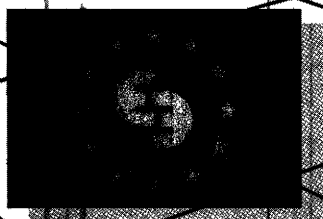


ECONOMIC AND SOCIAL
CONSULTATIVE ASSEMBLY

1993



EC Relations with the Countries of Central and Eastern Europe

Bulgaria and Romania
Baltic States

EUROPEAN
COMMUNITIES



ECONOMIC AND
SOCIAL COMMITTEE

Brussels 1993

EC Relations with the Countries of Central and Eastern Europe

**Bulgaria and Romania
Baltic States**

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PREFACE

In recent years the Economic and Social Committee of the European Communities has issued a number of Opinions on EC relations with the states of central and eastern Europe. Following on from the Committee's initial general Opinion (issued in March 1990), the Council consulted the Committee on the Communication from the EC Commission on the EC and German unification. The Committee adopted its Opinion on this subject in November 1990. In the following year the Committee drew up an Opinion on its own initiative on the Europe Agreements being concluded between the European Community and Poland, Hungary and the former Czechoslovakia.

In the latter Opinion the Committee drew attention to the comprehensive process of political restructuring and renewal which the states of central and eastern Europe had initiated with a view to establishing economies and social systems based on democratic and market principles. These states were also making serious endeavours to liberalize their external trade and were justifiably calling for their integration in the international economy. Against that background the Committee drew attention to the need to seize the historic opportunity to place relations between the European Community and the states of central and eastern Europe on a closer and more dependable footing and to lay the foundations for the "common European house".

The Committee called upon the States which had concluded Europe Agreements with the Community to include the socio-economic groups in the institutional machinery for political dialogue. The Committee proposed setting up an "Advisory Committee for the Association" comprising members of the Economic and Social Committee and members of a corresponding body in the Associated States. The proposed Advisory Committee would be consulted by the Association Council on economic and social issues of general interest covered by the Europe Agreements. The Advisory Committee should also be given a right of initiative in order to enable its members to take up the pressing economic and social issues of pan-European integration and to put forward constructive proposals.

The EC Commission acted on the Committee's proposal and asked it to issue an Opinion on the role of economic and social organizations in the states of central and eastern Europe and on the consultative mechanisms in these states, in the context of relations with the EC. This Opinion was adopted by the Committee in November 1992.

The Committee also drew up at this time an own-initiative Opinion which took its earlier work on the Europe Agreements a stage further by examining the Europe Agreements between the EC and Bulgaria and Romania. This Opinion (Rapporteur : Mr Jens Peter Petersen - Germany) is set out in the present brochure.

In addition, the brochure contains the Opinion adopted by the Committee in March 1993 on relations between the European Community and the Baltic States, for which Mr Petersen was likewise Rapporteur. This own-initiative Opinion calls for further intensification of political, economic and social cooperation between the Community and Estonia, Latvia and Lithuania.

SECOND ADDITIONAL OPINION
of the
Economic and Social Committee
**EC Relations with the Countries of Central and Eastern Europe:
Bulgaria and Romania**

On 30 June 1992 the Economic and Social Committee, acting under the third paragraph of Article 20 of the Rules of Procedure, decided to draw up a Second Additional Opinion on EC Relations with the Countries of Central and Eastern Europe, focusing in this instance on

The European Community's Relations with Bulgaria and Romania.

The Section for External Relations, Trade and Development Policy, which was asked to prepare the Committee's work on the subject, adopted its Opinion on 5 November 1992. The Rapporteur was Mr PETERSEN.

The Section adopted its Opinion in the light of the overall situation and the stage reached in September 1992 in the negotiations between the European Community and Bulgaria on the one hand, and with Romania on the other.

At its 301st Plenary Session (meeting of 25 November 1992) the Economic and Social Committee adopted the following Opinion by a large majority with two votes against:

Summary

The blueprint for Association Agreements presented by the EC Commission at the beginning of 1990 embraces not only the step-by-step creation of a free trade area, the free movement of workers, the liberalization of services, the approximation of legislation and the intensification of economic, social and financial cooperation, but also the institutionalization of political dialogue and cultural cooperation (point 1.8.).

These preferential agreements, termed *Europe Agreements* because of the inclusion of political dialogue, may in principle be concluded with all countries of Eastern Europe for an indefinite period of time. In the case of the Commonwealth of Independent States (CIS) and Georgia, however, a separate approach needs to be adopted on the basis of the European Community's blueprint for partnership and cooperation agreements. The crucial precondition for the conclusion of Europe Agreements is that (a) real progress is being made in the political, social and economic transformations now under way there, and that (b) the point of no return for democracy and the market economy has already been reached. The Committee has appealed to the EC Commission on several occasions to monitor political and economic reforms in each case before launching into specific association discussions (point 1.9.).

In its Opinion on the Europe Agreements concluded with the Visegrad countries (Poland, Hungary and the CSFR) the Economic and Social Committee made an in-depth analysis of the European Community's association blueprint and found it could offer its support. The Committee is pleased that the EC Commission has now also begun association negotiations with *Bulgaria* and *Romania*. The aim of the negotiations is to conclude Europe Agreements which are largely similar in content to those signed on 16 December

1991 with Poland, Hungary and the CSFR. The Committee's critical comments and recommendations concerning the agreements with the Visegrad triangle remain equally valid as far as one can make out for the current Draft Agreements with Bulgaria and Romania (points 2.1. and 2.2.).

The Committee emphatically approves the commitment of the contracting parties to strengthening political and economic freedoms, which constitute the very basis of Association. It also strongly supports their declared intention to act in unison in order to (a) carry forward the construction of a new political and economic order based on the *rule of law, respect for human rights and the rights of minorities*, (b) guarantee a *multi-party system with free, democratic and secret elections* and (c) speed up *the pace of economic liberalization in accordance with the principles of a market economy* (point 2.3.).

The Committee has repeatedly emphasized that, given the social and cultural conditions prevailing in Europe today, an "economic area" which is not at the same time a "social area" is unthinkable. The Committee therefore once more calls upon the Council to refer in the preambles of the Europe Agreements to the *social dimension* of European unification and to mention the *Community Charter of the Fundamental Social Rights of Workers* adopted, albeit not unanimously, by the Heads of State or of Government of the Community in December 1989. The Committee further notes with concern that although advocacy of the principle of "social justice" remains a "Fundamental Element of Association" and is underlined as such in the Europe Agreements with Poland, Hungary and the CSFR, the concept has been dropped in the preambles of the new Agreements (point 2.4.).

With regard to the *EC membership option* incorporated in the preambles of the new Europe Agreements, it will have to be assumed that any future enlargement of the EEC will take place under vastly different circumstances - achievement of the Single Market, Economic and Monetary Union, Foreign and Security Policy, the *Acquis Communautaire*. These will all place considerable demands on potential members - demands which cannot be fulfilled by all applicant countries within a short period of time. The EC Commission should therefore as soon as possible test and flesh out new forms and options for a coherent *EC membership blueprint*. (point 2.5.).

In its Opinion on the Europe Agreements with the Visegrad states, the Committee has already called on the contracting parties to involve economic and social interest groups in the *political dialogue*. It therefore proposes the incorporation of provisions in the new Europe Agreements whereby the Association Council guarantees that economic and social interest groups will be involved in the political dialogue during the first stage of the transitional period. From the second stage this dialogue would take place within the framework of a *Consultative Association Committee* representing economic and social interest groups. Such cooperation would form part of a wide-ranging dialogue between the

economic and social interest groups of the European Community and those of countries in Central and Eastern Europe (points 2.7. and 2.8.).

The Committee approves the inclusion of a provision in the Agreements whereby respect for democratic principles and human rights, as well as adherence to free market principles, are regarded as vital elements of Association. At the same time the Committee also recommends that the safeguarding of basic social rights and the rights of minorities should be regarded as a "vital element of Association". Appropriate measures could be taken if these obligations are not met (point 2.9.).

With regard to the *free movement of goods*, the Committee welcomes the asymmetrical approach, which will help to prop up the difficult restructuring processes in Bulgaria and Romania. In view of the dramatic deterioration in these countries' overall economic performances, the Community should make a serious attempt to shorten the six-year period before it removes all its customs duties on industrial goods, and should try to complete the inevitable liberalization of the markets by an earlier date. Article 110 of the Rome Treaty - which should also be borne in mind from time to time - expressly obliges the Community to press for a liberal trade policy in the common interest. The Committee thinks that this obligation is too frequently neglected (point 2.12.).

As far as *sensitive sectors* - textiles, ECSC products and agriculture are concerned, - the Committee would refer once more to the relevant GATT provisions and the material conditions needed for the creation of free trade areas. The main condition is that customs duties and other trade restrictions on bilateral trade are eliminated "on substantially all the trade". Because of the need to *comply with GATT*, it will not be possible in the long run to exclude any area - not even agriculture - from market liberalization (point 2.15.).

In order not to perturb the Community's *agricultural markets* any further through excessive imports of particularly sensitive products, the Committee would reiterate its proposal that much of the agricultural surplus from Bulgaria and Romania should be exported to other neighbouring Eastern European countries for hard currency. At the same time the agricultural and industrial capacity of Eastern European countries should also be channelled into finding industrial and energy outlets for agricultural products (point 2.27 to 2.29.).

The Committee considers the proposed consultation procedure in established cases of *dumping* to be particularly important. It assumes that the GATT codes will be fully observed. It is acceptable on political grounds to treat the associated countries from the very outset as countries with *functioning market economies*. Objectively, it will not be at all easy for the Commission in future years to make a fair comparison - within the meaning of the EC anti-dumping Regulation - between the export price and "normal value" (point 2.32.).

Free trade arrangements can only be enjoyed if there is concrete proof of the origin of products. The Committee has frequently supported the call of the Eastern European contracting partners for *multilateral cumulation*. The Commission did not accept this call, with the result that the extremely restrictive *rules of origin* laid down in the Interim Agreements with the Visegrad states have proved to be a major obstacle to increased trade. Since only a uniform system for the determination of origin can serve to further the division of labour within Europe, the Committee calls for the EC-EFTA rules of origin currently in force, or the future EEA rules with an alternative percentage criterion, to be inserted into all the Europe Agreements with the countries of Central and Eastern Europe ("pan-European" cumulation) (points 2.33 to 2.35.).

The Committee welcomes the agreements on the *free movement of workers*, but would still like to see agreements covering workers from Eastern partner states who are employed illegally in the Community. The Committee likewise regrets once more that the Commission has not even referred in a protocol to the Community's limited scope for action on freedom of movement in the medium term. In the Committee's view it is high time to ponder in depth the complex and many-layered issue of freedom of movement for workers between the European Community and associated partner states and work out durable solutions, within the framework of a coherent immigration policy, which do not arouse great expectations today only to dash them by tomorrow at the latest (points 2.37. to 2.39.).

The Committee warmly welcomes the Arrangement whereby all *state aid* granted in Bulgaria and Romania is to be scrutinized in terms of the relevant provisions of the EEC Treaty. In addition, *EC aid monitoring* instruments should be incorporated in the Agreements in order to effectively protect competition against distortions caused by state aid, be it granted anywhere in the Community or in Bulgaria and Romania (points 2.25. and 2.47.).

Alignment of the laws of Bulgaria and Romania on those of the Community is an important condition for the economic and social integration of both countries into the European Community. The Committee regrets, however, that no priorities have been set. What firms on both sides need more than anything else is a reliable climate for action and more scope for reorganizing themselves in order to strengthen their competitiveness, find a flexible response to the growing pressures from international firms based outside the Community, and create and permanently safeguard jobs (points 2.48. to 2.50.).

