMI should have a personnel of about 140 people, which might increase to 250 when it is fully operational. The EMI will be organized in several departments, as a financial unit, economic and statistics units, an administration and an information service.

After this first meeting, Alexandre Lamfalussy spoke to the press, and said that the choice of the building which will host the EMI in Frankfurt had not been made yet, noting that the Institute had particular requirements, being a "foreign institutions" which will hold very frequent meetings. The fact of working so close to the Bundesbank is not a problem, emphasized the EMI's President, saying that, simply because he would be in Frankfurt, he would not accept a greater influence of the German federal bank on his Institute's work than if he were "on a mountaintop elsewhere".

On the substance of the EMI's work and the prospects of Monetary Union, Mr Lamfalussy told the press that, for the moment, a single currency already in 1997 seemed to him unrealistic, but that given the extremely high degree of economic integration in Europe, he could not imagine the things "could eventually function correctly without a single currency". On the other hand, Mr Lamfalussy reacted rather cautiously to President Delors' statement that it would be a good idea to give EMI greater responsibilities than foreseen in the Treaty, noting that the Institute had just begun its work. For the time being, he said, no central bank except the Banque de France has asked the EMI to manage its monetary reserves; but he added that the EMI would be ready to do so as soon as it will feel that there is a real demand there. ■

EU POLICY ON STATE AID IN THIRD COUNTRIES

The Europe Agreements concluded by the EU with the central and east European countries contain important provisions, under TITLE V, relating to competition and other economic provisions. In principle "practices contrary to the provisions on fair competition shall be assessed on the basis of criteria arising from the applications of Articles 85, 86 and 92 of the EC Treaty". The Europe agreements provide both, for the delay in the application of these articles by the associated countries, and stipulate that for a certain period the public aid could be extended in the assisted countries, not according to the strict rules, but along the criteria accepted for the less developed countries in the EU. The associated countries committed themselves to report regularly to the EU on the amount and the distribution of the aid provided.

Under the Europe Agreements the central European countries will have to start to apply the EU's competition rules by 1996. It looks as if now, that the EU is considering a further improvements in the market access for products from the associated countries of central and eastern Europe. However, in contrast to a unilateral move made last year in Copenhagen, it seems that the next steps would require, some more decisive

moves on the side of the associated countries towards the early application of the EU's competition policy.

Some discussions we had recently with top politicians in the associated countries suggested an attitude that "so far we are not full members, the EC has no say how large subsidies should be and to whom we give subsidies". This may be partly correct, but it disregards the obligation of the EC, for example to re-introduce customs duties if the state aid given in the associated countries goes against the rules of fair competition and brings distortion of competition on the EU market.

Some time ago, "Together in Europe" discussed the case of a dispute between the EC and Austria over the volume of aid given to CHRYSLER's investment in Austria (the Voyager vehicle). Readers will recall that there still exists since the early 1970s, the EC-Austria Free Trade Agreement with provisions concerning competition. There are now several more cases, which we consider may be of an interest to our readers in the central and east European countries.

STEYR trucks :

In 1991 Austrian authorities (ranging from federal to local), decided to give substantial aid to "Steyr Nutzfahrzeuge" - a 80 % subsidiary of the German company of the same name - which wanted to modernize its truck production and capacities for truck cabs (a large part of these trucks are exported to the EU). The EC investigators found that the volume of aid corresponded to some 15% of the investment, ie was higher than the share of aid permitted under EC rules. Austrian bodies claimed the aid is directed towards research and training in which the aid is legal, while the Commission concluded that it is directed towards increasing capacities. In September 1993 the Commission then decided to re-establish custom duties of 22 % for trucks and 6 % for truck cabs. This move helped the Austrian authorities to change the form of the aid and to include the investment "among the areas which may benefit from regional aid". The Commission concluded this corresponds to the criteria valid in the Community and decided to withdraw its proposal to reintroduce customs duties.

