

**EUROPEAN UNIVERSITY INSTITUTE, FLORENCE**

**DEPARTMENT OF ECONOMICS**

**EUI WORKING PAPER No. 89/381**

**Recent Developments in Relations Between the  
EC and Eastern Europe**

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Printed in Italy in May 1989  
European University Institute  
Badia Fiesolana  
- 50016 San Domenico (FI) -  
Italy



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## Recent Developments in Relations between the EC and Eastern Europe.\*

### 1. Introduction

In June 1988 a declaration was signed between the EC and CMEA (Council for Mutual Economic Assistance) (1) which announced the opening of official relations between the two blocs, and their intention to cooperate in areas falling within their competences and of mutual interest. The process leading to this recognition had taken over 25 years and had been characterised by a series of fits and starts. Just how much ground has been covered is evident if the Soviet descriptions of the EC in the late 1950's as the "economic arm of NATO" and "an organ of West European monopoly capitalism doomed to inevitable destruction because of its internal contradictions" (2) are borne in mind.

As there is already a substantial literature (3) the history of the evolution of relations between the two blocs here will be very brief. First however mention must be made of the characteristics and competences of the CMEA as this has important bearing on the EC attitude towards the CMEA.

### 2. The CMEA

The CMEA was founded in 1949, mainly as a political response to the Marshall plan, but only really became active after the signing of the Treaty of Rome establishing the EC in 1957. In 1962 Krushchev proposed the establishment of a central planning authority and the endowment of the CMEA with certain supranational powers, but this was contested by several of the smaller East European countries, and especially Romania, who feared the reduced national independence implied by the measures. In 1971 the Programme for Further Intensification and Improvement of Cooperation and the Development of Socialist Economic Integration of the CMEA countries was introduced. This set out the guidelines for the integration of the CMEA countries over the following two decades, but in the event only some coordination was achieved, and not the extent of integration envisaged by the Programme.



The introduction of the 1971 Programme coincided with the ending of the transitional period for establishing the EC. This suggests a frequently-voiced (Lysén (1987), Matejka (1988)) conclusion, namely that integration in the East is often a response or reaction to initiatives to speed up the integration process in Western Europe.

However, as an extensive literature discusses (4), integration in East and West are very different processes. In the context of the CMEA, integration is chiefly concerned with state functions, and in particular the coordination of central planning and the setting up of certain common projects and joint ventures, whereas in the West many of the integration initiatives are directed towards the market.

A further difference lies in the extent to which integration has been achieved in East and West Europe. The EC, with its Common Commercial Policy, Common Agricultural Policy, Single European Act and power to issue Regulations which are directly applicable in member states (in the sense that they do not need to be transformed into national laws) has a number of supranational characteristics. In contrast, in Lysén's words (1987, p.85), the CMEA is "a quite traditional organisation" as there has been no transfer of sovereignty from its member states. As the 1971 Comprehensive Programme states (Ch.1, Section 1, Paragraph 1),

"Socialist economic integration is conducted on a purely voluntary basis, is not accompanied by the creation of any supranational organisations and does not affect internal planning problems or the financial and accounting activities of organisations."

According to Article IV of the CMEA Charter:

"All recommendations and decisions of the Council shall be adopted only with the consent of the interested member countries of the Council, each country having the right to declare its interest in any question considered in the Council."

This implies that any international agreement signed by the CMEA is not automatically binding on CMEA member states, and cannot be imposed on them by the CMEA. In effect the competence to conclude and implement such agreements rests with the CMEA member states. As Cutler points out (1988, p.266), the possibility that member states might refuse to execute CMEA obligations means that:



"In the light of international law, the CMEA appears to be seeking the benefit of all the rights that flow from being an international organisation (and an actor in the international community) without the obligation to fulfil any of the concomitant duties..."

This would seem to confirm Pinder's view (1986, pp.11-12) that in its functions and membership the CMEA is far more like the OECD (Organisation for Economic Cooperation and Development) than the EC.

Further differences between the CMEA and the EC arise with regard to their respective memberships. The CMEA includes three non-European countries (Cuba, Mongolia, and Vietnam) which could have implications for cooperation between the two blocs. In addition there is the obvious difference that one superpower, the USSR, is a member of one of the blocs, while the other, the US is not, which has influenced the way in which relations between the two blocs have developed.

### 3. Historical Background: Relations between the Two Blocs up until 1988

The literature generally divides the process leading to mutual recognition of the two blocs into three periods. The first lasted until about 1972, and is characterised by CMEA hostility towards the EC and a belief that it was a temporary phenomenon inevitably doomed to failure because of its internal capitalistic contradictions so that the best policy was simply to ignore its existence. The ideological justification for this attitude was presented in the 17 theses on the Common Market, published in the journal "Communist" in 1957. Anti-EC propaganda was rife, and far from recognising the Community, the CMEA countries declared their non-recognition and attempted to block EC participation in international organisations and conventions. The first declarations of this type were made by the Soviet Union, Hungary and Poland in the context of the 1968 International Sugar Agreement (5). In 1963 the Soviet Foreign Minister even refused to accept an EC Document given to him by the Dutch Ambassador in Moscow (6) Occasionally, as in 1962 with the 32 theses on imperialist integration in Western Europe and Krushchev's speech on 'vital questions of the development of the world socialist system', there was a dawning of awareness that the EC seemed capable of surviving as an economic and political reality, though probably the main purpose of these speeches was to encourage closer integration within the CMEA (7).



The second phase in the evolution of EC-CMEA relations dates from Breznev's 1972 speech which not only recognised the reality of the Common Market but also opened the way for official contacts between EC and CMEA officials from the summer of 1973. During this phase there were repeated contacts and initiatives to establish relations between the two blocs, all of which met with failure because of set positions on each side. Negotiations were eventually broken off by mutual consent in 1980, which marks the end of this phase.

In part this more open CMEA attitude towards the EC from 1972 can be interpreted as part of a wider improvement in East-West relations with the era of détente, and the preparations for the first CSCE (Conference on Security and Cooperation in Europe). On the economic side it became impossible to ignore that EC policies and especially the Common Agricultural Policy were not only taking effect but were also having repercussions on East European countries. Attacks continued to be made on the EC but it was evident that some working arrangement would have to be found. In addition the way in which the CMEA proposed to establish links with the Community suggests that this was regarded as a means of strengthening the internal cohesion and integration process of the Eastern bloc.

The CMEA position emerged clearly in 1976 when it proposed a framework agreement between the CMEA and its member states and the EC and its member states. This involvement of CMEA member states was a means of getting around the problem of CMEA competences in the matter of international treaties. In the proposed agreement the principles regulating trade between the two blocs were set out, including the insertion of a Most Favoured Nation (MFN) clause, the aim to reduce obstacles to trade and the granting of trade preferences, and in this way it was hoped that only minor, "particular concrete questions" would be left to bilateral agreements involving the EC and CMEA member states. The framework agreement proposed by the CMEA also included clauses relating to economic, scientific and technological cooperation.

Right from these early initiatives the CMEA insisted that its relations with the EC should be on a bloc-to-bloc basis and dealings directly between the EC and individual East European countries were to be of secondary importance. This aim can be explained by the dominant position of the Soviet Union within the CMEA and, as Marsh (1978, p.63) describes, the Soviet desire to maintain:

"...control over East-West economic contacts securing



EEC recognition of the CMEA as an equal negotiating body and improving the bargaining position of the Communist states against the industrially more powerful EEC states."

The CMEA proposal was unacceptable to the EC as was evident from the Community's counter-draft for an agreement later in 1976. The EC wanted relations between the two blocs to be restricted to general areas such as the exchange of economic information, transport and environmental questions. According to the EC, its member states could not be party to a framework agreement along the lines proposed by the CMEA because this runs counter to Article 113 of the Treaty of Rome. Instead the Community wanted to give priority to bilateral trade agreements with individual East European States following the transfer of authority for trade matters to Brussels from January 1975.

The EC explained its reluctance to a further-reaching framework agreement with the CMEA in terms of the different nature of the two organisations. The EC stressed the intergovernmental rather than supranational character of the CMEA pointing out that, unlike the EC, the CMEA neither had the power to pursue a common commercial policy nor the legal authority to impose implementation of an agreement on its members.(8)

The EC maintained that direct links with the smaller East European countries were preferable in order to take into account the specific characteristics of each country (its level of indebtedness, whether or not it is a member of GATT, the extent of economic reform implemented, and so on). The Community also feared that bloc-to-bloc dealings would imply Soviet involvement in its relations with the smaller East European countries and would strengthen the bonds between the Soviet Union and its neighbours.