With regard to *economic cooperation* the Committee feels that it would have been much more sensible to have concentrated initially on just one or two key areas where urgent action is needed. The Committee primarily has in mind policy areas such as infrastructure, education and training, and nuclear power (point 2.53.).

In the field of *financial cooperation*, the contracting parties will inevitably need to closely coordinate available funds.

This means that it will be necessary for all spending by, and funding of, Bulgaria and Romania to be continuously monitored and coordinated within the Association Committee; both sides will also have to monitor the situation to ensure that the funds are used efficiently. The Association Council will also have to be regularly informed of the findings. (point 2.62.).

1. Introduction

1.1. Twenty years ago the Heads of State and of Government of the EC Member States affirmed their intention of pursuing a common trade policy vis-à-vis the Eastern Bloc countries from 1 January 1973 onwards and Member States voiced their determination to promote a policy of cooperation with these countries based on the principle of reciprocity¹. 1 January 1973 was an important date since from this time onwards individual Member States were not allowed to either negotiate or conclude bilateral trade agreements with the countries of Central and Eastern Europe. When the bilateral trade agreements signed before 1973 ran out at the end of 1974, the European Community proposed to members of the Council for Mutual Economic Aid that bilateral trade agreements be henceforth concluded with the Community as a whole. With the exception of Romania there was no immediate reaction from the CMEA states. At the beginning of 1976 the CMEA instead submitted a draft framework agreement between the Council for Mutual Economic Aid and the European Community on the principles of mutual relations. In a countermove the Commission presented a paper which clearly reflected the Community's *twin-track approach*, i.e. a policy which encouraged the conclusion of bilateral trade agreements between the Community and individual members of the Council for Mutual Economic Aid to improve the framework for the expansion of trade in visibles and services. The idea was also to forge working links between the two bodies in order to discuss general matters.

1.2. In adopting this approach the European Community could be certain of the support of the smaller Central and Eastern European countries which, through bilateral agreements with the Community, were thus given the opportunity to escape at least partly from the dominant political and economic influence of the Soviet Union. However, *Romania* was the only country which was able to seize this opportunity. At the end of 1980 the Community signed two agreements with Romania which not only facilitated the access of a large number of Romanian products to the Common Market, but also provided for the establishment of a Joint Committee with the task of continuously monitoring trade developments and the smooth functioning of existing agreements.

1.3. Many attempts have been made to explain why Romania was able to go it alone in relations with the European Community. However, what cannot be denied is that in foreign policy areas Romania did not go beyond the limits set by the Soviet Union. It is equally true to say that for histo-

rical and political reasons Romania was once more playing its own distinct role in the community of Eastern European states. By mid-1958 Soviet troops had withdrawn whilst the firmly established regime of communist terror was turning Romania into one of the most reliable fraternal countries of the Soviet Union. This was also one of the main reasons why Romania was able to introduce some temporary liberalization under the cloak of socialism, whereas progress in this area was unknown to other members of the CMEA². The many and varied contacts with Western governments were also a factor, as was the liberalization which tended to manifest itself in the Romanian economy. The decision taken by the Government in Bucharest not to take part in the crushing of the Prague spring was an aspect of foreign policy which should not be underestimated. This temporary liberalization - which was presumably also a political manoeuvre for the benefit of the West - was immediately rewarded by the Western world. In 1972 Romania was the sole CMEA state allowed to become a member of the International Monetary Fund (IMF) and the World Bank. Furthermore, at the beginning of 1974, Romania was included among the countries granted unilateral preferential treatment by the European Economic Community in its scheme to help developing countries.

1.4. Since the trade agreement of 1980 was relatively limited, the Community recommended in the mid 1980s that its trade policy section be expanded, e.g. by improving the access of Romanian agricultural products to Community markets and by intensifying industrial and scientific cooperation. Negotiations began in 1987 but had to be suspended in April 1989 when widespread human rights abuses in Romania hit the headlines and Securitate was turning into a prop of the political absolutism of the dictator Ceaucescu. Even the obligations stemming from the trade agreement of 1980 were no longer respected. Finally, the Community decided on 20 December 1989, under the influence of the bloody massacre in Temesvar, to temporarily freeze the trade agreement. Only two days later the collapse of the Ceaucescu dictatorship opened the way to freedom for the Romanian people. Diplomatic relations with the Community were resumed at the end of March 1990 and the Council charged the EC Commission with the task of negotiating a trade and cooperation agreement. This was signed on 22 October 1990. Further human rights abuses nevertheless delayed the approval of the European Parliament so that the agreement only came into force on 1 May 1991.

1.5. The signing of the Joint Declaration on the establishment of official relations between the European Community and the Council for Mutual Economic Aid was a milestone in the long-overdue normalization of relations between the EEC and other CMEA countries, including *Bulgaria*. In this Declaration both negotiating partners committed themselves to developing cooperation in areas

¹ Bull. EC 10-1972

² H. Vastag, G. Mandics and M. Englemann: "Temesvar, Symbol of Freedom", Vienna/Munich 1992

of mutual interest and within their respective terms of reference³. This finally put an end to the CMEA's repeated call for an EC/CMEA umbrella. Under the terms of the Joint Declaration each CMEA country decides individually on the establishment of diplomatic relations and trade talks with the Community. At its meeting in Rhodes (December 1988) the European Council said that it welcomed the readiness of the European members of the CMEA to develop relations with the European Community and reaffirmed its willingness to further economic relations and cooperation with them, taking into account each country's specific situation, in order to be able to use the opportunities in a mutually beneficial way.

1.6. Only a few weeks after the signing of the Joint Declaration, the European Community established diplomatic relations with six of the European Member States of the CMEA. On 24 September 1990 a ten-year agreement was signed with Bulgaria on trade as well as on commercial and economic cooperation. This agreement came into force on 1 November 1990. In addition, the Community extended its Generalized System of Preferences to include Bulgaria from 1 January 1991, and quotas on imports from Bulgaria were either abolished or suspended.

1.7. The Committee is convinced that the establishment of diplomatic relations and the conclusion of *trade and cooperation agreements* are the cornerstone of the process of political and economic integration, strengthening interstate dialogue and deepening European political cooperation. With these agreements the Community possesses a useful instrument which not only permits many different types of short-term aid to Eastern European countries but also contributes, in the medium term, to the economic underpinning of the process of transformation and renewal now under way in these countries.

1.8. There is no doubt that *first generation agreements* have also been important milestones in paving the way for the next stage in the process of pan-European rapprochement, namely the raising of cooperation with Central and Eastern European countries to an even higher qualitative level. In reality, what is at stake is the transition from cooperation to association. The blueprint for Association Agreements presented by the EC Commission at the beginning of 1990 embraces not only the step-by-step creation of a free trade area, the free movement of workers, the liberalization of services, the approximation of legislation and the intensification of economic, social and financial cooperation, but also the institutionalization of political dialogue and cultural cooperation.

1.9. These preferential agreements, termed *Europe Agreements* because of the inclusion of political dialogue, may in principle be concluded with all countries of Eastern Europe for an indefinite period of time. In the case of the Commonwealth of Independent States (CIS) and Georgia, however, a separate approach needs to be adopted on the basis of the European Community's blueprint for partnership and cooperation agreements. The crucial precondition for the conclusion of Europe Agreements with these coun-

tries, however, is that (a) real progress is being made in the political, social and economic transformations now under way there, and that (b) the point of no return for democracy and the market economy has already been reached. The Committee has appealed to the EC Commission on several occasions to monitor political and economic reforms in each case before launching into specific association discussions. The Committee likewise assumes that its Eastern European negotiating partners will have stable, democratic and legitimate governments.

2. Europe Agreements with Bulgaria and Romania

2.1. In its Opinion on the Europe Agreements with the Visegrad countries, the Economic and Social Committee makes an in-depth analysis of the European Community's association blueprint and welcomes it on the grounds that it is likely, by virtue of the principles set out therein, to secure and further the establishment of wider political, economic and social relations between the European Community and the EC's neighbours in Eastern Europe⁴. Only an active association policy can gradually remove the economic and social imbalances between the Community and its negotiating partners. This task has become all the more urgent as the moral energy of people who first paved the way for democracy in those Eastern European countries now undergoing reform is likely - given the conditions experienced in every-day life in the post-communist era - to be rapidly eroded by (a) half-hearted reforms, (b) the collapse of existing foreign trade relations, (c) economic contraction, (d) high inflation, and (e) growing unemployment⁵. The European Community is urged to offer these countries realistic prospects and also convince them that they cannot afford to stand on the sidelines.

2.2. The Committee is pleased that in May of this year the EC Commission began association negotiations with Bulgaria and Romania. The aim of the negotiations is to conclude Europe Agreements which are largely similar in content to those signed on 16 December 1991 with Poland, Hungary and the CSFR. The Committee's critical comments and recommendations concerning the agreements with the Visegrad triangle remain equally valid as far as one can make out for the Draft Agreements with Bulgaria and Romania. Since, pending the entry into force of the Agreements, provisions on trade and trade-related matters will be implemented first under Interim Agreements, the Committee will also comment on the experiences with such Interim Agreements at the appropriate time.

³ 7214/88 (Press 103)

⁴ OJ No. C 339/12 of 31 December 1991

⁵ K.A. Koerber in: "After socialism. How are the new democracies in Europe to proceed in the future?" (Minutes of the 93rd Bergedorf Discussion Group on questions relating to a free industrial society). Berlin, 13/14 July 1991

Preamble

2.3. The Committee emphatically approves the willingness of the contracting parties to contribute to the strengthening of political and economic freedoms, which constitute the very basis of Association. It strongly supports their declared intention to act in unison in order to (a) carry forward the construction of a new political and economic order based on the *rule of law, respect for human rights and the rights of minorities*, (b) guarantee a *multi-party system with free, democratic (and secret) elections*, and (c) speed up the *pace of economic liberalization in accordance with the principles of a market economy*. Particularly worth noticing is the explicit undertaking of the contracting parties to abide by their CSCE commitments, more especially in respect of the full implementation of the principles and provisions contained in the Final Act of the Helsinki Conference, the concluding documents of subsequent meetings in Vienna and Madrid, the Charter of Paris for a new Europe, and the European Energy Charter.

2.4. The Committee has repeatedly emphasized that, given the social and cultural conditions prevailing in Europe today, an "economic area" which is not at the same time a "social area" is unthinkable. The Committee therefore once more calls upon the Council to refer in the preambles of the Europe Agreements to the *social dimension* of European unification and to mention the *Community Charter of the Fundamental Social Rights of Workers* adopted, albeit not unanimously, by the Heads of State or of Government of the Community in December 1989. What is the point - the Committee wonders - of having a detailed protocol on social policy in the Draft Treaty on European Union, including a statement that eleven Member States "wish to continue along the path laid down in the 1989 Social Charter", if the preambles of Europe Agreements do not even mention the Community Charter of the Fundamental Social Rights of Workers? The Committee further notes with concern that although advocacy of the principle of "social justice" remains a "fundamental element of association" and is underlined as such in the Europe Agreements with Poland, Hungary and the CSFR, the concept has been dropped in the preambles of the new Agreements. Has the European Community not come recently increasingly under the influence of advisors who have long been disturbed by the fact that "Western economic systems have had to make concessions to social needs - the establishment of a welfare state, help for the poor, the provision of public services, cooperation with trade unions, attempts to distribute incomes fairly, and the economic, financial and social responsibility of the state for the functioning of the economic system as a whole"⁶ via the creation of an appropriate framework and a sound general climate? A clarification by the Council on this point would seem to be called for, not least because the European Council emphasized at the end of its meeting in June 1991 "the need to strengthen the Community social dimension in the context of political union and economic and monetary union"⁷.

