



# TOGETHER IN EUROPE



EC NEWSLETTER FOR CENTRAL AND EASTERN EUROPE

## RELATIONS WITH THE COMMUNITY

### *CORFU IMPASSE*

The most controversial aspect of the Corfu Summit, was the failure of the EU Heads of State and Government to appoint a successor to EC President Jacques Delors. It appears that there is some light at the end of the tunnel, as German Foreign Minister Klaus Kinkel met with his British counterpart Douglas Hurd in London. Hurd intimated that the issue concerning Delors' successor could be resolved by the time of the "mini" Brussels Summit on July 15. "It should be possible to reach an agreed conclusion" he said. John Major seems adamant that there will be no change in his decision, objecting not so much to a Dehaene Presidency, but more the mechanism whereby Paris and Bonn tried to push their candidate on the rest of the Union. Major, at a time of domestic difficulties, undoubtedly feels secure in the knowledge that his stance has delighted the "Eurosceptics" in his own party. Kinkel has said that the problem must not be allowed to affect the relationship between EU member States although clearly it has. The British veto has caused a deep division. Delors referred to the decision as "revealing divergences about the future of Europe". The onus is now on the German Presidency to find a solution before July 20, otherwise, as Delors said, Europe will be facing a major incident in the European Parliament. Who will be the "compromise candidate"? While not ruling Jean Luc Dehaene out, the name being mentioned is that of GATT Chief Peter Sutherland. His candidature seems unlikely, if only for the ironic fact that his own government may not support him. As well as Sutherland having ties with the Irish opposition party, Irish Premier Albert Reynolds does not want to bring the ambitious EC Commissioner Pdraig Flynn "home", which would have to occur if an Irishman assumed the presidency. Sutherland said in Brussels that he had "no reason to believe that he would be nominated by the government of Ireland". In Dublin Reynolds said that if the current impasse remained, he would not rule out putting forward the names of suitable candidates "if the opportunity arose". As Klaus Kinkel does the rounds of European capitals, Germany and France while not ruling out reaching agreement on a Dehaene Presidency, are seeking other possible candidates. One name being mentioned in Brussels as a possible candidate is the Belgian Etienne Davignon, Chairman of the giant Belgian industrial group Société Générale de Belgique. A former EC Industry Commissioner in the 1970s, Davignon was mentioned already during the initial selection of future presidents. ■

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**EUROPEAN UNION AND AGRICULTURE OF ASSOCIATED COUNTRIES**


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On June 15, the European Commission had a brief discussion on the report on "Relations between the EU and the central and east European countries in matters concerning agriculture and food production". This report was prepared by Mr. Henri Nallet, a former French Minister of Agriculture and by Mr. A. Van Stolk, a well known Dutch industrialist in food processing who was also an advisor to the Commissioner responsible for agriculture during the 1970s. The report was prepared on the request of Commissioner Steichen who is in charge of the agriculture.

The Report recognizes that the steadily declining situation of agriculture of associated countries cannot continue without some reaction by the EU. It would be too dangerous for the stability of the CEEC and for the EU's relations with the various countries.

On the basis of the Report, Commissioner Steichen is now expected to prepare a new Report which will be submitted to the Commission later on, which in turn will make a proposal to the Council, probably during the German Presidency of the EU. The new proposal may well be a part of the package concerning relations with the associated countries expected to be prepared for the Essen Summit in December.

The report makes several important conclusions and recommendations. The principal conclusion is that without a globally healthy system of farm production, that is a system potentially capable of providing an income for the producers, all different forms of aid and assistance, will be merely palliative, and microeconomic decisions, however intelligent, will be doomed to fail.

#### **Why a price stabilization mechanism?**

From this conclusion results the main recommendation : **The only effective way of improving the situation rapidly is to set up, in the associated countries, a system of price stabilization for agricultural commodities.** The authors say that while such a system cannot be put in place immediately and in full, the legal and institutional infrastructure for it must be set up.

This naturally leads to another recommendation that without delay, the EU must follow the objective of helping the associated countries to lay the foundations for an **agricultural policy compatible with the reformed CAP** (common agricultural policy).

The authors believe that the associated countries of central and eastern Europe shall adopt measures giving assurances to agricultural producers that

they will be recompensed for inputs, such as fuel, machinery, fertilizers, seeds, herbicides/pesticides, which they must buy for normal production, along a marginal compensation for their labour.

The concrete way for this shall be a system of **price support at a low level.**

Once this is in place a "simplified system of EU levies and refunds for the CEEC, based on these price support levels, could be instituted". By making the EU levies equal to refunds, a form of common agricultural market would be formed which would **recognize the differences in cost prices only through these levies and refunds.**

#### **Price support and EU's system :**

The authors of the report say that import and export systems are a natural complement to internal price support systems. They should be coordinated between the EU and the CEEC so as to prevent further distortion.

