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E.U.I. WORKING PAPER No. 85/183

EC-EAST EUROPEAN ECONOMIC RELATIONS

Cooperation Agreements at the Government  
and Firm Levels

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(c) European Policy Unit

Printed in Italy in June 1985

University of Siena

European University Institute

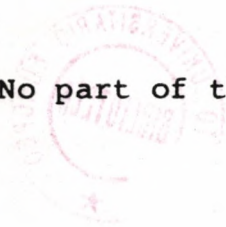
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June 1985



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### The European Policy Unit

The European Policy Unit, at the European University Institute, was created to further three main goals. First, to continue the development of the European University Institute as a forum for critical discussion of key items on the Community agenda. Second, to enhance the documentation available to scholars of European affairs. Third, to sponsor individual research projects on topics of current interest to the European Communities. Both as in-depth background studies and as policy analyses in their own right, these projects should prove valuable to Community policy-making.

One of the continuing research interests of the Policy Unit is the creation and operation of the common market at the level of commercial and industrial affairs. In this context, Dr. S. M. Senior Nello, of the University of Siena, has examined the role of EC Member States in trade between Eastern and Western Europe. Her conclusions, if acted upon, would lead to an increased role for the Community to replace bilateral trade relationships.

Further information about the work of the European Policy Unit can be obtained from the Director, at the European University Institute in Florence.





## 1. Introduction

This project was carried out for the European Policy Unit, and so is very much a policy study, geared to an assessment of EC policy towards East-West industrial cooperation agreements at both the governmental and firm levels. As such, the approach relies very heavily on the results of interviews with businessmen, academics and the officials of national and international organisations concerned with East-West affairs.(1)

In their dealings with East Europe, Western businessmen rely on support from their governments to a far greater extent than when they do business with any other group of countries. This is partly because the Eastern partners are hesitant about dealings with the West, and the support of Western governments for their businessmen helps to overcome this hesitancy by providing the official channels which Eastern partners are used to and understand. At the same time, in many Eastern countries Western businessmen maintain that they are at a disadvantage because they have to deal with foreign trade organisations which often occupy a monopoly position, and they feel that official Western backing may help to right the balance. In addition, Western firms find that their governments may play a useful role in overcoming the problems associated with East-West business by, for example, improving access to people and markets in East Europe, raising problems, such as those associated with countertrade, at government level, and so on. Given the hard currency shortages of East European countries, Western governments also play a crucial role in the granting of export credit subsidies.

At present most of these functions are carried out by the EC Member States, but there are many ways in which the Community could usefully extend its activity in this context. Indeed there are some ways in which the Community ought to extend its responsibility since the present failure to do so represents a contradiction of the spirit, if not the letter, of Article 113 of the Treaty of Rome.

One area where this is the case concerns the East-West cooperation agreements at the government level. These are currently mainly the responsibility of the Member States, but there has been considerable debate as to whether the common commercial policy implies that they ought to be in Community hands. This issue is discussed in some detail in the first half of the article, and the conclusion is that the evidence points strongly in favour of Community responsibility. Though this would create certain difficulties in view of the failure of the EC and the CMEA to recognise each other, recent developments in the context of trade agreements between the EC and various East European countries suggest that these difficulties are not insuperable.

EC policy towards East-West cooperation agreements at the firm or enterprise level raises a number of issues, many of which are too complex to be treated adequately here. Still, perhaps the function of a policy study is as much to raise and draw attention to questions as to answer them. In addition, it was thought interesting to present the views expressed during



interviews by experts on these topics. Mention has been made of the role of the Community with regards to the following:

- a) ways of promoting East-West interfirm cooperation
- b) improving the statistics available on East-West cooperation
- c) export credit subsidies
- d) regulations against dumping and market disruption
- e) the import quotas of EC Member States
- f) technology transfer
- g) the role of tripartite (East-West-South) cooperation in the context of policies towards the less-developed countries
- h) FRG-GDR interfirm industrial cooperation.

## 2. The Division of Competences between the EC and Member States with Regards to East-West Intergovernmental Cooperation Agreements

In order to understand the present dispute over the division of competences between the EC and Member States with regards to intergovernmental cooperation agreements, it is first necessary to describe these agreements and then to provide some historical background.

### 2/i Government-Level Cooperation Agreements

The government-level agreements which are relevant in this context are those involving "economic, scientific, industrial and technological cooperation".(2) As their name suggests, these agreements cover a wide range of topics. They are long term, generally lasting for 10 years, though some have no time limit. They represent official statements of intent concerning the development of cooperation and provide a framework in which economic activity can take place. Litvak and McMillan (1974) and Levchik and Stankovsky (1979) have carried out detailed analyses of these agreements, and say that they usually contain the following elements:

- 1. A declaration of mutual interest in cooperation and of the intention to promote cooperation between the enterprises and organisations of the two countries.
- 2. A specification of the economic sectors and areas of research where cooperation is to take place.
- 3. A definition of the forms of cooperation which are of particular interest to the two parties, for example co-production and specialisation, the establishment of joint ventures in third countries and so on.
- 4. Provisions for the establishment of Joint Commissions (discussed in more detail below) to implement the agreement. At times working parties for particular economic sectors or areas of cooperation may also be established.



## 2/ii The Historical Background to the Dispute.

According to Article 113 of the Treaty of Rome, after the end of the transitional period, only the Community could sign agreements with third countries on matters relating to the common commercial policy. The Commission was responsible for negotiating such agreements, though in consultation with the Council and "within the framework of such directives as the Council may issue to it".(3)

In the face of opposition from the Member States, the Commission postponed the deadline for all trade and cooperation agreements to come under Community control from 1970 until 1973. However, the debate continued, with the Member States invoking the Rome Treaty to argue that cooperation agreements should remain their sole competency. They maintained that Article 113 only stipulates Community responsibility:

"In regard to changes in tariff rates, the conclusion of tariff and trade agreements, the achievement of uniformity in measures of liberalisation, export policy and measures to protect trade such as those to be taken in the case of dumping or subsidies".

The fact that this quotation was preceded by the word "particularly" and so reads "particularly in regard ..." was not interpreted by the Member States as implying that the Community could assume competences other than those listed, should such prove necessary to implement the common commercial policy.

The view that this list of competences is exhaustive was strongly challenged by the Commission. In particular, the Commission pointed to the decline of the tariff on industrial products and the emergence of new commercial instruments (4) as evidence that Community powers would need to be more extensive to be effective in implementing the common commercial policy.

The upshot of this debate was that while in 1975 the Community assumed responsibility for all trade agreements, government-level cooperation agreements with East European countries remain the responsibility of the Member States and the authority of the Community over these agreements is limited to where they affect trade. This division of competences has never been accepted by the Commission. At the time it put forward various proposals, such as the negotiation of framework agreements which would complement agreements already contracted by the Member countries, or coordination of the various bilateral government-level cooperation agreements by the Commission, but these did not meet the approval of the Member States. Instead what was agreed was the establishment of an information and consultation procedure for cooperation agreements between the Member States and East European countries. This procedure, which was set up in accordance with Council Directive 74/393 of July 1974, has the following aims:

- 1) to ensure that intergovernmental cooperation agreements conform to the common policies of the EC.
- 2) to encourage exchanges of information
- 3) to assess the value of measures which the Community might adopt to encourage cooperation agreements.



In order to implement this procedure a special committee of high-ranking civil servants drawn from each of the member states and the Commission was established, and meets at regular intervals.

### 3. The Political Recognition Problems

The political recognition problem has been discussed extensively elsewhere, so will only be briefly mentioned here.(5)

In May 1974 the Council declared that the Community was prepared to negotiate on trade agreements with each of the East European countries after the transfer of authority for trade agreements from the Member States to the EC. In November of that year the Commission sent an outline trade agreement to the East European states. In 1976 the CMEA responded, proposing a framework agreement between the EC and its Member States and the CMEA and its Member States. Despite considerable subsequent negotiation, this framework agreement has been the basis of contention ever since, as both parties differ fundamentally as to its nature.

Though in 1979 the EC was prepared to concede that the CMEA Member States might also be parties to the framework agreement, it refuses to allow that EC Member States might also be so because this runs counter to Article 113.

The EC maintains that one of its major difficulties to such an agreement relates to the difference in nature between the CMEA and the EC. The EC stresses the intergovernmental rather than supra-national character of the CMEA, and the fact that its recommendations only acquire legal character if accepted by all CMEA Members. The EC objections are also voiced in the Irmer Report of the European Parliament which states:(6)

"The degree of integration and the powers of Comecon for instance cannot be compared with those of the Community; the EC has exclusive powers to pursue a common commercial policy whereas Comecon has no such powers. Admittedly, Comecon as an institution may conclude agreements but it has no legal powers whatsoever to impose the implementation of such an agreement on its members".

However, this EC objection must largely be regarded as a pretext. While the description of CMEA powers is formally correct, de facto the CMEA has stronger means of implementation and greater cohesion. Moreover, far from overcoming the EC difficulty, a reform of the legal structure of the CMEA, with the introduction of supra-national elements, is likely to render the EC even more diffident about bloc-to-bloc dealings.

These institutional questions are undoubtedly a cover for political difficulties in that the EC prefers direct contacts with the smaller East European countries and wants to avoid the Soviet involvement in these relations which bloc-to-bloc dealings between the EC and CMEA would imply.

As a result of these institutional and political differences the EC proposals for the framework agreement between the two groups are far more limited than those of the CMEA. According to



the EC, contacts between the two groups ought to relate mainly to the exchange of economic information and statistics, joint economic forecasts, standardization, more mutual efforts to control the environment and the harmonization of development plans. Given that the CMEA has not a legally binding common commercial policy, the EC agrees that the framework agreement could contain a general statement concerning the importance of mutual trade for the two partners and the desire to promote it, but maintains that this aim should be carried out by means of bilateral agreements between the EC and individual CMEA countries.

In contrast, the CMEA would like to see the framework agreement directly regulating trade relations between the two organisations, and including clauses relating to "most favoured nation" status, export credits and non-discrimination, even in the agricultural sector. The EC is opposed to the inclusion of these clauses in the framework agreement even though, for instance, it does not reject application of the MFN clause to East European countries.

Another stumbling block relates to the EC requirement that the agreement apply on all territory on which the Treaty of Rome applies and this would include West Berlin.

Given these fairly substantial differences at present the negotiations between the two groups are at a deadlock. However, on 29 May 1985 in Moscow, Mikhail Gorbachev announced to Bettino Craxi, then President of the EC Council, that he was searching for a "common language" between the EC and Comecon and this may be taken as an indication of renewed attempts to find ways round this deadlock. Gorbachev said that he was ready to initiate relations with the European Community and recognised the latter as being a political and economic entity (7). The meeting during the Italian Presidency between Craxi and the head of the CMEA, Jaruzelski, in Poland also suggests a more promising outlook for EC-CMEA relations. It seems likely, though, that should a framework agreement finally prove acceptable to both parties, it will take the more limited form envisaged by the EC.

#### 4. The Implications of Political Recognition Problems for EC Trade Agreements with East European Countries

These political recognition problems are reflected in the fact that since 1975, when responsibility for trade agreements with third countries passed to the EC, of all the East European countries, only Romania has signed what amounts to a fully-fledged trade agreement. In contrast, the other East European countries rushed to replace their bilateral trade agreements with cooperation agreements.

There have, however, been various sectoral agreements between the Community and the smaller East European countries. From 1965 on, a number of agricultural arrangements, taking the form of exchanges of letters, were concluded between the EC and all the smaller East European countries except Albania and the GDR (for which such arrangements were unnecessary in view of the special German provisions, discussed below). In 1976 Romania signed a textile agreement with the Community, which was followed by textile



agreements with Poland, Hungary, Bulgaria, Czechoslovakia and China. There were also sectoral agreements for steel production with Czechoslovakia (in 1978), Hungary, Romania, Poland and Bulgaria.