2.5. At some future time Bulgaria and Romania will seek, like the Visegrad countries, to join the European Commu-

nity. The Committee supports the contracting parties of Eastern Europe in their desire to incorporate in the preambles of their Europe Agreements the *EC membership option*. At the same time the Committee shares the view of the Council and EC Commission that the dynamic and evolutive structures of Europe Agreements should be used to achieve closer partnership with these countries and so systematically prepare the way for entry. At the same time it must be assumed that any future enlargement of the EEC will, as the EC Commission makes clear in its report on Europe and the Problems of Enlargement, take place under vastly different circumstances - achievement of the Single Market, Economic and Monetary Union, Foreign and Security Policy, the *Acquis Communautaire*. These will all place considerable demands on potential members - demands which cannot be fulfilled by all applicant countries within a short period of time. The EC Commission should therefore draw up as rapidly as possible a coherent *EC membership blueprint*, testing and fleshing out new forms and options which are (a) based on the existing architecture of European organizations and (b) create a European political area⁸.

Political dialogue

2.6. The Europe Agreements form the institutional framework for a political dialogue which is intended to accompany and consolidate the rapprochement between the European Community and the associated partners. As a platform for an exchange of views on urgent bilateral and multilateral problems it establishes new relations based on solidarity and creates new forms of cooperation between the contracting parties. At ministerial level the political dialogue takes place in the *Association Council*, at parliamentary level in the *Parliamentary Association Committee*.

2.7. The ESC has always seen political dialogue as pointing the way towards pan-European integration. In the present phase of wider European and multilateral cooperation and increasingly complex political and economic processes, reciprocal information and consultation play a decisive role for both political decision-makers and social groups. In its Opinion on the Europe Agreements with Poland, Hungary and the CSFR, the Committee called on the contracting parties to involve the economic and social interest groups in the political dialogue. These groups are a vital element in a pluralistic society and pillars of Europe's social and political life. The more the social groups speak to each other, the more fruitful will be their contribution to the political dialogue.

⁶ J.K. Galbraith, Ein Rezept namens Kapitalismus (A recipe by the name of capitalism). In Die Zeit, No. 44 of 26 October 1990

⁷ SN/151/2/91

⁸ Report of the EC Commission "Europe and the Problems of Enlargement" (Appended to the conclusions of the European Council of 27/27 June 1992). SN/3321/1/92

2.8. The Committee therefore proposes that two further Articles be inserted in the Europe Agreements under Title I ("Political Dialogue"), reading as follows:

"Article ...

The Association Council shall guarantee that economic and social interest groups will be involved in the political dialogue during the first stage of the transitional period. From the second stage this dialogue will take place within the framework of a Consultative Association Committee representing economic and social interest groups.

Article ...

Protocol No. 1 concerns the cooperation of the economic and social interest groups.⁹

General principles

2.9. The treaties now include the provision that respect for democratic principles and human rights, as enshrined in the Helsinki Final Acts and the Charter of Paris for a New Europe, as well as adherence to free market principles, are vital elements of Association. In consequence, appropriate measures could be taken if these obligations are not met. The Committee regrets, however, that there is no longer any possibility of resorting to Article 60 of the Vienna Agreement on Treaty Law, as originally provided for. The Committee urges at the same time that the protection of basic social rights be regarded as an "element of association". The same holds good for the rights of minorities: in the view of the Committee these are inalienable rights and likewise constitute a vital element of Association. Finally, it should not be forgotten that minorities are human beings and not expendable by-products of the vicissitudes of history¹⁰. The Committee furthermore assumes that this new provision - the result of recent experience with Yugoslavia - will also apply to future Europe Agreements.

2.10. The Committee sees problems in that part of the draft Agreement according to which the Association Council will meet in the course of the twelve months before expiry of the first stage to discuss - against the background of the experience acquired since the entry into force of the Agreement - the transition to the second stage and any amendments to current implementing provisions. The intention is unreservedly welcomed, but the passage is worded too generally and could act as a block on decisions regarding trans-frontier cooperation between firms. Necessary investment decisions might then be deferred until the overall economic climate had settled down.

Free movement of goods

2.11. The aim in the field of trade policy is to phase in a free-trade area over a period of no more than ten years. As was already the case with the Visegrad states, the European Community will introduce free trade before Bulgaria and Romania do. The Community is to abolish customs

duties and quota restrictions on industrial goods within six years. Special rules are to apply once again for textiles, ECSC products and agricultural products. Bulgaria and Romania will probably need to use the whole of the ten-year transitional period to liberalize trade at their end. However, if the overall economic situation and developments in particular sectors allow, customs duties affecting trade with the European Community will be lowered before the agreed date.

2.12. The Committee welcomes this asymmetrical approach, which will help to prop up the difficult restructuring processes in Bulgaria and Romania. In view of the dramatic deterioration in these countries' overall economic performances, the Community should make a serious attempt to shorten the six-year period before it removes all its customs duties on imported industrial goods, and should try to speed up the inevitable liberalization of the markets. Article 110 of the Rome Treaty - which should also be borne in mind from time to time - expressly obliges the Community to press for a liberal trade policy in the common interest. The Committee thinks that this obligation is too frequently neglected. Whenever this happens, the necessary restructuring fails to materialize and the Community loses political credibility.

2.13. Bulgaria and Romania will be able to introduce temporary derogations in the form of higher customs duties for fledgling industries and sectors in the throes of restructuring or facing other difficulties, e.g. serious social problems. The Committee endorses these derogations, but trusts that they will not become the rule; the way they are worded leaves them open to interpretation. The Association Council should also make sure that the five-year limit is strictly observed in each individual case and that all derogations will cease to apply by the end of the transitional period at the latest.

2.14. Once again the Committee would urge that the Community's partners in Eastern Europe be obliged to take over the Combined Nomenclature in full by a specific date so that trade can flow smoothly. The customs and foreign trade authorities in Bulgaria and Romania must also be reorganized. The technical assistance which the Community has promised should be provided forthwith. In addition, the Community should take advantage of the vast experience of Community trade associations and firms and ask for their active support.

⁹ *Protocol No. 1 concerning the cooperation of the economic and social interest groups.*

The contracting parties are agreed that this dialogue shall form part of a more wide-reaching dialogue embracing the economic and social interest groups of the European Community and those of the Central and Eastern European countries

¹⁰ F. Elbe in: *Zwischen Integration und nationaler Eigenständigkeit: wie findet Europa zusammen? Minutes of the 93rd Bergedorfer Discussion Group on questions relating to a free industrial society.* Tallium, 30/31 May 1992

2.15. *Sensitive sectors* - textiles, ECSC products and agriculture - are dealt with separately in additional protocols; the content of these protocols was not known with certainty at the time of this Opinion's drafting. It is to be assumed that the provisions are based in part on the provisions contained in the Europe agreements with Poland, Hungary and the CSFR. The Committee would refer once more at this point to the relevant GATT provisions and the material conditions needed for the creation of free trade areas. The main condition is that customs duties and other trade restrictions on bilateral trade are eliminated in both directions "on substantially all the trade" (GATT Article XXIV 8b). Because of the need to *comply with GATT*, it will not be possible in the long run to exclude any area - not even agriculture - from market liberalization.

2.16. The Community's customs duties on *textile products* are to be phased out in the same way as in the other Europe Agreements. This means that there will be complete freedom from customs duties in the seventh year after the preferential agreements come into force. Bulgaria and Romania will abolish their customs duties by the end of the ten-year transitional period in accordance with a timetable which has still to be laid down. A special safeguard clause has been agreed stating that account will be taken of the transitional arrangements still to be negotiated in the GATT Uruguay Round for textiles and clothing.

2.17. The Committee would urge the EC Commission to bear in mind that the Generalized Tariff Preferences already granted to Bulgaria and Romania are to be terminated before the entry into force of the Interim Agreements. The removal of these preferences must not, however, put these countries in a worse position retroactively (as happened with the Visegrad states). The Committee believes that it would be a piece of trading nonsense if Bulgarian and Romanian textile and clothing exports to the Community, for example, were in future subject to the planned phased reduction of customs duties whereas previously they were totally exempt. Such action would clearly impede both countries' exports and would hardly be commensurate with the Community's much vaunted market liberalization policy. Nor would it accord with the Commission's original assurance that the Conclusion of Europe Agreements would under no circumstances lead to a deterioration of the status quo.

2.18. The *outward processing* of knitted and woven clothing products is to be free from customs duties once the trading agreements come into force. This is to be welcomed. However, the Commission considers that freedom from customs duties is to apply only to outward processing traffic subject to quotas, and this is to be criticized. The outward processing of quota-free clothing products, on the other hand, will be subject to the phasing out of customs duties. There is no convincing reason, the Committee believes, why products subject to quotas should be treated any differently from products not subject to quotas. It would be more correct to extend the freedom from customs duties, as soon as the textile protocols enter into force, to all outwardly processed knitted and woven clothing products.

2.19. The steps to be taken to liberalize *ECSC products* will be dealt with in a second additional protocol.

2.20. In the *steel sector* the parties are also to apply a step-by-step approach. The Community will probably abolish customs duties completely within five years. Bulgaria and Romania will require the ten-year transitional period to abolish their customs duties, with the timetables adopted for their phasing-out likely to depend on the sensitivity of ECSC steel products. The quota restrictions on ECSC steel imports and measures of similar effect will be lifted - as in the case of the agreements with Poland, Hungary and the CSFR - when the steel protocols come into force. Judging from what the Commission says in its industrial policy blueprint, "an open approach requires that the rules of the game be respected by all trading partners since the Community's economy will become more sensitive to such practices in line with its even greater openness"¹¹.

2.21. In view of our two Eastern European partners' crude steel capacities - 15 million tonnes per year in the case of Romania and 5 million tonnes per year in the case of Bulgaria - the Committee endorses the Commission's plan to make it clear during negotiations that both countries' steel exports to the Community must develop smoothly and not upset the Community market. The steel industries in the countries of Eastern Europe have considerable problems selling products because of the collapse of their domestic markets and other markets in Eastern Europe. They will therefore attempt to offset this at all cost by increasing their exports elsewhere and especially to the Community.

2.22. The removal of national import quotas with the entry into force of the Interim Agreements has in the case of Poland and the CSFR already produced serious disturbances on the Community market. In the first half of 1992, for example, the CSFR more than doubled its exports of ECSC rolled steel products to the Federal Republic of Germany compared with the same period the previous year. In Poland's case there was an approximately 90% increase. It is the EC steel industry's view that these growth rates can only be achieved by fixing low prices which undercut the market prices by almost 25% (weighted average). The exports of some steel products to the Community have taken on such proportions that, at the insistence of France, Italy and the Federal Republic of Germany, the Commission has been forced to introduce measures to protect against imports of hot-rolled wide strip, light sheet and wire rod from the CSFR¹². Further protective measures are being advocated by the EC steel industry in the meantime.

2.23. In order to avoid the recurrence of serious disturbances on the steel market once the agreements are signed with Bulgaria and Romania, the EC steel industry - with the backing of the Spanish Government - has suggested that Community steel imports from both countries be restricted

¹¹ COM(90) 556 final

¹² OJ No. L 238/26 of 21 August 1992

during a transitional period to past levels. The transitional period is defined in this instance as the period during which the Bulgarian and Romanian steel industries continue to receive restructuring aid from the state. Once restructuring has been completed, the steel firms have been privatized and a ban on state aid has been introduced in accordance with ECSC law, the markets should be completely liberalized. So far the European Community has apparently not been willing to take up this proposal. Instead, it is contemplating a "safeguard clause" which will remain in force as long as Bulgaria's and Romania's iron and steel industries receive restructuring aid from the state. The purpose of this provision is to ensure that Bulgaria and Romania respect the special sensitivity of the Community's steel market. The Committee supports the Commission's proposal because it satisfies the Community's multilateral obligations better than a voluntary restraint clause. However, it is assumed that, in the event of the agreed rules on competition being violated and the markets being seriously disturbed, the Commission will be free to introduce and enforce suitable quota restrictions straightaway.