The authors of the report concluded after several months of intensive analysis of the relations between the EU and associated countries in the agricultural field that the Association agreements as such have not had the positive effect on exports to the EU from the associated countries, that these countries had hoped for. Exports of agricultural products to the EU have increased a little while (subsidized) exports from the EU to the CEEC have increased sharply. They accept that the general sentiment in the CEEC is that the agreement is unfavorable for them. This has created a great deal of bitterness in CEEC, whether justified or not.

The report claims that levy-free quotas for imports into the EU from CEEC and credits granted by the EU for export of agriculture products from CEEC to the former Soviet Union, or to other importers, do not bring structural solutions for CEEC agricultural marketing problems. Moreover, these "facilities" are extremely difficult to administer in the absence of a central marketing agency in each CEEC. Consequently, substantial economic/financial benefits inherent in these "facilities" are allocated in an arbitrary fashion. The authors say that the system gives bigger part in benefits to importers in the EU than to the exporters from the associated countries.

The authors believe that quotas with preferential treatment of tariffs or levies on imports into the EU are economically inefficient. There is a tendency to fill these quotas regardless of the economics

involved, since otherwise another market participant might benefit.

In the associated countries of central and eastern Europe the lack of an effective system for stabilizing process of direct agricultural producers - despite the existence of some public or semi-public market support organizations in some of the countries - means that farm producers are unable to earn sufficient extra income to improve production. The arrival of processed farm products from EU countries on the markets of major cities has elbowed out local products. The report claims that in Sofia there is more French cheese, Danish pork, Dutch tomato concentrate and Greek pasta than there is of equivalent Bulgarian products.

#### Statistics prove a failure :

"Together in Europe"'s calculations from the latest statistical data indicate that EU exports of prepared foodstuffs, beverages, tobacco and related products to Bulgaria in 1993 amounted to over 150 million ECUs and expanded in 1993 by nearly 54 % following the 90 % jump in 1992. On the other hand EU imports of prepared Bulgarian foodstuffs in 1993 were worth less than 88 million ECU and in 1992 to 72 million ECU. Thus in 1993 the EU supplied nearly twice as much foodstuffs to Bulgaria than vice-versa. The EU's imports of prepared foodstuffs from Romania were worth some ECU 25 million last year, while the EU exported foodstuffs worth over ECU 100 million. In the case of Poland the EU supplied prepared foodstuffs worth some ECU 414 million last year, but the Poles were able to deliver food worth less than ECU 200 million.

The report refers to the widely held belief that the east European countries will try to supply the market with primary farm products and fairly simply produced food products for which they enjoy a comparatively advantageous position mainly because of low labour cost. It also underlines that the EU and CEEC belong to the same geographical area and the two regions produce cereals, milk, meat, fruit, vegetables and wine, in surplus production in the EU. Hence there is a fear of competition from central and eastern Europe.

However, the report underlines : **There can be no illusions in this respect - it is not the CEEC which will supply the EU with the plant protein it needs for its livestock sector.** The report says that agricultural economies of central and eastern Europe indeed have a vast agricultural potential - but realization of potential is not a technical matter, it is the outcome of a long and complex social progress in which relations

between the farming sector and the rest of society play a predominant role in raising agricultural production and productivity.

The report says that "the conditions for the realization of agricultural potential in the central and east European countries are not fulfilled and there is every indication that it will be a slow process.... thus, for a fairly long time to come, it will be the farming of food products from the EU countries which may seriously disturb farming in the CEEC rather than the reverse".

#### Free market approaches :

In order to be able to propose to the associated countries a system of guaranteed prices for primary products, the authors of the report naturally had to take an attitude to "free market approaches" which exists both in the West and the central and east European countries.

The ideal situation will be if it is the comparative advantage which determines the pattern of production. In this situation CEEC could have a structural advantage for primary agricultural production. However, according to the report the CEEC currently have substantial disadvantages in their own economic structures and in relation to competition from subsidized primary agricultural exports by the EU, the USSR and other developed agricultural producers.

The CEEC can produce primary agricultural products at prices comparable to the subsidized prices of exports from the EU, and the USA, but their storage, logistics and marketing capacity are extremely deficient. Also with the exception of New Zealand no other developed country in the world produces without some form of direct or indirect price support mechanism.

Theoretically in a case that the decline in CEEC continues and agricultural production declines below the local demand during a crop year, market economy prices would go up. But another fact is that in CEEC, producers are short of money and will be forced to sell quickly after harvest. In a non-liquid economy this will push prices down. Shortages of production will be recognized only later on and this will push prices up, but only a few producers who have held on to their production would benefit from this. It may be expected that Governments will encourage imports if prices rise, in order to push prices down. The report says, in the case of over-supply of grain at harvest time, exports may be stimulated, but give the particular conditions of most CEEC there is no certainty of selling product at the required time. Thus a free market approach cannot

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provide an adequate response.

The major exporting powers like the USA and the EU, apart from subsidizing primary agricultural products, employ credits, food grants and food aid to promote their exports. These secondary export devices will not be available to CEEC.

