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## THE EUROPEAN COMMUNITY AND YUGOSLAVIA

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## THE EUROPEAN COMMUNITY AND YUGOSLAVIA

### 1. INTRODUCTION

The Joint Declaration signed in Belgrade on 2 December 1976 at the end of the official visit by Mr. Van der Stoep, then President of the Council of the European Communities, and Mr. F.O. Gundelach, Member of the Commission, constitutes the charter of relations between Yugoslavia and the Community.

In the Declaration Yugoslavia expressed its wish to strengthen its cooperation links with the Community on the basis of equality between the two Parties and Yugoslavia's special position as a non-aligned Mediterranean country which is a member of the Group of 77.

The Cooperation Agreement between Yugoslavia and the Community, signed on 2 April 1980, meets these requirements.

### 2. COMMUNITY-YUGOSLAVIA RELATIONS: Background

Relations date back to the non-preferential Agreement signed in Brussels in 1970, which expired on 30 April 1973. It was succeeded by a second five-year Agreement signed in 1973, which was in force up to 30 September 1978 and was then tacitly extended. Under the terms of this Agreement the two parties accorded each other most-favoured-nation treatment. The EC-Yugoslavia Joint Committee was an important feature of the Agreement, which contained a future developments' clause that enabled Yugoslavia and the Community to develop economic cooperation as an element complementary to trade in areas of mutual interest.

The two parties decided to implement the future developments' clause by setting up two subcommittees, one for agriculture and one for industry, with the task of gathering information required for the development of economic cooperation in areas of common interest and examining projects to develop such cooperation on the markets of the Community and Yugoslavia and also on the markets of other countries.

From 1974 onwards relations between the Community and Yugoslavia were intensified at the level of ministerial meetings and the Joint Committee.

At a ministerial level meeting of the Joint Committee in Brussels on 29 March 1977, the Yugoslav and Community Delegations noted the need for negotiations to be undertaken aimed at concluding a new agreement covering a wider field of application to replace the then existing Agreement.

This new agreement was to facilitate among other things a more dynamic development of trade and to encourage new forms of cooperation covering the areas cited in the Joint Declaration.

The final phase of the negotiations culminated with the initialling of the Cooperation Agreement on 25 February 1980.

### 3. EC-YUGOSLAVIA COOPERATION AGREEMENT

This Agreement, which has been concluded for an unlimited period, is the only one of its kind. The cooperation instituted by the Agreement is comprehensive.

The Agreement does not affect Yugoslavia's place on the list of beneficiaries of the Community's Generalized Scheme of Preference (GSP)<sup>(1)</sup>.

Up to and including 1980, Yugoslavia was a major beneficiary under the GSP established by the Community on 1 July 1971.

In 1979 and 1980, use of the scheme was worth ECU 563 905 000 and ECU 466 788 000 respectively to Yugoslavia. From 1981 onwards the situation changed and Yugoslavia has made less use of the GSP since the Cooperation Agreement provides for more advantageous bilateral arrangements.

The Cooperation Agreement breaks new ground and by taking in a number of new sectors, cooperation goes considerably further than the other Mediterranean agreements.

It enables Yugoslavia and the European Community to give concrete expression to the Belgrade Joint Declaration by providing them with the means of strengthening, deepening and diversifying their cooperation links.

The Agreement also stipulates that the two parties are to devote particular attention to cooperation activities to promote the free zone established between Italy and Yugoslavia by the Osimo Agreements, which is of major importance for the development of economic relations between the Community and Yugoslavia.

#### 3.1 Economic cooperation

The Agreement covers a wide field of sectors of which the most important ones are described hereafter.

In the field of energy, Community and Yugoslav undertakings are encouraged to participate in research, production, and processing programmes in connection with Yugoslavia's energy resources. In this context, a seminar between EC and Yugoslav experts was held in Belgrade, on March 25-28, 1986, on energy planning.

The aim of cooperation in agriculture is to step up the exchange of information on the guidelines of the respective agricultural policies, and to seek ways of achieving complementarity.

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(1) This scheme consists in complete freedom from customs duty for all industrial products - subject to certain quantitative limits - and partial exemption, in most cases, for certain processed agricultural products.

On March 12, 1985, an EC-Yugoslavia working group was founded on cooperation in agricultural research. Under its auspices, EC and Yugoslav scientists exchange research in various seminars and missions of information. The main centres of interest are:

- research in regional, Mediterranean, and agricultural problems;
- research in land and water potential avoiding ecological destruction;
- research to increase crop and animal productivity;
- research in market analysis;
- research in products from national resources which have a comparative advantage for export to the EC.