2.24. In the *coal sector* Community customs duties are set to fall more rapidly than in the steel sector. The phasing out of these duties is in fact to be completed four years after the agreements' entry into force. Bulgaria and Romania will abolish their duties by the end of the transitional period. Quota restrictions on imports are in principle to be lifted by the Community within one year. There are, however, to be four-year derogations for certain products and regions. Bulgaria and Romania themselves will once again have only lifted their quota restrictions at the end of the ten-year transitional period.

2.25. The Committee considers the *joint protocol provisions for ECSC products* to be particularly important. The obligations here are similar to those contained in the Treaties with Poland, Hungary and the CSFR. The Committee's main concern is the state aid question. Because it is harmful to trade between the Community and its associated partners, state aid is incompatible with the orderly functioning of the agreements. The Committee calls on the Commission to make full use of available machinery in the Association Council in order to effectively protect competition against distortions caused by state aid, be it granted anywhere in the Community or in Bulgaria and Romania.

2.26. Trade in *processed agricultural products* which do not come under Annex II to the EEC Treaty will be dealt with in a third additional protocol. Not much was known about these arrangements when this Opinion was drafted, but they will contain provisions on the dismantling of customs duties and charges of equivalent effect, plus provisions about quota restrictions. Concessions based on balance and reciprocity will be granted for *trade in agricultural products*, and in particular goods coming under Chapters 1 to 24 of the Combined Nomenclature and the customs tariff of the associated countries. However, these concessions will apply only to products in which there has been regular large-scale trade in recent years.

2.27. Bulgaria and Romania have huge potential in the field of agricultural production and this potential will increase considerably once the reforms start to take effect in agriculture, too. Both countries will make a great effort to substantially boost their agricultural exports to the Community, even in the case of those products which come under EC agricultural market regimes. The Committee agrees with the Commission that the Association Council should continually examine the possibilities for further concessions on all goods on the basis of reciprocity. These concessions should depend on the particular sensitivity of products, the Community's CAP provisions, the importance of agriculture for the associated countries and the likely outcome of the GATT Uruguay Round. For many years now the Community has had to contend with structural surpluses in agricultural markets and, despite the step-by-step reform agreed on in May 1992, it is doubtful whether these serious difficulties can be eliminated for the moment. It would therefore be disastrous to exacerbate the situation on the Community's agricultural market by excessive imports of particularly sensitive products. At the time of drawing up this Opinion there are differences of opinion between the contracting parties on import quotas for beef and sheepmeat just as there are apparently major problems in fixing preferential quotas for plums and cherries, wine and tobacco.

2.28. In view of this tense situation, the Committee would reiterate a proposal made in its Opinion on the Europe agreements with Poland, Hungary and the CSFR, namely that much of the agricultural surplus should be exported to other neighbouring Eastern European countries for hard currency. There will be a heavy demand for agricultural imports in these countries - including most certainly the Commonwealth of Independent States (CIS) - for some time yet. The Community and the "Group of 24" should provide funds specifically for this purpose in their aid programmes for Bulgaria and Romania. This aid, which should also help to support economic reform in both countries, should be granted over a period of several years.

2.29. Just over two years ago the Committee pointed out that the economic and social changes in Central and Eastern European countries would also have a significant impact on the Community's agricultural markets. Hence the Committee's recommendation in its Opinion at the time that the EC Commission should immediately frame proposals which would help to channel Eastern Europe's agricultural and industrial capacity "into both traditional food production and industrial and energy outlets for agricultural products"¹³. The Committee believes that the Europe Agreements provide a suitable framework for successfully transforming such proposals into reality in the associated countries.

¹³ OJ No. C 124/51 of 21 May 1990

2.30. Furthermore, the Committee still thinks it would make sense to hold consultations with Bulgaria and Romania in the Association Council on a set-aside and extensification programme that would stabilize agricultural production and improve the rural environment. This programme should also receive financial support from the Community within the limits of the funds available. The set-aside should primarily be for heavily contaminated land which has to be taken out of agricultural production because food could not be grown on it anywhere in any country.

2.31. To help create a free-trade area, the Europe Agreements contain a series of *flanking measures* which apply to all trade in goods, except as otherwise provided by the General Conditions or Additional Protocols 1-3. These include standstill agreements, consultations in the case of dumping, safeguard clauses, State monopolies, non-discrimination and dispute settlement. Preferential rules of origin are set out in an additional protocol; a further protocol lays down special arrangements for trade between the associated countries and Spain and Portugal. The Committee welcomes the package of measures which will help, above all during the transitional period, to eliminate disturbances to trade in goods between the Community and the two associated countries.

2.32. The Committee considers the proposed consultation procedure in established cases of *dumping* to be particularly relevant. It assumes that the GATT anti-dumping and anti-subsidy codes will be fully observed. At the same time the associated countries of Eastern Europe should give an assurance at a suitable point in the Agreements that they intend to comply unconditionally with EC subsidy discipline, subject to the agreed derogations. Treating the associated countries from the outset as countries with functioning market economies is - in spite of the lack of clarification - acceptable on political grounds and constitutes a valuable incentive for rapid progress with the economic reform process. Objectively, it will not be at all easy for the Commission in future years to make a fair comparison - within the meaning of the EC anti-dumping Regulation - between the export price and "normal value".

2.33. Free trade arrangements can only be enjoyed if there is concrete *proof of the origin of products* (proof of preference). In its Opinion on the Europe Agreements with Poland, Hungary and the CSFR, the Committee supported their call for *multilateral cumulation*. The Commission did not accept this call, with the result that the extremely restrictive rules of origin laid down in the Interim Agreements have proved to be a major obstacle to increased trade. This is an enormous qualification of the European Community's concession of allowing the Visegrad countries duty-free access to the markets of the twelve EC Member States for nearly all industrial products from the entry into force of the trade part of the Europe Agreements.

2.34. Although the Protocol on preferential rules of origin appended to the Europe Agreements with Bulgaria and Romania is not yet available, references in related documents suggest that the Commission has in mind the same

restrictive origin rules as in the other Europe Agreements. For as long as diagonal cumulation among all countries associated by means of the Europe Agreements cannot be applied to the further processing of goods, processing can take place in no more than two countries without loss of the existing originating status. Such restrictive rules are to be found neither in the EC-EFTA free-trade agreement nor in the rules negotiated for the purposes of the EEA Agreement. These new rules of origin - which are expected to apply from 1 January 1993 - are in certain respects even more liberal than the EC-EFTA rules of origin currently in force, as set out in Protocol 3 to the free-trade Agreement.

2.35. The Committee finds it extremely difficult to understand the reasoning behind the Commission's position. The Commission must realize that only a uniform system for the determination of origin can serve the division of labour within Europe, into which the associated countries of Eastern Europe are to be integrated. The Committee therefore calls for the EC-EFTA rules of origin currently in force, or better the future EEA rules with an alternative percentage criterion, to be inserted into all the Europe Agreements with the countries of Central and Eastern Europe ("pan-European" cumulation).

Free movement of workers, the right of establishment and freedom to provide services

2.36. In addition to free movement of goods, the basic freedoms pursued by the European unification process are above all freedom of movement for workers, the right of establishment and freedom to provide services. These have paramount economic importance and are of great symbolic value.

2.37. For the contracting partners, *free movement of workers* concerns primarily the integration of workers legally employed on the territory of the other contracting party and their family members legally resident there. At the same time social security systems for these persons should be coordinated. Existing facilities which the EC Member States provide under bilateral agreements should where possible be improved and extended. The Committee warmly welcomes the agreements but would still like to see agreements covering workers from Eastern European countries who are employed illegally in the Community.

2.38. The Committee, which has discussed migration from third countries in a number of Opinions¹⁴, calls for legally resident immigrants in the Community to be given their full place in the "Citizens' Europe". Steps should be taken to ensure that Community rights and obligations affecting residence, employment and mobility also apply without

¹⁴ OJ No. C 343 of 24 December 1984; OJ No. C 188 of 29 July 1985; OJ No. C 159 of 17 June 1991; OJ No. C 339 of 31 December 1991; OJ No. C 40 of 17 February 1992

restriction to this category. At the same time, the Committee has called upon the EC Member States and the Commission to bring about Community-wide harmonization of legal provisions, instruments and measures necessary for the social integration of immigrants without significant delay. In addition, conditions should at last be laid down under which immigrants from third countries can enjoy freedom of movement within the Community on an equal footing with Community citizens. The Committee believes that this is the only way of removing discrimination, ensuring a properly functioning Single Market and achieving the aim of creating a unified Community labour market.

2.39. In the second stage of the transitional period, if not earlier, the Association Council will try and find further ways and means of improving the "rights of workers" to move freely across borders, whilst taking into consideration the economic and social conditions prevailing in the associated states just as much as the employment situation in the Community. The Committee again regrets that the Commission has not even referred in a protocol to the Community's limited scope for action on freedom of movement in the medium term. The evidence suggests that the Community labour market will have no significant need of additional labour from third countries for the time being since the Community's rate of unemployment is not likely to fall to any appreciable extent in the next few years; on the other hand, concessions in existing agreements (Turkey) already limit immigration possibilities for job seekers. Finally it should not be forgotten that the provisions which have come in for criticism turn up again in all agreements: they are to be found in the Europe Agreement with Poland, Hungary and the CSFR, are now being inserted into the agreements with Bulgaria and Romania and - for reasons of equal treatment - will also have to be included in future Europe Agreements. In view of the considerable job shedding in Eastern European countries as a result of reform, pressure on the Community labour market will increase sharply in the medium term. Which job-seekers from which partner states will then be given priority by the Community? Even a quota scheme offers no satisfactory solution here. Whoever "lays down quotas for individual groups or countries which lets in some and turns away others deals with basically equal circumstances in an unequal way. Equal treatment of equal circumstances, however, is the foundation of a constitutional state and its guarantee of the rule of law"¹⁵. In the Committee's view it is high time to ponder in depth the complex and many-layered issue of freedom of movement for workers between the European Community and associated partner states and work out durable solutions, within the framework of a coherent immigration policy, which do not arouse great expectations today only to dash them by tomorrow at the latest.

2.40. As regards the *right of establishment*, the Member States believe that as soon as the Europe Agreements come into force, businesses and nationals in the associated states should be subject to the same conditions as the EC's own enterprises and citizens. Bulgaria and Romania will do this right away, except in certain sectors where there will be

equal treatment by the end of the ten-year transitional period at the latest. Derogations will be possible in individual industries in Bulgaria and Romania in order to deal with the constraints of structural adjustment or other serious difficulties, including major social problems. However, these measures must terminate two years after the end of the first stage. Protective measures will also be possible in cases where businesses in a given industry or sector of the economy are forced to accept a "dramatic" loss of their domestic market shares.

2.41. The Committee broadly endorses these Arrangements. The right of establishment will facilitate the transition to a market system and help to create a modern, competitive economy in the associated states. The Committee also appreciates the need for temporary protective measures in exceptional situations. At the same time, "dramatic" reductions in domestic market shares can hardly justify protectionism. Such a policy will not boost the competitiveness of domestic industries and will only put off the necessary structural adjustments to a possibly more difficult future, when they may cause even more pain. In addition, the Committee still thinks that this passage should be discussed once more with the contracting parties and worded in more concrete terms; in particular the "relevant" market variables and the notion of market shares should be defined clearly.

2.42. The Committee approves the phased and reciprocal liberalization of *services*. In view of the increasing worldwide significance of services markets, the importance of liberalization in this area can hardly be overestimated. The Committee is pleased that both contracting parties wish to incorporate the results of the GATT Uruguay Round - which aims to establish a multilateral framework of principles and rules governing service transactions - into the Europe Agreements at the appropriate time.