However the EC position must be regarded to some extent as a pretext since, as Sheila Chapman (1985, p.429) points out:

"...it is precisely the Commission's refusal to negotiate which could force the latter to act in order to obtain powers similar to those of the European Community. This would inevitably lead to the strengthening of the Soviet position within the Eastern bloc which is exactly what the Commission claims not to want."

As Peter Marsh (1978 p.56) argues, a plausible explanation of the Community's behaviour is that recognition of the CMEA :



"...might assist in the creation of a countervailing power in the East capable of thwarting its own economic and political strategies in that area."

Even during this second phase of relations between the two blocs, not only was mutual recognition not reached, but Soviet and East European declarations of non-recognition of the EC continued. In 1974 the Soviet Union succeeded in blocking EC accession to the Convention on the Protection of the Marine Environment in the Baltic Sea Area. Again, as Cutler (1987, p.265) reports, during the UNCTAD (United Nations Conference on Trade and Development) negotiations on the Common Fund for commodities, the Soviet Union resisted EC membership of Common Fund, though ultimately the EC was allowed to contribute capital, but not to vote on decisions the Fund might take.

As Lysén describes (1987, p.103), by the 1980's East European attitudes to the EC were mellowing. In the 1982 Protocol to allow EC access to the Convention on Fishing and Conservation of Living Resources in the Baltic Sea and the Belts only the Soviet Union had doubts, and these were overcome when the member states threatened to withdraw. In 1985 there was no opposition to EC participation in the Convention on the Protection of the Ozone Layer.

In the absence of recognition up until 1988, various ad hoc arrangements emerged (as will be discussed in more detail below). After the transfer of authority for trade matters to the EC level from 1975 the East European countries and EC member states continued their bilateral relations by transforming their previous trade agreements into cooperation agreements. Although official CMEA trade policy was against bilateral agreements with the Community (Cutler (1987), p.263), individual East European countries did sign a number of sectoral agreements with the EC for sectors which were particularly sensitive for the Eastern partner. These did however imply a certain de facto recognition as Lysén (1987, p.96) argues:

"...it must be illogical not to consider the fact of entering into contractual relations with a non-recognised organisation - giving rise to rights and obligations between the parties - to amount to an implied recognition of that organisation's international legal personality and powers pertaining to the agreement..."

Furthermore, as John Maslen (1983 p.334) observed, various smaller CMEA members had



"... 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 EC."

Though it is difficult to put a precise date, the third phase of relations between the two blocs dates from roughly 1983 and is characterised by a more open, pragmatic CMEA attitude towards the EC. From 1983 Hungary and Czechoslovakia began discussions with the Community aimed at extending their trade links beyond existing sectoral agreements, and there were indications from the CMEA that it wanted to resume the dialogue abandoned in 1980. In June 1983 a communiqué at the CMEA summit meeting in Moscow announced the willingness of CMEA members to sign an "appropriate" agreement between the CMEA and EC in order to develop the economic and trade relations already existing between members of the two blocs. During a visit of the then EC President, Craxi, to Moscow in May 1985, Gorbachev announced that it was time to initiate relations with the EC, and to search for a "common language" insofar as the EC countries act as a "political entity" (9). Later in 1985 the Secretary of the CMEA sent a letter to the President of the Commission proposing the negotiation of a document of a general nature between the two blocs, such as a mutual declaration of official recognition. The CMEA had gone a long way towards meeting the EC objections to the 1976 framework agreement.

A delay then occurred as the Community wished to establish the principle of the "parallel approach", by which bilateral relations between the EC and CMEA member states could be developed simultaneously with relations between the two blocs. This was accepted by the CMEA in 1986.

A further stalemate then arose over the geographical application of the Joint Declaration. All EC agreements with third countries contain a territorial clause establishing that the agreement holds for all territories in which Treaty of Rome is applied. The Treaty contains special provisions for West Berlin, so that including a territorial clause in an agreement implies that West Berlin forms part of the Community. This creates problems for East European countries, and for example Soviet refusal to accept a territorial clause meant that the fisheries agreement negotiated in 1977 was never concluded. Although territorial clauses had been included in certain sectoral agreements, the CMEA at first maintained that this would not be possible in the case of the Joint Declaration because of its general rather than specific nature and because no time limit was involved. Ultimately, when it became



evident that the Community was not prepared to give way on this point the CMEA accepted the "Hungarian Formula" used for the earlier sectoral agreements. This entailed including a territorial clause in the agreement without specifically mentioning West Berlin by name, and then proceeding to an exchange of letters between the parties, with the CMEA re-asserting the validity of the Four-Power Agreement, and the Community acknowledging receipt of the letter.

#### 4. The Reasons for the Change in CMEA Attitude

In general CMEA attitudes to foreign policy are similar, if not indistinguishable, from those of the Soviet Union. Why then did the Soviet Union abandon its long-standing insistence on bloc-to-bloc relations and accept the EC view that there should be bilateral dealings between the Community and individual East European states?

Whereas for the smaller East European states the interest in having closer links with the Community is predominantly economic, for the Soviet Union economic, political and strategic motives are interlinked. For a long time the economic interest was not sufficiently strong to overcome the Soviet Union's political and ideological objections to recognition of the EC. Now however economic factors are given higher priority, and there is a new pragmatism on the part of the Soviet Union which, as Matejka (1988, p.15) explains, is reflected in:

"...the decision of the USSR under Gorbachev to redirect its trade and economic relations away from loss-making areas, namely the developing areas and the CMEA, towards the countries able to supply it with technology and know-how, that is the developed countries."

This is probably coupled with the consideration that increased security would enable the Soviet Union to release funds from military spending and direct them towards other needs of the economy. Though the initial impetus for the change in CMEA policy pre-dates Gorbachev's coming to power (he became Secretary General of the Communist Party of the Soviet Union in March 1985) at least some of the credit is his.

The fear of the implications of a unified EC market after 1992 probably added further incentive to closer ties with the Community.



As Verny (1986, p.17) points out, the European opposition to the US embargo on sales of petroleum and gas technology in 1981 also softened Soviet attitudes to the Community. Better relations with the EC is probably regarded as a means of reducing the risk of Western sanctions on exports of grain and technology to Eastern Europe and of encouraging a more moderate stand with regards to the Cocom lists.

The CMEA move may to some extent also represent a recognition of the status quo, and a rather belated attempt to regain some control over the individual initiatives taken by various smaller East European states. As will be discussed in more detail, in 1980 Romania signed what is effectively a fully-fledged trade agreement, and from the early 1980's other smaller East European countries, notably Hungary and Czechoslovakia, had been negotiating similar arrangements with the Community. As T.Schreiber (1986) notes, the Soviet Union was extremely worried about these 'autonomist' initiatives. Not only did it fear being isolated, but the Soviet Union also wanted to avoid being left behind its smaller East European neighbours in obtaining the economic benefits to be had from closer links with the Community. Partly as a question of negotiating tactics, the Soviet Union probably did not wish to be seen to be rushing to sign an agreement, and was quite prepared to let the smaller Eastern countries go ahead and pave the way.

Finally, as Matejka (1988, p.15) points out, the Soviet intention to join the GATT may have encouraged it to

"...court its chief opponents among the contrasting party, namely the United States and the EEC".

Certainly the change in attitude of the Soviet Union reflects an awareness that the EC had emerged as a new political power centre in the West.

##### 5. Immediate Consequences of the 1988 Agreement

As various authors have pointed out (Bel (1988), Matejka (1988)), the 1988 declaration is important as a symbol, marking the end of one long process (the path to mutual official recognition between the two blocs) and the beginning of another. It reflects the relaxing of tension, and the "normalisation" of relations between



the two blocs. Normalisation is here taken to mean the possibility of discussing problems; the negotiation of agreements if necessary; the end of attempts to hinder EC participation in international organisations and the establishment of formal relations, which generally entails accrediting diplomatic missions. The Joint Declaration did not however involve setting up diplomatic missions between the two blocs.

During the negotiations leading to the Joint Declaration some countries, notably the Soviet Union and the GDR made it clear that normalisation of their relations with the Community depended on a successful outcome at the bloc-to-bloc level, while others such as Hungary and Romania made no such link, and in fact seemed to use the possibility of establishing diplomatic links with the EC as a bargaining counter in obtaining EC concessions in the bilateral agreements which were being negotiated (Maslen, 1988, p.342). This together with the political tensions between Romania and the West explain why Romania was the only East European country not to send a request to set up a diplomatic mission to the EC in the summer following the Joint Declaration.

In addition to the establishment of diplomatic missions, the June 1988 Agreement led to immediate changes in two contexts, namely, the search for possible areas of cooperation between the two blocs, and opening the way for signing bilateral agreements between the EC and individual East European countries. Each will be discussed in turn, though the latter first requires the presentation of some institutional background. Finally the longer term implications of the 1988 Declaration for East-West trade and the internal structure of the CMEA will be considered.

