

# INFORMATION

COMMERCIAL POLICY

COMMERCIAL RELATIONS BETWEEN THE E.E.C. AND EASTERN EUROPE

11/72

The European Community is the biggest commercial power in the world. Its trade with the rest of the world (imports plus exports) amounted in 1958 to \$ 32 billion and in 1970 to \$ 91 billion.

## 1. East-West trade

### - Growth

The Community's trade with Eastern Europe has grown much faster than that with other countries. The trade with Comecon countries amounted in 1968 to \$ 1.7 billion and in 1970 to \$ 6.8 billion. In 1958 - 70, Community imports from Eastern Europe rose by 300%, while those from other countries rose by only 180%. In the same period, Community exports to Eastern Europe grew by 385%, while the Community's total exports were up by only 181%.

The result is that the share of Eastern Europe in the external trade of the Community has risen from 4% in 1958 to 6.4% in 1970. This percentage is not high in itself; but it indicates that trade with the East is no longer marginal. Two examples serve to illustrate this. In 1958, Sweden's purchases from the E.E.C. were 46% more than those of Eastern Europe; but in 1970, Eastern Europe bought 34% more than Sweden. In 1958, Latin-America bought three times as much from the Community as did Eastern Europe; but in 1970, the Community sold more to Eastern Europe than it did to Latin-America.

Even faster rates of growth appear from a separate examination of the trade with specific East European countries. Between 1958 and 1970, for example, the Community's trade with Rumania increased by 620%.

The Community exports and imports to and from East European countries were as follows (million dollars) :

Community exports to East European countries

	1958	1970
Bulgaria	29.7	170
Hungary	73.2	<del>143</del> 343
Poland	138.0	376.3
Rumania	51.3	431.5
East Germany	250.4	705.6
Czechoslovakia	122.2	430.4
U.S.S.R.	221.8	1,169.5
<b>Total</b>	<b>886.6</b>	<b>3,626.3</b>

Community imports from East European countries

	1958	1970
Bulgaria Bulgaria	25.2	165
Hungary	75.3	350
Poland	120.0	432
Rumania	55.7	375.5
East Germany	251.9	650.5
Czechoslovakia	109.9	393.5
U.S.S.R.	271.3	858.7
<b>Total</b>	<b>909.3</b>	<b>3,225.2</b>

- Structure of trade between the Community and Eastern Europe.

Most of the exports from Eastern Europe to the Community, unlike the exports from the industrialised countries of the West, consist of goods in the primary product group. The Community imports of food products, coal and timber from the countries of Eastern Europe, increased from \$ 152 million in 1958 to \$ 606 million in 1969. The percentage of the total Community imports consisting of raw materials rose from 24 to 30%. Finished goods represent 30% of Eastern Europe's total exports to the Community, compared with 26% in 1958.

The proportion of agricultural products in the exports from Eastern Europe to the Community, rose from 22 % to 28 %. This runs counter to the trade trend between the Community and other countries. There is thus no justification for the special distrust felt among the Eastern countries for the consequences of the joint agricultural policy.

In the energy sector, the Community imports of coal from Eastern Europe have not shown much change; there was a growth in the consignments of petroleum products from the Soviet Union.

Imports of chemical products from Eastern Europe did not, on the whole, change very greatly.

The proportion of machinery imported was only 5 % of the total imports from Eastern Europe.

The structure of the Community import trade from Eastern Europe is marked by considerable concentration on a limited number of products (meat, timber, oil and, for some years past, coal). This concentration results in the sales by Eastern Europe being extremely sensitive to changes in general business conditions inside the Community.

The commercial structures in the various eastern countries differ materially from one another. The Soviet Union sells raw materials and energy products. The Community imports from Poland, Bulgaria and Hungary consist almost entirely of agricultural produce. The Rumanians sell raw materials and oil products; from Czechoslovakia the Community imports manufactured goods.

The Community exports to Eastern Europe have been growing very fast . They amounted to \$ 2.7 billion in 1969 and \$ 3.6 billion in 1970. The proportion of agricultural produce is large by comparison with the exports to industrial countries; but the exports of consumer goods are comparatively small. The countries of Eastern Europe are an important market for a well-defined range of goods (ship-building, textiles, electrical machinery). These countries are a specially interesting outlet for complete industrial installations; and both Fiat and Renault have signed agreements of this type.

Since 1958, the increase in the deliveries of industrial equipment by the member countries of the Community to the countries of Eastern Europe has been very considerable -- about 95 %.

#### - Problems in East-West trade

The potential demand from Eastern Europe is increasing. This is due to economic reform, rising standards of living and industrial expansion.