2.43. Special provisions are planned for cross-frontier transport services: in international maritime traffic the prevailing principle will be unrestricted market access. Rights and duties under the UN Code of Conduct for Liner Conferences will remain unchanged. In air and land transport mutual market access will be regulated in transport agreements worked out between the partner states after the Europe Agreements come into force. At the same time Bulgaria and Romania want to bring their air and land transport legislation, including administrative, technical and other provisions, generally into line with Community rules during the Agreements' transitional phase.

Capital movements, competition and approximation of laws

2.44. As the Committee said in its Opinion on the Europe Agreements with the Visegrad states, the advantages of a liberalized goods and services sector from the standpoint of

¹⁵ H. Afheldt, Europa vor dem Ansturm der Armen (Europe before the onslaught of the poor), Süddeutsche Zeitung No. 234 of 10 October 1992

location and specialization can only be fully exploited if the free movement of capital across frontiers is guaranteed. The *free movement of capital* will create favourable conditions for monetary cooperation and reinforce stabilization efforts. The Committee supports all agreements which are designed to increase the free movement of capital between the Community and its partners in Eastern Europe. It is pleased that the contracting parties have undertaken to guarantee, from the entry into force of the Agreements, free movement of capital in connection with direct investments, their liquidation and the repatriation of any profits. In addition, the conditions for the gradual application of Community laws on free capital movements will be created during the first five-year period of the Agreements; at the end of this period the Association Council will consider the possibilities of adopting the relevant Community provisions in full.

2.45. The provisions in the new draft Europe Agreements on competition, public procurement and state aid are similar to those to be found in the Europe Agreements already concluded with Poland, Hungary and the CSFR. The new provisions nevertheless include a safeguard clause in the event of balance-of-payments difficulties. The Committee supports in principle these Arrangements. *Competition* is a central pillar of the Common Market: without competition there can be no guarantee that the advantages of the Single Market will be advantageously exploited; without competition the process of pan-European integration would be seriously flawed. From the very outset Bulgaria and Romania should therefore align their national competition laws as closely as possible on those of the European Community. The Committee also wonders whether the adoption of implementing provisions on competition rules will really require three years after the entry into force of the Agreements.

2.46. We would underline the contracting parties' conviction that the *opening up of public procurement* on the basis of non-discrimination and reciprocity, particular in a GATT context, is an objective well worth pursuing. The liberalization of public procurement in all areas is a centrepiece of the Single Market programme and has great importance from an industrial policy point of view. The European economy - as the EC Commission and Committee have pointed out on several occasions - will not move closer together unless the tendency to favour "national champions" when awarding public contracts is abandoned once and for all.

2.47. The Committee expressly welcomes the Arrangement whereby all *state aid* granted in Bulgaria and Romania during the first stage of the transitional period is to be scrutinized in terms of Article 92(3)(a) of the EEC Treaty. It would also have been useful if the new Europe Agreements had stipulated the need to *review national aid* in accordance with Article 93 of the EEC Treaty. The Committee believes that the requirement to produce an annual report on the total volume and distribution of the aid given does not go far enough. As has already been made clear elsewhere, the Association Council should, in the case of

Bulgaria and Romania, be in a position where it can effectively bring into play all EC aid monitoring instruments.

2.48. The contracting parties recognize that *alignment of the laws* of Bulgaria and Romania on those of the Community is an important condition for the economic and social integration of both countries into the European Community. As the Section for Industry pointed out in its Opinion on European industrial policy¹⁶, what firms on both sides need more than anything else is a "reliable climate for action and more scope for reorganizing themselves in order to strengthen their competitiveness, find a flexible response to the growing pressures from international firms based outside the Community, and create and permanently safeguard jobs".

2.49. The Committee agrees wholeheartedly with the EC Commission that legislative harmonization is a colossal task involving a great variety of provisions which can only be adjusted gradually. These include customs law, company law, banking law, company accounts and taxes, intellectual property, protection of workers at the workplace, financial services, rules on competition, protection of the health and life of humans, animals and plants, consumer protection, indirect taxation, technical rules and standards, nuclear law and regulation, transport and the environment. Both Bulgaria and Romania have already given an assurance that their legislative provisions will be gradually aligned on those of the Community.

2.50. The Committee regrets once more the failure of the draft Agreements to fix priorities. Although the two-stage plan applies equally to the approximation of legislation, there is no actual indication as to which provisions are to be approximated during the first stage and which will need the full ten-year transitional period before they can be aligned on Community legislation. For example, on ecological and competition grounds, the Committee regards it as essential for Bulgaria and Romania to transpose Community legislation on the environment, competition and subsidies during the first transitional stage. Similarly, legislative and administrative provisions on nuclear technologies should be approximated rapidly and the safety provisions laid down in the EURATOM Treaty adopted without delay. Finally, action is imperative in the field of worker protection at the workplace and in connection with certain consumer protection directives (e.g. on product liability). Now the Community has entered into an agreement to provide Bulgaria and Romania with technical assistance in approximating legislation, it should be possible to set priorities and push through much of the legislation during the first stage.

Economic cooperation

2.51. The European Community and its two associated partners wish to strengthen and deepen economic cooperation, putting it on a wide basis. Cooperation should go well

¹⁶ OJ No. C 40/31 of 17 February 1992

beyond the limits laid down by trade and cooperation agreements. It should also promote social development in the associated countries, whilst particular attention should be paid to measures which further cooperation between the countries of Central and Eastern Europe in the interests of harmoniously developing the whole region. The aim of joint activities is finally to support economic development in Bulgaria and Romania and make it easier for these two countries to become an integral part of the international division of labour.

2.52. The draft Europe Agreements with Bulgaria and Romania, like those concluded with the Visegrad states, mention a large number of different areas where both parties intend to intensify cooperation and accelerate development: industrial cooperation, the promotion and protection of investment, industrial standards and conformity assessment, cooperation in science and technology, vocational training, agriculture and the agro-industrial sector, energy and nuclear safety, the environment, transport, telecommunications, banking and insurance, monetary policy, money laundering, regional development, social cooperation, tourism, small and medium-sized enterprises, customs, statistics, drugs and public administration. All areas of cooperation are further divided into concrete fields of action.

2.53. The sheer variety of the areas of cooperation is impressive and deserves to be endorsed. Nevertheless, the Committee harbours serious doubts (as already in the case of the Visegrad states) as to whether common projects can be executed in all these areas within a reasonable period of time. Neither the manpower nor the financial resources of Community institutions would seem to be sufficient to ensure satisfactory coverage of the whole range of activities. Nor should it be forgotten that there are now five Eastern European partner states with which wide-ranging cooperation has been agreed. The Committee feels that it would have been much more sensible to have concentrated initially on just one or two key areas where urgent action is needed. The Committee is particularly interested in "high-cost" priorities with a cross-border dimension where the Community and its associated partners, or also actual firms of EC Member States, need to act as locomotives. Here the Committee principally has in mind policy areas such as infrastructure, education and training, and nuclear energy.

2.54. In the field of basic public infrastructure, the establishment and development of an *infrastructure* network geared to actual needs is an important prerequisite of successful structural reorganization. This will require an investment policy capable of meeting higher quality requirements and the demands of a competitive, market-oriented economy. Such an approach implies that infrastructure investment in Bulgaria and Romania today should be seen and evaluated in a European-wide context.

2.55. The second priority for joint action by the contracting parties should be *education and training* since workers' training will play a key role in the economic reform and

renewal process. The principal shortcoming is the lack of appropriate knowledge and experience regarding the operation of market-oriented systems and the use of modern production, information and communication techniques. There are also shortcomings of a non-technical nature since autonomy, initiative and creativity were not required in a centrally-planned economy.

2.56. The third major objective is to increase *nuclear power-plant safety*. In particular, the first generation of Soviet-designed pressurized water reactors (VVER 440/230) presents serious safety problems. A call to take them out of service was made a long time ago. Four of these reactor units are located in Kosloduj (Bulgaria); two of them were shut down by the Bulgarian Government in 1991. Several incidents in recent months nevertheless show that considerable safety risks are still being taken in Kosloduj. Measures to improve the safety levels of reactors must therefore be taken immediately. The Committee is pleased that the G-24 states have in the meantime approved the multilateral action programme of the Munich summit for improving the safety of nuclear power plants in Eastern Europe, and have shown their willingness to implement the programme without delay. The EC Commission should also resolutely carry out its own studies under the PHARE programme so that the findings can be evaluated as soon as possible with a view to the retrofitting of nuclear power plants in Eastern Europe.

2.57. The Committee would underline the assurance given by the contracting partners to develop and strengthen cooperation in the *field of the environment*. The Committee emphatically supports the declared intention of fully taking into account the environmental impact of all economic measures from the very outset. As the Committee has already made clear in a number of different Opinions, environmental policy should be preventive and cooperative in kind and should be carefully coordinated with other policies such as regional policy or research and development policy. As a pan-European issue, environmental policy should be seen as a cross-frontier challenge which cannot be tackled by individual countries acting in isolation.

2.58. Areas of top priority in environmental cooperation include water management and the protection of water quality, especially in cases where waterways cross frontiers. This is why a protocol should be appended to the Europe Agreement with Bulgaria containing concrete provisions designed to protect and ensure the water quality of international waterways (Danube, Nestos, Strimon, Evros and the Black Sea). The Committee considers that priority should be given to developing a system for monitoring and controlling the quality and quantity of cross-frontier waterways and that the relevant provisions should be written into the additional protocol with Bulgaria. The system should include appropriate measures:

- to lower the pollution levels of cross-frontier waterways;
- to provide early warnings of floods and dangerous levels of pollution;

- to tackle soil erosion caused by varying rates of water flow;
- to promote the rational and fair utilization of water resources;
- to protect flora and fauna in the deltas of cross-frontier waterways, as well as in neighbouring areas.

To finance the necessary measures, the contracting partners should propose acceptable solutions within the framework of financial cooperation.

Financial cooperation

2.59. The challenge of structural adjustment in Bulgaria and Romania and the task of creating a competitive economy cannot be successfully tackled without effective outside assistance. All new democracies in Central and Eastern Europe require funds in hard currency; their need for financial support has grown steadily since the beginning of the economic reform movement.

2.60. The temporary financial aid granted by the Community consists of a combination of loans and non-repayable grants. The draft Agreements stipulate that the PHARE programme is to continue until the end of 1992, operating within the context of financial cooperation. Thereafter, Community grants and loans from the European Investment Bank (EIB) are to be provided on a multi-annual basis within the framework of PHARE or under a new financing mechanism.

2.61. The Committee endorses the EC's approach and agrees that Community aid can only be reasonably contemplated on the basis of a plan extending over a number of years. Initially, at least, this period should last no more than three to five years and should form an integral part of the first stage of the transitional period provided for under the Europe Agreements. In the case of macroeconomic loans from the EIB, aid will be determined in the light of needs, priorities, the absorption capacity of the economy, the ability to repay, and the progress made by Bulgaria and Romania towards a market economy system.

2.62. Funds will inevitably have to be closely coordinated. This means that it will be necessary to coordinate Community funding, including bilateral assistance, with financial aid given to Bulgaria and Romania by other OECD countries or by international financial institutions (International Monetary Fund, World Bank and the European Bank for Reconstruction and Redevelopment). All funding and spending should be continuously monitored and should be coordinated within the Association Committee; both sides should also monitor the situation to ensure that the funds are used efficiently. The Association Council should also be regularly informed of the findings.