A system founded on the free play of market forces, within the context of the future accessions of the CEEC to the EU, is conceivable only if it is accompanied by the dismantling on the EU side, of export refunds, and the renunciation on the CEEC side, of external protection for their markets and internal support for their farming industries. However, this would risk unfavorable reaction in the farming world of the EU and also in the CEEC, and could jeopardize the accession of the CEEC.

#### Price support approach :

On the basis of these and a number of other reflections, the report says that :

Only if a government can state at planting time that the price of the grain or other agriculture product at harvest time will be guaranteed to be somewhat (barely) remunerative, is it likely that sufficient producer confidence can be generated to continue normal production at currently foreseeable price levels.

This would mean a system of price supports for primary agricultural production, namely cereals, probably milk and sugar, possibly meat and oilseeds.

#### Land banks :

The authors of the report believe that while the setting up of a price stabilization system is a pre-condition of any recovery of agriculture in central and eastern Europe, this will not be sufficient to prevent farmers from going bankrupt. Consequently they develop the second major recommendation i.e. the establishment of land banks.

They say that measures are required to liquefy the agricultural economy and to create markets in agricultural land, in order to advance gradual restructuring of agricultural production once it becomes potentially profitable. It is suggested that land can be used as collateral for loans through a "land-bank". This bank could also own land for resale, in order to regulate land prices and to promote the creation of viable production units.

The report urges the EU to cooperate with the east European Government, the EBRD and the World Bank towards the creation of such land-banks.

#### EU TRADE IN AGRICULTURE WITH CEEC 1990-1993 (000 Ecus)

	1990	1991	1992	1993
<b>CZECHOSLOVAKIA</b>				
Exports to	148614	244347	417756	535467
Imports from	212909	247350	276764	188123
<b>POLAND</b>				
Exports to	235773	995903	924024	1084863
Imports from	1106453	1080300	951594	815594
<b>HUNGARY</b>				
Exports to	119110	152489	228658	339263
Imports from	713750	919637	830587	715307
<b>BULGARIA</b>				
Exports to	83305	155196	124970	224081
Imports from	151901	191749	183977	175454
<b>ROMANIA</b>				
Exports to	266970	242986	324449	317142
Imports from	40751	76265	77980	81808

**PHARE: BALTIC STATES INDICATIVE PROGRAMS 1994 - 1995**

The three Baltic States will benefit from an estimated Ecu65m under the PHARE program. The recently approved Indicative Programs for 1994-1995 take into account the latest developments in relations between the European Union and Lithuania, Latvia and Estonia and, in particular, the conclusion of free trade agreements. The signing of the three Indicative Programs will allow the Financing Proposals based on the 1994 program to be presented to the PHARE Management Committee for approval before the summer, so that the implementation of the projects will be able to start soon afterwards. The Indicative Programs also establish that later in 1994 the competent authorities will proceed to the identification of the projects to be financed under the new "Crossborder Cooperation Facility", which has been expanded to the Baltic States on the basis of a broad interpretation of the concept of "maritime borders" (see *Together in Europe* No. 49, p.4).

**LITHUANIA**

In 1994, Lithuania will benefit from an estimated Ecu30m. As far as the 1994 and 1995 PHARE activities are concerned, the Indicative Program takes into consideration three main areas of action:

**Infrastructure**

At the Copenhagen European Council of June 1993, the Twelve agreed on the possibility of using PHARE resources for the co-financing of Trans European Network infrastructure-projects. On the basis of this decision, the 1994-1995 PHARE Indicative Program places strong emphasis on the development of infrastructure: in the next two years, 30-40% of PHARE funds will be allocated to this purpose, in particular in the field of transport, energy and environment.

All initiatives will be implemented in accordance with the Lithuanian Public Investment Program, expected to be approved in early 1995. In the area of transport, the main objective will be support to the privatization and liberalization process. Activities in the energy sector will be based on the Energy Strategy Study approved in September 1993, and special emphasis will be given to the provision of technical assistance for the implementation of loan-financed programs concerning an audit on

the electrical power system, an analysis of the regional oil market, a review of important operational aspects of the Mazikiai Oil Refinery, and environmental audits of large power plants. In the environment, PHARE will complete project identification in relation to waste water treatment, hazardous waste management and decontamination of affected sites.

**Economic Development**

Between 40% and 50% of the 1994 budget will be allocated to economic development. PHARE will continue to carry out actions concerning agriculture, privatization and restructuring, investment promotion, SME development, finance and banking and customs and statistics. In agriculture, PHARE will concentrate on the setting up of a land market as well on the support of privatization and modernization of farm and agro-processing units. With regard to the privatization and restructuring process, funds will be channelled into sustaining the Lithuanian Investment Promotion Agency, an independent body established at the end of last year. PHARE will also support the expansion of the existing credit line for small and medium-sized enterprises.

**Human Resources Development**

The third priority of the 1994-1995 Program is the development of human resources, for which 5%-7% of 1994 PHARE funds has been allocated. Special emphasis will be given to the development of the TEMPUS program.

Finally, between 5% and 15% of PHARE funds has been put into a so-called reserve. This will guarantee support for programs in public administration, labor market, social security, aid co-ordination and the public investment program already in operation. The reserve will be also used for the provision of technical assistance linked to the implementation of the Free Trade Agreement.