GRUNDIG TVs :

In early 1993 Vienna's municipal council decided on subsidies worth approximately Schillings 100 million, in favour of investment in the Grundig plant in Vienna (total investment being some 1 billion Schillings). As the bulk of the color TV sets was clearly intended for sales in the EU market, the EC raised the issue as Vienna does not classify among the districts which would be eligible for regional aid and the granting of the subsidy would distort competition. A proposal has been made to reestablish the 14% import duty on color TV sets manufactured in Austria. Another issue involved was that of the relocation of production, as Grundig has been making TV sets in eastern France and wanted to relocate the production partly because of the Vienna's subsidy. When the EU Council decided to reestablish 14 % import duty, Grundig of Austria agreed to reimburse 2/3 of the aid received.

GENERAL MOTORS - gear boxes :

Three years ago the Austrian Government and regional authorities approved aid to GM (Austria) amounting 15 % of the volume of investment intended to expand production of gear boxes (for exports to the EU for GM's cars assembled there and for exports to Hungary (for GM's local assembly). The aid contracts were signed two years ago despite EC Commission's protests. The EU Council has decided to restore the 4.9 % import duty following a proposal from the Commission and this will remain applicable, until the EU concludes that the aid does not have any distorted effect on competition and trade. ■

EUROPEAN ECONOMIC AREA

The European Economic Area (EEA), the world's biggest integrated trade and economic zone came into force on January 1 1994. It consists of the 12 countries of the European Union and the five EFTA countries, with a total population of over 372 million people. In 1992 the EU's imports from the five countries was worth nearly 77 billion ECU and the EU's exports to the five countries were some 70 billion ECU. The share of the five countries in total EU trade amounted during the last year to 16-17%.

The Treaty establishing the European Economic Area between the European Union and EFTA countries was signed in May 1992. The objective was that a unified trade and economic area of 19 countries would come into effect on January 1 1993 ie at the same time as the Europe Union's Single market started. However, during the process of ratification, a popular referendum in Switzerland decided against participation in the European Economic Area. Because of the special relations between Switzerland and

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Liechtenstein (customs union), the latter may not participate in the EEA, unless the terms of the customs union with Switzerland are changed.

The EEA thus consists from the European Union and Austria, Finland, Sweden, Norway and Iceland. The negative results of the Swiss referendum necessitated new negotiations and a delay in a new intra-governmental conference which, in March 1993, changed the terms of the EEA Treaty taking into account the consequences of the Swiss decision. The entry into force of the EEA was thus postponed by one year.

The European Economic Area is considerably different from a usual free-trade area. Readers will recall that agreements between the European Community and the EFTA countries concluded during 1972-1973 have already set up between these two regional groups a free trade area in the field of industrial products. **In contrast, the EEA means an extension to the five EFTA countries of four basic "freedoms" established by the Rome Treaty ie free movement of goods, services, capital and labour. Thus the EEA means a further expansion of the Community's Single market to a further five countries.**

This has been made possible by the fact that the five EFTA countries took over the existing Community legislation in all four areas (an acceptance of some 1500 acts that make up the body of Community legislation ensuring free movement of people, services, goods and capital). There are, however, some exceptions or transition periods. Special arrangements concern the **agriculture, fisheries and transport sectors.** These are the subject of bilateral agreements which also entered into force on January 1 1994 (except agriculture, where the bilateral agreements have been in fact applied since 15 April 1993).

The free movement of goods, services and capital also means the introduction of the joint regulations and of the same competition policy together with the introduction of a judicial framework to guarantee their strict observance. This was also one of the problems which complicated the signing of the EEA Treaty. Readers will recall that the draft agreement provided for a special court, with judges from the European Court of Justice and from EFTA. However, the European Court of Justice stated it has an exclusive responsibility to the Community, and for reasons of sovereignty, the EFTA countries were unable to recognize the exclusive jurisdiction of the European Court in items exclusively concerning their own matters. However a compromise formula was negotiated in 1992, providing for the EFTA countries to accept EC Court rulings and the European Court of Justice accepted in April 1992 that there will not be a single EEA Court of Justice, but that there shall be an EFTA Court which will be responsible only for internal EFTA questions. The Joint EU-five countries Committee will be in charge of examining the development of jurisprudence, but its decisions shall never affect the jurisprudence of the European Court of Justice.