#### 6. Prospects for Cooperation between the Two Blocs since 1988

The 1988 declaration called for cooperation between the two blocs in areas of "mutual interest". The areas, forms, methods for cooperation were to be decided in subsequent contacts and discussions between representatives of each side, and specifically, "on the basis of experience gained", new fields and methods of cooperation could be designated.

In the first of these subsequent meetings between the two sides a difference of opinion emerged because the CMEA first wanted to identify areas for cooperation, and only then discuss the forms and methods. In contrast the Community again raised the question of CMEA competences and maintained that it was necessary to establish what each organisation did and compare their activities



before deciding what areas were of "mutual interest". As a UK official pointed out, Community's reaction may also be regarded as a response to uncertainty. Closer links are difficult when the legal competences of the CMEA are not only unclear, but also in a state of flux. The Community's insistence on knowing precisely what these competences are could be regarded as a fact-finding exercise to establish where there are effectively areas for closer cooperation between the two blocs.

During earlier negotiations (1976, 1978 and 1980), four areas for cooperation between the two blocs were identified: standardization, presentation of statistics, environmental questions and macroeconomic forecasts. The Soviet Union would like to see cooperation in science and technology, transport and energy policy added to this list.

The EC raised the point that cooperation in some of these areas was already underway elsewhere so there was a risk of simply duplicating the work of wider, more complete fora such as the ECE (Economic Commission for Europe), the IAEA (International Atomic Energy Agency) and the CSCE. Alternatively certain questions might be better addressed at the bilateral level between the EC and individual East European countries. Furthermore, as John Maslen argues (1988, p.575), it is difficult to see how European-wide cooperation on transport or the environment could be carried out excluding such countries as Austria, Switzerland, Yugoslavia, and those of Scandinavia which are ECE members, but do not belong to the EC or CMEA. Nonetheless it seems worthwhile considering the prospects for cooperation in each of these areas in a little more detail to see how far these claims are true or what form cooperation could take.

With regards to economic forecasts and statistics, cooperation could first involve exchanges of information, though a further step could be discussions of the methods used and the development of harmonized statistical techniques. Within the CMEA uniform norms and standards are applied, especially for industrial products, and the EC is attempting to do the same. As the Seeler Report of the European Parliament (1986, p.18) points out, a systematic comparison of norms and standards used in the EC and CMEA could act as a first step in encouraging harmonization and reducing possible barriers to trade. However East-West collaboration on standardization, and the presentation of statistics already occurs in the ECE so the questions of duplication and appropriate forum would have to be decided.



The EC and CMEA are already involved in the conventions on long-range transboundary air pollution (1979 and 1984), and the conventions on protection of the ozone layer (1985 and 1989). In addition the EC and Eastern countries have participated in five multilateral agreements on fisheries and the protection of various species, as well as the 1988 Baltic Conference which led to the first declaration on limiting harmful discharges into the Baltic, and the protection of Baltic seals. Though these wider fora may be more appropriate, they are not necessarily inconsistent with additional discussions at the EC-CMEA level, especially as the CMEA countries represent an important potential market for EC environmental technology which is among the foremost in the world.

In the context of transport policy, there could be discussions to develop infrastructure, especially with a view to expanding East-West trade. For many years the Community has complained of East European dumping practices in the transport sector, so these questions might be considered, though it would have to be established whether the bloc-to-bloc or bilateral level is the most suitable.

Cooperation in the energy sector could relate to extending energy supply networks such as gas and oil pipelines, or the electricity grid, though, as has been seen in the past, increasing interdependence in this sphere raises complex political questions. There could also be joint research into new alternative sources of energy.

With regards to nuclear fusion for energy production, following the Agreement between the EC, Japan, the USSR and Japan, in 1988 scientists in each began work on a design for a thermonuclear test reactor. Although after Chernobyl there is an EC interest in cooperation with regards to nuclear safety measures, especially as it is estimated that most of the 50 Soviet reactors do not conform to Western safety requirements (the Haensch Report of the European Parliament, 1988 p.36), two conventions have already been concluded within the IAEA with regards to early notification and assistance in cases of nuclear accidents or radiological emergency.

It has been suggested that possible areas for EC-CMEA cooperation in science and technology could coincide with the EC Eureka Programme, especially as in 1985 the CMEA adopted a remarkably similar programme for scientific and technical progress. However problems for this type of cooperation arise because of the Cocom list which imposes controls on "strategic" exports; from loopholes in the international system of patents, and



from different approaches to technology (which is carried out to a large extent by firms in the West, and decided mainly from above in the East). In the West there is interest in collaboration on academic research, and in fields where the Soviet Union has an advantage, such as in certain areas of theoretical mathematics, laser technology, metal processing and material manufacture (the Seeler Report, 1986, p. 20). However there is a widespread view that the West has little to gain and much to lose from cooperation on many aspects of applied technology, given the difficulty East European countries have in converting research results into effective new production techniques.

#### 7. The Application of the Common Commercial Policy in Trade with East Europe

Before discussing the recent bilateral agreements between the EC and individual East European countries, it is first necessary to describe the institutional framework in which trade and cooperation take place.

According to Article 113 of the Treaty of Rome, after the ending of the transitional period the Community was to assume responsibility for matters relating to the common commercial policy:

"...particularly in regards 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."

In the face of opposition from both the EC member states and East European countries the Commission postponed the deadline for introduction of the common commercial policy vis-à-vis state trading countries from 1970 till 1973 and again until 1975. From that date bilateral trade agreements between EC Member States and East European countries expired and the Community set out the broad lines of its future policy in the 1974 'general model for trade agreements' or 'memorandum'. A copy of this memorandum was sent to each of the CMEA countries and contained the following elements (10):

- 1) the willingness of the Community to conclude trade agreements with individual CMEA Member States
- 2) the reciprocal allocation of the Most Favoured Nation (MFN) clause



- 3) the reduction of quotas (except those falling under the Common Agricultural Policy (CAP) )
- 4) ad hoc provisions for payments and trade financing
- 5) joint commissions were to be set up to supervise the agreements

The Community's offer to sign trade agreements with individual CMEA countries from 1975 was met with silence at the time (apart from China and later, Romania) owing to the political recognition problems. The Community announced that in the absence of such trade agreements, decisions would be taken unilaterally and would not be subject to negotiation, and this is the basis of the so-called autonomous trade policy. The latter relates essentially to the quantitative restrictions imposed on trade between EC and East European countries.

#### 8. The Problems of East-West Trade which the EC Measures are Designed to Meet

The mechanisms which the EC adopts in its trade with Eastern Europe were evolved when the traditional model of central planning still applied in East European countries. To understand the form taken by these mechanisms a few words about this model and the problems it poses for East-West trade are necessary.

Under a system of central planning prices are set by a central authority and will not necessarily reflect relative scarcity. In general prices for labour, certain raw materials and energy will tend to be set at low levels, while it is likely that prices on more "socially unnecessary" products will be relatively high.

The use of this type of price structure to allocate resources can only operate if there is some kind of insulation of the central planned economy from market forces. It cannot be permitted that for example westerners enter the non-market economy and freely purchase products such raw materials or energy set at artificially low prices. Hence the state monopoly of foreign trade, and the incomplete currency convertibility which characterise a typical non-market economy. The monopoly of foreign trade enables central planners to incorporate international trade into plans while attempting to avoid disruption to the economy. Non-convertibility is usually operated by a system of multiple exchange rates. This generally includes an official rate (which reflects national prestige more than economic reality), a tourist rate, and a commercial



rate, though even the latter is often mistrusted by Western businessmen who frequently insist on payment in Western currency, or various forms of compensation payment.

Given the persistent shortages of hard currency of these countries, export industries are often given priority. This may imply using the best, or most advanced techniques to make the product for export competitive on world markets. For example a higher level of automation might be used than would be justified by the same low labour costs in a market economy. Moreover, as Denton (1987, p.203) argues,

"One of the essential elements of this competitiveness is the price. The lower the price of the product in the West in relation to the equivalent Western product, the more competitive it is. "

In trading with non-market economies, on the import side Western countries therefore fear that their markets might be flooded by low-priced products. To meet this threat various measures have been evolved: quantitative restrictions, safeguard measures, anti-dumping measures, and voluntary export restraint agreements. On the export side, the centralised planning system means that there cannot be meaningful reciprocation of Western tariff concessions. Some other form of commitment on the part of the Eastern partner to allow access to its markets has to be found, and the most common solution is to encompass this commitment in a bilateral trade and/or cooperation agreement. Given the hard currency shortages and indebtedness of Eastern countries, export credit policies also play a crucial role in encouraging Western exports. The form taken by each of these devices in the context of the EC will now be discussed.