**LATVIA**

Ecu21m is the estimated budget for Latvia under the PHARE program. As far as 1994 and 1995 activities are concerned, the Indicative Program focuses its attention on two main areas of actions:

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### **Private Sector Development and Economic Reform**

Approximately 50% of the 1994 PHARE budget has been committed to the development of the private sector and economic reform. In the banking and finance sector, PHARE will support Unibank and the Savings Bank. The PHARE contribution to investment promotion will continue to be channelled through the Latvian Development Agency, which is expected to play "a fundamental role" in the government's economic strategy. To promote the growth of SMEs, PHARE will focus mainly on the restructuring of the banking system.

### **Human Resources Development**

40% of the 1994 PHARE funds have been allocated to the development of human resources. EU technical assistance will focus on support to the Riga government's program for the reform of public administration. During 1994 10,000 central government civil servants will be trained, and a further 17,000 local government officials and the police force will be involved in the initiative in 1995. The program, carried out by the Ministry of State Reforms also involves Social Welfare Ministry (labor, social security and health departments). Other PHARE activities in this field include the implementation of a program for the customs, statistics and quality control units. PHARE will also carry on the assistance to the Communications department and it will also concentrate on the development of the TEMPUS program.

A reserve (10% of funds) will guarantee support for both the existing programs in aid co-ordination and for preparation of the Public Investment Program. The reserve will also be used for the provision of technical assistance linked to the implementation of the Free Trade Agreement.

## **ESTONIA**

The estimated Ecu14m allocated to Estonia will finance projects in three main areas of activities:

### **Economic Reform**

Between 50% and 60% of the 1994 budget has been allocated for initiatives aimed at supporting development of the economy. PHARE

funds will focus on the support to the Estonian Privatization Agency and for management training projects. In addition to this, PHARE will participate to the program of Public Offerings of State-Owned Shares in enterprises and will help the Estonian authorities to organize the State enterprise holding activity. PHARE will also contribute to an EBRD scheme aimed at promoting the restructuring and privatization of suitable companies (SRP).

In the finance and banking sector, EU technical assistance will concentrate on bank supervision and staff training, audits and strategy formulation in commercial banks. Support will be supplied for the restructuring of some commercial banks, and a credit assessment unit or agency will be set up with the support of PHARE to strengthen the banking sector's ability to assess risk.

### **Infrastructure Development**

Between 20% and 22% of PHARE funds will be used for the development of Estonian infrastructure. Activities will concentrate on the fields of energy and environment. In the energy sector, EU technical assistance will be provided for the drafting of an Estonian energy strategy plan, and for facing institutional and organizational issues in cooperation with the World Bank district heating and conservation program. In the transport sector, which needs important investments, one priority for 1994 will be to support the setting up of a Program Implementation Unit (PIU).

### **Human Resources Development**

Between 10% and 15% of the 1994 PHARE budget will be used to assist the Estonian government in the implementation of the planned social assistance law. EU technical assistance will also contribute to the improvement of labor market mobility and training. In the health sector, activities will be coordinated with the World Bank health project, which should be appraised in the second half of 1994.

The reserve is 5%-8% of 1994 funds, and this money will guarantee PHARE support to the Estonian Public Investment Program. Again it will be used for the provision of technical assistance linked to the implementation of the Free Trade Agreement. ■

## DEVELOPMENTS WITHIN THE EC

### **CORFU SUMMIT**

*The European Council failed, in Corfu, to appoint the person who, after Jacques Delors, will become on January 6, 1995, the president of the new European Commission for a period of five years (an innovation of the Maastricht Treaty). The Greek presidency, said Jacques Delors at the final press conference, made every possible effort and showed much imagination in attempting to reach a decision, but a British veto on the candidate Jean-Luc Dehaene, Prime Minister of Belgium, made any agreement impossible. Yet, Mr Dehaene, at the end of strained consultations in the night of 24 June and a short new discussion on the morning of 25 June, had the backing of eleven countries out of twelve.*

It had not been easy getting there, since at the beginning the candidates were three: apart from Mr Dehaene, outgoing Dutch Prime Minister Ruud Lubbers (who announced that he would quit domestic politics after the heavy losses endured by his Christian-Democratic Party at the early May general elections), and British European Commissioner Sir Leon Brittan. A first round of voting, Friday night, ended with one vote (British) for Sir Leon, three (Dutch, Spanish and Italian) for Lubbers and the other eight for Dehaene. The Greek presidency organized another consultation, by which Dehaene gained two more votes (by Spanish Prime Minister Gonzalez and Italian Prime Minister Berlusconi), while Britain and the Netherlands stuck with their candidates. Therefore, since an agreement by all is necessary on such an issue, no decision was possible. The morning after, following a separate meeting between Felipe Gonzalez (who had confirmed his personal engagement to his old friend Lubbers, but did not want to prevent consensus), Silvio Berlusconi and Ruud Lubbers, the latter decided to withdraw. Shortly after this, Sir Leon Brittan did the same,

and the Netherlands joined the other ten in backing Mr Dehaene. John Major, though, vetoed Dehaene's candidacy, saying that it was "unacceptable" for Britain, accusing the Belgian Prime Minister to be at the same time a "federalist" and an "interventionist". At this point, Andreas Papandreu, President of the European Council, made an attempt at a temporary solution and asked President Delors whether he would be willing to stay on for a year, and Jacques Delors announced he would give his answer soon. Since the deadlock could not be broken, Chancellor Kohl announced a special summit on this single issue, on July 15, in Brussels.