In the transport sector, the aim of cooperation is to bring about improvements in transport services and traffic taking into account the special importance of traffic transit through Yugoslavia for both parties.

Provision is also made for promoting cooperation in the environmental and fisheries sectors.

In the field of tourism, the cooperation envisages the exchange of information through seminars and missions of experts. The EC assists Yugoslavia in setting up a computerized information system in this area. Further expansion of out-of-season tourism, of vital interest to Yugoslavia, is being studied; there are plans for a seminar on this topic.

The objective of the EC-Yugoslavia Working Group in the field of statistics is to overcome the incompatibilities between the methods respectively used and to find a method which is acceptable to both sides, through, inter alia, harmonization in the tariff nomenclature. The use of statistical data elaborated on the basis of a harmonized nomenclature would facilitate the management of the Cooperation Agreement. Moreover, on October 25, 1985, a permanent link was inaugurated between the Yugoslav Federal Statistical Office and the Community's data bases.

In the field of industrial cooperation, both parties have undertaken to promote all forms of industrial cooperation by organizing contacts between their economic operators. Activities in this field were initiated by the organization in March 1983 of a Business Week in Belgrade which brought together representatives of 400 firms from the Community and Yugoslavia. In the wake of the successful Belgrade Business Week, other seminars followed: the cooperation on third markets was the topic of the Bled-seminar in June 1985, cooperation in the field of non-ferrous metals was the central theme of the seminar in Sarajevo in October 1984 and in Trieste in February 1985. The diversification of agricultural exports from Yugoslavia was dealt with in seminars in Novi Sad in May 1985 and in Osijek in May 1986. In September 1986, a delegation of Yugoslav industrialists visited Madrid and Lisbon in order to examine the possibilities for trade with the two new members of the Community. A return visit by a Spanish and Portuguese delegation is envisaged for April 1987.

Cooperation in the field of science and technology has become one of the pillars of the EC-Yugoslav Agreement.

Since 1971, Yugoslavia has been a member of the "European Cooperation in the field of Scientific and Technical Research" group (COST), which operates under the auspices of the Council of the European Communities and includes, in addition to the twelve Community countries, Austria, Finland, Norway, Sweden, Switzerland, Turkey, and Yugoslavia.

In the COST context, Yugoslavia is participating in the following Community programmes:

- teleinformatics (part of this project is being carried out at the Community's Joint Research Centre in Ispra/Italy);
- physico-chemical behaviour of atmospheric pollutants;
- analysis of organic micropollutants in water;
- effect of thermal processing on the quality and nutritive value of food (a meeting of the Management Committee for this project was held in Zagreb in November 1982).

Research and materialisation of the following projects in Yugoslavia have been co-financed by the Community:

- decontamination of the Danube waters;
- seismology;
- creation of new biotechnological products;
- purification of marine pollution in the Rijeka Port project;

Further projects are being examined.

The methodology of research in the field of science and technology was the topic of a successful joint seminar, held in Dubrovnik, September 10-12, 1986.

Yugoslavia has signed Memoranda of Understanding <sup>(1)</sup> on implementation of the following COST projects:

- use of digital techniques in telecommunication networks;
- electronic traffic aids on main trunk roads;
- production of single-cell proteins and their use for animal feed;
- mineral enrichment of basic crops.

Yugoslavia has also signed the intergovernmental agreement setting up a European Centre for Medium-term Weather Forecasts.

Yugoslav experts have made and are continuing to make an important contribution to the development and implementation of these projects.

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(1) Memoranda of Understanding are the expression of the will of the signatories to coordinate projects carried out in the participating States on the basis of national law in such a way that duplication is avoided and results can be exchanged without infringing industrial property rights.

### 3.2 Financial cooperation

Following the official visit to Belgrade in December 1976 by Commissioner Gundelach and the President of the Council, the Community agreed to allow Yugoslavia access to the resources of the European Investment Bank. In this period up to 1980, two loans were granted for a total of 50 mio ECU for the interconnection of the Yugoslav high voltage electrical distribution network to the Greek and Italian networks and for the building of a part of the trans-Yugoslav highway.