Interpreting the acceptability of sectoral agreements widely, in addition to its steel and textile agreements, in 1980 Romania signed a trade agreement with the EC covering other industrial sectors and one involving the establishment of a Joint Commission. The aim of introducing these agreements separately was to avoid the appearance of a traditional trade agreement and to conform, at least formally, to the official CMEA or Soviet view (described by Friesen(1976)) that sectoral, but not general, trade agreements were acceptable. Moreover, at a meeting with the European Parliament's delegation for relations with East Europe in April 1985, the Romanian Ambassador to the EC confirmed his Government's wish to adapt the legal framework of EC-Romanian relations by introducing a long-term cooperation agreement (8).

The 1980 Romanian initiative has been followed by one by Hungary, who wants incorporated into the agreement a statement to the effect that it now has a market economy run along the lines set out by GATT, and not a centrally-planned economy. The European Community maintained that this raised complex political questions, so at present negotiations have stalled.

Czechoslovakia is also interested in getting around the problem in the more orthodox Romanian way by having four or five trade agreements covering various sectors. Negotiations between the EC and Czechoslovakia to this end are still continuing.

Finally, as John Maslen (1984) points out (9), in addition to Romania,

"...several of the other CMEA countries have as active and frequent dealings with the Community institutions through their bilateral Embassies in Brussels as do many countries which have Missions accredited to the EEC."

##### 5. Government-Level Long-Term Cooperation Agreements between the EC Member States and Eastern Europe

The European Parliament lists 49 government-level cooperation agreements existing between the then 9 EC Members and East European countries in December 1979 (see Annex 1). With the exception of Ireland, which had agreements only with Poland and the Soviet Union, and the FRG, which clearly needed no additional agreement with the GDR, all the EC Member States had agreements with the Soviet Union, Bulgaria, the GDR, Czechoslovakia, Hungary, Poland and Romania. In addition Greece then had cooperation agreements with Bulgaria (11.25.72) Poland (11.4.75) and Romania (2.21.76) and trade agreements with other East European countries (Bulgaria, Czechoslovakia, Poland, Romania and the Soviet Union) though the latter had to be replaced by cooperation agreements when Greece joined the EC.

The Irish case is an exception since there has never been much business between the Republic and East Europe. According to Eurostat data, in 1983 Irish imports from East Europe were worth



only 41 million ECU or 1.3% of all Irish imports while exports amounted to 91 million ECU or 0.9% of Irish exports.

In most cases the EC Member States entered these cooperation agreements in response to pressure from East European countries, who understand and prefer official institutional channels, and this pressure was generally re-inforced by the demands of Western businessmen.

Virtually all these cooperation agreements were signed in the 1973-75 period, suggesting a common reaction to the EC decision to end bilateral trade agreements between its Member States and third countries, which eventually became effective from 1975. There seems to have been a type of band-waggon effect in an attempt to avoid being left out of the potential benefits that these cooperation agreements might offer. More importantly, it is sometimes argued that the EC Member States and East European countries shared an interest in using these cooperation agreements to substitute their earlier trade agreements in order to maintain their bilateral commercial links and bypass the transfer of authority to the Community level. This is a serious claim, whose validity and implications will now be examined in more detail.

6. The Question whether the Government-level Cooperation Agreements of the EC Member States Conform to the Letter of Article 113

There have been several cases in which clauses in individual government-level cooperation agreements of the EC Member States have been challenged as running counter to Article 113 of the Treaty.

A European Parliament Document (the Schmidt Report, Document 89/78 of 11 May 1978) cites a number of these. In particular various examples are given of individual Member States (Italy, the FRG and the Netherlands) including Most-Favoured-Nation clauses in bilateral agreements, and strictly, the granting of such concessions should fall within the competence of the EC. The Report also quotes instances of intergovernmental cooperation agreements containing provisions to grant import permits for products arising from cooperation projects (in the agreement between Italy and Romania of 1973 and that between the Netherlands and Poland of 1974). Finally, it mentions the Franco-Soviet Agreement of 1974 which contained a clause designed to encourage the sales of Soviet products in France.

A more recent example is provided by a number of government-level cooperation agreements signed between Greece and various East European countries, and these have also been the subject of questions in the European Parliament (10).

However, it is rare that the Member States challenge EC authority so flagrantly. As one national official stated, owing to the small number of people involved and the club-like nature of the information and consultation procedure, the representatives of each of the Member States know what will be acceptable at EC level, so can anticipate and ensure that cooperation agreements between their government and third countries do not contravene EC regulations.



7. Whether the Government-level Cooperation Agreements of the Member States Conform to the Spirit of Article 113

The real problem may therefore be another, namely: whether the cooperation agreements of the Member States conform to the spirit and not just the letter of Article 113.(11) For example, as Connie M. Friesen (1976) says of the 1974 ten-year UK-Soviet Union agreement(12):

"It was an obvious attempt by both parties to circumvent the implications of the EC's common commercial policy. Even though the cooperation agreement takes advantage of the legal loopholes, it represents a violation of the spirit of EC policy".

A further example is provided by what is frequently referred to as the Franco-Soviet "Agreement" of 1982 (13). In fact there is no cooperation agreement as such (despite considerable Soviet pressure for one), and all that has taken place is an exchange of letters. The latter contains a clause allowing for the sale of agricultural produce and foodstuffs of French origin and has been the subject of a number of questions in the European Parliament.(14) In one of the debates which followed, speaking for the Commission, Mr. Haferkamp said:(15)

"The Commission considers that the agreement is in contravention of the provisions of Article 113 of the Treaty. The Commission further insists that the exclusive competence of the Community in relation to the common commercial policy is to be respected and it is prepared to use the procedures provided by the Treaty to ensure that Member States do respect this competence".

The fact that the French refused to sign a cooperation agreement, but relied on an exchange of letters to achieve the same end, represents an attempt to get round the letter of Article 113, while at the same time violating its spirit.

The argument continues and the Commission has repeated its intention to take the case to the European Court of Justice, if necessary.

At times it may be difficult to establish whether an agreement runs counter to the spirit of Article 113. For example, if binding, a phrase like "the desire of both partners to encourage balanced trade" may imply a requirement to purchase a certain number of products, and this is clearly a commercial commitment. The problem here is deciding what exactly the terms of the agreement mean and how far they imply obligations.

However, there is one area in particular where cooperation agreements would seem to run counter to the spirit of Article 113 and that is in the activities of the Joint Commissions, set up to monitor the implementation of the agreements. Levciik and Stankovsky (1979) describe the changing function of the Joint Commissions in the following words:(16)

..."a body whose functions had originally been limited primarily to handling grievances is being transformed into an instrument empowered to take positive action to promote trade and cooperation"



This changing role of the Joint Commissions means that de facto intergovernmental agreements are operating in very much the same way as the earlier trade agreements did. Indeed, it is difficult to see what functions a trade agreement could carry out which are not already being performed by the cooperation agreements. Moreover, during the Joint Commission meetings, the EC Member States are subject to constant pressure from businessmen, and from East European countries, to grant unilateral concessions which run counter to their EC and GATT obligations. Though at times the EC Member States may be only too glad to use the GATT or the EC as a scapegoat to avoid granting unwanted concessions (17), in many cases unilateral action might seem to offer the prospect of national advantage, so the danger of transgression is always present. To see how this is the case, a brief digression into the work of the Joint Commissions would therefore seem justified. First, however, it is useful to describe the interests of those affected by intergovernmental agreements, as this helps to explain why there should be conflict over the interpretation of Article 113.

#### 8. The Interests of Various Parties Affected by Intergovernmental Cooperation Agreement.

Those affected by intergovernmental cooperation agreements are the businessmen and national officials of EC and East European countries who are concerned with EC-East European affairs, and the relevant Community officials.

The picture which emerged from interviews and from a questionnaire sent to firms (18) was that the main concern of many Western businessmen was "to be left to get on with the job" with a minimum of official interference. In this context the EC was often regarded as simply another source of regulations and protectionism. This viewpoint was very well expressed in a letter from a representative of the East European Trade Council in London who wrote:

"...ordinary businessmen who want to get on with the business of signing contracts tend to regard the EECs and ECEs of this world as a bit of an irrelevance."

Against this, various businessmen suggested areas in which they thought initiatives by the EC or national governments might be helpful to promote East-West cooperation at the firm level, and these proposals will be discussed in more detail below in the context of interfirm cooperation agreements.

The general view expressed by businessmen with regards to intergovernmental cooperation agreements was favourable, but there was some scepticism about the EC assuming responsibility for them. It was thought that EC-level agreements might be less effective than those of the individual Member States, and the problem of more conflicts of interest at the EC level was specifically mentioned in this context. However, in some cases the hesitancy about transferring responsibility to Brussels probably reflects self-interest in that businessmen probably find it easier to exert influence on their own government than in Brussels.



The interests of individual members of the national and Community administrations can, following W.J. Feld (1979), be described in terms of "power, prestige, income and security". They are concerned not only for the power, prestige and security of their own jobs, but also that of the institution in which they work.

In consequence, as Feld points out, national officials are extremely worried about transfers of authority to the EC level. This view is confirmed by Pinder (1979) who states that, unless obliged to by the Treaty, the Member States are very reluctant to create new Community instruments or align themselves to common policies. More specifically, on the question of EC-East European relations, Connie M. Friesen (1976) says: (19)

"The British Department of Trade and Industry, the Export Credit Guarantee Department and the East European Trade Council have played important roles in facilitating British Trade with the East. .... These agencies give no evidence of encouraging the Commission in Brussels to play an active role in overseeing such major agreements as the British-Soviet (1974) trade agreement".

In particular, she says that the Member States are unwilling to renounce their authority over "import controls, credit terms, interest rates and barter and switch trading practices".

Serving the general public is not always the best guarantee that the interests of national officials will be met, especially when lobbying and interest group activities come into play. In the context of East-West relations, businessmen and East European countries are likely to put pressure on national officials to act in their favour. In the absence of correspondingly effective countervailing power, for example on the part of foreign competitors, or Community or other international organisations, it may be that the interests of national officials are best met by giving in to the demands of businessmen, or East European countries. Moreover, it is clear that this type of discrimination is easiest if there are bilateral dealings with East European countries.

In contrast, the interests of EC Commission members in "power, prestige, and security" is best assured by giving as wide a possible interpretation to what lies within Community competence. Although even the Commission is not immune from national cleavages (20), generally speaking Commission Members tend to stress their role as "guardians of the Treaty of Rome" and demand the powers necessary to carry out that function. In its various reports (21) the European Parliament has also expressed a strong interest in an extension of Community powers in this context. The position of the Council is somewhat more ambivalent, since although it is a Community institution its Members are drawn from national administrations.

Turning to the interests of foreign trade officials in the smaller East European countries, there is an evident preference for bilateral dealings with the individual EC Member States as this would seem to offer more chance of obtaining special concessions for their country. The smaller East European countries have also frequently expressed their opposition to



formal bloc-to-bloc EC-CMEA relations, because of the shift in power towards the Soviet Union that this would entail.

The Soviet position is rather more complex. While Soviet officials would like the increased sources of control that would result from formal EC-CMEA relations, like the smaller East European countries, they are aware of the advantages of pursuing their own bilateral arrangements with individual EC countries.

In summary then, there is a direct conflict of interests, with the EC Member States, businessmen and East European countries sharing a preference for direct bilateral links, while the Community wants to extend its range of influence.