John Major, justifying his veto, immediately said that it was necessary to look for new candidates, and many names were immediately mentioned, more or less authoritatively: GATT General Director Peter Sutherland (who is Irish, therefore from a country which has never had the Commission's Presidency, although without the support of the Irish government), former Belgian Commissioner Etienne Davignon, but also former Italian Prime Minister Giuliano Amato and former Danish Foreign Affairs Minister

Uffe Ellemann-Jensen, and even Portuguese Prime Minister Anibal Cavaco Silva. After the summit, both Andreas Papandreu and François Mitterrand said that they saw no reason why one should look for new candidates, and both Papandreu and Jacques Delors told the press that the British attitude clearly reflects a deeply different conception of a united Europe and of the obligations resulting from belonging to it.

Several Member States (particularly the Netherlands, of course) had bitterly criticized the way Dehaene's candidacy was brought about, following a Franco-German initiative, but Chancellor Kohl denied that there had been undue pressure. Helmut Kohl, as Andreas Papandreu and European Parliament's President Egon Klepsch, stressed the consequences of a possible delay in the appointment of the new Commission's President, since, in particular, the Maastricht procedures foresee that the other Members of the Commission can only be chosen after consultations between Member States and the appointed President.

John Major, cheered by the "Euro-sceptics" in his own party, who were the main reason for his veto, told the House of Commons, two days after the summit, that Britain would not change its mind "at any stage", and Chancellor Kohl and German Foreign Affairs Minister Kinkel started consultations on a new candidate. Even if the other partners want to avoid a crisis and to find a solution in time for the first session of the newly

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elected European Parliament (which has already put on its agenda a speech by the president-designate, on July 20), the way Britain used its veto on this issue was resented by most Member States as a very worrying development for the future.

The summit, otherwise, had a discussion on the Commission's White Paper on competitiveness, growth and employment, without, as anticipated, making any decision on the financing of transport infrastructure projects (the decision is expected at the Essen summit, on December 9 and 10), but accepting the list of eleven priority projects suggested by European Commissioner Henning Christophersen. One of these projects - the motorway Patras (Greek-Bulgarian border) is of direct interest for Central and Eastern Europe. Jacques Delors, who obviously would have preferred more ambitious conclusions, was all the same pleased on many accounts such as, as far as the information society is concerned, the acceptance by the Twelve of his proposal of making a single minister from each Member State responsible for the coordination and reflection on these issues which, he stressed, affect not only economic growth and employment, but the very organization of society. Mr Delors was also pleased to see that the summit had agreed with the emphasis put by the European Commission on employment, and spoke of "the new solidarity in Europe, between those who work and the jobless".

The summit also took the expected decision of setting up of a Reflection Group which will prepare the Intergovernmental Conference that will convene in 1996 in order to revise the Maastricht Treaty. The Group will

begin its work on June 2, 1995, that is to say, as European Affairs Minister Theodoros Pangalos stressed, the fortieth anniversary of the Conference of Messina, in Sicily, where the Six Members of the initial Coal and Steel Community launched the process which resulted, in 1957, in the Treaty of Rome and the creation of the European Economic Community. The members of the Group will be personal representatives of Foreign Affairs Ministers and the President of the European Commission, as well as two Members of the European Parliament. The latter had very much insisted on that, wanting to contribute directly to this new institutional reform process, in order to make it more open and more democratic.

#### Agreement with Russia

"The European Union is the Russian Federation's most important partner in the world", and Russia will be "a loyal, honest and reliable partner" of the European Union in the implementation of the Partnership Agreement. These were the words of Russian President Boris Yeltsin at the ceremony for the signature of this agreement, on June 24 in the Saint George Chapel inside the Old Fortress of Corfu. President Yeltsin sees this agreement as a "decisive step towards restoring the unity of our continent", bringing Russia back into Europe as an equal partner. Russia intends to be, gradually, economically integrated into Europe, he said, emphasizing that a possible "economic cold war" which could have erupted with trade barriers emerging in Europe after the fall of the Iron Curtain had thus been avoided. The Russian President

did not hesitate to mention frictions on specific sectors (as aluminium) and expressed great hope in the chances of Russian businessmen and industrialist on the European markets in the future (when the Partnership Agreement is implemented, he said, they won't have to "fight with tooth and nail their way to these markets" anymore). Boris Yeltsin didn't hide his great expectations: Europe is called to give the world "an authentic lesson in cooperation", he stressed, and the countries of the former Soviet Union should follow the same kind of approach. And, while emphasizing the "vital interest" that Russia has in stability in Central and Eastern Europe, he assured that Europe "can trust Russia". The previous evening, June 23, Boris Yeltsin had had the opportunity to discuss informally with his new partners, international issues, during a dinner organized on the eve of the European Council of Corfu.