Institutional, general and final provisions

2.63. Within the framework of the political dialogue, the Committee has called upon the contracting parties to set up at some time in the future a *Consultative Association Com-*

mittee in addition to the Association Council and the Parliamentary Association Committee. It therefore follows that the institutional provisions set out under Title IX of the draft Europe Agreements will have to be amended in two places. First of all a third paragraph needs to be added to Article 108 (Bulgaria)/Article 111 (Romania) dealing with the setting up of special committees or working groups by the Association Council. The new paragraph would read as follows:

Article 108(3)/Article 111(3)

"During the first transitional stage (Article 7) of the Agreement the Economic and Social Committee of the European Community shall organize, under the aegis of the Association Council, dialogue and cooperation between the economic and social interest groups of the European Community and those of Bulgaria/Romania. Regular meetings shall be held for that purpose."

An additional Article setting out the duties and composition of the Consultative Association Committee also needs to be included under Title IX. In the view of the Economic and Social Committee this Article should read as follows:

Article ...

"A Consultative Association Committee of economic and social interest groups of the European Community and of Bulgaria/Romania shall be set up at the beginning of the second transitional stage of the Agreement (Article 7). It shall comprise an equal number of members of the Economic and Social Committee of the European Community and of representatives of economic and social organizations in Bulgaria/Romania.

The Consultative Association Committee shall further develop dialogue and cooperation between the economic and social interest groups of the European Community and those of Bulgaria/Romania.

Within the framework of this cooperation, fundamental questions regarding the participation of Bulgaria/Romania in the process of European integration, the establishment of a new political and economic order in Bulgaria/Romania, and other aspects of cooperation within the Europe Agreement, shall be discussed.

The Consultative Association Committee shall have its own Rules of Procedure and shall express its views in the form of reports and opinions."

2.64. The latest EC Commission information suggests that the contracting partners might be receptive to the Committee's proposals on the involvement of social interest groups in the political dialogue. In a joint declaration Romania and the European Community have agreed that "the Association Council is to examine, in the light of Article 111 of the Agreement, the setting up of a consultative mechanism consisting of members of the Economic and Social Committee of the European Communities and their counterparts in Romania". Incorporating a similar passage in the Europe

Agreement with Bulgaria cannot be ruled out. The Committee welcomes the joint declaration and considers it to be a first step in the right direction. The Committee at the same time assumes that similar declarations can subsequently be agreed and included in the Europe Agreements with Poland, Hungary and the CSFR respectively.

2.65. The Europe Agreements have to be ratified by the Parliaments of the states concerned. This means that there will be some delay before their entry into force. However, to ensure that trade relations continue to develop further without interruption, the European Community and the Visegrad states have concluded *Interim Agreements on trade and trade-related matters*. Similar interim agreements will also be concluded with Bulgaria and Romania and could enter into force as early as the spring of 1993. The Committee considers that this approach is right and necessary. Nevertheless, the EC Commission should take steps in future - and also put pressure on the EC Member States - to ensure that trade between the Community and the asso-

ciated states is not unnecessarily hindered by technical hitches as has been the case with the Interim Agreements with the Visegrad states. We would illustrate these shortcomings with three examples:

- The Interim Agreements with Poland, Hungary and the CSFR came into de facto force on 1 March 1992 but the relevant legal provisions were only published in the Official Journal of the European Communities on 30 April 1992. During this interval most imports could only be cleared after the deposit of a guarantee.
- When the trade sections of the Europe Agreements came into force, the rates at which customs duties were to be reduced were known but not the basis on which this was to be done. Even the embassies of the Visegrad states were unable to come up with watertight answers.
- The situation was made worse by the fact that the knowledge of the customs officers responsible for handling the goods was sometimes very poor since there had been too little time to train them properly.

OPINION
of the
Economic and Social Committee
Relations between the European Community and the Baltic States

On 7 February 1992 the Economic and Social Committee decided, in accordance with the fourth paragraph of Article 20 of its Rules of Procedure, to draw up an Opinion on

EC Relations with the Baltic States.

The Section for External Relations, Trade and Development Policy which was responsible for preparing the Committee's work on this subject, adopted its Opinion on 11 March 1993. The Rapporteur was Mr PETERSEN.

At its 304th Plenary Session (meeting of 25 March 1993), the Economic and Social Committee adopted the following Opinion, with no votes against and two abstentions:

Preliminary Remark

The Economic and Social Committee has considered the question of reform processes in central and eastern Europe on a number of occasions in the last few years. Its most recent, detailed assessment was set out in the two Additional Opinions on the Europe Agreements with Poland, Hungary, the former Czech and Slovak Federal Republic and Bulgaria and Romania¹. The present Own-initiative Opinion examines the restructuring and renewal processes in the Baltic States, with particular reference to further consolidation of their political, economic and social relations with the European Community. The Committee's observations are for the most part based on the information available in early 1993.

Summary

Although the relatively small economies of Estonia, Latvia and Lithuania do not have the market potential of most of the former Soviet Republics, they play an important role, particularly in view of their geographical position, as a bridge between East and West. (1.1.)

The development and consolidation of democratic structures and the reciprocal opening-up of markets are fundamental requirements for closer cooperation with the Community's eastern neighbours. In view of the increasing world-wide economic interdependence, and the growing complexity of political and economic processes - in fields such as the maintenance of peace, environmental issues, nuclear energy and genetic engineering, to name but a few examples - international cooperation and coordination based on mutual trust are the most important requirements of all. (3.1.)

The question of the complete withdrawal from the Baltic States of the military forces of the former Soviet Union remains unresolved. In spite of the appeal by the Heads of State or Government at the 18th World Economic Summit in Munich, the demand made at the CSCE Summit in Helsinki and intense bilateral negotiations, a breakthrough has yet to be achieved on this thorny issue. In the Committee's view, the stationing of foreign military forces in the Baltic Republics continues to constitute a grave impediment to the transformation processes which have been set in train. The

Committee calls upon the Community to offer its services as a mediator with a view to resolving this intractable problem (1.7./1.9.)

The Committee considers that there is a considerable need to eliminate economic and social imbalances between eastern and western Europe. The Baltic States are far from being able to master these challenges by themselves; only if they receive effective outside assistance will they succeed. (3.2.)

The three Baltic economies are currently going through the most difficult phase of the process of transformation from a centrally-planned to a market economy. Although the old system has largely collapsed, the new system can only come into effect gradually. As a consequence the Baltic States are experiencing downturns in economic growth to an extent which could scarcely have been foreseen, persistent high inflation, growing unemployment and declining levels of real income. (2.3.)

The Committee underlines the need to include a "social dimension" in the formulation and implementation of economic policy for the switch-over to a market economy. Economic, financial and social policies cannot be conducted in isolation from each other; market-orientated and socially-orientated measures must always be pursued in tandem. (2.4.)

The *trade and cooperation agreements* are an important step towards closer relations with the Baltic States. However, in the final analysis the trade agreements merely consolidate the de facto provisions applied to imports from all GATT countries. Seen in this light, the agreements are of no major trade value to the Baltic States. (3.8.)

The earliest possible conclusion of *Europe Agreements* with the Baltic States was first advocated by the Committee some months ago. For both political and economic reasons, the Community must form closer links with these States and embed them in pan-European structures. The Committee firmly supports the intention of the Danish Presidency not only to implement the trade and cooperation agreements without delay but also to expand relations with the Baltic States on the basis of agreements as soon as possible. This is, of course, conditional upon these States (a) reaching the "point of no return" on the road towards democracy and the market economy and (b) pressing on successfully with the processes of political, social and economic renewal. (3.9.)

The Committee unreservedly endorses the need for consolidation of the political and economic freedoms which are at the heart of association. It is also essential that a joint

¹ OJ No. C 339 of 31 December 1991, page 44 et seq. and OJ No. C 19 of 25 January 1993, page 74 et seq. The Committee also refers in this context to its Opinion on economic and social organizations in the countries of central and eastern Europe - consultative mechanisms (OJ No. C 19 of 25 January 1993, page 114 et seq.)

declaration of intent be made stipulating that: the process of establishing a new state and economic order will be based on *recognition of the rule of law, respect for human rights and the rights of minorities; multi-party electoral systems with free and democratic voting (based on the secret ballot)* will be introduced; the Governments will press ahead with *economic liberalization* based on the principles of the market economy; and that a policy of *social justice* will be pursued. (4.2.)

The Committee firmly stresses the need for the preamble to the Europe Agreements to include provision for the *social dimension* of the movement towards European unification and to make reference to the *EC Charter on Basic Social Rights for Workers*, adopted by 11 Member States at the European Council in Strasbourg in December 1989. Of fundamental importance in this context is the establishment of relations between employers and employees as independent "social partners", whilst maintaining the role and the responsibility of the public authorities. (4.3.)

The preamble to the Europe Agreements with the three Baltic States should, like the Association Agreements already negotiated with eastern European countries, make reference to the *possibility of accession* to the EC. (4.4.)

In the Committee's view, *political dialogue* is the key element in the Europe Agreements. The Committee firmly believes that the dialogue with the Baltic States has not progressed as well as the difficult political and economic situation in these States demands. The Committee reiterates its proposal that provision be made in an additional article of the Treaty - and not just in a joint declaration by the contracting parties to the Treaty - for participation by the economic and social interest groups in the dialogue in the Association Council; the Committee also reiterates its proposal that an "Advisory Committee for the Association" be established following a transitional period. (3.8./4.5./4.7.)

New provisions in the most recent Europe Agreements stipulate that respect for democratic principles and human rights and the continued implementation of market economy reforms are *fundamental to the Association*. The Committee unreservedly welcomes this addition to the Association Agreements but calls for inclusion in future of the further stipulation that the *safeguarding of basic social rights and respect for the rights of minorities* should also be regarded as fundamental to Association. Members of minority groups should also be given specifically targeted assistance, e.g. financial assistance in respect of conferences, language courses and teaching material (4.8.)

The Europe Agreements provide for the phased establishment of a *free trade zone* within ten years. Under the provisions of the Agreements, the European Community agrees to introduce free trade earlier than with the Associated States of eastern Europe. The Committee endorses this asymmetrical approach, but also calls upon the European Community to grant extensive access to its market for indus-

trial products as soon as the Association Agreement comes into effect. (4.9.)

The Committee fully appreciates the need for *exceptions* in sectors in which the Community has major structural adaptation problems. They must, however, be kept to a minimum. The Community is committed to ensure its free trade agreements are consistent with GATT which means that duties and other restrictive measures affecting bilateral trade have to be dismantled virtually across the board within a specified period. (4.11.)

The Committee has set out its views on several occasions on the *supporting measures* designed to facilitate the establishment of a free trade area and has constantly expressed support in principle for the proposed package of measures. (4.13.) The Committee attaches particular importance to consultation once *cases of dumping* have been identified and calls once again for GATT codes (on anti-dumping measures and subsidies) to be observed in their entirety. Associated States in eastern Europe should also enter into a binding commitment to respect EC rules on subsidies unreservedly. (4.13.1.)

The Committee is critical of the (very restrictive) *rules of origin* set out in the trade provisions of the Europe Agreements. In the light of the division of labour in Europe, it is essential to have a uniform set of rules of origin which will apply to the EFTA States as well as associated central and eastern Europe states. The Committee therefore urges that the European Economic Area (EEA) provisions, together with an alternative percentage-based criterion, be incorporated in all the Europe Agreements ("pan-European" cumulation). (4.13.3.)

The Committee endorses the integration in the EC of legally employed *workers from eastern Europe* but, in view of the continuing difficult employment situation in the Community, it expresses concern about easing cross-frontier access to jobs too quickly. It is also necessary to address the problem of undeclared workers which - despite the criticism of the Committee - is not mentioned by any of the current Europe Agreements. In the final analysis, what is needed is a convincing concept of the cross-frontier labour market which opens up realistic prospects for the central and east European parties to the Agreements. (4.14.)

With regard to the agreements on the *right of establishment*, the Committee underscores its view that freedom of establishment will promote the transition to a market economy and help to ensure that the economies of the partner countries of eastern and central Europe are modern and competitive. The Committee is, however, sceptical about possible protective measures for firms in the partner countries which suffer a "drastic" loss of their share of their home markets. (4.15.)