Economic and political considerations are inextricably linked in the context of East-West trade, and nowhere is this more true than with regards to technology transfer. The implications of the Cocom lists for EC trade with the East will therefore also be indicated very briefly.

#### 9. The Autonomous Trade Policy

As Peter Marsh (1978, p. 50) describes, the autonomous trade policy represented very much the lowest common denominator in that it simply put a "Community label on existing national trade legislation". The bilateral trade agreements between EC member states and East European countries had contained lists of import quotas on sensitive products. Rather than trying to



harmonize these restrictions they were incorporated en bloc and virtually unchanged into Community legislation.

In accordance with the common commercial policy, the Community is responsible for the lists of 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 goods coming from GATT members.

The commitment to liberalisation of these lists set out in the 1974 memorandum has to some extent been met. Each year actual levels of imports are examined to see how far quotas have been used and where concessions can be made. Concessions entail either abolishing restrictions, enlarging quotas, or introducing quotas for imports which were previously non-liberalised. As John Maslen reports (1983, p.327), the decision usually enlarges the quotas by 1.5-3.5 %. As a result of some 7600 Nimexe headings of the Community's common customs tariff, about 1420 were partially or totally under qualitative restrictions in at least one member state in 1985 compared with some 1570 reported by K.Taylor (1977) for 1975. The 1982 Irmer Report of the European Parliament called for the liberalising of quotas to be made conditional on the signing of bilateral trade agreements with individual East European countries and, as will be shown below, these agreements (especially that with Hungary) and the prospect of 1992 have lent new impetus to the liberalisation process.

Nonetheless the Community maintains more quantitative restrictions in its trade with state-trading countries than with any other group of countries. According to the EC Commission, some 3-5% of actual EC-East European trade is affected by such restrictions, the exact percentage varying according to the product and country in question, but the impact on potential trade, or trade which would take place in the absence of such restrictions is much greater. Many of the restrictions are on textiles (within the framework of the Multifibre Agreement), footwear, chemical products, some electronic components, toys, glassware and ceramics, some wooden products, certain agricultural goods and the metallurgy sector so, at least in some cases, are of considerable importance to the East European country concerned. During the interviews Western trade 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. One official even suggested that East European insistence on this issue was because quotas may act as a scapegoat in



cases where low trade levels were in fact due to poor economic performance in the Eastern country. However it was admitted that such restrictions run counter to the principles of Article 113 of the Treaty of Rome.

According to the EC Commission, it will not be possible to have these lists of national import restrictions after 1992. Either imports will have to be liberalised, or, if they are sensitive, Community-wide restrictions will have to be introduced. The latter could take various forms, one possibility being voluntary export restraint agreements at the EC level. Although the GATT does not look favourably on such agreements, they are extremely widely used, and at least have the advantage over quotas of having to be prolonged (whereas quotas must be removed).

#### 10. EC Anti-Dumping and Other Trade Protection Laws

The issue of anti-dumping in EC trade with East Europe is too important to be left out, but too complex to be dealt with adequately here (11).

The basic problem arises from the price structure and incomplete convertibility of non-market economies. This means that in setting export prices non-market economies will have to rely on information about prices not only in the country to which they are exporting, but also in potential analogue countries (as will be explained below). If their information is inaccurate, they may be subject to charges of dumping.

As Denton (1987) points out a further misconception frequent in the West is that non-market economies present a problem for dumping because their prices are unverifiable or inaccurate. Most East European countries could (and probably would) provide detailed information about production costs. However the main difficulty is not one of accuracy, but the whole complex of distortions arising from centrally fixed prices.

According to EC legislation, dumping is said to occur when the price of an export to the EC is lower than the 'normal value' of a like product. If the dumping is found to cause injury or threat of injury and the "interest of the Community" so requires, the EC Commission may impose an anti-dumping duty, though in most cases it simply insists on a price undertaking from the exporting country involved.

A frequent complaint of East European countries is that the EC uses its anti-dumping measures as an instrument of protectionism. According to certain East European observers (see for example Piontek (1985)),



although formally EC anti-dumping regulations conform to GATT standards, their application is said to be particularly "vigorous". Wetter (1986) also reports that threat of EC anti-dumping measures was a major factor in deciding the smaller East European countries to sign bilateral agreements with the EC with regards to steel.

However, as Tables 1-4 suggest, at least in recent years the threat of anti-dumping measures may be greater than their actual impact. Moreover, according to Pelkmans (1984 pp.248),

"A considerable part of the procedure is public, while criteria are known, and the considerations underlying every duty are to be published in the Official Journal. Such a procedure greatly reduces the constituency politics that might turn anti-dumping policy into a protectionist device that it shouldn't be."

However, there are two areas where the East European complaint would seem to be grounded. The first relates to the way in which the 'normal value' is calculated for non-market countries. According to EC legislation 'normal value' is defined as the market price paid or payable in the exporting country or in third countries. As this definition is not appropriate for non-market economies, the EC procedure follows the GATT in basing normal value on prices in an analogue country. As various authors point out (12), this method cannot allow for the possibility that lower prices in the non-market economy might effectively reflect comparative advantage rather than the distortions of the central planning system.

Secondly, as a step-by-step analysis of the EC anti-dumping procedure shows, the EC authorities have a certain amount of discretion, or flexibility in applying the legislation. As the the EC authorities are subject to pressure from EC producers and rely on them for information, it seems likely that at least at times the interests of domestic producers are given special consideration.

Given the nature of state intervention in centrally planned economies, in theory the EC could at times apply anti-subsidy measures to these countries. However to avoid the political issues which the anti-subsidy measure raises, in practice the anti-dumping instrument has always been used.

The safeguard procedure is used to protect the EC from excessively low prices or market disruption. In such cases import licenses can be partially or wholly



suspended so limiting or preventing imports from third countries. However the safeguard procedure is rarely used as it is considered a double-edged weapon, running the risk of retaliation. Moreover, unlike antidumping measures, it generally has to be applied in a non-discriminatory way. A notable example of its use was the EC suspension of beef imports from 1974 to 1977.

In 1984 (Reg. 2641/84) a "new commercial instrument" was introduced by which the EC can take measures with regards to "illicit commercial practices". This measure is modelled on section 301 of the US Trade Agreements Act. Whereas previously EC trade policy instruments were designed to avoid injury to domestic producers, the 1984 measure is aimed at protecting EC trade interests in third countries.

## 11. Export Credit Subsidies

Although a considerable degree of coordination of the export credit policies of EC member states has been achieved, transfer of authority to the EC level has been limited, despite a 1975 decision of the Court of Justice (13) that export credit subsidies were an instrument of commercial policy and so fell within the competences of the Community listed in Article 113 of the Treaty.

With regards to the need for coordination and harmonization of the export credit systems of the EC 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. The risk is thought to be particularly grave in the case of business with Eastern Europe given the importance of export credit guarantees, which for example cover an estimated 20% of UK trade with these countries (14).

The coordination of the export credit policies of the EC member states has taken place at both the EC and OECD levels. The main forum for international discussions on export credit matters is the OECD, and this has the obvious advantage over the EC of including the US, 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 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. The overall tendency has been for the consensus to move in favour of tighter controls of export credit subsidies and the general opinion seems to be that the OECD arrangements have been successful in confining some of the worst excesses. It has also contributed to increased transparency and discipline in reporting. There have also been proposals to extend the arrangement to new members such as Turkey and Brazil. However several problems remain, as a European Parliament Document (15) explains:

"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 the interest rate subsidies by certain countries in particular."

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 realising at least some degree of coordination at OECD level, Community representation of the member states 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 (16). This body is responsible for carrying out the EC information and consultation procedure in matters of export credit subsidies (17) and all new credits of over 5 years duration have to be submitted to this procedure. According to those involved (i.e. the Commission and national officials and the representatives of some banks) the consultation procedure works fairly efficiently and as well as enabling exchange of information, has led to a certain convergence of opinion among member states. It was felt that a great deal had been achieved on certain issues, and mixed credits were cited as an example. The group meets every three weeks and at each meeting two countries are considered and



contentious issues are raised. Though at times the Commission has difficulty obtaining information from the member states, it was thought that ultimately it usually succeeds. The member states usually go a considerable way towards meeting the complaints made against them in this group, and although ultimate redress is possible within the EC Council, this is rarely necessary.

The main topic discussed within the coordination group is the OECD consensus, though this is also the forum for considering harmonization and the possible introduction of Community export credit measures. However many of those involved felt that harmonization was too difficult in view of the divergent monetary conditions of the EC member states and differences in their financial institutions and tax arrangements. Moreover it was thought that continued progress in extending the umbrella of consensus would render harmonization and the introduction of Community measures superfluous. Although some progress towards harmonization is being made, the EC is forced to work at the pace of the slowest.