In his brief speech at the ceremony, European Commission's President Jacques Delors said the agreement signed in Corfu was one of the most "global" and ambitious between the Union and a third country: it opens the door to Russia, with which all sorts of exchanges will now be possible, he said. Jacques Delors also stressed the potential of Russians huge natural resources, without forgetting its scientific resources, and praised the Russian people for having shown in such a short time and despite such great difficulties their ability to adjust and cope with change, thus helping their country enter the 21st century. Andreas Papandreu, President of the European Council, expected the agreement to "boost our economic



relations", and also stressed that "it gives our economic operators the framework and guarantees necessary to go forward", while it takes into account the deep reform progress undertaken by Russia. He also noted that the agreement foresees the setting up of a free-trade area, and that a date is set - 1998 - to discuss how to organize this.

At a press conference, Sir Leon Brittan, the European Commissioner who has been in charge of the negotiation of the agreement, also noted that the latter is very ambitious and already looks "beyond", since a date is set for discussions on a possible free-trade area. Sir Leon finds that this agreement between Russia and the European Union and the Partnership for Peace set up between Russia and NATO mean a real "quantum leap" for Russia in international relations. As far as a possible application by Russia to become full Member of the European Union at a later stage (Boris Yeltsin said at the beginning of June that Russia was entitled to such a membership), Sir Leon noted that Mr Kozyrev, whom he met in Corfu on June 23, at dinner, did not seem to consider this as a "live issue at the moment".

#### Accession treaties

On June 24, in the Saint Georges chapel of the old Corfu citadel where Boris Yeltsin has just signed the Partnership Agreement between Russia and the European Union, Austria, Finland, Norway and Sweden signed the accession treaties to the European Union, all stressing how important this accession was for security, stability and prosperity in Europe. The future Union's Members (Austria is

already assured of being one, after the overwhelming "yes" at the June 12 referendum, but the other three countries still have a few months to wait for their own referenda: 16 October for Finland, 12 November for Sweden and 28 November for Norway) also stressed in their brief speeches the social and environment dimension of European integration (and president Delors, in the final press conference, said that the future Members to contribution to the debate on the White Paper had been very comforting, confirming the deep social commitment of these countries).

The security dimension was mentioned in particular by Norway's Prime Minister Gro Harlem Brundtland, who noted that an European Union with Nordic countries as members would be able to help consolidate democracy in Central and Eastern Europe through "common action that is both broader and direct", and by Swedish Prime Minister Carl Bildt who said that the accession of Nordic countries, which have been on the out side for too long, "is important for the stability and security of the northern regions of our Europe". Austria's president Thomas Klestil, without mentioning his country's neutrality (Carl Bildt nor Finland's president Martti Ahtisaari did mention it either) said that Austria is interested in setting up a "pan-European order" (Austrians were always open to "broader European structures", he noted), and also stressed the specific contribution that Austria could give to the Union as far as federalism and subsidiarity are concerned. The Nordic dimension was particularly stressed by Ms Brundtland, who was pleased to see that

Europe had accepted Norway's "specificity": if we become Members of the Union, he said, we will not be "an exception". The Finnish President also insisted on the preservation of the "Nordic way of life", mentioning as particular features citizens' participation in public life, respect for environment, the problems of remote regions and of the rural world. "I belong to the generation born after the Second World War", said Carl Bildt, but "our generation does not have the right to take peace in Europe for granted". The Swedish Prime Minister is happy to see Western Europe "united at last", but thinks that this is not enough, and that the goal should be unifying the whole Europe. This process will entail many difficulties that should not be underestimated, he admitted, but he also thought that, if one does not attempt to unify all of Europe, other problems would arise, "sooner or later".

President Delors also stressed the political dimension of the four countries' accession: the mere economic motivation would have not been enough, he said, adding that "the refusal of past antagonism, peace, acceptance of the other, intellectual and political pluralism, the will to be everywhere, at every moment, at the service of our ideals" is "what our common adventure is all about". Jacques Delors recognized that "living together as Sixteen will not be easy", and that "tomorrow will be even less so, with a European Union enlarged to other friendly countries". That is way, concluded Jacques Delors, the Intergovernmental Conference on the treaties revision in 1996 is of extreme importance. ■

### **TRANS EUROPEAN NETWORKS**

In preparation for the Corfu Summit, a Group of Personal Representatives of the Heads of State and Government prepared an interim report on **Trans European Networks** for the Chairman of the European Council. As part of the conclusions, the Group proposed to the European Council to confirm the mandate of the Group until the Essen European Council in December 1994 and to instruct it in particular to "study further the extension of the TENs to neighboring countries, in particular to Central and Eastern European countries and the Mediterranean Basin".