#### 9. Joint Commissions

In order to assess the role of the Joint Commissions, a case study was carried out for Britain which involved interviews with those participating in Joint Commission activities and an analysis of the reports of various meetings of the Commissions. The picture which emerges is that expressed in a publication of the East European Trade Council:(22)

"The annual Joint Commission meeting is regarded as one of the most important events in the official commercial calendar and companies should be aware of its existence in order (a) to feed into government any points they may wish the British team to bear in mind, (b) to study the reports which are published subsequently which act as signposts to current market priorities and (c) to participate as appropriate in any industrial Working Groups that may be formed under the auspices of the Joint Commissions".

The UK has Joint Commissions with all the East European countries except Albania. As the quotation indicates, there are annual meetings of these Commissions which take place alternately in London and the East European country. Responsibility for these bodies lies with the British Department of Trade and the respective East European Foreign Trade Ministries.

Though the exact arrangements vary according to the country involved, in meetings of the Joint Commissions, the British Department of Trade representatives are usually accompanied by a number of industrial observers (possibly 7-8) drawn from firms already operating in Eastern Europe or having a genuine interest in extending their activities to that area. In the case of Hungary, Britain has two Joint Commissions: one composed of industrialists and the other, of government officials, and only after the businessmen have established contact do the civil servants meet. The arrangements are also different for the Soviet Union where there are a number of Anglo-Soviet Working Groups to monitor cooperation in individual economic sectors.

The companies chosen to participate in the activities of the Joint Commissions are changed from time to time in order to hear different viewpoints and ensure that the company does not obtain a monopoly of representation. The firms are first approached by the Department of Trade and Industry to see if they are interested in participating, and in general only reply positively if their volume of business or potential business makes their



participation worthwhile. The companies which do participate are expected to reflect the general interests of their sector, as for instance the chemical industry for ICI, though some firms have a better record of doing so than others. While it is clear that no firm will promote its rival, in general they are only too willing to present the problems of their sector as a whole.

According to the reports of the Joint Commission meetings, the following represents a typical list of the topics discussed:

- 1) the state of the economy of the East European partner
- 2) trade issues
- 3) economic and industrial cooperation
- 4) problems experienced by firms engaged in East-West business
- 5) cooperation in science and technology.

The sections most relevant to the discussion here are 2), 3) and 4) above and these will now be considered in more detail.

#### 9/i Trade Issues

Under the heading of trade issues, in addition to the invariable general discussion about how to increase the volume of trade between the two countries (export policy? Article 113), in most cases questions were also raised concerning the general system of preferences and import restrictions, especially for the textile and steel and iron sectors, as the following quotations show:

"The Polish delegation at the Joint Commission argued strenuously that a key element in their country's recovery would be their export performance. To assist this they hoped that there would be sympathetic consideration for an improved access to markets in certain products (e.g. textiles and steel), a preferential rate of tariffs and a temporary waiver of Poland's import obligations under the GATT. The UK delegation was unable to offer any commitments in those areas and pointed to the competent authorities in those matters, i.e. EC and GATT".

Summary Report of the Eleventh UK/Polish Joint Commission, Warsaw 22-24 October 1985.

"In order to increase the two way flow on a more diversified basis the Romanians requested that quotas falling within European Commission regulations be considered in a favourable manner and that the generalised System of Preference Scheme be expanded".

Summary Report of the UK/Romanian Joint Commission, Eleventh Session, held in Bucharest from 2-6 April 1984.

"They also asked for improvements in access for Bulgarian goods to the UK Market particularly textiles and ready-made clothing and iron and steel. They also expressed concern at the institution of anti-dumping action by the EC against certain Bulgarian products, including soda ash".



Summary Report of the Twelfth UK/Bulgarian Joint Commission, held in Sofia 12-16 March 1984.

"A frank exchange took place on import restrictions and quotas so that both sides understood each others' problems".

Summary report of the UK/GDR Joint Commission 10th Session, held in Berlin from 21-23 November 1983.

As the UK delegation itself argues, these matters lie beyond national competence so ought to be discussed at the EC or GATT level.

#### 9.ii Industrial and economic cooperation

Under the industrial and economic cooperation heading, identification of specific industrial sectors for cooperation takes place, and the progress of cooperation in those sectors is discussed. The possibilities for cooperation in third markets are often also raised.

As mentioned above, government-level cooperation agreements usually single out specific areas for cooperation. The sectors most frequently mentioned in the agreements are: chemicals and pharmaceuticals, heavy engineering, electronics, the power sector and agriculture. It is clear that these sectors cover a wide and important segment of the economy, and this is a deliberate choice since the aim is generally not to be too bureaucratic in drawing up the initial agreement, and to allow adequate scope for unforeseen future developments. This leeway is particularly important as many East European officials tend to insist on close adherence to what was originally agreed.

However this should not be taken to imply complete rigidity as the lists are subject to annual review at the Joint Commission meetings. In general most areas for cooperation are carried forward from one year to the next though there may be changes in the slant or emphasis reflecting changing views about which sectors are most promising for cooperation.

Both businessmen and trade officials are involved in drawing up these lists, and at times UK firms can exert a certain influence on the choice of specific sectors for cooperation.

During the Joint Commission meetings specific projects are sometimes mentioned, as for example the Rombac Aircraft project in the UK/Romanian meeting of 2-6 April 1984.

#### 9/iii The Problems Experienced by Firms Engaged in East-West Business

If a number of firms experience a particular problem in their dealings with an East European country, the Western trade officials will raise it in the meetings of the Joint Commission, usually trying to avoid mentioning the names of specific companies. This official backing is considered particularly important by Western firms who often feel at a disadvantage in dealings with Eastern Europe as they have to negotiate with foreign trade organisations which are public bodies, usually occupying a monopoly position.



The problems most often raised in the Joint Commission meetings are those related to countertrade, and in particular the poor selection and quality of goods offered by the Eastern partner, and the possible difficulty of access to, and communication with, those responsible for foreign trade in the East European country.

10. The Practical Implications of Intergovernmental Cooperation Agreements for East-West Trade and Industrial Cooperation

The work of the Joint Commissions would seem to belie the notion that in signing cooperation agreements, Western governments simply create the framework for cooperation and then leave the firms to the practical business of carrying out East-West trade and industrial cooperation. Instead governments are involved in an ongoing process of export promotion for their firms, with one of the major aims of the Joint Commissions being to raise actual levels of East-west trade. Levčik and Stankovsky (1979) put this point very strongly: (23)

"...The textbook view which still enjoys credence in many countries, that economic matters are still exclusively the affair of autonomous economic units, and the state's role is only to create favourable general conditions for such activities is extended to economic relations with the countries with a state foreign trade monopoly. ...However cooperation agreements oblige Western governments to abandon the position of arbiter who only sees to it that the rules are observed and instead to perform positive acts to promote mutual economic relations".

The activities of the Joint Commissions, and, in particular, the discussion of trade issues and problems, would seem strong evidence in favour of the view that the bilateral cooperation agreements between the EC Member States and East European countries are carrying out many of the same functions as the earlier trade agreements.

Moreover, the general feeling which emerged from the interviews was that government-level cooperation agreements, and especially the activities of the Joint Commissions, can have an impact on the level of East-West trade and industrial cooperation.

According to Western businessmen, the Joint Commission meetings increased their chances of signing contracts in a number of ways. At times East European organisations and enterprises may be diffident of Western contacts, but government backing for Western firms helps to overcome this diffidence and, for instance, UK firms found it useful to have their potential projects listed in official documents. Firms were also very much in favour of having Western governments raising their problems in Joint Commission meetings and also found discussions of their problems with other firms engaged in East-West business helpful. Finally, the Joint Commissions were thought to provide an important and continuing channel of communication, and Western firms find that, especially the meetings in the East European countries, serve as a valuable means of establishing contacts and learning the institutional ropes.



The verdict of trade officials working on the Joint Commissions was also that the Commissions could influence the level of East-West business, though the extent to which this occurred depended on the East Europeans having a genuine interest in doing business and the overall political climate. For example, it was said that during the late 1970s, the economic recession, the worries about East European indebtedness and cooler East-West relations severely undermined the practical results achieved by the Joint Commissions. Recently, however, the changed economic and political climate has led to a renewed interest in East-West business and a greater emphasis on concrete proposals.

#### 11. The Information and Consultation Procedure

Considerable problems arise in connection with the EC information and consultation procedure (described above) for the intergovernmental cooperation agreements of Member States. According to EC officials the procedure is not very efficient because of the reluctance (or failure) of the Member States to consult or provide information about their agreements in an effort to discriminate in favour of their own businessmen.

This opinion is confirmed in the European Parliament debate about the 1982 Franco-Soviet Agreement when, on behalf of the Commission, Mr. Haferkamp said:(24)

"Regarding the general problem of applying Council Decision 74/393 EEC, it should be noted that the Commission, in its letter of 8 Feb. 1984 to the governments of the Member States, expressly reminded them of the procedural and material obligations arising from this decision. ...It drew the attention of all the Member States' governments to the importance of rigorously respecting Community jurisdiction and procedures".

#### 12. A Possible Reform: Transfer of Responsibility for Intergovernmental Cooperation Agreements to the EC Level

If cooperation agreements are de facto operating as trade agreements, and the activities of the Joint Commissions suggest that they are, leaving them in the hands of the Member States runs counter to the spirit of Article 113. Given the decision to establish a common commercial policy, this policy must apply in dealings with all third countries, and the EC Member States should not be allowed to exploit legal loopholes in order to bypass the obligations of the Rome Treaty, and maintain bilateral commercial relations with an important group of countries.

As mentioned above, the national officials in the Member States are subject to considerable pressure from both their own businessmen and from East European countries to grant special concessions, and so are under frequent temptation to act unilaterally in contradiction with the common commercial policy. Moreover, there is a danger that if one Member State succumbs to this temptation the others may follow in a domino-like effect. This potential danger would undoubtedly be reduced by EC responsibility for intergovernmental cooperation agreements, and a united EC front is likely to enable a stronger



bargaining position vis à vis the East European countries than would be possible for the individual Member States. In addition, the shortcomings of the information and consultation procedure would be overcome, so each Member State could benefit from more pooled information about individual experiences.

The experience of the EC Joint Commissions with Romania and China should help to overcome the hesitancy about the effectiveness of EC-level relations. In general there seems to be considerable satisfaction with the way in which the EC-Romanian Joint Commission operates, and such descriptions as exist (25) suggest that its activities are a close reflection of the British experience, with discussions about how to raise the level of mutual trade, the problems of compensation payment, the question of liberalising the EC quota system and so on. The difference consists in the common EC stand, and the reduced risk of unilateral action by the EC Member States.

13. The Legal Basis for EEC-East European Cooperation Agreements

There would seem to be a strong case for this extension of Community authority, as the East European countries are the exception rather than the rule, and the EC has signed cooperation agreements with 126 countries, most of which are in the less developed world. (26)

An example which deserves special mention is the EC-China economic and commercial cooperation agreement which was initialled in September 1984 and signed in May 1985. If the Community had attempted to base its authority to sign the agreement on Article 113 of the Treaty, there might have been lengthy wrangling with the Member States. To avoid this, the Community based its case on Article 235 of the Treaty according to which:

"If action by the Community should prove necessary to attain, in the course of the operation of the common market, one of the objectives of the Community and this Treaty has not provided the necessary powers the Council shall, acting unanimously on a proposal from the Commission and after consulting the Assembly, take the appropriate measures".

Given that the Community has assumed responsibility for so many cooperation agreements, the question which then arises is why East European countries represent a special case, and the answer lies in the EC-CMEA political recognition problem.

These attempts by the smaller East European countries to get around the political recognition problem by using a series of sectoral trade agreements lend support to the views expressed by Mr. R. Bandilla of the EC Council (during an interview) and John Pinder (1975) who maintain that where the economic interests involved are strong enough, they win the day over political difficulties. The political recognition problems should not therefore pose a barrier to EC assumption of responsibility for government-level cooperation agreements with East Europe.