It is still too early to assess the likely effects of 1992 on the export credit practices of the EC member states. Credit agencies in some member states such as France and Belgium are preparing for the possibility of operating in other EC member states, amending their statutes where necessary. However, to date no opinion from the EC Commission has emerged.

Turning specifically to the East European countries, it was stated that the process of perestroika in the Soviet Union raised considerable difficulties for Western credit agencies. These agencies are now having to deal directly with enterprises and up to 150 Soviet ministries directly. Whereas in the past the Soviet central bank was responsible for all financing, these enterprises and ministries are now self-financing, but without experience in such matters. The Western credit agencies are faced with partners with no track record, in a situation of uncertainty and lack of information. What for instance will happen if a Soviet ministry or enterprise exceeds its budget? This uncertainty has led to delays in the granting of Western credits, and for example in the case of the British Export Credit Guarantee Department has led to the value of contracts in 1988 falling below the 1987 level of £400 million.

Also in the case of joint ventures with the Soviet Union, the question of who will stand guarantor on the Soviet side, and the possibilities for repatriating profits have created wariness on the part of Western credit agencies. The rescheduling of debts by Poland has



also meant that most Western agencies are no longer prepared to grant medium- or long-term credits, and short-term activities have been relatively limited.

## 12. Technology Transfer

The international forum in the West for discussions of technology transfer is Cocom (the Coordinating Committee for Multilateral Export Controls), which is an informal committee of Nato composed of Japan and all Nato members except Iceland and Spain. Cocom is not covered by any treaty, and its proceedings are carried out in private. The main functions of Cocom are to maintain lists of strategic items subject to embargo and monitoring and to try and secure agreements on enforcement, so as to minimize exports of those items to the USSR, the seven smaller East European countries, Afghanistan, China, Mongolia, North Korea, and Vietnam.

There are three Cocom lists relating to the export of:

- a) atomic energy materials and facilities
- b) munitions
- c) industrial goods of potential military use.

Export of many items on the first two lists are banned completely, and it is the third list which is subject to most attention.

In order to sell an item on the Cocom list to a Warsaw Pact country, an export license has to be obtained. For the most sensitive items, the question of whether to grant an export licence will be decided at a Cocom meeting in Paris, and these are called "general exception" applications. For less sensitive items an export license will be granted by the trade ministry in the country concerned "at national discretion", possibly after consultation with the defence or foreign affairs ministries.

A major complaint of businessmen regards the time lag involved in obtaining an export license through the "general exception" procedure in Paris. 13% of all applications have to follow this procedure, and though in theory there is a deadline of 12 weeks, in practice this is suspended if any question is raised so the waiting period is often of 6 months or a year (18).

A further problem concerns the slow pace at which Cocom reviews the lists. The last complete review took place in 1984, and since then there has been a rotating



review of one quarter of the lists each year. As many businessmen have pointed out (19), especially in the computer industry, a review period of 4 years is longer than the life-cycle of many products. According to the Haensch Report of the European Parliament (1988, p.32), although the decisions taken within Cocom in January 1988 were a step in the right direction, there remains a need to ensure that the lists are further reduced and published, and to simplify control procedures in order to avoid uncertainty and unnecessary bureaucracy.

In recent years Cocom has been under considerable strain especially because of diverging views between the US and Western Europe with regards to trade sanctions and embargoes (20). 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 US sanctions against the Soviet Union following events in Afghanistan and Poland were only matched by an EC commitment not to undermine these sanctions (21). There have also been complaints that the US is using its dominant position to further political and commercial interests, as for example the French criticism of the American move to exempt China from the Cocom lists. In part these differences may be said to reflect the EC's much higher level of dependence on trade with the CMEA countries than that of the US. Moreover the composition of trade was very different, with grain exports being especially important for the US, while Europe is more concerned with exports of 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 market is considered with interest by the EC electronics and other high technology industries.

The obvious implication for the EC would be to adopt a more united stand with regards to technology policy. This might also help to encourage a more moderate approach within Cocom. 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 in 1981 when Greece was totally opposed to any action, and Denmark later wanted to pull out (22). Even with regards to the Cocom lists there are variations among the member states, with possibly the UK adhering closest to the US line and France, the least. A further problem arises in that technology policy is 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.

A further question arises as to the impact of Cocom on trade with East Europe. According to the Seeler Report



of the European Parliament (1982) the result of Cocom has been to force CMEA states into developing their own technologies in fields such as offshore drilling or robots for car production, so reducing dependence on the West. It has been argued that in the absence of Cocom, US exports to East Europe would have been greater, limiting the potential market for EC suppliers. However a Trade and Industry Committee Report of the House of Commons (23) not only found clear cases in which Cocom had been breached, but also convincing evidence that the Cocom restrictions hindered the process of economic reform in East Europe, encouraged high technology exports from other parts of the World to East Europe, and entailed a considerable loss of business for EC firms. One businessman maintained that in the absence of regulations, some business could be doubled or even tripled. The Report recommends more analysis of the actual impact of technology transfer on the East European economies (of the type being carried out by the OECD (24)) and more emphasis being placed in Cocom procedures on the possible end uses of technology. In this way it might be easier to draw the military/non-military borderline and depoliticize the issues for certain types of technology transfer.

### 13. Sectoral Trade Agreements

Despite the problem of political recognition, economic necessity forced all the smaller East European countries except Albania and the GDR (for which such arrangements were often rendered unnecessary by the special German provisions (25)) to sign sectoral agreements with the Community. As Tosi describes (1987, p.61), these agreements were essentially "low profile" and described as "technical" to minimize their political importance. Table 5 sets out the 22 agreements existing in 1988.

The first instance of positive integration or policy to be implemented at the EC level was the Common Agricultural Policy, which came into effect from 1967/8. This had immediate repercussions for some of the smaller East European countries which had traditionally exported agricultural products to EC countries, forcing them into a response. Between 1965 and 1980 all the smaller East European countries except the GDR and Albania signed "agricultural arrangements" concerning the conditions of imports of specific East European agricultural products into the EC. These arrangements cover various products including poultry, eggs, wine and different kinds of meat.



More recently export restraint agreements setting quotas for imports of sheep and goatmeat to the EC have been signed with all the smaller East European countries as can be seen from Table 5. These were followed by the similar agreements on young calves for fattening signed with Hungary, Poland and Romania in 1988.

In 1976 Romania signed a textile agreement with the Community which was followed by textile agreements with Poland, Hungary, Bulgaria, Czechoslovakia and China.

In 1978 Czechoslovakia and Hungary signed agreements for steel with the Community. These agreements allowed market penetration of the EC by up to 90% of Czech or Hungarian steel sales providing a given EC price was respected (26). Similar steel agreements with Bulgaria, Romania and Poland followed.

Many of these agreements involved "voluntary" commitments on the part of the East European countries with regards to minimum prices and in many cases to volume controls as well. As a general comment on this type of agreement, though they appear an improvement on the autonomous setting of policy, the question must be raised as to how far they are in fact "voluntary". Often the exporter has only the choice of accepting the demands made by the importing country (or group of countries in this case) or losing its place on that market. In addition, because the agreement is accepted "voluntarily", to all appearances the importing country (group of countries) has not violated the non-discrimination rules of GATT (where these apply), even though there may be patent differences in treatment.

In 1977 the decision of the Community to introduce a common fisheries policy and to claim a 200-mile maritime economic zone led to negotiations with the Soviet Union, East Germany and Poland. As Peter Marsh (1978, p.61) points out, although the Soviets played down the significance of this, the Community considered the negotiations an important milestone in the path towards political recognition.

Interpreting the acceptability of sectoral agreements widely, in addition to its textile and steel agreements, in 1980 Romania signed a trade agreement with the EC covering other industrial sectors and establishing a joint commission. The agreement was originally for five years, but has been rolled over, as is a frequent practice with such agreements. The aim of introducing these agreements separately was to avoid the appearance of a fully-fledged trade agreement and to



conform to the official CMEA view that sectoral but not general trade agreements were acceptable.

Though the agreement did not entail tariff concessions, it committed the EC to abolishing or suspending certain quantitative restrictions on imports from Romania, in particular of some chemicals, fertilizers, glass and ceramics. In return Romania was to increase and diversify its imports of EC products.

The terms offered by the EC in the Romanian trade agreement were relatively favourable partly for political reasons. It was thought that in this was it might be possible to lure Romania to the West, and encourage the process of internal economic reform. From the point of view of this objective the agreement must be regarded as a failure.

In 1983 a Contact Group on Agriculture was also established between Romania and the EC and this meets to discuss trade in certain agricultural products.

#### 14. Cooperation Agreements

Speaking of the implementation of the Common Commercial Policy vis-à-vis state trading countries, in 1974 John Pinder wrote :

"The Commission's long march down the route outlined in the Treaty of Rome will soon have reached its destination and it looks as if on arrival not much will be found".