There is general consensus in the Group about the political and economic importance of extending the TENs to these neighboring countries. The list of priority projects approved by the Group already contains several projects extending the networks beyond the present borders of the Union. Additional proposals will be made later.

The Group had preliminary discussions on this subject, *inter alia* on the basis of the conclusions of the Pan-European Transport Conference held in Crete in March 1994. This Conference considered a three layers approach as a starting point for future work on coherent infrastructure development at pan-European level. These "three layers" consist of:

1. The long-term perspective for pan-European development of common interest on the basis of the United Nations conventions on European infrastructure planning for road, rail and combined transport.
2. The priorities of common interest for medium term development (2010). TENs for the Union territory and priority multi-modal corridors towards central and eastern European countries. The Commission has worked on an informal basis with the European Conference of Ministers of Transport (ECMT), the United Nations Economic Commission

for Europe (UN/ECE), the countries of central and eastern Europe and EFTA, the Member States, as well as the World Bank, the EBRD and the EIB, with a view to preparing Indicative Guidelines for the further development of Pan-European Transport Infrastructure. These would serve the purpose of promoting interconnection and inter-operability of networks in Europe by focusing attention on priority transport infrastructure projects of common interest (maintenance, border crossing facilitation), thus contributing to the gradual integration of the European continent.

3. Short term priority projects of common interest selected on the basis of agreed operational criteria.

The following will be looked at more closely: Berlin-Moscow (road and rail); Nurnberg-Prague; Dresden-Prague; Hungary Highway M5; Danube fixed crossing (road and rail).

The European Council in Copenhagen decided that up to 15% of PHARE resources could be used for financing transport and energy investment projects. Subject to final approval in the PHARE management committee, Up to 100m Ecu have been set aside in the 1994 budget for financing TEN projects in central and eastern European countries. This funding will be combined with that of the EIB, the EBRD and the World Bank. Also, the European Parliament allotted a portion of the 1994 budget to facilitate cross-border cooperation, including transport projects.

Priority projects in the energy sector includes new pipelines linking the Union to two of its main gas suppliers, namely Algeria and Russia, and this along new transit routes. In the electricity sector, the project linking the eastern and western parts of Denmark will further more add a supplementary link between the Scandinavian countries and the Continental West European countries. ■

### **EASTERNEUROPE: EBRD'S PRESIDENT PRESENTS COUNCIL OF EUROPE WITH VERY POSITIVE BALANCE SHEET FOR THE FIRST NINE MONTHS OF HIS PRESIDENCY**

Mr Jacques de Larosière, the President of the EBRD, recently told the Parliamentary Assembly of the Council of Europe that during the first nine months of his term of office, it had been possible to improve in the organisation and efficiency of the bank, its image and its credibility and to resolve the lack of clarity in its medium-term objectives. He pointed out that the separation between the commercial and development sections of the bank had turned out to be costly, artificial and inefficient, and has been abandoned and replaced by a unified structure based on country teams and sectorial teams. Mr de Larosière said that cost-cutting measures had been introduced, facilitating savings of 8% of the budget adopted for 1993, and that there was no increase in the budget for this year. The EBRD's President stated that there had been an increase in

activities, while a slowdown could have been expected "in light of all the ups and downs of 1993." 91 projects representing financing commitments of 2.3 billion Ecus were approved last year. This figure continues to mount: in 1994, the Administration council has already approved 40 projects. Since its creation three years ago, the Bank has approved global funding of more than 4 billion Ecus for 195 projects. If one takes into account the participation of other investors, the total amount is 13.2 billion Ecus. The Bank still has 6 billion Ecus it can commit. Mr de Larosière concluded by saying that, "Despite its limited resources and means, the EBRD has proven that it can act as a genuine catalyst and help the countries of Eastern Europe in their transition towards a market economy and democracy."

The Parliamentary Assembly of the Council of Europe then approved the report by the British Labour MP Terry Davis, who welcomed the development of the EBRD, of its new structures and its new direction. However, the rapporteur made two observations: - the EBRD's political mandate to promote democracy and social progress in the East must not be neglected; - support for ecological projects should be a priority.

The EBRD's President responded saying that: the Bank's political mandate was an essential element of its functioning; however, since the Bank must respect the principles of sound management, it cannot finance social projects directly; environmental problems are at the heart of the EBRD's activities. All of these activities must take account of principles of sustainable development which respects the environment and action must be multifaceted.