This financial cooperation has been incorporated in the Cooperation Agreement of 1980 and formalised by a first 5-year financial protocol which provided for loans of up to 200 mio ECU in the period 1980-1985. These 200 mio ECU have been fully utilised for three projects, namely the modernisation of the road and rail networks and the extension of the electrical grid.

The European Investment Bank has also granted a loan of 60 mio ECU, outside the framework of the Financial Protocol, towards the cost of the North/South motorway which is of considerable interest to traffic between Greece and the other Community countries.

The first Financial Protocol expired on June 30, 1985 and a new Protocol for a higher amount is currently under discussion.

### 3.3 Trade Chapter

#### 3.3.1 General aspects

In the trade field - wherein Yugoslavia grants the Community most-favoured-nation treatment - the aim of the Agreement is to promote trade between the Contracting Parties, due account being taken of their respective levels of development and the need to ensure a better balance in their trade, with a view to improving the conditions of access for Yugoslav products to the Community market.

This objective is to be achieved in stages. The duration of the first stage under the trade arrangements laid down by the Agreement was set at five years. One year before expiry of this period in 1984, the Contracting Parties opened negotiations to determine the trade arrangements that were to apply subsequently, in the light of the results of the Agreement and of the economic situation in Yugoslavia and the Community.

The negotiations on an amended trade regime are under way.

Imports of Yugoslav industrial products are free of customs duties and quantitative restrictions, subject only to a system of tariff ceilings for certain products. In addition, the Community and Yugoslavia determine in the Cooperation Council <sup>(1)</sup> special conditions governing access to the Community market for certain products considered to be particularly sensitive.

In agriculture, the Agreement makes provision for specific tariff concessions on products of particular interest to Yugoslavia, such as morello cherries, slivovica, wine, and macedonian tobacco, and for a reduction of the levy on imports of "baby beef" within the limits of a monthly quota.

(1) see pg. 9, chapter 6

Yugoslavia is able to introduce or increase customs duties or quantitative restrictions in so far as such measures are necessary for its industrialization and economic development.

Cooperation in the coal and steel sector is surveyed by the European Coal and Steel Community (ECSC)-Yugoslavia subgroup. On the research side, EC and Yugoslav institutes, with their respective scientific research potential, work on common projects. The trade side is being discussed in recurrent ECSC-Yugoslavia contact meetings, like the one in Skopje, in December 1986.

### 3.3.2 The Textile Agreement

In 1982 negotiations took place between the Community and Yugoslavia on establishing new arrangements for trade in textile products. A first Additional Protocol to the Cooperation Agreement, forming an integral part of that Agreement and according with its aims and principles, was initialled on 26 September 1982. The Protocol was different from the usual textile agreements negotiated by the Community with its other partners, notably in as much as it contains provisions establishing tariff arrangements.

It also differed from the previous agreements concluded with Yugoslavia in 1976 and 1977, which were concerned only with the quantitative aspects of trade and for which the legal basis was the MFA <sup>(1)</sup>, Multifibre Arrangement.

Under the arrangements for the years 1983 to 1986 inclusive, textile products originating in Yugoslavia were given broader access to the Community market than hitherto. Thirteen products were subject to voluntary restraint.

In addition, the Community granted access for products resulting from operations carried out under the outward processing traffic (OPT) arrangements <sup>(2)</sup>, thus placing Yugoslavia among the Community's major partners.

From 1983 to 1985, trade on the textile sector between Yugoslavia and the EC improved by 40%. Further improvements in trade are expected through the new Yugoslavia-EC Textile Agreement, i.e. an additional Protocol, which was reached in Brussels on October 10, 1986, and will be valid for the period January 1, 1987 to December 31, 1991.

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<sup>(1)</sup> MFA = Arrangement regarding International Trade in Textiles, known as the "Multifibre Arrangement"

<sup>(2)</sup> OPT = Outward Processing Traffic. This is a special form of industrial cooperation whereby a Community manufacturer (the principal) hands over part of the production process to a partner (subcontractor) in a non-member country. The subcontractor is sent Community semi-manufactures (fabrics), and where appropriate, the necessary technical assistance for making up finished products, which are subsequently reimported into the Community.

What are the further improvements for Yugoslavia in this new additional Protocol?

Yugoslavia may now benefit from the flexible transfers between the three main categories of Yugoslav textile exports: cotton yarn, cotton fabric and woven fabrics of man made fibres.

Another important improvement which will allow Yugoslavia to utilise fully her export possibilities is the introduction of automatic regional transfers among the Member States of the Community.