Nowhere is this more true than in the context of agreements for "economic, scientific, industrial and technological cooperation" between EC Member States and East European countries. Following implementation of the Community provisions in 1975 all the then EC Member states rushed to replace their bilateral trade agreements with East European countries with cooperation agreements. As discussed in some detail elsewhere (27) these cooperation agreements have operated to all intents and purposes as trade agreements, and have been the source of a prolonged disagreement between the EC and its member states.

According to the EC member states, Community responsibility should be restricted to the functions listed in Article 113, and responsibility for government-level cooperation agreements was not among these.



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 as evidence that Community powers would need to be more extensive to be effective in implementing the common commercial policy.

The upshot of the debate over respective competences was that while in 1975 the Community assumed responsibility for all trade agreements, government-level cooperation agreements 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 authority 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 states, 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 from the Commission was established, and meets at regular intervals.

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.

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, because, for instance they included MFN clauses, and strictly the granting of such concessions should fall within the competence of the Community. However the real problem would seem to be in the activities of the joint



commissions which, far from simply creating the framework for cooperation, involve the governments of EC member states in an ongoing process of export promotion for their firms.

## 15. Bilateral Trade Agreements since 1988

### 15/i. The 1988 EC-Hungarian Agreement on Trade and Commercial and Economic Cooperation

The first tangible result of resolution of the political recognition problem was the ten-year trade and cooperation agreement between the EC and Hungary. The discussions leading to the agreement date from 1983 but the climate of 1988 certainly influenced the final form of the agreement. The agreement represents a milestone on at least two counts, firstly the extent of the concessions offered to Hungary by the EC, and secondly the shift in power it entailed between the EC and its member states.

Of great importance in determining the final form of the 1988 agreement was Hungarian membership of GATT. Not only did this enable an MFN clause to be inserted into the agreement, but it also formed the basis for the Hungarian request for the reduction of EC quantitative restrictions which were said to run counter to GATT obligations. The EC was prepared to go a long way towards meeting Hungarian demands because of its recognition of Hungary as being the East European country which has introduced the most far-reaching economic reforms and because of a desire to encourage this process. As John Maslen (1988, p.571) states, the agreement "represents what is in effect the limit of the trading policy possibilities of the EEC vis-à-vis a state-trading country". The Ercini Report of the European Parliament (1988, p.7) points out that the Hungarian agreement will be used as a precedent for other East European countries only if they make similar progress in reform.

The programme to reduce quantitative restrictions was one of the most important elements of the agreement, and was the subject of negotiations for more than a year, as Hungary wanted the EC to declare its willingness in principle to remove all quantitative restrictions. Initially the EC wanted to keep these restrictions as an option for the most sensitive goods for an indefinite period, so the outcome represents a compromise.

The agreement did not apply to ECSC (European Coal and Steel Community) products nor to textiles covered by the MFA (Multifibre Agreement). In addition the agreement did not alter agricultural agreements or



conditions, the organisation of seminars, fairs, business weeks etc. and certain exchanges of technical expertise. The exact areas and methods of cooperation were to be decided in subsequent discussions, and especially during joint committee meetings.

As Maslen (1988,P.570) summarizes, under the heading of cooperation Hungary agreed to give non-discriminatory treatment to the EC

"in such matters as the issue of licenses, the administration of Hungary's global quota on consumer goods, the facilities provided for businessmen who wish to set up representations or agencies in Hungary and the treatment of trading partners in matters of intellectual property."

In addition to being initialled by the EC Commission and signed by the Council (a formality) the agreement had to be ratified by the European Parliament since (p.1 of the agreement):

"...it appears that certain measures of economic cooperation provided for by the agreement exceed the powers of action provided for in the Treaty and in particular those specified in the field of the common commercial policy"

Furthermore the agreement also contained a specification that it would in no way prevent the EC member states from continuing

"...to undertake bilateral activities with Hungary in the field of economic cooperation, and to conclude, where appropriate, new economic cooperation agreements with Hungary."(28)

This formula was initially used for the EC's cooperation agreement with Canada in 1976 (29) and has to be interpreted in the context of the ongoing debate between the EC and its member states over their respective competences with regards to cooperation agreements. On the one hand the EC member states have been allowed to continue their bilateral cooperation agreements, and the Hungarian agreement contains the clause that such agreements appear beyond the competences of the Community listed in the Treaty of Rome. Against this the phrase "it appears" in the first quotation suggests that the Community has not accepted this definition of its competences, and the mere fact that it has signed this agreement represents an extension of its powers. This is likely to be particularly true with regards to the activities of the joint commission, where the member states will have to



arrangements between the EC and Hungary, but given the importance of agricultural trade, "the possibility of granting each other reciprocal concessions on a product by product basis" (Article 6 of the Agreement) was to be considered.

The agreement established that quantitative restrictions on other products were to be liberalised in three phases. Within a year of the agreement quantitative restrictions on a list of the least sensitive products (which had not been imported from Hungary during the three previous years) were to be abolished. There was then to be progressive liberalisation of the next level of sensitive products by 1993. In a number of cases these goods had already been liberalized temporarily, or the previous quotas had not been fully utilised (Maslen, 1988, p.570). This process of phasing out over a five year period could either take the form of gradually increasing the value of the quota, or of liberalisation as and when. Finally, conditional on a safeguard clause, all remaining quotas would be liberalised between 1993 and 1995. Consultations would be held before the agreement came to an end in 1998.

Only the liberalisation of the third class of quotas (from 1993-95) would be affected by changes resulting from 1992 and the agreement provides for the consideration by both parties of possible adjustments to the EC regime after 1992.

The agreement also contained a safeguard clause to prevent "serious injury to domestic producers of like or directly competitive products" (Article 7, para. 1) which permitted the EC to take unilateral action to limit imports or impose a duty if necessary. The stringency of this clause is the quid pro quo which Hungary had to accept in return for the deadlines on EC quotas.

The agreement entailed the establishment of a joint commission between the EC and Hungary which was to ensure the proper functioning of the agreement, and to seek ways of encouraging trade and cooperation. The latter would include assessing recent trends in trade, making recommendations to overcome problems in trade and cooperation, identifying new possibilities for trade and cooperation, and exchanging information on macro-economic plans, forecasts, and matters relating to East-West trade and cooperation.

The cooperation to be encouraged by the agreement was to be of an economic, scientific and technical nature. Its promotion was to entail exchanges of information and of persons, the encouragement of favourable investment



coordinate their positions and reach a Community line. In addition the agreement contains a clause stating that its provisions should be substituted for those of agreements between the EC member states and Hungary in cases where they are incompatible or identical. Certainly the increased contact with Hungary will improve the flow of information to the Community making it likely that the consultation procedure becomes a more effective control over cooperation agreements of the member states. Nonetheless the issue of who is responsible has to some extent been shelved, and it seems likely that the existence of cooperation agreements at both the EC and member-state level will lead to conflicts in the future.

As Tosi points out (1987,p.69), given this debate about the Community's competences, the inclusion of economic cooperation in the Hungarian agreement has more political than economic significance, and should be interpreted as gesture on the part of the EC to underline the importance it attaches to normalization of relations with Hungary. However it also marks a recognition of the opportunities for setting up joint ventures with Hungary. The far-reaching legislative and economic reforms carried out have meant that Hungary is at present the East European country which offers the most feasible prospects for joint ventures with Western firms.

#### 15/ii. The Czechoslovak Agreement

In 1983 Czechoslovakia began negotiations with the EC with the aim of signing additional agreements covering a number of sectors of particular importance to that country such as glassware and ceramics. The Community suggested an agreement covering all industrial goods, similar to the 1980 Romanian agreement, and this was eventually signed in December 1988 (30). The agreement did not cover agricultural goods or products covered by the ECSC or Multifibre agreement, nor did it extend to economic cooperation. Not only is agricultural trade relatively unimportant for Czechoslovakia, but total trade with the EC accounts for only 10% of all Czech trade as compared with 25% of all Hungarian exports going to the Community.

As a trade agreement, based on Article 113 of the Treaty, the Czechoslovak agreement did not raise the question of Community competences in the same way as the Hungarian agreement. Nonetheless it was ratified by the European Parliament as it was considered an "agreement of political importance".



Taking account of Czechoslovakia's membership of GATT, the five-year agreement contained a programme to reduce quantitative restrictions, but unlike the Hungarian agreement, no deadlines were set. The programme is therefore open-ended in the sense that as long as some concessions are made, then the Community will meet its obligations. A joint commission was to be established to supervise the liberalization of EC quotas as well as to survey the application of the agreement and overall trade relations between the two parties. The agreement also contained a safeguard clause.