On the other hand, the commercial balance of these countries indicates that they are not able to expand their exports as fast as their imports.

Between 1958 and 1967 (except in 1960-61) the commercial balance between the Community and the countries of Eastern Europe showed a deficit against the West. From 1968 onwards, this balance has been reversed, owing to the smaller adverse balance with USSR and the increase in the favourable balance with the other Comecon countries. This is a position which may hinder the subsequent expansion in the trade if it in fact reflects the saturation of Eastern Europe's export capacity to the Community. On the other hand, hard currencies are scarce, and the USSR has only limited gold reserves to finance purchases from the west. In 1960-61 the Soviet Union bought big quantities of grain from the United States and Canada, and at that time there was a marked shrinkage in Eastern Europe's purchases of industrial equipment from western Europe. The gold holdings of the Soviet Union do not appear sufficient to maintain a simultaneous inward current of equipment goods and other goods from the West.

The absence of currency convertibility for the East European countries may be a technical obstacle to trade. In 1973, the countries belonging to Comecon are to make a joint effort to create the necessary conditions in which the exchange rouble can become convertible, and the national currencies of the Comecon countries can be convertible among themselves. Various measures will have to be taken to attain a single parity by 1980. Until this process has been successfully completed, there will be two rates, one for trade and the other for non-commercial operations.

The real and immediate problem, however, seems to be structural. Exports from Eastern countries are not sufficiently in line with what the Community wants. The structure of the East-West trade will therefore need modification; and this is a process which must continue over many years.

## 2. Towards a joint commercial policy.

By a decision of December 16, 1969 the EEC Council of Ministers has recognised that the making of commercial agreements with outside countries is a task for the Community. As an exception, however, up to January 1, 1973 the Council may authorise member countries to negotiate bi-laterally with East European countries. When a member country contemplates negotiating an agreement with an outside country, it informs the Commission and the other member countries under a consultation procedure. Authorisation to open negotiations is given by the Council on the proposal of the Commission. At the next stage the Commission verifies the agreement in the form in which it has been initialled; and if it conforms to the outline laid down in the consultations, it proposes to the Council that the member country be authorised to enter into the agreement in question. On November 4 1971 the Council proposed a decision to lay down certain transitional measures, leading progressively to uniformity in the import systems of member countries for goods coming from State-trading countries.

As from January 1, 1973, when any agreement with East European countries falls to be negotiated, the Commission will submit its proposals to the Council, which will be required to authorise the opening of the necessary negotiations and may lay down directives accordingly. These negotiations will be conducted by the Commission, in consultation with a special committee appointed by the Council. The actual conclusion of the resulting agreement will require a qualified majority vote by the Council.

The commercial practises of the Community member countries have been modified. Customs duties and quotas have become less and less significant. They no longer have the importance attached to them 15 years ago, when the Treaties were under negotiation. Tariff duties were substantially reduced in the Dillon Round and the Kennedy Round. Quota restrictions have been considerably reduced. Even with East European countries, trade is carried on increasingly outside the quota system, with machinery for price supervision. The extent of the trade liberation between the Community and Eastern Europe is considerable. Federal Germany has liberated 77 % of the trade, France 90 %, Italy 81 % and Benelux 92 %.

In 1963, the Six were concerned to prevent the markets for agricultural produce being disturbed as a result of the liberation of produce imports which had hitherto been subject to quota. They accordingly instituted a system providing for control of imports from Eastern Europe. This rule, however, has never been applied. Its mere existence prevented East European exporters from taking unfair advantage of the liberation of trade in agricultural produce, discouraging any action which might be damaging to the Community. This was an indication of the practical and flexible character of the Community's policy in its dealings with East European countries.

### 3. The new instruments of commercial policy

Commercial agreements are no longer mere treaties of commerce. Under headings such as cooperation and technical and financial assistance, arrangements for the export of patents are becoming more and more important. These agreements are tending increasingly to become "mixed agreements". The recent one between France and the USSR "in regard to commercial and economic cooperation in the period 1970-74" is a typical example. A new tendency is marked by the conclusion of agreements providing for the supply and erection of factories which are to be paid for by the export of the products they manufacture. The countries of Eastern Europe are thus coming into a position in which they can balance their commercial account .

In the field of investment and credit, the Community may need to have a financial establishment on the same lines as the Export-Import Bank in the United States. This role could possibly be undertaken by the European Investment Bank. Its assignment would be to use whatever methods are the most appropriate in cooperating with private firms seeking to find new markets.