That is, within a certain percentage which is increased each year during the life of the Protocol, Yugoslavia may transfer any unused quota share from a given Member State to other Member States. These possibilities did not exist in the former Protocol.

Moreover, the percentage flexibilities between quotas and the growth rates of agreed quotas for some categories of textiles and clothing from Yugoslavia are increased in the new Protocol. The EC has also removed two Community and five regional limitations.

The base levels of import quotas for textile goods from Yugoslavia have also been considerably increased in the new Protocol. Depending on the category, this increase varies from 2.88% to 31% for direct exports and from 22% to 129% for export of goods resulting from operations carried out under the outward processing traffic arrangement.

As in all our textile agreements, it is possible to subject unrestricted exports to agreed limitations, should the need arise, and consultations once certain import thresholds have been exceeded: these thresholds have been substantially raised in the new Protocol.

Tariff ceilings have been deleted for twelve categories of products. For those directly imported products which remain subject to tariff ceilings, the levels of these ceilings are increased progressively so that by the final year of application of the new Protocol, they will reach the same levels as the quantitative limits themselves.

For the products imported under the arrangements for outward processing traffic, the levels of the ceilings are fixed as the levels of the objectives for these operations, as from the first year of the coming into effect of the new Protocol.

All these improvements from which Yugoslavia benefits in the new additional Protocol, demonstrate that Yugoslavia is among those countries which are given the best treatment for access to Community markets.



### 3.3.3 Development and structure of trade

Trade with the Community has shown steady growth in the 15 years since formal links were first established. This trend has accelerated as far as Yugoslavia's exports are concerned since the entry into force of the commercial provisions of the Cooperation Agreement in 1980. Since that date, Yugoslavia has achieved a major reduction in its trade deficit with the Community and improved its trade coverage from 51% to 82%.

The Community's principal exports to Yugoslavia are chemicals, machinery and manufactured goods. This situation is to a lesser extent mirrored by Yugoslav exports which are mainly in the same sectors. Yugoslavia is now by far the most important exporter of manufactured products in the whole Mediterranean to the Community. No other Mediterranean country has managed to diversify its exports as successfully as Yugoslavia. Besides, Yugoslavia has a considerable surplus on tourism and workers' remittances.

Yugoslavia's agricultural exports to the Community are declining as a proportion of her total exports to the Community, though they have grown slightly in absolute terms.

#### TRADE BETWEEN THE EC AND YUGOSLAVIA (in million ECU)<sup>(1)</sup>

|            | 1975 | 1980 | 1982 | 1983 | 1984 | 1985 | 1986 <sup>(2)</sup> |
|------------|------|------|------|------|------|------|---------------------|
| EC IMPORTS | 1062 | 2172 | 2763 | 3530 | 4310 | 4784 | 4509                |
| EC EXPORTS | 2840 | 4199 | 4278 | 4555 | 5049 | 5834 | 5063                |
| BALANCE    | 1778 | 2027 | 1515 | 1025 | 739  | 1050 | 554                 |

Source: EUROSTAT

In the ten year period (1975-1985), EC imports coming from Yugoslavia increased by 4.5 times while EC exports to Yugoslavia were only doubled (they rose by 2.1 times). The consequence of such a trend is the decrease of the Yugoslav trade deficit with the EC by 40.9%.

### 3.4 Cooperation in Social matters

In the field of labour, the Agreement grants Yugoslav workers in EC Member States freedom from discrimination in employment conditions. All periods of insurance, employment or residence completed by Yugoslav workers in the various Member States are grouped together for the purpose of pensions and annuities for old age, death, invalidity, and also for medical care. Yugoslavs working in the EC Member States may transfer freely to Yugoslavia any pensions or annuities for old age, death, industrial accidents or occupational diseases, or invalidity resulting from industrial accidents or occupational diseases.

(1) The exchange rate ECU/dollar varies as the various EC currencies which make up the ECU vary against the dollar. One ECU was worth US\$ 1.39 in 1978, US\$ 0.98 in 1982, US\$ 0.89 in 1983, US\$ 0.83 in 1984 and US\$ 0.75 in 1985, US\$ 0.98 in 1986.

(2) January - November

The Agreement is supplemented by an exchange of letters providing for exchange of views between the Yugoslav authorities and the Member States on the situation of Yugoslav workers in the Community, notably the social and cultural aspects.