#### 14. Industrial Cooperation Agreements at the Firm Level: The Definition Problem

An industrial cooperation agreement at the firm level is between Western enterprises, on one hand, and an East European Ministry, foreign trade organisation or enterprise on the other.

The first problem to arise in discussing these agreements is that of definition: there is no commonly agreed definition of industrial cooperation agreements. Most of the early literature quotes the working definition of the 1973 ECE Analytical Report: (27)

"Industrial co-operation in an east-west context denotes the economic relationships and activities arising from  
a) contracts extending over a number of years between partners belonging to different economic systems which go beyond the straightforward sale or purchase of goods and services to include a set of complementary or reciprocally matching operations (in production, in the development and transfer of technology, in marketing etc.); and from  
b) contracts between such partners which have been identified as industrial cooperation contracts by governments in bilateral or multilateral agreements".

The definition then goes on to exclude specifically "arrangements under which repayment of equipment or technology transfer ... takes the form of deliveries of unrelated goods" as well as arrangements involving agricultural products.

However, this definition is plainly inadequate since its conditions are not even met by the later examples of the various types of industrial cooperation agreement described in the Analytic Report itself, many of which do not extend "over a number of years," while others involve agricultural products (p.94) or repayment in unrelated goods (p.97).

It is not surprising, then, that in later publications the ECE altered its definition. In 1976, as a result of a meeting of a group of experts under the auspices of the ECE, the following definition was put forward: (28)

"... a contractual economic relationship between two or more enterprises of different nationalities, extending over a longer period, whereby a community of interest is established for the purpose of complementary activities relating to the supply of licenses and equipment, development of new technologies, the exchange of information on, and the use of, those technologies, production and marketing with provision for the settlement in kind of whole or part of the obligations arising from cooperation activities."

This has certain advantages in that it is probably the only definition widely accepted in both East and West. Moreover, it forms the basis of many ECE studies which are probably the most extensive source of information and statistics about industrial cooperation agreements.



Nonetheless, considerable problems remain. In particular, it is difficult to know what precisely is meant by the phrase "community of interest" or even the word "cooperation" in this context. This point is made by Professor Carl McMillan, who argues that the term "cooperation" may even be misleading since it is not always appreciated that what is at issue is not a function or activity, but an institutional relationship.(29) These difficulties are also reflected in the various ECE studies. The criteria of what constitutes an industrial cooperation agreement, and the breakdown of these agreements according to the different forms they may take, vary from one ECE publication to the next, making comparison over time very difficult. Unfortunately, it is hard to envisage how these problems could be avoided as the permutations taken by cooperation agreements are seemingly endless and moreover are evolving over time. The ECE definitions above probably represent the best attempt to meet these problems in that they do at least point to the main (or most typical) characteristics of cooperation agreements. However, given that exceptions remain, these characteristics should neither be regarded as necessary nor sufficient. They can be listed as follows:

- (a) a transfer of technology from one partner to the other. Technology transfer is here taken to include the sale of licenses, equipment and components and the training of personnel;
- (b) if trade is involved, there must be at least partial payment in kind.(30)
- (c) that typically, though not invariably, the time period involved was greater than that of a simple one-off sale.

Table 1, which is based on a questionnaire used by McMillan (1977b), presents a list of some of the forms interfirm cooperation may take. Again, while this list indicates something about the nature of interfirm cooperation, it is clearly not intended to be exhaustive.



Table 1: A List of Some of the Forms Taken by Interfirm Industrial Cooperation

Provision of managerial services  
Sale of capital equipment  
Sale of complete plant  
Custom design of plant or equipment  
Training of Eastern personnel  
Provision of technical assistance (know how)  
A licensing arrangement  
Supply of parts or components to the Eastern partner  
Provision by the Eastern partner of parts or components to be incorporated into the Western product  
Provision by the Eastern partner of final products to the Western firm's specification to be marketed by the Western firm  
Agreement to specialize in the production of certain parts or components and then to exchange them so both partners produce the same product  
Agreement to specialize in the production of certain final goods and then to exchange them so each partner has a full line  
An agreement to market in specific geographic areas  
Exercise of quality control by the Western partner  
Cooperation in a joint project in a third country  
Coordination of research and development

Source: see text.

#### 15. Statistics on Inter-Firm Cooperation Agreements

Partly as a result of these definitional problems, but also because of commercial confidentiality, precise statistics about interfirm cooperation agreements are not available. Estimates of the total quantity of such agreements usually take the form of counting the number of individual cases, and suffer from the obvious shortcoming that the value of the undertaking varies considerably from case to case.

On the basis of various Eastern and Western sources, Levick and Stankovsky (1979) suggest that the number of all East-West cooperation agreements had reached about 600 at the end of 1973, and was over 1000 by 1975. This later figure was confirmed by an ECE report of 1976(31) and by a survey completed in the same year at Carleton University, Ottawa(32) which recorded the existence of 1,076 East-West interfirm agreements and 1,415 cooperation agreements though 'technical cooperation' agreements were included in this number. The various surveys also suggest that the number of industrial cooperation agreements has grown rapidly since the mid-1960's but remained relatively small compared to the total volume of East-West business transactions.

It is extremely difficult to find reliable estimates of the total financial value of these agreements. Though he probably includes Yugoslavia, Wilczynski (1976) puts the figure at \$1 billion, or roughly 2% of total East-West trade at that time. According to the ECE (1981) the cumulative total for resources



'invested' by Western enterprises in East-West cooperation projects over the 1968-1978 period may have amounted to about \$2.2 billion for manufacturing industry, and \$16.7 billion for large-scale projects in the raw-materials and intermediate-goods industries.

As Table 3 shows, in the literature the estimates for the total share of East-West trade covered by interfirm cooperation agreements generally fall within the range of 2-5%. However, this percentage rises considerably for certain types of product and for certain countries. As Hill (1983)(33) reports, the 3-4% of all Hungarian exports to the West in 1975 which were covered by industrial cooperation agreements rose to 25% for machinery exports, while the Polish percentage of 1.5-2% rose to 10% for machine tool exports. Levick and Stankovsky (1979)(34) quote a Polish source, according to which in 1970 14% of Polish capital goods exports (and 71% of those to the FRG) resulted from cooperation agreements. Various ECE reports(35) also put the overall share of trade arising from industrial cooperation at 4-5%, though on the basis of a Swedish study (Högberg and Ådahl (1979) p.43) they also maintain that:

"In certain countries - such as Czechoslovakia and Hungary - the share of trade under industrial co-operation is considered to be two to three times higher in the engineering industries than in total trade."

Nonetheless, as Hill points out, it is fairly safe to assume that the overall share of East-West trade covered by cooperation agreements is less than 10%.



Table 2: The EC's Trade with Eastern Europe

	value in million ECU		
	Imports	Exports	Trade Balance
1958	1271	1113	- 158
1970	4452	4550	98
1973	6869	7557	688
1974	9312	11300	1988
1975	9791	13228	3437
1976	13036	14324	1288
1977	14141	15170	1029
1978	14908	15504	576
1979	18410	16826	- 1584
1980	22278	18870	- 3408
1981	24664	19539	- 5125
1982	24124	19984	- 9140
1983	31445	23436	- 8009

Source: SOEC monthly Bulletin on External Trade, Special Issue 1958-1983, Statistical Office of the European Communities

(1) Eurostat gives separate figures for EEC trade with Eastern Europe and FRG trade with the GDR and the Soviet Sector of Berlin, but here the two have been added together.



**Table 3: Share of Trade Arising from Industrial Cooperation Agreements in Total East-West Trade**

	(percentages)			
	Bulgaria	Czechoslovakia	Hungary	Poland
1973	2-3	1	2	
1974				(2)
1975			2-3 (1)	
1976			2.9	1.3
1977			4	
1978			6.7	2
1979		1		2

(1) 3-4% for Hungarian exports to the West

(2) 1.5%-2% of Polish exports to the West

Sources: Levciik and Stankovsky (1977) p.177 for the 1973 and 1974 estimates, Hill (1983) p.37 for the 1975 estimates, and ECE (1981) p.17 for the 1975-79 estimates, all of whom base their percentages on Eastern sources.

**Table 4: Major Western Participants in East-West Interfirm Cooperation**

	ECE 1976	ECE 1977
FRG	25	21
France	16	14
Austria	12	7
US	9	n/a
Japan	9	7
Italy	8	9
Sweden	7	6
UK	6	7

Sources: ECE, Statistical Outline of Recent Trends in Industrial Cooperation, 1976, 1977

However, estimates of this type are extremely tenuous, and not simply because of the problems of isolating that trade which results from industrial cooperation. As McMillan (1977) has pointed out, partners may, for example, cooperate in R and D but use their findings on the domestic market or in third countries so that the cooperation agreement has no impact on trade between the two partner countries. In addition as Hill (1983) says, it may be the case that trade through cooperation is not reported separately from a larger trade contract of which it forms part.

Bearing these shortcomings in mind, some indication of the patterns in East-West industrial cooperation may perhaps still be obtained by a combination of trade statistics and information from surveys on industrial cooperation. However, it is also necessary to remember that the surveys are not always strictly compatible, having different aims and being based on different countries, numbers of firms, and so on.



The surveys used for this purpose are those carried out by the ECE in 1973, 1976, 1977 and 1978 with sample sizes of 202, 298, 658 and 314 firms respectively. In addition some of the results of the Carleton study, described by McMillan (1977b) are used. This was a survey covering 15 major Western countries (excluding the U.S.) which involved sending a questionnaire to 642 firms believed to be active in East-West industrial cooperation. 46% of the firms replied. Other results presented here are taken from the Indiana Survey, carried out in 1976. This was a mail survey which identified 320 US firms engaged in East-West Cooperation and was reported in Marer (1977) and Marer and Miller (1977). Finally, there is the Bradford survey, which was carried out in Britain and obtained replies from some 200 firms. Its results are presented in Paliwoda (1981).

**Table 5: Share of Each of the Present EC Member States in Total Trade between the Europe of Ten and East Europe**

	Imports				Exports			
	1958	1970	1980	1983	1958	1970	1980	1983
FRG	25.0	28.2	30.7	30.5	30.0	33.4	40.7	42.5
France	16.3	11.6	18.9	14.5	15.8	16.7	20.0	18.5
Italy	9.7	21.3	19.3	20.9	9.7	18.2	11.9	15.1
NL	7.3	5.4	8.2	13.4	5.6	5.5	6.1	5.9
B/Lux	5.3	4.5	5.8	7.2	6.7	4.4	5.6	6.2
UK	26.3	21.8	10.8	8.4	23.2	16.0	11.2	7.9
Ireland	.6	.8	.5	.5	.1	.2	.5	.5
Denmark	5.3	3.8	3.7	2.7	4.7	2.9	1.7	1.4
Greece	3.8	2.6	2.2	2.0	4.1	2.8	2.4	1.8
Eur 10	100	100	100	100	100	100	100	100

Source: Percentages on the basis of SOEC, Supplement to the Monthly Bulletin on Trade, Special Issue 1958-1983.