#### **Parliamentary Assembly expresses some concerns and makes some suggestions**

Despite Mr de Larosière's explanations, the Parliamentary Assembly maintained the remarks made by the rapporteur and, while welcoming the reorganisation of the EBRD, it noted with concern the lower priority of its political mission: to promote private initiative and a spirit of enterprise in the countries of Central and Eastern Europe which agree to respect and implement the principles of a multi-party system and a market economy. It believes that this change in priority changes the nature of the Banks work in the countries in which it intervenes and detracts from the specific nature of its role in relation to other financial institutions operating in the same area. The Assembly also feels that the constraint which obliges the EBRD to give only 40% of its loans to the public sector and 60% to the private sector should be interpreted with flexibility, as public investment contributes considerably to the development of the private sector. The Assembly also encouraged the Bank to: (1) reinforce its presence and its image in the countries in which it intervenes; (2) invest more in restructuring aid to enterprises; (3) step up its mission with regard to the environment. The Bank was also asked to include Bosnia-Herzegovina among the countries of operation and to develop an investment plan for the rebuilding of this country's economy. ■

#### **COUNTRIES WANTING TO JOIN THE EU DECIDE ON A COMMON ORGANIZATION**

*A conference regrouping in the College of Europe in Brugge, some fifty representatives of the Visegrad countries (Hungary, Poland, Czech and Slovak Republics) adopted a "Brugge Declaration" proposing that their leaders create a "new instrument" aimed at accelerating these countries' accession to the European Union. The setting up of this instrument was called for by Hungary's Minister for Trade and Industry and deputy for foreign affairs, Poland's Under Secretary of State and top advisor to the Prime Minister, the vice-president of the ODA Party and former Minister of Labour of the Czech Republic, the Secretary of State for Foreign Affairs and Vice President of the Democratic Party of Slovakia. In their declaration, these people stresses their will to "join the EU as soon as possible and by the shortest possible way", but saying they were aware of obstacles in their path, proposed that a group of experts "undertake permanent and concerted reflection on issues of common interest such as development in trade, aid given by the international community to transition countries, the development and interconnection of infrastructures, safeguarding the environment, restructuring certain activities". In order to give this new instrument a "fully European nature", they suggested it be given a board with a clearly bipartite composition, comprising representatives from the European Union and that it should remain open to other countries. ■*

### **FREE TRADE AGREEMENT WITH LATVIA/LITHUANIA INITIALLED**

The European Commission and Latvia have initialled the free trade agreement negotiated in recent months. A similar agreement with Lithuania has also been initialled, while negotiations with Estonia will be concluded soon.

The agreement with Latvia foresees the creation of a free-trade zone for industrial goods within four years of the agreement's entry into force (1 January 1995). The EU undertakes to immediately abolish all trade barriers; Latvia has been granted a transitional period for up to four years. It will immediately begin dismantling duties on most of its exports while maintaining duties on some sensitive products for two to four years. Trade in textiles will be ruled by specific provisions establishing customs duties and quantitative restrictions. These are covered by a 1993 agreement which will form a protocol within the free-trade agreement.

With the recent creation of a free-trade area by the three Baltic States, the agreement also provides for cumulation of rules of origin. All the other provisions of the accord have been modelled on the Interim Agreements concluded between the EU and the six central and eastern European countries. These provisions concern payments, competition rules, monopolies, customs cooperation and approximation of laws on trade and customs matters etc.

The agreement with Lithuania should come into effect on 1 January. It grants Lithuania a six year transition period before

fully opening itself up to trade in the agricultural, textiles and fishing sectors. Services and provisions regarding intellectual property are excluded from the agreement.

The final problems to be resolved concerning Estonia include those concerning textiles and processed agricultural products.

### **SCHENGEN - ABOLITION OF CONTROLS ON PERSONS**

The Executive Committee of the Schengen Agreement met at ministerial level with German Chancellery State Secretary Mr. Schmidbauer chairing the proceedings and with European Commissioner Vanni d'Archirafi in attendance. At the conclusion of the meeting, the President gave the following summary:

1. The abolition of border controls on persons is expected to become operational in October in seven Member States: Germany, France, the Netherlands, Belgium, Luxembourg, and barring unexpected difficulties, Spain and Portugal. Italy and Greece are still encountering technical difficulties with connection to the SIS (Schengen Information System - cf Together in Europe No.42 p10). UK, Denmark and Ireland are not party to the agreement. The SIS containing information on undesirable persons or those wanted by the police, for purposes of controls at the Community's external borders, is expected to be operational in September with computerized data on one million persons and data on false passports, car theft, and arms traffic. The global test of the working of the SIS will begin on 6 July. This

is the first time, following earlier failure, that the Schengen presidency has set a new date for the abolition of controls.

2. The Ministerial Committee has granted Austria **observer status** in anticipation of its membership in the Union. The Committee has also welcomed stepped-up cooperation with Switzerland.

3. The Ministerial Committee has not yet decided what action to take on the requests by the UK, Ireland to be given access to the computerized SIS **without becoming parties to the Schengen Agreement**. Denmark has requested observer status.

Joint Publication  
AGENCE EUROPE S.A.  
EAST WEST S.P.R.L.

Publisher responsible: *Emanuele Gazzo*  
10, boulevard Saint Lazare  
B-1210 Brussels (Belgium)

In cooperation with:  
The Information DG, Commission of the European Communities, contents do not necessarily represent the view or policies of the Commission.

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Tel. : 219.02.56  
Fax : 217.65.97  
Telex : 21108b

Bank : KB-Bruxelles 425-2044961-06

Distributed solely by subscription  
Price per issue : BF 750

Printed by:  
Imprimerie de l'Europe SA - Brussels  
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