In the light of the macro-economic importance of *services and trade in services*, the objective of phased, mutual liberalization of trade in services should be resolutely pursued (e.g. in the Agreements with the Baltic States). (4.16.)

It would be unrealistic to ask the Baltic States, in the course of the association negotiations, to produce a concrete programme for the *liberalization of capital flows*, giving firm dates for the full liberalization of the various categories of financial transactions. Instead, the Committee considers that at the end of the first transition stage the Association Councils should take up the issue of liberalization once again and discuss further individual steps. (4.17.2.)

The Committee expects the *competition provisions* of Association Agreements with the Baltic States to be likewise based on Articles 85, 86 and 92 of the EEC Treaty. It is essential that there should be a clear provision on the transparency of state aids. In this connection, the Committee repeats its recommendation that the Agreements should include the *state aid controls* set out in Article 93 of the EEC Treaty. In future, state aids should not artificially preserve antiquated structures, but should promote structural adjustment and further the establishment of new industrial structures. (4.18.)

The Committee has repeatedly called for the introduction of binding provisions stipulating which legal and administrative provisions of the Associated States should first be *adjusted to Community law*. The Committee is pleased to note that the Commission, too, is finally ready to consider the idea of setting priorities. The list of priorities should include environmental law and the protection of workers at the workplace, in addition to customs law, competition law and the law on intellectual property. Lithuania must also undertake to apply the EURATOM safety provisions to its nuclear power plant in Ignalina forthwith (4.19.)

As regards *economic cooperation*, the Committee has well-founded doubts as to whether the EC bodies will be in a position to initiate convincing measures in all the listed fields within a specified period of time. The Committee therefore calls for priorities to be established in this field, too. An important prerequisite for the realization of the structural adjustment processes is the establishment and development of infrastructure which matches demand. The Committee also proposes that consideration be given to how tasks are to be allocated between the EC Member States and the EC Commission. The wide variety of advisory assistance provided by the EC Member States, the Nordic States and the EC Commission should be collated, as soon as possible, at EC level and a coordinating committee should be set up to coordinate the assistance. (4.21./4.22.)

Turning to the field of *financial cooperation*, the Committee would draw attention, once again, to the need to ensure that all aid is continuously monitored - both when it is allocated and while it is being spent - and coordinated. The aid should be monitored on the basis of binding criteria. When aid is granted attention must also be paid to ensuring that (a) civil rights are respected in the beneficiary state in accordance with international practice, and (b) that minorities are afforded a status which reflects the need for political and social stability and "good neighbourly relations". (4.2.5./4.2.6.)

1. The road to independence

1.1. Whilst the relatively small economies of Estonia, Latvia and Lithuania do not have the market potential of most of the former Soviet Republics, they nevertheless play an important role, particularly in view of their geographical position, as a bridge between East and West. The Baltic States have traditionally had close cultural, economic and social links with the states of northern and western Europe and are pre-destined to play a pivotal role in the development of closer relations between East and West.

1.2. The western world has followed, with considerable sympathy and concern, the struggle over the decades by the Baltic States for the right of self-determination - as embodied in the UN Charter and the Final Act of the Helsinki Convention - and independence. The Baltic States succeeded after the first World War in freeing themselves from Russian sovereignty. A peace treaty was signed between Estonia and Soviet Russia in February 1920 and the Treaties with Lithuania and Latvia were signed in mid-July 1920 and at the beginning of August 1920, respectively. All three Republics became members of the League of Nations and therefore obtained international recognition. It was, however, extremely difficult for these newly established states to consolidate their internal political situation. Although the new constitutions provided for pluralist parliamentary democracies, unfavourable initial circumstances, both political and economic, impeded the establishment of internal structures. The fragmentation of political parties made it difficult to reach majority decisions, led to frequent changes of governments and ultimately created conditions conducive to the emergence of anti-democratic forces. Gross infringements of civil rights and the rights of minorities and abuses of power inevitably accompanied these developments and it was only a matter of time before parliamentary democracy was replaced by dictatorships. In December 1926 there was a military coup in Lithuania, whilst democratic government came to an end in Estonia and Latvia around the middle of 1934. The Baltic States' hard won independence was also lost just a few years later. The demise of Baltic independence was ushered in by the ill-famed Non-Aggression Pact between Hitler and Stalin (23 August 1939). A secret protocol to the Pact stipulated that Estonia and Latvia would form part of the sphere of interest of the Soviet Union and two subsequent supplements made the same stipulation in respect of Lithuania and Eastern Poland. A bitter consequence of this agreement was the occupation by the Red Army of the Baltic States in the summer of 1940 and the overthrow of their governments. German troops occupied the Baltic States only a few weeks after the outbreak of the war between Germany and the Soviet Union, and remained there until the reconquest by the Red Army in the autumn of 1944.

1.3. Although the Baltic States never considered themselves to be part of the Soviet Union, half a century was to elapse before they were to regain their independence. "Perestroika" and "Glasnost" played an extremely important political role in this context as they made it possible to

formulate principles of genuine democracy in the USSR and establish a new political scene. In 1986, the "Helsinki 86" group was set up in Latvia; the group based its political demands on the Final Act of the Helsinki Convention. These demands included the re-establishment of the independence of the Baltic States, the introduction of genuine democratic processes and unconditional respect for human rights. Just two years later popular front movements were set up in all three Baltic States - Sajudis in Lithuania, the Tautas Front in Latvia and Rahvarinne in Estonia. In May 1989 the parliaments of these three "organizations of the people" set up the "Baltic Assembly", the central political objective of which was to achieve "self-determination and independence for the Baltic States within a neutral, demilitarized zone in Europe". On 16 November 1988 Estonia adopted its declaration of sovereignty. Lithuania and Latvia followed suit on 18 May and 28 July 1989 respectively. It should be noted that parts of the Communist Party broke away from the Communist Party of the Soviet Union at an early stage and set up independent parties which also played an active role in the popular front movements.

1.4. To mark the 50th anniversary of the Hitler-Stalin Pact on 23 August 1989, the popular front organizations in the Baltic States organized the formation of a human chain stretching uninterrupted from Tallin via Riga to Vilnius. Over a million people took part in this demonstration demanding the restoration of the sovereignty of the Baltic States. Shortly afterwards, on 11 March 1990, the High Council of Lithuania declared the country's independence. At the end of March 1990 the High Council of Estonia announced that the country would become independent following a transitional period and on 4 May 1990 Latvia followed suit. These declarations provoked bitter resistance in Moscow and led inevitably to economic sanctions and military escalation. The European Council rightly expressed its "deep concern" at the continued acts of intimidation and violence which had recently occurred. The European Council urged the Soviet authorities "to put a stop to all such acts and activities"².

1.5. Finally, on 12 September 1990, when the Treaty on the Reunification of Germany was signed in Moscow, the Baltic States appealed to the great powers to take up the issue of the re-establishment of their independence. "This is by no means merely an internal matter for the Soviet Union. It is an international issue which must be resolved in international bodies ... There is no question of building the 'common European house' as long as the three Baltic States remain occupied ... Every nation has the right to determine its destiny. To use a graphic term, the nations of the world must never be regarded as trade goods"³.

1.6. In early 1991 the population of the Baltic States voted decisively in three referenda for withdrawal from the Soviet Union. The people encouraged their governments to continue along the road to independence and to place the Baltic question on the international stage. Formal recognition of the three republics by the western states did, however, take time. It was only on 27 August 1991, after the failure

of the Moscow coup d'état, that the twelve EC Member States recognized the Baltic States. The EC Member States at the same time affirmed their intention to enter into diplomatic relations with the three Baltic States forthwith. Some days later the USA followed the example set by the EC Member States. The long-awaited endorsement of the Soviet Union was also given at the same time. The independence of Estonia, Latvia and Lithuania was approved in a decree by President Gorbachov, the Congress of People's Deputies and the Council of State.

1.7. The question of the complete withdrawal from the Baltic States of the military forces of the former Soviet Union remains unresolved. In spite of intense bilateral negotiations, a breakthrough has yet to be achieved in this thorny issue. At the 18th World Economic Summit in Munich, the Heads of State and Government called for a swift agreement to be reached in the current negotiations on a timetable for the withdrawal of troops⁴. This appeal had no perceptible effect. The CSCE Summit in Helsinki also called upon the states involved "to conclude, without delay, appropriate bilateral agreements, including timetables for the early, orderly, and complete withdrawal of ... foreign troops from the territories of the Baltic States"⁵. This appeal, too, has so far met with little success.

1.8. A few weeks after the CSCE Summit, Russia set out its views on further troop withdrawals in a nine-point programme which endeavoured to provide a "package solution". The demands ranged from participation in the costs of rehousing returning soldiers to social security provisions for retired officers and their families living in the Baltic States, real protection for Russian minorities and renunciation of territorial claims. It was also emphasized that a number of strategic bases in the Baltic States, such as Skrunda and Liepaja in Latvia and Paldiski in Estonia, would have to remain in Russian hands for the moment. The bilateral negotiations suffered a further set-back at the end of October 1992 when the Russian President ordered a halt to troop withdrawals from the Baltic States. A number of official explanations were given for this decision, the main one being the accusation that the civil and basic rights of the Russian minorities in the three Baltic States were constantly being infringed. With an eye to the Congress of People's Deputies, internal political reasons also probably played an important role here; postponement of the troop withdrawal was fully in accordance with the wishes of public opinion in Russia. From the external political viewpoint the decision taken by the Russian President may have represented a test designed primarily to gauge how serious were the declarations on that subject made by the West at conferences such as those in Munich or Helsinki. The angry reactions which greeted the President's order caused Russia to lose no time

² European Council SN/151/2/91

³ Quotation from: K Ludwig, *Das Baltikum: Estland, Lettland, Litauen*, 2nd revised edition - Munich: Beck, 1992

⁴ Economic Summit in Munich. Meeting of the seven Heads of State or Government from 6 to 8 July 1992. Chairman's declaration of 7 July 1992

⁵ CSC Helsinki Summit Declaration of 10 July 1992

in issuing conciliatory declarations that the principle of troop withdrawal remained intact and there was no intention whatsoever of establishing a link between troop withdrawals and alleged infringements of human rights.

1.9. In the Committee's view the stationing of military forces from the former Soviet Union in the Baltic States continues to constitute a grave impediment to the transformation processes which have been set in train. The Committee firmly believes that, as part of the measures to provide financial support for Russia, a specific fund should be set up without delay to help fund the withdrawal of Russian forces, thereby removing one of the fundamental impediments to the complete withdrawal of the forces. One possible course of action, which would be in accordance with the motion carried in the American Senate in July last year, would be to make the provision of economic assistance to Russia, after a transitional period, contingent upon clear progress being made in the withdrawal of foreign forces from the Baltic States. The EC should also indicate its unconditional readiness to act as a mediator with regard to this thorny problem in order to consolidate the establishment of the new democracies and to remove a potential political threat.

2. Macroeconomic trends

2.1. In its most recent macroeconomic assessment of central and eastern Europe, the OECD reaches a number of very different findings⁶. In some states, such as Hungary, Poland and the former Czech and Slovak Federal Republic, there are increasing signs that the contraction process has come to a halt and the inflation rate is declining. The macroeconomic stabilization process is proving to be more difficult in Bulgaria and Romania. The republics of the former Soviet Union are trailing way behind, since the conditions for a successful stabilization policy do not yet exist in these countries. The lack of clarity as to the extent and pace of market-economy reforms, economic policy vacillation and attempts by the former "Nomenclatura" and - not least those employed in the state combines - to hold back reforms are causing tension and uncertainty and making any attempt to quantify macroeconomic trends a speculative exercise. The only conclusion which can be realistically made is that in 1993 output is continuing to decline, unemployment is increasing, inflation in a number of republics is continuing to rocket and the Russian rouble is continuing to depreciate.