**Table 6: Major East European Participants in Industrial Cooperation**

	Carleton 1975	ECE 1976	ECE 1977	ECE 1978
Soviet Union	9.6%	13%	30%	41%
Hungary	34.4%	30%	25%	24%
Poland	23.4%	26%	19%	17%
Romania	9.6%	20%	15%	9%

Sources: ECE Statistical Outline of Recent Trends in Industrial Cooperation (1976), (1977), (1978) McMillan (1977)



Table 7: Share of Each East European Country in Total EC-East European Trade

	Imports (to Eur 10)				Exports (from Eur 10)			
	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
	1975	1980	1982	1983	1975	1980	1982	1983
Soviet Union	45.0	56.0	64.7	65.6	42.0	45.9	52.1	59.0
DDR	5.5	4.4	4.9	5.0	3.9	5.0	4.1	3.9
Poland	18.8	13.8	8.5	8.5	22.6	16.9	11.9	10.2
Czech.	9.8	7.5	6.6	6.6	8.7	8.0	8.1	7.1
Hungary	8.2	7.0	5.8	5.6	8.2	9.5	11.4	9.6
Romania	10.2	8.8	6.7	6.4	8.8	10.0	6.2	4.3
Bulgaria	2.5	2.1	2.3	1.8	5.8	4.4	5.9	5.4
Albania	.3	.3	.4	.3	.3	.2	.6	.4
(2)								
% EC trade	6.9	7.2	8.2	8.6	10.1	7.4	6.0	6.7

(1) EC 9

(2) EC-East European trade as a share of total extra-EC trade

Source: Elaborations on the basis of Eurostat data

Table 8: Major Industrial Sectors Engaged in Industrial Cooperation

	mechanical engineer- ing	including machine tools	transport equipment	chemicals	electri- cal and electronics	metall- urgy
ECE 1973	22%	-	18%	18%	-	-
Carleton 1975		36.42%	9-15%	9-15%	9-15%	-
ECE 1976	29.2%	(34.6%)	17.5%	14.4%	11%	7.4%
ECE 1977	22%	25.5%	12.6%	23.8%	13.8%	7.9%
ECE 1978	18.2%	(22.3%)	9.6%	26.1%	17.5%	8.3%
UK Bradford 1976	32.4%	32.4%	3.8%	7.6%	5.4%	4.3%
US Indiana 1976		18.7%	5.0%	20.5%	14.1%	4.5%

ECE Analytic Report (1973)  
ECE Statistical Outline (1976), (1977) and  
(1978)  
McMillan (1977a) p. 1188  
Marer, Miller (1977) p. 19

Table 4 is based on the results of two of the ECE surveys according to which the four largest EC countries accounted for 55% of East-West industrial cooperation covered by the survey in 1976 and 51% in 1977. The FRG is identified as the most important Western partner and this picture also emerges from Table 5 which shows how the German share in total trade of the present 10 EC Member States with East Europe rose considerably between 1958 and 1983. The UK share fell drastically over the same period.



Table 6 presents the results of four surveys which indicate that the Soviet Union, Hungary and Poland were the most important participants in East-West cooperation. Allowing for problems of incompatibility of the survey results, the Soviet share seems to have risen over the period, while that of Poland fell.

A similar pattern is evident in Table 7, with the Soviet share in the imports from East Europe to the present 10 EC Members rising from 45% in 1975 to 65.6% in 1983, while the share of exports rose from 42% to 59% over the same period. The equivalent statistics for Poland show a fall in the import share from 18.8% in 1975 to 8.5% in 1983 and of the export share from 22.6% to 10.2%.

Table 8 shows the results of all seven surveys which suggest that most interfirm industrial cooperation during the mid 1970s occurred in the mechanical engineering and chemical sectors, followed by the electrical and electronic and transport equipment sectors.

#### 16. The Promotion of East -West Interfirm Cooperation

Turning to EC policy with regards to interfirm cooperation agreements, the questions raised are complex and far ranging. Rather than attempt a comprehensive treatment of these questions, the aim here is to identify particular areas where there seems scope for more EC action.

The role of the EC countries' embassies in Eastern Europe in promoting East-West trade and cooperation is widely recognised, and, for example, an East European Trade Council publication offering advice to British businessmen says:(36)

"The services which our Embassies have to offer are highly valued and are more badly needed in less familiar markets than in the better understood free economy markets where people can find their way round more easily. Businessmen are accordingly strongly recommended to take full advantage of them".

However the document goes on to warn:

"Whilst the Posts can and do offer appreciable help in terms of making market assessments, assisting in making appointments for visitors, trouble-shooting and advice, it is important to remember that their resources are limited".

Though there is already a certain exchange of information and pooling of resources among the embassies of the EC Member States, there would seem to be scope for further Community action here in encouraging and financing common efforts to provide market research, and in particular the identification of potential partners for inter-firm industrial cooperation, trouble-shooting, interpreting and translation services and information. This was probably the proposal for increased EC action which aroused most enthusiasm among the businessmen interviewed.

Another area for greater EC initiative would be in the context of trade fairs and exhibitions. It is widely recognised



that a great deal of East-West business is concluded at such events but the organisational costs are considerable.(37) An EC contribution to these costs would seem an effective way of promoting exports. The EC has also organised business-weeks with Yugoslavia and China, and though the latter was the occasion of the largest and highest-level Chinese delegation ever sent to the West, the political recognition problem might pose problems for direct EC sponsorship of trade fairs with other CMEA Members.

#### 17. Providing More Information and Statistics about Industrial Cooperation Agreements

As mentioned above, the lack of statistics, and information generally about interfirm cooperation agreements is staggering. For example, as Mr. Jahn pointed out in a European Parliament debate (12/5/76), the Federal Government in Bonn estimated that the number of contracts between West German firms was probably in the region of 350, but admitted that it might be as much as 600.

The reaction of the EC Council and Commission to this comment was that individual interfirm cooperation contracts were the concern of private enterprise, and while the latter was subject to national and EC regulations it should be left "the greatest possible freedom to get on with the job".(38)

This reply should carry no weight against the argument for improved information and statistics. There is no reason why simply having a clearer idea of the share of interfirm cooperation agreements in total East-West business should necessarily curtail the freedom of action of firms. Moreover, a great deal could be achieved just by collating the information already possessed by the various official and semi-official bodies in the individual Member States. In addition to the foreign trade ministries and Chambers of Commerce in each country, there are organisations such as the ACECO in France and the East European Trade Council in Britain whose aim is to encourage and advise firms with an interest in East-West trade.

On the basis of contacts with these organisations, Eurostat could begin to provide statistics about EC firms involved in East-West cooperation. The Community could perhaps also encourage greater exchanges of information about interfirm cooperation, and the problems involved, among the national organisations.

#### 18. EC Policy towards Export Credit Subsidies

The lack of a coordinated EC export credit policy is undoubtedly one of the major causes of difficulty in East-West interfirm cooperation and trade(39), and this is an area in which businessmen would like to see greater harmonization of the policies of EC Member States. In some cases they also said that they were in favour of the Community carrying out a more active role in providing export credits and, especially, reinsurance, though opinion on this point was divided, with some firms arguing that existing national measures were sufficient.

With regards to the need for coordination and harmonization of the export credit systems of the Member States, there is a risk that, especially in times of recession, countries will use export



credit subsidies to favour their own businessmen. This has the effect of distorting competition and may even lead to an export credit war. This risk is thought to be particularly grave in the case of business with East European countries, given their foreign currency shortages and high levels of indebtedness. On this point most of the British firms interviewed maintained that they were at a competitive disadvantage because of the more favourable export credit terms available in other EC countries. However the other EC countries mentioned varied from case to case, with Italy, France and the FRG occurring most often. No doubt had businessmen from other countries been interviewed, the list of offending countries would have been different, and the UK might have appeared among them.

Turning to the development of EC export credit measures, there have been proposals for a Community export reinsurance policy and for the establishment of a European Export Bank. As Pinder (1975) describes, it was envisaged that this European Export Bank could provide finance for industrial cooperation projects which were too big for the Member States to handle on their own, or for projects involving more than one EC Member State where it was difficult to assemble a package of finance from those countries.

That the Community could implement such policies was confirmed by a 1975 Court of Justice decision (40) which maintained that export credit subsidies were an instrument of commercial policy and so fell within the Community competences listed in Article 113. However, harmonization is now a dead letter, and the proposals for a Community role in granting export credit subsidies have come to nothing. It is interesting to consider why this has been the case, what Community achievements there have been, and where there is room for further EC action.

Though harmonization has not been a success, a certain amount of coordination of national policies has been achieved both at the EC and OECD levels. The main forum for the international discussions on export credit matters is the OECD, and this has the obvious advantage over the EC of including the U.S., Japan and other major industrialized countries.

Apart from in discussions on technical questions, the Community represents the Member States in the OECD forum and the individual EC countries have only observer status there. The arrangements agreed on in the OECD forum are incorporated into Community law and are therefore binding on the EC Member States.

The first of these OECD arrangements was agreed in 1976 and entailed an international consensus or "gentleman's agreement" on interest rates, maturities and other loan conditions. In 1978, detailed guidelines to implement this consensus were drawn up and in 1983 a tightening of the consensus was agreed on which reduced minimum interest rates, introduced a new automatic adjustment mechanism for minimum interest rates, and established a new system for countries with interest rates lower than the specified minimum. There have also been attempts to include sectors such as nuclear power equipment (now covered), agriculture and aircraft, which had remained outside the agreements.



The overall tendency has therefore been for the consensus to move in favour of tighter controls of export credit subsidies, and the general opinion seems that the OECD arrangements have been successful in confining some of the worst excesses.

However certain problems remain, as a European Parliament document explains:(41)

"Rapidly rising, but also diverging interest rates have meant widening and varying gaps between market rates and "consensus" interest rates and hence a great increase in interest rate subsidies by certain countries in particular. The continuing practice of providing mixed credits ... has not been properly covered by the agreement".

Further difficulties arise because of different opinions as to what the consensus should entail and where it should be leading, with the Japanese pushing for lower consensus interest rates and the US for higher ones. The EC position, which opposes any major adjustment to the consensus, also masks a wide range of opinions. On the one hand, the British maintain that the consensus should ultimately aim at eliminating all export subsidies, while on the other, the French want to restrict the consensus to its present limited role of avoiding the worst excesses.

In addition to realizing at least some degree of coordination at the OECD level, Community representation of the Member States in OECD discussions has meant that a common EC position has to be worked out. This takes place in the EC "Nationgroup" or Policy Coordination Group for Credit Insurance, Credit Guarantees and Financial Credits.(42) This body is responsible for carrying out the EC information and consultation procedure in matters of export credit subsidies (43) and all new credits of over 5 years duration have to be submitted to this procedure.

According to those involved (i.e. Commission and national officials and the representatives of some banks), the consultation procedure works fairly efficiently and has led to a certain convergence of opinion among Member States. This group meets every three weeks and at each meeting two countries are considered, and contentious cases are raised. Though at times the Commission has difficulty in obtaining information from the Member States, it was thought that ultimately it usually succeeds. The main topic discussed is the OECD consensus, while since 1978 the question of harmonization of the different export credit systems of the Member States has not even been raised.

Harmonization is now considered too difficult in view of the divergent monetary conditions of the EC Member States and the differences in their financial institutions.

It was partly because of this lack of harmonization that the proposal to establish the European export bank was shelved. However, the proposals also ran into difficulties because of fears that it would compete with national institutions. In addition there is the tricky question of how the bank should be funded and by whom, with for instance the Germans arguing that the use of German funds to subsidize foreign exporters ran



counter to their law (though of course in another context, that of the Common Agricultural Policy, de facto German funds are used for this purpose). The problems are considerable and the political will necessary to overcome them is simply not there.

Nonetheless, there are certain initiatives which the EC could take with regards to export credit subsidies. As Ferdinand Glibert (1983) argues, there is a very strong case for the establishment of an EC body responsible for the reinsurance of national credit insurers. Glibert, who was consulted by the Commission about the proposal to set up the European export bank, maintains that the failure of this initiative was inevitable as the project was too ambitious. To avoid this problem he suggested that the proposed EC institution should confine itself to three activities: mandatory reinsurance (of 5-10% for special business i.e. that involving credits of 5 years or more); voluntary reinsurance (to help national insurers to rebalance their portfolios) and direct insurance, where this was acceptable to national insurers. In addition, as Glibert argues:(44)

"Whereas at present the services of the Commission only have abstract knowledge of the business and are ill advised of the problems, especially technical, a European entity could determine the divergencies between national systems, policies followed and their justifications or lack of justifications. Moreover, to make reinsurance decisions and manage its portfolio, it would have to establish a third country policy (amount of risk and length of credit). It would be on the Coordination Group and be able to make more enlightened common policy recommendations.