For its part Czechoslovakia made a commitment to encourage EC imports by, *inter alia*, providing information about import and investment plans, encouraging closer links between Western businessmen and their Eastern counterparts, and carrying out measures to promote trade such as business fairs.

#### 15/iii. Agreements with Other East European Countries

Romania expressed interest in a follow-up to its 1980 agreement which would also cover agricultural products and contain elements of cooperation. However the Community found the Romanian demands for reductions in quantitative restrictions excessive and was concerned about the large and growing Romanian trade deficit with EC countries. Moreover the Community did not feel that Romania had met the commitment in the 1980 agreement to increase and diversify imports from the EC. In recent years not only have Romanian imports from the EC fallen, but the Community also maintains that the quality of economic information from Romania has deteriorated. The internal political situation in Romania and especially the destruction of villages and the resettlement of the rural population was another source of tension and led the EC to break off negotiations for a new agreement with Romania in March 1989.

Poland and Bulgaria would also like as wide-ranging agreements as possible, and there seems a degree of consensus within the EC to offer more than was given in the Czechoslovak agreement, especially in the case of Poland.

Poland wants to include economic cooperation in the agreement to facilitate the setting up of joint ventures. However the Community maintains that it is still too early to assess how the revised Polish legislation on joint ventures will operate in practice, especially as much of that legislation still remains to be applied due to the conditions of economic uncertainty



prevailing in that country. The level of Polish indebtedness also poses an obstacle to the extension of trade and cooperation.

This is not the case for Bulgaria, which has a relatively low level of indebtedness by East European standards, and which has experienced steady economic growth in recent years. Economic reforms have also been introduced in Bulgaria, though again it is uncertain how far the situation will change in practice.

The Soviet Union is also pressing for an agreement, but has encountered a certain hesitancy on the part of the EC, mainly because of the uncertainty engendered by perestroika. Questions also arise as to whether the Soviet interest in joining GATT will meet with success. The size of the USSR has stimulated EC interest in its importance as a market, but has also led to fears that trade liberalisation could run the risk of EC markets being flooded. The Soviets are requesting reductions in quantitative restrictions, and economic cooperation in virtually all areas of Community competence as they are keen to set up joint ventures on Soviet territory.

As John Maslen reports (1988,p.574), the EC Commission is examining possible areas of cooperation with the Soviet Union. These include: protection of the environment; fishing policy and especially the question of access of EC fishermen to certain Soviet fishing zones for example in the Baltic; energy policy and particularly safety matters following Chernobyl; shipping policy, given the allegations of Soviet dumping by EC shipowners, and scientific cooperation despite the problems this poses for the Cocom lists. Soviet politicians have also expressed interest in cooperation going beyond traditional spheres, for example with regards to fighting illnesses such as cancer and AIDS, and in the prognosis and assessment of modern research and technologies (Haensch Report of the European Parliament, p.35).

The GDR was the last of the East European countries to request an agreement from the Community probably because the special provisions for its relationship with the FRG render an agreement with other EC countries less urgent. The GDR is interested in just a trade agreement without elements of cooperation.

Statements to the effect that the Community is willing to have relations, and even sign a trade agreement with Albania (31) have so far not met with any response, suggesting the continuation of that country's traditional hostility towards the EC.



16. Conclusions:  
Likely Consequences of the 1988 Joint Declaration

There has been much debate about the likely impact of the 1988 agreement. On the one hand there are those who follow the pessimistic view voiced by Pinder (1986) that international agreements have little impact on actual levels of trade and cooperation. According to this view the relatively limited volume of trade between EC and CMEA countries (see Tables 6 and 7) is the result of a number of legal, institutional, political, and economic factors which are unlikely to disappear overnight.

This opinion of the role of government action in trade promotion would seem to be excessively negative. Improved official relations not only enable increased information and understanding, but also influence the climate in which trade and investment decisions are taken. Moreover in dealing with East Europe, Western businessmen still usually have to face foreign trade organisations which occupy a monopoly position, and they find the backing of Western governments useful. Furthermore, both the CMEA and the EC have certain grievances against the other side, and the increased dialogue between the two blocs which seems likely to follow mutual recognition, in particular in the context of the bilateral trade agreements, suggests improved prospects of meeting these grievances. On the one hand in East Europe there has been a widespread feeling that the EC treatment of CMEA members has been discriminatory when compared with that of other third countries. This claim is based the EC use of quantitative restrictions, and its application of anti-dumping machinery in trade with the CMEA, as well as the relegation of East Europeans to a low position in the hierarchy of trade preferences. On the other hand, the EC maintains that because of their economic system CMEA countries often appear unwilling or unable to reciprocate trade concessions granted by the Community, and would like to see the East European countries making concrete commitments to open their markets to EC products. The bilateral trade agreements between the EC and individual East European countries are directly aimed at meeting these grievances. As De Clercq, the then EC Commissioner for external relations, commented, apart from its political importance, the Joint Declaration must be regarded as essentially a medium-term investment (32).

In the longer term the question arises as to whether the Joint Declaration can be regarded as the first step in a process of closer association, if not integration, with East European countries. According to Cutler (1987,p.269), in the Soviet Union there is no



evidence for the view that the agreement marks the beginning of the creation of a united Europe "from the Atlantic to the Urals", but at times in the EC there does seem to have been the vision of Europe as a "genuinely transcontinental entity" (33).

Though it is premature to draw conclusions, especially as the situation is in such a state of flux, it does seem likely that the 1988 agreement will open the way for closer association with at least some of the East European countries individually. The agreement for trade and cooperation with Hungary is often cited as evidence of this, as is the draft agreement, presented by the Soviet Union in Spring 1988 which is said to contain a proposal for free trade between the parties (34). However as various authors argue (Maslen (1988), Matejka (1988)), it is difficult not to conclude that differences in economic systems will prove an insuperable obstacle to the creation of a genuine free trade area.

A related question for speculation is the impact of the joint declaration on the CMEA. Will it lead to a renewal of the integration process within the CMEA (as happened in 1949 and 1971), or will closer links with West Europe encourage some of the smaller East European countries to relax, if not sever their bonds with the CMEA? It seems likely that renewed integration within the CMEA will be attempted, but the reforms in progress appear to have intensified the divergent tendencies within East Europe, reducing the chances of success of such an attempt. In Hungary the possibility of leaving the CMEA and switching allegiance to Brussels has already been voiced. Although such a move seems extremely unlikely, it still seems too early for conclusions about more moderate changes.

As a final note of warning it should be mentioned that old attitudes die hard. As John Maslen (1988, p.564) comments, some East European spokesmen still find it hard to believe that the EC is not directed against anyone, and especially in the GDR anti-EC propaganda continues. However these are minority opinions which run counter to official policy.



## Notes

\* I would especially like to thank Mario Nuti for his support, encouragement and comments, and Emir Lawless and Silvia Paoli for all their help.

This forms part of a much longer, ongoing study of EC-East European economic relations. The research is based on the literature and on interviews with officials concerned with East European affairs. My thanks therefore go to John Maslen, Neville Williams, John Maddison and Franco Campoli of the EC Commission, to Neil Harvey of the British DTI, to Janet West and David Wyatt of the Export Credit Guarantee Department, and to the various people I spoke to at the MAFF. The usual disclaimer about responsibility of course applies.

1) Here only 6 of the European members of the Council for Mutual Economic Assistance (CMEA or Comecon) are considered, namely, the Soviet Union and five of the smaller East European countries (Bulgaria, Czechoslovakia, the GDR, Hungary and Poland). The non-European members of the CMEA (Mongolia, Cuba and Vietnam) are excluded from the discussion as are those countries having only observer status (Angola, Laos, Ethiopia, and North Korea) and Yugoslavia, which only participates in CMEA activities with regards to certain sectors. In general Albania has also been left out because the autarchic policy pursued for many years has meant that trade and economic relations with the EC and its member states have generally been minimal.

Unless otherwise stated, the EC is taken to mean the original six members (Belgium, France, the FRG, Italy, Luxembourg, Italy and the Netherlands) from 1958-73; the Community of 9 (with the addition of Denmark, Ireland and the UK) over the 1973-1980 period; of 10 (including Greece) from 1981-5, and of 12 (with Spain and Portugal) only since 1986.

2) See Marsh (1978) p.26.

3) Bel (1988), Chapman (1986), Chiusano (1985), De Clercq (1981) Friessen (1976), Irmer Report (1982), Marsh (1978), Maslen (1986), Matejka (1988), Pinder (1975), Riishoj (1985), Tosi (1987), Verny (1988) and Wilcznski (1980).

4) Lavigne (1985), Pinder (1986) etc.

5) UN Doc. ST/LEG/SER.D/3 pp.338-9.