The EFTA court (located in Geneva) had its first sitting on 4 January, and is composed of the following five judges. Bjorn Haag (Norway),Kurt Herndl (Austria), Thor Vilhjalmsson (Iceland), Sven Norberg (Sweden), and Leif Sevon (Finland). The responsibilities of the court are similar to that of the European Court of Justice.

An EFTA Surveillance Authority was set up in Brussels last September in anticipation of the EEA. The authority, under the presidency of Knut Almestad (Norway), is charged with monitoring whether the EFTA states honour their obligations under the EEA Agreement, and whether companies act in conformity with competition rules. The powers of the Authority are similar to those of the European Commission under the EEC Treaty.

Besides of the establishment of "4 freedoms" the entry into force of the European Economic Area brings a broad cooperation among the 17 countries in particular in the following areas :

1. *Cooperation in areas that have an impact on the activity and competiveness of companies* and which are directly linked to the achievement of the "four freedoms". These are referred to as "horizontal" policies including social policy, consumer protection, the environment, statistics and company laws.

2. *Cooperation in Community policies known as "flaking" policies*, which come outside the "four freedoms". Cooperation in this context may take the form of participation by the five EFTA countries in the programmes, projects or Community actions in areas such as research and technological development, the environment, social policy, computer science, education, youth, SMEs, tourism, audiovisual and civil protection.

3. *Support for countries lagging in development*: to help reduce economic and social disparity in the EEA, the five EFTA countries have decided to create a financial mechanism to provide financial assistance in the form of interest rate subsidies (1.5 billion Ecus in loans) and direct grants (500 million Ecus) for regions which fulfill Objective 1 criteria for the EU's structural funds: Portugal, Southern and Northern Ireland, Greece and Spain.

4. *Consultations*: The EEA agreement institutes an ongoing and permanent process of information and consultation among the five EFTA countries during all phases of development of Community action, in order to facilitate their recovery within the framework of the EEA. It provides rules of surveillance andexecution, specific rules for settling disputes (including, as a last resort, the possibility of making use of safeguard measures), and an arbitration procedure.

5. *Institutional framework*: This includes the **EEA Council**, which is in charge of providing political impetus for the implementation of the agreement and the general guidelines of the Joint Committee; the **EEA Joint Committee**, which is meant to contribute to better understanding between the Community and the five EFTA countries; the **EEA Advisory Committee**, which will serve as contact forum for the representatives of the social partners. ■

RESTRUCTURING OF EUROPEAN UNION'S STEEL INDUSTRY

After many months of difficult negotiations, the EU's effort to adopt the plans and strategy to restructure its steel industry is coming to an end, and concrete steps aimed at cutting the production capacities will start.

Just before Christmas the EU Council reached an agreement in principle on the aid for state owned steel companies in the framework of the Community's steel restructuring programme.

These agreements concerned **Ilva** in Italy, **Eko-Stahl** in Germany, **CSI** and **Sidenor** in Spain, as well as **Siderurgica National** in Portugal and **Freital** in Germany. However the restructuring plans of the last three companies have not caused as many problems, as the restructuralisation of the first three companies, where the approval of the aid package required tough negotiations concerning the level of cuts in production and the scope of privatization. The Council approved the British proposal asking for reinforced monitoring and verification of the commitments made by the three companies concerned with the bulk of the aid. The British categorically rejects use of further aid procedures under Article 95 of the ECSC Treaty.

The decision, in principle, on the restructuring of the state-owned steel companies was necessary for the beginning of the final stage of negotiations with the private sector in the EU's steel industry.

The **external** part (chapter), of the steel restructuring programme was put together in 1993 and concerns in particular the establishment of conditions for steel imports from east European countries. In addition, at the beginning of 1994 the EU has adopted 1994 steel products import regime from Russia and other ex-Soviet countries.

An EC decision came on the 8 January, when it decided to authorize a common financial mechanism with a view to achieving individual closure programs of production capacity for heavy sections, narrow strips, hot-rolled wide strips and reversing mill sheets in the Community's steel industry.

Following unanimous agreement in Council over the six cases (formalized by Commission decisions), the path is now open for the operational phase of restructuring.