It could also encourage national insurers to follow its policies by determining differences, recommending more uniform texts and even granting preferential rates for national insurers which follow its suggestions".

#### 19. EC Market Disruption and Anti-Dumping Regulations

Another issue usually raised in connection with East-West trade and interfirm cooperation concerns the pricing of East European products on Western markets. Although the usual phrase, "anti-dumping" measures is used here, it is important to remember that, applied in this context, the term "dumping" is not strictly accurate since what is at issue is the East European countries being made to respect EC price levels rather than some question of below-cost pricing. Though a detailed analysis of this question is not possible here, it would seem interesting to present the views on this topic expressed by EC and OECD officials.

While the pricing of East European products was recognized to be a problem, it was thought that, at least from the EC point of view, this problem had not reached the dimensions feared in the early 1970s, partly because the then expected rapid expansion in East-West business has not been realized.

The general opinion was also that the EC anti-dumping machinery was efficient, and if anything, too efficient, despite the Community being relatively understaffed in this area, having only about 20 personnel, compared to the equivalent staff of 150 for the U.S. This impression of EC efficiency is borne out by



the statistics, with, of a total of 315 cases of EC anti-dumping actions over the 1970-82 period, 122 involving East European countries (45). This is a high percentage, especially in view of the relatively low share of extra-EC trade accounted for by these countries (see Table 7 above). In addition, as John Maslen (1984) points out, the number of anti-dumping cases rose considerably over the 1981-2 period, with 106 of the total 315 cases occurring in those two years (and 59 of all the cases concerning Eastern Europe). The sectors most affected were chemicals and engineering, while the GDR and Czechoslovakia were the East European countries most frequently involved.

In general, these anti-dumping cases have led to the smaller East European countries raising their prices, though the Soviet Union has often preferred to accept the Community anti-dumping duties on its products rather than participate in the investigation. However, a major reservation expressed about the anti-dumping measures is that their severity varies considerably according to the industrial sector.

In contrast, the safeguards procedure used by the EC to prevent market disruption has rarely been used as it is considered a double-edged weapon, running the risk of retaliation. Nonetheless, should the procedure be applied and imports of certain products to the EC be suspended, EC firms which have concluded cooperation agreements with compensation payments in those products could find themselves in difficulty. The advice of the EC Commission is therefore that all firms accepting compensation payment should include an escape clause in their contract to cover such an eventuality(46).

## 20. Quantitative Restrictions on EC-CMEA Trade

The EC Member States have maintained more quantitative restrictions in their commerce with state trading countries than with any other group of countries. It is not surprising, then, that, as mentioned above, one of the main topics raised by the East European countries in the Joint Commission meetings (as well as in other fora) is the liberalisation of the import quotas of individual EC countries. This request is echoed by various European Parliament documents (47), though these place the main emphasis on harmonization of the import quota lists. The various quotas also apply on trade arising from interfirm cooperation agreements, and no special concessions are made for the latter.

The arrangements for China and Romania are slightly different since the Joint Commissions enable the lists of quotas to be negotiated directly each year between the Community and those countries (48).

For the other East European countries, in accordance with the common commercial policy, the Community is responsible for the lists of national restrictions of each of the Member States and for the liberalisation lists. When the last national restriction against a particular product is dropped, the Commission adds that product to the liberalisation list, and it becomes subject to the surveillance and safeguards procedures for products coming from GATT member countries. Both the lists of liberalisation and of national restrictions are reviewed annually, though the annual decision leaves a margin of 20



percent either way, so most quotas can be amended by the Member States in cases of emergency.

The most recent updating took place on 30 June 1984 and entailed that a total of some 7600 Nimex headings of the Community's Common Customs Tariff (CCT) about 1420 are partially or totally under quantitative restrictions in at least one Member State.(49) As Table 9 shows, Italy is the main culprit with nearly 930 restrictions, and there are considerable variations in the number of quotas applied by each of the Member States.

Table 9: The Number of Quantitative Restrictions Maintained on Trade with the State-Trading Countries by EC Member States

EC Total	BNL	DK	D	F	IRL	IT	GB	Gr
1417	314	233	163	334	179	929	335	274

Source: Updating of Annex to Council Regulation No. 3420/83 of 14 November 1983, OJ C 181 Vol. 27 of 9 July 1984.

According to the EC Commission, these restrictions affect some 3-6% of actual EC-East European trade, the exact percentage varying according to the countries in question, but the impact on potential trade, in the sense of trade which would take place in the absence of such restrictions, is clearly much greater. Many of these restrictions are on textiles (reflecting the operation of the Multifibre Agreement), footwear and the metallurgy sector, so, at least in some cases, are of considerable importance to the East European country concerned. While during interviews EC officials described these quotas as "relics of the past" maintained in response to local pressures to preserve employment, and did not consider them to be very important, it was fully admitted that they run counter to the principles of a common market laid out in Article 113 of the Treaty. That some progress towards liberalisation is being achieved is evident if the present figure of 1420 is compared with the 1570 restrictions reported by K.Taylor (1977) for 1975. John Maslen (1984) reports that the annual decision usually enlarges the quotas by about 1.5 - 3.5 percent (50). However, as the European Parliament Reports argue, continued efforts towards the harmonization of these quotas are necessary.

## 21. Technology Transfer

Both government-level, and, by definition, interfirm cooperation agreements involve technology transfer, but clearly the question of EC policy must be considered in relation to technology transfer in general, and not just that arising from industrial cooperation.

The international forum in the West for discussions of technology transfer is CoCom, or the Nato coordinating committee, which is composed of Japan and all NATO Members except Iceland and Spain. The main functions of CoCom are to maintain lists of strategic items subject to embargo and monitoring and to try and secure agreement on enforcement, so as to minimize exports of those items to Warsaw Pact countries.



In recent years Cocom been under considerable strain especially because of diverging views between the U.S. and Western Europe with regards to trade sanctions and embargos (51). These differences were reflected for example in the sharp exchanges over the gas pipeline (in particular during the Ottawa Summit of 1978) and the fact that the U.S. sanctions against the Soviet Union following events in Afghanistan and Poland were only matched by an EC commitment not to undermine those sanctions.(52) There have also been complaints that the U.S. has been using its dominant position to further its own political and commercial interests, with, for example, these grounds being used by the French in their criticism of the American move to exempt China from the Cocom lists.

In part, these differences may be said to reflect the respective levels of dependence on trade with the CMEA countries. In 1983 the EC 10 accounted for 63% of all imports from the CMEA countries and about 51% of all exports, while the U.S. share amounted to only 5% of imports and 12% of exports. Moreover, the composition of trade was very different, with grain being especially important for the U.S., while Europe is more concerned with industrial plant and equipment. Indeed, the Soviet Union is the largest single importer of EC machine tools and the prospect it offers as a huge unexploited market is considered with special interest by the EC electronics industry.

The obvious implication for the EC would be to adopt a more united stand with regards to technology policy. However, that the Member States are still a long way from this is evident, for example, from the debate over economic sanctions following events in Poland, when Greece was totally opposed to any Community action and Denmark later wanted to pull out (53). Even with regards to application of the Cocom lists there are variations among the Member States, with possibly the UK adhering closest to the U.S. line and France, the least. Of those interviewed, the European Parliament staff, who are currently working on a new report on EC policy with regards to trade embargos and sanctions, came out strongest in favour of increased efforts to develop a common EC position towards technology transfer. It was argued that this would not only help to encourage a more moderate approach within the Cocom framework, but would also favour the development of the EC electronics and other high technology industries and would serve as a check on U.S. export control regulations, which, at present, apply extra-territorially and retro-actively to the overseas subsidiaries of U.S. corporations, to exports of products based on US-origin technologies and to re-exports to third countries of U.S. products (54).

However, many felt that the development of a fully-fledged EC technology policy was premature, and, moreover, was not among the Community competences listed in the Treaty of Rome. Indeed, insofar as technology has direct or indirect military applications it is specifically excluded from Community powers by Article 223 of the Treaty. An interesting opinion to emerge from the interviews was that what was needed was more analysis of the actual impact of technology transfer on the East European economies, of the type currently being carried out by the OECD.(55) This might make it easier to draw the military/non-military borderline and depoliticize the issues for certain types of technology transfer. In the meantime, there was almost



universal support for the view that the EC Member States would all stand to gain from increased efforts to work out common positions.

## 22. Tripartite Cooperation Agreements

There may also be scope for a more active Community role in relation to tripartite industrial cooperation and industrial cooperation in third countries, which are defined by the Unctad as:(56)

"the way in which enterprises from both socialist countries and developed market-economy countries are jointly carrying out industrial projects or other forms of joint operation in a developing country in cooperation to a greater or lesser extent with local companies and/or authorities .... In tripartite cooperation partners from all three groups of countries are responsible signatories and actively participate in the co-operation. In the cooperation in third countries the client is the passive recipient of the undertaking who takes over the project when it is finalized. In practice, however, this distinction is rather difficult to make...."

A further distinction which is necessary is that between protocol or framework agreements, and legal business contracts among the partners. The former announce the intention of the partners (usually a Western company and Eastern foreign trade organisation) to cooperate in a particular field in third countries but there is seldom any statement about how and where this cooperation will take place. The latter are contracts signed by the partners to carry out a certain project or undertaking, or to establish a more continuous form of cooperation, such as the building and operation of factories, hospitals hotels and so on.

There is considerable debate about how widespread tripartite cooperation is. As M. Gomez (1984) (57) points out, some economists (such as those at the Organisation for International Economic Relations) argue that this form of cooperation is a passing phenomenon of marginal importance, given far more attention in the literature than the reality deserves.

This is not the view of P. Gutman (1981) or the Unctad. Though Gutman has been accused of some double-counting, he estimated that by the end of 1979 some 230 business contracts and 119 protocol agreements had either been completed or were in progress. As Table 10 shows, Gutman found the EC countries and the FRG in particular, to be the most important Western partners. Gutman's results are largely in line with those of the UNCTAD Secretariat, according to which there were over 300 business contracts completed or in progress by the end of 1982, and a further 30 protocol agreements over the 1980-82 period. M. Gomez (1984) maintained that tripartite cooperation agreements accounted for 4-10% of all East West interfirm cooperation contracts in 1980, or less than 1% of all world trade.

Despite the relatively small scale of tripartite cooperation, both Gutman and the Unctad attach great importance to this form of cooperation as, inter alia, a means of encouraging the international division of labour, and the



industrialization and development of the Southern partners. For instance, the Unctad (1984) argues:(58)

"A developing country is enabled to receive the highest possible technology at the lowest cost when building up its infrastructure or production capacity. The development process and industrial process and industrial infrastructure is strengthened, not only through the direct transfer of the technology included in the new production plant, but also through the transfer of know-how gained during the active participation in the project execution.

The know-how adopted by managers and workers in the developing country is enriched by often diversified expertise and working methods implemented by the project participants from different groups of countries".

Table 10: Participation by EC Countries in Tripartite Industrial Cooperation Percentages

	Business Contracts		Protocol Agreements	
	1965-75 (138 cases)	1976-79 (88 cases)	1965-75 (37 cases)	1976-79 (82 cases)
Belgium	5.2	3	2.7	8.5
Denmark	0.6	-	-	1.2
France	26.7	15.2	24.3	11
FRG	20.9	24.2	29.7	25.6
Ireland	.6	-	-	-
Italy	12.8	8.1	5.4	2.4
Netherlands	.6	2	5.4	11
UK	5.8	10.1	2.7	3.7
EC total	73.3	62.6	70.3	63.4
Total West	100	100	100	100

Source: P. Gutman(1981)

However, various authors, including Gomez, put something of a damper on these rather idealistic expectations of tripartite cooperation. For instance it has been argued that the correct term is tripartite cooperation in developing countries rather than with them, as these countries rarely participate in the management of such projects and often do little more than provide local labour, raw materials or a market.