6) Groux and Manin (1984)p.20.



- 7) See Marsh (1978) p.27
- 8) The EC objections are also voiced in the Irmer Report of the European Parliament (1982).
- 9) As described in European Report n. 1137 of 5/6/1985.
- 10) As described in the Klepsch Report of the European Parliament (1974).
- 11) See for example Beseler and Williams (1986), Denton (1987), Van Bael and Bellis (1985), Vandoren (1987), and the annual EC Commission Reports on Anti-Dumping Activities.
- 12) In particular Denton (1987) and Patterson (1986).
- 13) See OJ No. C 268 of 22/11/75 pp.18-23.
- 14) House of Commons Trade and Industry Committee (1989), p. XIV.
- 15) The Delorozoy Report p. 15.
- 16) Established by a Council Decision of 27/9/1960.
- 17) 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.
- 18) House of Commons Trade and Industry Committee Second Report (1989), p.xvi.
- 19) House of Commons op. cit. p.xvi.
- 20) These difficulties 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, many perplexities will undoubtedly remain on both sides.
- 21) See Bersch (1985), Schiavone (1985) and Woolcock (1980).
- 22) John Maslen (1984) pp.340-341 describes this debate in more detail.
- 23) House of Commons op. cit. pp. xvi-xvii.



24) See for example Fallenbuchl (1983), Levcik and Skolka (1984), and Zaleski and Wienert (1980).

25) These special provisions are set out in the Treaty of Rome and ensure that internal German trade is not treated like foreign trade. In practice this means that GDR exports to the FRG are not subject to the Community quota or levy system, nor to the levies on agricultural goods coming from third countries. For a more detailed account see Garland (1985) or Tirapolski and Globokar (1984).

26) Irmer Report of the European Parliament (1982), p.15.

27) S.M. Senior Nello (1985).

28) P.1 of the agreement with Hungary (EC Commission (88) 1332 final of 21 Sept. 1988).

29) OJ L 260/76.

30) OJ C 7/7 of 10 Jan. 1988.

31) See for example the debate on the Tzounis report on Albania of 24 October, 1985 reported in Maslen, 1986, p.354.

32) According to Bel (1988) p.316.

33) See for example the Seeler Report of the European Parliament (1986, p.6) which states:

"...the partition of Europe is contrary to the tradition of intellectual, cultural and economic ties between Eastern and Western Europe and contributes to the polarization of world politics into a power struggle between the two superpowers, and the aim of our policy is to overcome this division of Europe..."

34) As reported in Matejka (1988), p.15-16.



Table 1: EC Anti-Dumping Cases Since 1985 Involving East European Countries

<u>Country</u>	1980	1981	1982	1983	1984	1985	1986
Bulgaria	-	1	-	-	2	1	-
Czech.	-	8	5	3	4	1	2
GDR	-	6	6	2	3	2	3
Hungary	1	5	1	1	4	1	-
Poland	-	6	1	1	4	1	-
Romania	-	4	3	3	2	2	1
USSR	1	3	3	3	4	1	1
East Europe total	2	33	19	13	23	9	7
All countries total	25	48	58	38	49	36	24
East Eur. as % all countries	8%	69%	33%	34%	47%	25%	29%

Table 2 Anti-dumping Procedures Initiated against Imports from East Europe since 1985 by Product

<u>Product and Year</u>	<u>Countries Involved</u>	<u>Outcome</u>
<u>1985</u>		
Flat glass	R, B, H, CSSR ( and Yugoslavia)	Undertakings
Acrylic fibres	R	
Portland cement	GDR, P (and Yugoslavia & Spain)	No injury
Deep freezers	GDR, USSR (and Yugoslavia)	Undertakings
<u>1986</u>		
Potassium permanganate	CSSR, GDR (and China)	Undertaking
Polyester fibre	GDR, R (and Turkey and Yugoslavia)	No injury



Table 2 cont'd.

Urea	Cz, GDR, USSR (and other 5 countries)	Undertakings
Ferro-silicon	USSR	Undertaking
<u>1987</u>		
Urea (extension)	R (of 6 countries)	Undertaking
Polyester fibre	R (of 5 countries)	
<u>1988</u>		
Calcium metal	USSR	Still investigating
Welded tubes (iron and steel)	R (and Yugoslavia)	Still investigating
Barium chloride	GDR, CSSR	Still investigating
Methenamine	R, P, H, B, CSSR, (and Yugoslavia)	Still investigating

Source: Elaborations on the basis of information given by the EC Commission.

Table 3: Outcome of Anti-dumping Procedures Involving East European Countries

	1980	1981	1982	1983	1984	1985	1986
No. undertakings	25	3	25	11	16	2	13
Imposition of definitive duties	4	-	3	7	-	-	-
Imposition of provisional duties	3	-	10	10	3	1	3
No dumping	-	1	1	-	-	-	1
No injury	-	-	5	4	-	8	2
Concluded for other reasons	3	-	-	-	1	-	-

Source: Annual Anti-Dumping Reports of the EC Commission



Table 4: Value of EC Imports Subject to Anti-Dumping Measures in 1986

(a) <u>Country</u>	(b) Value of imports subject to anti- dumping measures (1000 ECU's)	(c) total value of imports (1000 ECU's)	(b) as % of (c)
Bulgaria	394	548,836	0.07%
CSSR	21,970	2,107,765	1.04%
GDR	8,125	1,625,728	0.50%
Hungary	10,321	1,887,964	0.50%
Poland	5,215	2,947,278	0.18%
Romania	5,670	2,482,673	0.20%
USSR	9,336	13,157,677	0.07%

Source: Vandoren (1988)

Table 5: Trade Agreements between the EC and CMEA Members

CMEA Partner	Product	Type of Agreement	Duration
Romania	Industrial products	Trade (see text)	1981-
Bulgaria	Sheepmeat + goatmeat	ERA-export quota	1980-
Czech.	"	"	"
GDR	"	"	1987-8
Hungary	"	"	1980-
Poland	"	"	"
Romania	"	"	"
Hungary	Young calves for fattening	"	1988
Poland	"	"	"
Romania	"	"	"
Bulgaria	textiles	VER	1987-90
Czech	"	VER/MFA	1987-91
Hungary	"	"	"



Table 5 cont'd.

Poland	"	"	"
Romania	"	"	"
Bulgaria	steel	ERA-price monitoring system	1987-8
Czech	"	"	"
Hungary	"	VER-	"
Poland	"	ERA-	"
Romania	"	"	"
Soviet Union	Kraftliner and board	" and minimum price undertaking	1983-8
Hungary	industrial products	Trade and cooperation (see text)	1988-98
Czech.	"	Trade	1989- (see text)

Source: An updated version of GATT, Developments in the Trading System October 1987-March 1988, L/6366, 12 August 1988, EC Documentation Service Data Bank

Table 6: EC-East European Trade  
(value in million ECU)

Year	Exports	Imports	Trade Balance
1976	12432	10920	1512
1977	13217	12359	858
1978	13418	12846	572
1979	14673	16134	-1461
1980	16374	19334	-2960
1981	17321	22257	-4936
1982	17298	26354	-9056
1983	20357	28145	-7788
1984	21323	34948	-13625
1985	22505	33122	-10617
1986	20253	25610	-5357

Source: Eurostat



Table 7: The Share of the EC (12) in Total Trade of East European Countries  
(Percentages)

	Exports		Imports	
	CMEA 7	CMEA 6	CMEA 7	CMEA 6
1958	12	13	11	13
1970	15	16	15	17
1980	20	20	17	19
1986	14	15	13	14

Source: Eurostat Foreign Trade Statistical Yearbook, 1987.

Notes: EC 12 countries, including intra-German trade.  
CMEA 7 include: Bulgaria, Czechoslovakia, GDR, Hungary, Poland, Romania and the USSR. CMEA 6 excludes the USSR.



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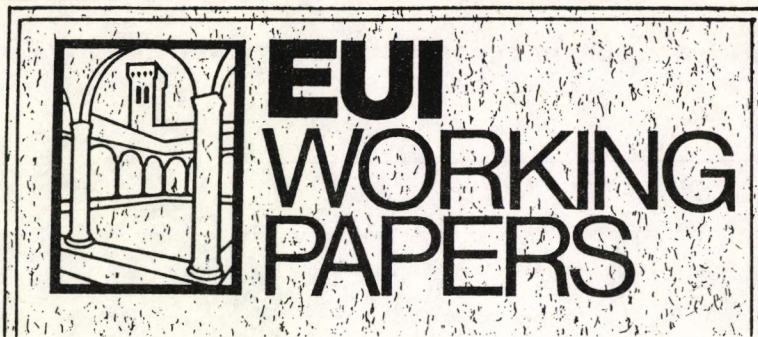
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