#### 4. COOPERATION BETWEEN YUGOSLAVIA AND THE EC IN THE FIELD OF INFORMATION

The most important operation in this field to inform Yugoslav economic operators about the implementation of the Cooperation Agreement signed on 2 April 1980, was a series of information seminars organized during the second half of 1980, in Yugoslavia's six republics and its two autonomous provinces.

##### 4.1 The EC at International Fairs in Yugoslavia

The Community's participation in the Zagreb International Fair from September 14-23, 1979, marked the beginning of a Community presence in Yugoslavia. A major information campaign was mounted for the occasion, backed by the joint participation of the Member States and the Commission. The next EC participation at International Fairs in Yugoslavia was in Novi Sad, in 1983. Both participations were important and unique manifestations set up in Brussels itself. Then there was a change of objectives: the preference was given - instead of sporadic appearances - to a continuous presence at fairs in Yugoslavia, organized, from then on, by the EC Delegation in Belgrade.

Since 1983, the Delegation expanded its presence at International Fairs, in annual regular appearances from Zagreb (in September) to Novi Sad (in May) to Skopje (in June) and, finally, Belgrade (the International Book Fair in October).

The fact that the appearance at the International Fairs gives the opportunity to cover various republics and provinces in Yugoslavia: Croatia (Zagreb), Vojvodina (Novi Sad), Macedonia (Skopje), Serbia (Belgrade). The EC presence manifests itself at the fairs through: an information stand where booklets and leaflets are handed out, a round table discussion between EC and Yugoslav representatives and businessmen, joint television interviews, and wide press coverage.

#### 5. YUGOSLAVIA AND THE ENLARGED COMMUNITY

##### 5.1 Greece

On 1 April 1982 an Additional Protocol to the Cooperation Agreement was signed. This Protocol established the rules governing imports of products originating in Yugoslavia consequent to the accession of Greece to the Community (1981).

The Protocol provides for an increase in the tariff ceilings fixed by the 1980 Agreement, in recognition of existing trade links between Greece and Yugoslavia. In addition, it establishes transitional measures allowing Greece to apply progressively the preferential arrangements laid down by the Cooperation Agreement.

As a result of the difficulties encountered by Yugoslavia in exporting "baby beef" to the Community since the accession of Greece, the Community decided unilaterally to grant a reduction of 50% of the basic levy applied to imports of this product into the Community. These arrangements came into effect on 7 December 1981. The additional protocol allows for a certain flexibility in the use of the monthly export volume of "baby beef" granted to Yugoslavia.

## 5.2 Portugal and Spain

In January 1986, Spain and Portugal became members of the Community. As a consequence, the negotiations for the renewal of the Trade Chapter of the EC-Yugoslavia Cooperation Agreement also aim at adapting the trade clauses to this enlargement.

## 6. INSTITUTIONAL ASPECTS OF THE COOPERATION AGREEMENT

The Agreement provides for the establishment of a Cooperation Council to ensure that the Agreement's aims are attained and that it functions properly. Special provisions have been included to give the Cooperation Council a particular role. One of its functions is to implement unique cooperation procedures which will enable the contracting parties to find joint solutions to any problems which might arise, so that economic and trade cooperation can develop in accordance with the Agreement, notwithstanding the difficult international economic situation.

Its meetings were held in May 1983, June 1984, June 1985, May 1986, and July 1986.

In support of the Yugoslavia-EC Cooperation Council, a working group was founded; it had its first meeting on October 14-16, 1985, and from thereon in regular annual sessions. Its aim is to monitor implementation of the Agreement. At each session it draws up a memorandum in the diversified fields of economic cooperation. Subgroups were initiated in the areas of statistics, science and technology, and agricultural research.

On Yugoslavia's request, an extraordinary session of the Yugoslavia-EC Cooperation Council was held on May 15, 1986, brought about by the Chernobyl radioactivity catastrophe and the Community's subsequent decision to suspend the import of food products from Yugoslavia for sanitary reasons. The suspension decision was lifted on May 30, 1986, and substituted by a radioactivity tolerance control.

## 7. PERMANENT REPRESENTATIONS

Contacts in both directions have been numerous since official relations were established between the Community and Yugoslavia.

Yugoslavia has its Mission in Brussels since 1968 and the Commission opened a Delegation in Belgrade at the end of 1980.

Both, the EC Delegation in Belgrade and the Yugoslav Mission in Brussels, are working to achieve a better understanding of mutual problems and the development of fruitful collaboration.

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