But even this more limited role may be of benefit to the developing countries. As the EC Member States are the most frequent partners in tripartite cooperation agreements, the Community should perhaps take more consideration of the potential offered by this type of cooperation in connection with its policy towards less developed countries.

The Community could perhaps encourage the exchange of information and experiences among existing and potential partners to try and ensure that projects are sound and feasible as only then will they be advantageous to all partners. For instance,



this could be achieved by the EC organising or subsidizing conferences at regular intervals among businessmen and trade officials from the countries involved.

The difficulties of tripartite cooperation are notorious: complicated and lengthy negotiations; the need to adjust to differences in legislation, business practices, technology and technical standards and working mentality and methods; the difficult geographical and environmental conditions and so on. These conferences and exchanges of information would provide opportunities to discuss such problems and find ways round them and, as the case of the Joint Commissions shows, businessmen often find this type of discussion useful.

The quality of the contract agreed among the partners is also very important, and there are a number of model contracts prepared by the ECE, ICC, FIDIC, Unctad and so on. Discussion of these contracts at the conferences might lead to greater awareness by the developing countries, so placing these in a stronger position in terms of bargaining powers and skills vis à vis their northern partners.

Finally, applied in the context of tripartite cooperation, an EC role in the reinsurance of exporters (see above) would also imply benefits for the partners from less-developed countries. This could perhaps be carried out in connection with the initiatives already taken by the European Investment Bank, and the European Development Fund with regards to these countries.

### 23. Interfirm Industrial Cooperation between the FRG and GDR

It is sometimes argued that the special EC provisions for German internal trade put West German firms engaging in industrial cooperation with the GDR at an advantage compared to their competitors in other EC countries.

These provisions, set out in the Treaty of Rome (59), entail that trade between the FRG and GDR should not be subject to the Community customs regulations applicable to goods from third countries. In this way the West German principle that although there are two German states, there is only one German nation, is respected.

In practical terms, the EC provisions mean that imports from the GDR are not subject to the Community customs tariff or quota system or to the levies on agricultural products coming from third countries. However, they are subject to controls, licensing procedures and quotas imposed independently by the FRG, and these covered an estimated 35% of industrial goods and 86% of agricultural goods in 1981. In order to encourage German internal trade, the Federal Republic also gives the GDR a special interest-free swing credit which amounted to 770 million DM in 1983.

A study carried out by the German DIW (Deutsches Institut für Wirtschaftsforschung) (60) concluded that these provisions involve a transfer from the West German government to the GDR and also to the private sector of the FRG economy, but said that quantification of that transfer was extremely difficult. For example in the case of industrial cooperation, the West German



firm may be able to benefit from the lower cost conditions in the GDR, and, insofar as payment is in kind, it will be exempt from the Community quota and tariff conditions. At the same time the use of compensation payment (and possibly also of the West German government's swing credit) will ease the constraint imposed by the shortage of foreign currency on the Eastern partner, so may even enable a greater volume of business to take place.

The other EC Member States have therefore repeatedly expressed fears that these special German provisions may lead to competitive distortions, market disruption or potential abuses. However, as an European Parliament Document explains, the worst abuses seem to have been eliminated.(61) Moreover, the competitive distortions arising from the special German provisions would also seem to be relatively small-scale.

In 1983 the East German share in all FRG imports was only 1.8%, while the export share was 1.6%.(62) In addition the East German share in FRG trade fell steadily from 2.2% in 1960 to 1.5% in 1981. The FRG share in East German trade also declined steadily over the same period from 10.3% in 1960 to 8.3% in 1981.(63) Although inter-German trade rose rapidly over the 1980-1983 period, John Garland (1985, p.8) attributes this to the GDR's hard-currency crisis at that time and to the fact that supplier credits were more readily available in the FRG than in other Western countries. He therefore explains the 1984 fall in real terms of inter-German trade as the GDR "returning to a more natural diversification of its suppliers".

Tirapolski and Globokar (1984) have carried out a study of FRG-GDR interfirm industrial cooperation and provide some indication of its scale. They maintain that cooperation dates from the early 1970s with the first really large contract being signed in 1976 for a value 1.1 - 1.2 milliard Deutschmark by the chemical firm, Friedrich Uhde GmbH, a subsidiary of the Hoechst group. The authors quote a list kept by the C.E.D.U.C.E.E. which indicates over the 1970-83 period most inter-German industrial cooperation occurred in the chemical industry (with contracts valued at about 2 milliard DM), followed by the metallurgical sector (with contracts of 1 milliard DM). Despite the importance of electrotechnical and light industry for the East German economy, the DIW study estimates that there were only contracts worth only 300 million for this sector over the 1970-82 period. In addition to these large turnkey projects, Tirapolski and Globokar suggest there may be other agreements worth 400 million DM. Although the value of these projects is large, it pales in comparison to that of the total economic activity of West German firms.

Finally, with regards to the claim that the special German provisions place West German businessmen accepting compensation payment from East Germany at an advantage, the DIW study argues that 80-90% of all contracts between the two Germanies do not involve compensation. Against this Tirapolski and Globokar found an increased use of compensation payment in inter-German cooperation agreements but maintain that in most cases compensation does not exceed 60% of the contract. This is still a high percentage implying some competitive distortion, but the limited diffusion of FRG-GDR interfirm cooperation means that the scale of the problem should be kept in perspective.



## 24. Conclusions

In summary then, the above discussion suggests the following conclusions for EC policy:

- 1) that the Community rather than the Member States should be responsible for government-level cooperation agreements and for the activities of the Joint Commissions set up to monitor these agreements.
- 2) that the EC should subsidize or organise more trade fairs exhibitions etc. to promote East-West trade and cooperation.
- 3) that the EC should encourage and possibly finance common efforts to promote East-West industrial cooperation on the part of the embassies of the Member States in East European countries.
- 4) that the EC could improve the statistics available on East-West cooperation simply by pooling the information already held by trade ministries, Chambers of Commerce and other organisations in the Member States. This could perhaps lead to the publication of Eurostat estimates of East-West industrial cooperation.
- 5) that in the context of export credit subsidies, a European body for reinsurance should be created.
- 6) that continued efforts should be made towards the liberalisation and harmonization of the lists of import quotas of the Member States.
- 7) that the EC Member States would stand to benefit from increased efforts to work out a common position with regards to technology transfer.
- 8) that the potential offered by tripartite (East-West-South) cooperation should be taken more into account in the context of Community policy towards the less developed countries. As the EC Member States are the most frequent Western partners in tripartite cooperation, the Community could, for instance, sponsor or organise conferences on this form of cooperation. These conferences could serve to encourage the exchange of information, to help overcome problems and to promote the more widespread use of contracts along the lines of the model contracts provided by the ECE, Unctad and so on.
- 9) that while the special German provisions do entail a competitive advantage for FRG firms engaged in industrial cooperation with East German enterprises, it should be borne in mind that this problem is relatively small-scale.



FOOTNOTES

- 1) This would seem an appropriate point to thank the many people who helped me in writing this article, though of course the blame is all mine. My first thanks go to Prof. Mario Nuti for his exceptional kindness in making it all possible, despite my constant disorganisation; and to the European Policy Unit : Wolfgang Hager (in particular, for his very helpful comments), Jo Weiler, Jay Modrall, Martin Westlake, Lisa Alisi and Evie Valerio who were all very helpful. I would also like to thank various people in the EUI Library and especially Ema Lawless, Linda Tieri, John Linford and Michiel Tegelaars. I am extremely grateful to the many people who gave up precious time in response to my plaguing for personal, telephone or written interviews. In the academic world there were: Sheila Chapman, Philip Hanson, Michael Kaser, John Pinder and Richard Portes. Thanks to I.Artemiev, L.Csaba, R.Dietz and M.Lavigne for their comments. Respecting a request for anonymity by a few, I have, perhaps mistakenly, applied it to everyone, and would like to thank the representatives of the following international organisations: the EC Commission, the EC Council, the EC Parliament, the ECE, the OECD and the Unctad. I am also very grateful to the representatives of the British firms and organisations who helped me and especially the various members of the Department of Trade and Industry, the Ministry of Defence, the British Embassies in Berlin and Bonn, the East European Trade Council, the Export Credit Guarantee Department and the London Chamber of Commerce. Thanks are also due to Julia Valerio, not only for all her typing, but also for a crash course in word processing. Finally, I would like to thank Paolo for his patience in putting up with the domestic convulsions which inevitably arise when his wife is "busy" and Matteo (aged one) who successfully tidied up my notes, manuscript, articles and books on more than one occasion.
- 2) Hill (1983) p. 8 describes these technological cooperation agreements for the case of Britain. Essentially they were intergovernmental agreements for cooperation in the field of applied science and technology.
- 3) Article 113 of the Treaty of Rome.
- 4) The European Court of Justice confirmed the Commission opinion of the importance of new commercial instruments in its 1975 decision on export credit subsidies (see OJ no. c 268, 22.11.75 p.p. 18-23).
- 5) See The Irmer Report, EP Document 1-531-82 (1982), Wilczynski (1980), Commission of the European Communities (1979), Pinder (1979), Friesen (1976).
- 6) The Irmer Report, EP Document 1-531-82 (1982), p. 17.
- 7) As described in European Report no.1137 of 5.VI.1985
- 8) As described in European Report no.1126 of 27.IV.1985
- 9) John Maslen (1984), p.334



- 10) See for example written questions 75/83 and 723/83 of Mr. Beyer de Ryke on the Greek-Soviet Agreement.
- 11) As Wolfgang Hager pointed out, this contravention of the spirit of Article 113 is not unique to cooperation agreements, but also applies in the case of many trade issues as well, as is evident, for example, from the considerable divergencies among Member States in the implementation of the common commercial tariff.
- 12) Friesen (1976) p. 96
- 13) I am grateful to Prof. M. Lavigne for a detailed description of this exchange of letters.
- 14) See Written Question No 1724/82 by Mr. Brian Hord of 2.12.82, OJ No C 100/26 of 13.4.83; question No 29 by Mr. Hord (H-659/82) of 12.1.83, Debates of the European Parliament (EP); Question No 4 by Mr. Lagakos (H-601/82) of 8.2.83, Debates of the EP; Written Question No 647/83 by Mr. Brian Hord of 8.10.83, OJ No C 271/13 of 8.10.83; Written Question No 1177/83 by Mr. Brian Hord of 13.10.83, OJ No C 141/1 of 28.5.84; Written Question No 1822/83 by Mr. Brian Hord of 31.1.84, OJ No C 141/29 of 28.5.84, and Written Question No 353/84 of 4.6.84, OJ No C 243/8 of 12.9.84.
- 15) Answer given by Mr. Haferkamp on 25.2.83 to Written Question No 1724/82 by Mr. Brian Hord, OJ No C 100/26 of 13.4.83
- 16) Levick and Stankovsky (1979), p. 140-141
- 17) I would like to thank Prof. M. Lavigne for making this point to me.
- 18) The questionnaire was sent to 12 British firms to test the opinions and conclusions which emerged from the personal and telephone interviews. Though only four firms replied, this was considered sufficient for the purposes of the questionnaire. There were 15 questions, each with a choice of several replies, and firms were encouraged to add further comments where necessary. Most of the questions related to the role of national governments and the EC in promoting East-West trade and cooperation. In particular, there were questions on the effectiveness of the Joint Commissions, and whether the EC should assume responsibility for these; the desirability of more information about interfirm cooperation; on whether the EC should provide export credit subsidies, and if so, the forms these should take, and as to whether and how the role of the EC in promoting East-West interfirm cooperation should be increased (by, for example, organising trade fairs, providing legal assistance, encouraging the activities of the Member States' Embassies in East Europe etc.).
- 19) Friesen (1976) p. 97.
- 20) As M. Tracy (1985) describes, the Commission is not always as free from national interests as its role as "guardian of the Treaty" might suggest, with, for example, the appointment to



many of its posts being determined by the governments of the Member States. However this would seem to be more true for a policy such as agriculture, to which Tracy is referring, than for East European relations.