This restructuring for the private sector will have to be achieved through the three groups of companies having as a goal the reduction of 2.5m tonnes of heavy sections, 6 million tonnes of narrow strip and hot-rolled wide strips, and 2 million tonnes of reversing mill sheets respectively. Each company opting for closure will have to inform the Commission within three months of its closure program for the products concerned.

Declarations on definitive cessation of capacity will be made on the basis of a formula comprising very detailed information concerning the projects, notably a complete and detailed description of the installations to be shut down, the date planned for the operation, before 31 December 1994, etc.

The Commission intends to organise a meeting with the chairmen of those companies participating in the three restructuring groups to build on the will expressed last summer on the part of the 17 Community steel groups.

For the Commission, all prior work at regulatory level has been accomplished; decisions relating to public aid involve the closure of 5m tonnes of hot capacity; accompanying measures, (external and social chapter) have been set up, and the financial mechanisms are now only waiting for firm commitments by companies to facilitate closure of capacities before the end of the year. Total closures should amount to 30m tonnes. Regarding the private sector's reaction, the Commission notes that the "social chapter", the Commission has taken all the appropriate measures to guarantee maximum funding of social aspects. Expenditure on traditional social aid and the social steel/coal chapters will account for 65% of budgetary availabilities by 1996.

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Accounting for low-interest loans for conversion to create alternative jobs, this total could rise to 85%.

In the private sector, the appraisal of the situation is more qualified. The raising of prices is vital for the Community steel industry, but to achieve this, restructuring is vital. As far as the industry is concerned, the problem of aid reflects the "lowest common denominator". The enterprises which fund the financial mechanisms, and which will not shut down capacities, are still not satisfied regarding the "fair return" they believe they have a right to expect in the form of assured market shares in compensation for their financial effort. The Commission remains firm on this issue.

Speculation over a potential upturn in Community and world steel markets could also influence the operational plans of certain enterprises, and as time evolves, these factors will grow in importance.

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the original complaint was augmented by complaints against Brazil and Poland.

The Commission when calculating the provisional duty decided to establish a **minimum price of ECU149 per ton and the provisional anti-dumping duty is the difference between the above minimum price and CIF frontier prices of the import in question.**

In the case of imports from Poland the anti-dumping margin was established at between some 31 % and 50 % depending on the exporter. The first information suggests that the Commission took **as a base the costs of production in Poland** to which it added a reasonable profit margin.

Thus the calculation of the anti-dumping margin and the establishment of the normal value in Poland is the first case of treatment of the dumping case under the provisions of the Europe Agreement which treats the associated countries as market economy countries. In contrast the normal value in the case of Russia was established by comparison with the Brazilian market price. The anti-dumping margin was found amounting to some 102%.

The Commission considered that the use of the minimum price is the most appropriate measure to be taken at this stage. In considering the Community interest, it was accepted that the minimum price would increase prices, and thus help the Community producers, but that the effect on the final product would be minimal. During the coming four months, the Community will pursue discussions with all the parties involved and will have to propose to the Council to make the provisional measures definitive, or to drop the case. It is the procedure which we discussed in our last issue (No.40 - Community Trade Defence Instruments), which will be used, and will be different for Poland and Russia. We will return to this first case of the new procedure in the next issue.

EUROPEAN CITIZENSHIP

A report to the European Parliament (by Mr. Renzo Imbeni, Italian Socialist), demands that the EU's Intergovernmental Conference to be held in 1996 to **revise the Treaty of the European Union**, gives considerable attention to the question of the European citizenship. The Treaty of the European Union formally recognized in Article 8 European citizenship, but many things concerning citizen's obligations and rights need to be settled. The report calls for the harmonization of the civil codes of the Member Countries, so that citizens of the all Member Countries have the same legal status as regards positive rights. The report suggests a possibility to allocate a very small part, but easily identifiable part of taxes paid by the population in the Member States directly to the European Union so that the citizens have an idea of their contribution to the management of the Union's institutions.

The report proposes that the Intergovernmental Conference examines the possibility to grant to residents, not members of a Member State, the possibility to obtain a Union identity card.

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