On the question of credit insurance, a draft regulation in general terms was proposed to the Council by the Commission in 1970. It consists of a number of rules covering the length of credit (maximum 5 years), the amount of the payments to be required on account at the time of order and of delivery; and the minimum rate of interest to which member countries should, in general, conform. It should be possible for the Community to operate a system of derogation to cover equipment orders of exceptional importance, such as ships, aircraft, complete factories and major equipment supplies. At present there is a gentleman's agreement fixing 5 years as the maximum length of credit for exports to State-trading countries. The question is to be raised again in July 1972.

#### 4. Changes in E.E.C. relations with Eastern countries

##### - Technical agreements

The Community has entered into agricultural technical agreements with Bulgaria, Hungary, Poland and Rumania. Provided these countries undertake to guarantee the price for the agricultural produce they export to the Community, the latter will not impose supplementary levies on these products.

The first agricultural regulations date back to 1965, the most recent to 1971.

##### - Poland and cotton textiles

In February 1972, Poland, which is a partner to the Community in the agreement on cotton textiles, stated its intention of negotiating an agreement on the lines of those made by the Community with the chief supplying countries (voluntary limitation of exports and suspension by the Community of quantitative import restrictions).

Before the negotiations, some of the member countries consider that Poland should officially confirm its intention to make the agreement with the Community as such.

##### - Rumania and generalised preferences.

On January 31 1972, the Rumanian Minister for External Trade, in a letter to the president of the Community's Council of Ministers, asked that Rumania be included among the countries benefiting from the Community system of generalised preferences. This is in fact the first official letter sent by the government of an East European country to a Community institution.

##### - Statements about the Community by Mr. Brejnev.

On March 20, 1972, at the 15th Congress of Soviet trade unions, the Secretary General of the Communist Party of the U.S.S.R stated his recognition that "the Common Market is part of the realities of the position in Western Europe".

The proposal to hold the European security and co-operation conference and the policy of the Soviet Union in Europe are not in any way directed against the Common Market.

"The relationships between the U.S.S.R. and the members of the Common Market will depend on the extent to which they recognise the realities as they exist in the socialist part of Europe and especially the interests of the countries which belong to Comecon. The U.S.S.R. is in favour of economic relationships on a footing of equality, and against discrimination".

In August 1962, Kruchtchev had raised the question of "the possibility of economic co-operation, not only between countries with different social regimes, but also between the economic unions to which either side may be party". The reality of the Community was recognised in the work "Thirty Two opinions on the Common Market" published by Pravda on August 26, 1962.

5. Community relations with planned-economy countries, which are not part of Eastern Europe.

- Yugoslavia

On March 16 1972, the Community signed a non-preferential commercial treaty with Yugoslavia. This country is considered as a country of the Mediterranean area. The agreement covers the period until April 30 1973.

As regards customs tariffs, both sides agreed to immediate implementation of the duties resulting from the Kennedy Round.

Under the meat headings, the Community agreed to adjust the levy on high quality "baby beef" under a permanent arrangement for co-operation between the contracting parties. The adjustment results essentially in Yugoslavia being given a financial but non commercial advantage.

The Community defined, for the first time in a commercial agreement, the extent of the trade liberation applying to imports from non Community countries.

- Cuba and generalised preferences

Early in February 1972, the Cuban government asked to be allowed the benefit of the Community's system of generalised preferences.

6. International organisation : bridges between East and West.

In the past, the countries of Eastern Europe were but slightly concerned with the rules of international commerce. Only one of them - Czechoslovakia - was a member of GATT. Since the Kennedy Round, Poland has also joined and Rumania became the eightieth member last November. Hungary has become a candidate and the negotiations for her admission are in progress. Bulgaria has the status of an observer.

An important part in improving East-West relationships has been played by OECD, GATT and the Economic Commission for Europe of UNO. At present, the ECE is the only forum in which contacts are possible between representatives of the Commission and the countries of Eastern Europe.

7 The outlook

The Community, now on the point of enlargement has to define its policy towards Eastern Europe. "It is indispensable for us that we convince our neighbours of the advantages arising to them from an enlarged community" said President Malfatti to the European Parliament on June 8 1971, " The 70's should see the consolidation of a new atmosphere between us and the countries of the East."

On February 11 last, in presenting in Strasbourg the program for the Commission's activities in 1972, President Malfatti declared that: "The Commission, in contributing to the preparations for the European security conference, envisages new community forms of co-operation and trade with Eastern Europe. The Community, both by vocation and by choice is not a closed bloc, but a reality which is open to co-operation".