- 21) European Parliament Document 425/74, the Klepsch Report (1975); European Parliament Document 89/78, the Schmidt Report (1978); European Parliament Document 1-424/81, the De Clercq Report (1981) and European Document 1-531/82 the Irmer Report (1982).
- 22) East European Trade Council (1984) p. 11.
- 23) Levciik and Stankovsky (1979), p. 152-3.
- 24) Answer given by Mr. Haferkamp on behalf of the Commission, of 16 July 1984 to Written Question No 353/84 by Mr. Alan Tyrell, OJ No C 243/8 of 12.9.84.
- 25) See for example John Maslen (1984), p.334, and European Report no.999 of 30.XI.1983
- 26) See Commission of the European Communities (1984).
- 27) ECE (1973) p.2.
- 28) ECE (1976) p.5.
- 29) Stretching the case considerably, one could perhaps apply a paraphrase of Voltaire's famous statement about the Holy Roman Empire to industrial cooperation agreements. They are not industrial, because agricultural goods and primary products are often involved; as McMillan argues, they frequently could not be classed as "cooperation" in the more usual sense of the word, and finally, they are not always "agreements" in view of the disputes which often arise, with for example the Western partners complaining about delays, and the poor range and quality of goods offered as compensation payment, while the Eastern partners sometimes lament that obsolete technology has been offloaded on them.
- 30) Indeed as E. Colombatto (1982) points out, the East European countries consider compensation per se as a form of cooperation. He maintains that this is partly because CMEA countries do not share the Western view which is relatively favourable to cooperation (as a new development of international trade) but fairly critical of compensation (which is considered a form of barter).
- 31) ECE (1976b)
- 32) McMillan (1977a) p. 173.
- 33) Hill (1983) p. 37.
- 34) Levciik and Stankovsky (1979) p. 177.
- 35) The percentage of 4-5 is based on ECE (1973), ECE (1979) and ECE (1981). The quotation is taken from ECE (1981) p. 17.



- 36) East European Trade Council (1984) p. 12-13.
- 37) For example, the report of the UK/GDR Joint Commission meeting of 21-23 November 1983 notes: "the high proportion of GDR foreign trade concluded at the Leipzig Fairs", but stresses the problem of the cost of these Fairs.
- 38) Reply by Mr. Christopher Soames, Vice President of the Commission, to Mr. Jahn in European Parliament debate of 12.5.76 on "Effects of cooperation agreements on the common commercial policy".
- 39) See for example the statement of Mr. Irmer in the European Parliament on 16.9.1982, Debates of the European Parliament No 1-288/275, 1982/3.
- 40) See OJ No C 268, of 22.11.75, pp. 18-23.
- 41) The Delorozoy Report, EP Document 1-1482-83 of 2 March 1984, p. 15.
- 42) Established by a Council Decision of 27 September 1960.
- 43) See Council Decisions of 14-15 May 1962, 26 January 1965, 25 July 1967, 73/391/EEC of December 1973 and 76/641/EEC of 27 July 1976.
- 44) Glibert (1983) p. 275, English version.
- 45) John Maslen (1984), p. 328 quotes these statistics, which are taken from COM(83)519 final of September 1983. Many of these cases are also listed in Annex VII to the Irmer Report, European Parliament Document 1-531/82, (1982) pp. 56-59.
- 46) The reaction of businessmen to this recommendation was that they would never be so naive as to find themselves in such a situation, but circumstances change and long-term predictions in East-West economic relations are notoriously difficult, as for example the experience of a successful firm like Massey Ferguson shows. As Paliwoda (1981) describes, the industrial cooperation agreement between Massey Ferguson and the Polish Agromet-Moto Import ran into considerable delays which rendered the buy-back figure agreed on extremely problematic for Massey Ferguson in view of inflation and the changed economic situation.
- 47) This problem is raised in all the European Parliament Reports listed above in Footnote 18.
- 48) See for example OJ C 181 Vol. 27 of 9 July 1984.
- 49) See OJ C 181 Vol. 27 of 9 July 1984, updating of Annex to Council Regulation No 3420/83 of 14 November 1983.
- 50) John Maslen (1984), p. 327.
- 51) These differences are described in Bertsch (1985), Schiavone (1985), and Woolcock (1980). According to Schiavone, though the compromise reached among Cocom Members in July 1984



concerning trade in computers, software and telecommunications is likely to resolve some of the differences between the US and Western Europe, though many perplexities will undoubtedly remain on both sides.

- 52) See Bertsch (1985), Schiavone (1985), and Woolcock (1980).
- 53) John Maslen (1984), pp. 340-341 describes this debate in more detail.
- 54) As John Maslen (1984, p. 341, points out, some EC action with regards to the extraterritorial and retroactive nature of US export controls has already been carried out. In June 1982 the US decided that the ban on the export of oil and gas equipment should apply, not only to firms in the US, but also to US-controlled firms in Europe. This led the Council of 21/22 June, and the European Council of 28 June to express their grave concern about the US decision.
- 55) See for example Fallenbuchl (1983), Levciik and Skolka (1984) and Zaleski and Wienert (1980).
- 56) Unctad (1984) p. 2.
- 57) Gomez (1984) p. 32.
- 58) Unctad (1984) p. 29.
- 59) Protocol on German Internal Trade and Related Problems.
- 60) In Pohled ed. (1977) p. 253.
- 61) European Parliament Document 1-531/82, Irmer Report, (1982) p. 26.7. This Document refers in particular to the 'country of origin' problems, which involves GDR products being mistaken for those produced in the FRG and re-exported to other EC countries without the payment of duties or . It also mentions the problem of "back door entry" which entails other CMEA countries putting their goods on EC markets via the GDR and FRG.

According to the Irmer Report, the 'country of origin problem' has largely been resolved because since January 1970 it has been illegal to designate products "made in Germany" and the term "made in the GDR" must be used. Moreover according to the Report the proportion of East German products which enters the FRG and is then exported to other EC countries is negligible, amounting to only 6.8% of FRG: imports from the GDR which is equivalent to roughly 0.02% of FRG exports to other EC countries.

However, as John Garland (1985, p. 11) points out, it seems likely that there is still a residual problem since :

"...in some cases the determination of origin or end user is inherently difficult, as in the case of bulk commodities. ...even if the safeguard procedures themselves were fully reliable they cannot address the situation in which goods normally produced for the domestic market might be replaced



by substitutes from abroad, thus making domestically produced goods available for export."

Nonetheless, the low GDR share in FRG imports suggests that even this covert form of distortion is likely to be of limited size.

In the case of interfirm cooperation, the danger of "back-door entry" is minimal since it could only arise where the cooperation also involves other East European countries, or in the unlikely event that compensation payment is in goods from these countries. However, according to the Irmer Report, the problem of back-door entry has largely been overcome by the FRG tightening its controls.

- 62) Percentages on the basis of Eurostat data.
- 63) These percentages are taken from Tirapolski and Globokar (1984) who base their estimates on the Statistisches Jahrbuch der DDR for the relevant years.



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Annex 1

List of Long-Term Cooperation Agreements between the EC Member States and the Comecon Countries (as at 31.12.79)

1. Belgium/Luxemburg Economic Union

Bulgaria	26.3.1975	
GDR	31.8.1974	
Hungary	20.2.1975	initialled, signed 6.10.1975
Poland	22.11.1973	and five year agreement from 10.4.1975
Romania	27.5.1976	
Czechoslovakia	10.10.1967	duration unspecified, supplemented by agreement of 10.9.1975
USSR	19.11.1974	

2. Federal Republic of Germany

Bulgaria	14.5.1975	
Hungary	11.11.1974	
Poland	1.11.1974	and agreement of 11.6.1976
Romania	29.6.1973	
Czechoslovakia	22.1.1975	
USSR	19.5.1973	
	30.10.1974	(supplementary agreement)

3. Denmark

Bulgaria	22.4.1975	
GDR	21.2.1974	
Hungary	14.2.1976	
Poland	20.11.1974	
Romania	29.8.1967	and 1.12.1976
Czechoslovakia	9.1.1970	
USSR	28.8.1975	

4. France

Bulgaria	13.11.1974	and Five-year Agreement from 19.3.1975
GDR	19.7.1973	
	11.7.1975	(supplementary agreement)
Hungary	9.11.1974	
Poland	5.10.1972	and Five-Year Agreement from 1975
Romania	28.7.1975	
Czechoslovakia	23.2.1970	
	Nov. 1977	(supplementary agreement)
USSR	23.10.1971	
	9.11.1974	
	6.12.1974	(supplementary agreement 10 years)
	April 1979	supplementary agreement



5. United Kingdom

Bulgaria	19.5.1974
GDR	18.12.1973
Hungary	21.3.1972 duration unspecified
Poland	20.3.1973
	16.12.1976 for five years
Romania	15.6.1972 for five years
Czechoslovakia	8.9.1972 for five years
USSR	6.4.1974

6. Italy

Bulgaria	27.5.1974 and Five-Year Agreement from 23.6.1975
GDR	18.4.1973
Hungary	25.5.1974
Poland	17.1.1974 (long-term programme)
	28.10.1975 agreement for 1980-84
Romania	22.5.1973
Czechoslovakia	30.4.1970 duration unspecified
USSR	25.7.1974
	October 1979

7. Netherlands

Bulgaria	11.12.1974
GDR	12.6.1974
Hungary	18.7.1975
Poland	2.7.1974
Romania	14.5.1975
Czechoslovakia	19.11.1975
USSR	15.7.1975

8. Ireland

Poland	13.6.1977 for ten years
USSR	16.12.1976







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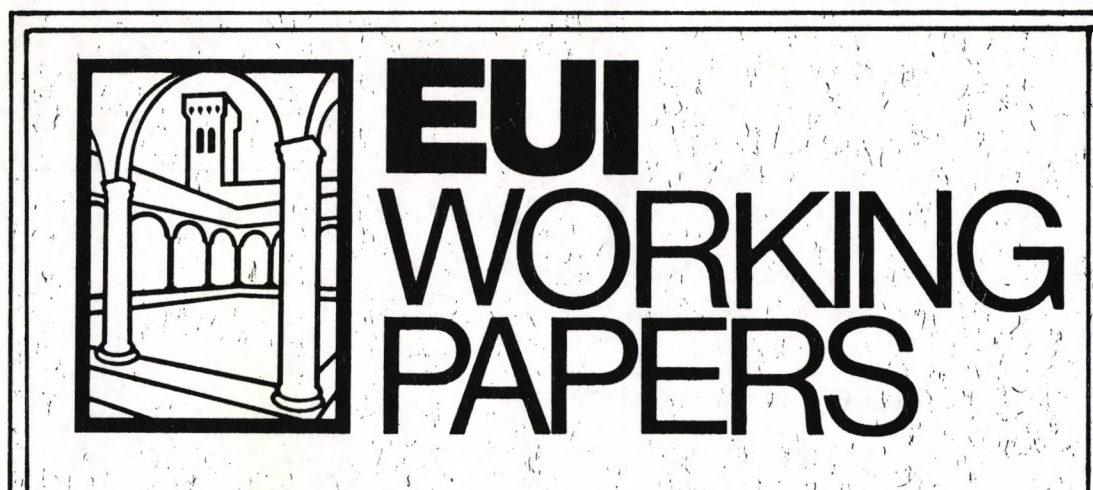
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