2.2. The poor economic situation in the rest of the former Soviet Union has a damaging effect on the economies of the Baltic States, since for decades they were politically and economically integrated with the Soviet Union and derived over 60% of their national income from trade with it. The Baltic States imported commodities, energy and chemical raw materials at favourable prices from other Soviet Republics and exported machinery, food and consumer goods to them in exchange. The application of world-market prices has brought about a clear deterioration in the terms of trade of the Baltic States; imported commodities

and energy have increased in price, whereas exports of machinery and consumer goods fetch lower prices because of their relatively low quality and low level of technology. The further opening-up of their markets to trade with western countries, problems with the competitiveness of their products and the collapse of the traditional centrally-managed channels of trade have made it increasingly difficult for the Baltic States to sell their products, both on their home markets and in foreign markets. The resultant slump in overall economic activity was much more severe in 1992 than had been generally expected.

2.2.1. In *Lithuania*, real GDP declined by some 40% in 1992, on top of the fall of almost 13% recorded in 1991. Industrial output was at least 50% below the previous year's level, with the highest falls occurring in the following industries: oil refining, the timber, pulp and paper-making industry and mechanical engineering. The International Monetary Fund considers that the serious worsening of the terms of trade of the Baltic States was a major factor in the decline of GDP. The failure on the part of Russia to honour its supply commitments and the prejudicial clearing and bank arrangements imposed by Moscow further exacerbated the situation. The fall in output was also reflected in the deterioration of the labour-market situation. In the second half of 1992, in particular, the jobless total increased at a more rapid rate. Inflation, which gained further momentum in 1992, is a further matter of concern - the average rate of inflation for the year as a whole exceeded 1000%.

Against this gloomy economic and social background, the Lithuanian State President, Algirdas Brazauskas, defined his economic policy standpoint and called for the economic reform process to be carried forward "with due caution". In the President's view overhasty reforms, in particular the precipitate closure of agricultural cooperatives, had played a major part in bringing about the dramatic fall in production. President Brazauskas wishes to regain access to lost markets in the independent republics of the CIS, bring the negotiations with Russia over oil imports to a successful conclusion and increase agricultural subsidies.

2.2.2. Although the gross national product of *Latvia* decreased by "only" 3.5% in 1991 - a much smaller reduction than was the case in Lithuania - in 1992 the fall is likely to reach double figures. Initial estimates suggest that the decline will be of the order of 30%. This estimate is backed up by the drop in industrial output of more than 30%, with the fall in production being particularly noticeable in the mechanical engineering, metal-processing, wood-processing and food industries. Increasing difficulties as regards supplies of raw materials, bottlenecks in the supply of energy and marketing problems in countries to the East (caused by factors such as the high rate of exchange of the Latvian rouble against the CIS currencies) are fundamental reasons for the decline in production. The situa-

⁶ OECD Economic Outlook, No. 52 - December 1992

tion was exacerbated by a long period of drought which caused harvests to plummet. Unemployment did not increase as rapidly as would have been expected from the decline in macroeconomic activity. The low rate of (registered) unemployment (2.3%) conceals latent labour-market problems. There will be a sustained increase in unemployment once large state enterprises have been privatized and "hidden" unemployment has been brought into the open. In Latvia, too, prices increased at a faster rate in the first part of 1992 but the rate of increase fell slightly later in the year as a consequence of the decline in real wages.

2.2.3. Turning to *Estonia*, this Republic's GDP, measured in real terms, declined by approximately 13% in 1991 and a much larger fall of some 25% is expected to have occurred in 1992. Industrial output was some 40% below the figure for the preceding year, with higher than average falls in production being recorded in the pulp- and paper-industry, the building-material industry, mechanical engineering, metal processing and the chemical industry. Marketing problems and bottlenecks in the supply of raw materials are contributory factors in the fall in output in Estonia, as in the other Baltic States. In contrast to Lithuania and Latvia, which send by far the greater part of their exports to CIS Republics, Estonia has been able to find new markets in the industrialized states of the West and, in particular, to expand its trade with Finland, thereby partially offsetting the lost outlets in the CIS. The official level of unemployment in Estonia, too, is far lower than would have been expected, given the sharp decline in overall economic activity. The increase in the rate of inflation, which continued unchecked for the first half of 1992, slowed significantly following the introduction of the Estonian crown, which has so far had a fixed exchange rate against the DM. Tight monetary policy has been a decisive factor in this success and the increasingly well-managed banking system made a significant contribution. At the beginning of 1993 the month-on-month rate of inflation in Estonia was around 3.5% - the lowest rate of all the Baltic States.

2.3. Analyses of the overall economic situation in the Baltic States demonstrate one fact all too clearly: the three Baltic States are going through the most difficult phase of the transition from a centrally-planned to a market economy. Although the old system has largely collapsed, the new system can only come into effect gradually because, inter alia, of the different time-lags in respect of the various parts of the reform process. As a consequence the Baltic States are experiencing downturns in economic growth of a severity which could scarcely have been foreseen, continuing high inflation, growing unemployment and declining levels of real income. The inhabitants of the Baltic States undoubtedly find this situation hard to understand and even harder to endure. It is confidently assumed in the West, however, that people in the states undergoing reform are prepared to bear patiently the considerable burdens imposed by the renewal and restructuring processes, both now and in the immediate future. The results of the most recent elections in the states bordering the Community to the east can, however, be interpreted as carrying a different message.

2.4. The Committee would once again underline the need to include a "social dimension" in the formulation and implementation of the economic policy for achieving a switch-over to a market economy. Western advisers should bear in mind that economic theory and past experience do not provide panaceas for the problems with which these countries have to contend in the switch-over from a centrally-planned to a market economy⁷. Economic, financial and social policies cannot be conducted in isolation from each other; market-orientated and socially-orientated measures must always be pursued in tandem. The Committee has frequently drawn attention to the fact that, given the social and cultural conditions prevailing in Europe, the establishment of an "economic area" which does not also comprise a "social area" cannot be contemplated. The belief that it is possible to establish an effective market economy without a social dimension is a recipe for failure. This message should be taken to heart by politicians in the newly emerging democracies in central and eastern Europe but it is a message which applies equally beyond the confines of these countries.

3. Trade and economic cooperation with the Baltic States

3.1. As the Committee pointed out in its Opinion on the Europe Agreements with Poland, Hungary and the former Czech and Slovak Federal Republic, the development and consolidation of democratic structures and the reciprocal opening-up of markets are fundamental requirements for closer cooperation with the EC's eastern neighbours. Cooperation is the best and most reliable means of establishing, consolidating and deepening trust between states. In view of the increasing world-wide economic interdependence, and the growing complexity of political and economic processes - in fields such as the maintenance of peace, environmental issues, nuclear energy and genetic engineering, to name but a few examples - international cooperation and coordination based on mutual trust are a top priority. Unilateral action by individual countries has for a long time offered no prospect of success. The numerous possibilities for closer cooperation between East and West were, however, not exploited for decades because of the heavy burden of ideology, power structures and attitudes which impeded East-West relations.

3.2. The Committee considers that there is an urgent need to eliminate economic and social imbalances between eastern and western Europe. The new democracies are far from being able to master these challenges by themselves; only if they receive effective outside assistance will they succeed. For this reason the Committee has repeatedly highlighted as a positive step the fact that the European

⁷ See the 61st Annual Report of the Bank for International Settlements in Basel, June 1991

Community - and its Member States - have joined other western industrialized nations in supporting and encouraging the necessary cooperation processes in many ways. Above all, it is incumbent on the Community to promote the improvement of infrastructure in these countries in order to speed up economic restructuring and strengthen the process of renewal.

3.3. The *EFTA States* are continually extending and deepening their links with the new democracies in central and eastern Europe and these moves on their part should be welcomed. The Nordic States in particular - which, in addition to the four EFTA states, also include Denmark - have a strong feeling of solidarity with the Baltic States, and they played a decisive role in calling for their independence. The Nordic States pointed out at an early stage that the democratization of international relations was essential if our smaller neighbours in eastern Europe were to be given the chance - with due regard to their existing links and their room for manoeuvre - to play an active part in the shaping of relationships in Europe and in the construction of the "Common European House". The EFTA States signed declarations on cooperation with Estonia, Latvia and Lithuania in early December 1991. The contracting parties pledged to examine ways and means of extending and liberalizing their trade relations, accelerating the development of economic and industrial cooperation and preparing the ground for the establishment of free trade and the consolidation of the Baltic States' economic restructuring.

3.4. The establishment of the *Baltic Council* is also regarded as a very important step. This Council, the establishment of which was agreed on at their meeting in Copenhagen at the beginning of March 1992 by the foreign ministers of the states bordering on the Baltic, is seen as a regional discussion forum. Particular emphasis is placed on democratic institutions, economic and technical assistance, humanitarian issues, health, environmental protection, energy, transport, communications, culture, education and tourism.

3.5. The signing of the Joint Declaration by the Community and the Council for Mutual Economic Assistance (COMECON) in Luxembourg on 25 June 1988 was a milestone on the road towards normalization of the *European Community's* relations with the countries of central and eastern Europe. The establishment of diplomatic relations and the conclusion of trade and cooperation agreements with our eastern European neighbours are a key part of the European edifice. The liberalization of EC imports and the phased abolition of quota restrictions by 1995 are at the heart of these agreements.

3.6. The agreement with the USSR covering trade and commercial and economic cooperation was signed on 18 December 1989 and entered into force on 1 April 1990. Just a few months later, the European Council requested the Commission to "explore with the Soviet authorities the idea of a major agreement between the Community and the USSR, encompassing a political dialogue and covering all aspects of closer economic cooperation and cooperation in the cultural sphere"⁸. In other words the European Coun-

cil was calling for an agreement which went a lot further than the existing trade and cooperation agreement. Bearing in mind the sweeping political and economic changes that have taken place in the former Soviet Union since then, the Council will surely be willing to go much further now. Time will tell whether the partnership and cooperation agreements with the independent states of the former Soviet Union satisfy this requirement. Negotiations started at the end of 1992 and the EC considers that the agreements should set out the provisions governing "a wide range of political, economic and trade relations" between the two parties. Supplementary provisions are to be drawn up covering the political dialogue and cultural cooperation.

3.7. While the Baltic States were part of the Soviet Union, the trade and cooperation agreement with the USSR provided the framework for their trade and economic relations with the European Community. However, immediately after the restoration of the Baltic States' independence, negotiations commenced on new trade and cooperation agreements and these were signed as early as 11 May 1992. The agreements were endorsed by the European Parliament and the Council of EC External Affairs Ministers in December 1992. The main pillars of these agreements are, in the field of trade, the granting of most-favoured-nation treatment and, in the field of commercial cooperation, regulations and facilities to promote the activities of economic operators (businessmen) on a basis of non-discrimination and reciprocity. As regards economic cooperation, the main objectives of the agreements are to reinforce and diversify economic links, bring about economic development, open up new sources of supply and encourage scientific and technological progress. Closely linked to these agreements - and published on the same day - was a Joint Declaration on Political Dialogue, the aim of which is to reinforce and intensify mutual relations in the political, economic and cultural fields.

3.8. The Committee sees these *first-generation agreements* as an important step towards closer relations with the Baltic States. However, it would add that in the final analysis the agreements on trade merely consolidate the de facto provisions applying to imports from all GATT countries. Seen in this light, the agreements are of no major trade value to the Baltic States. There would seem to be room for improvement in the political dialogue, too. The Committee is convinced that the dialogue has not progressed as well as the difficult political and economic situation in the Baltic States demands. Occasional meetings with MEPs or with leading Commission representatives are not enough. Much more should be expected of a political dialogue which is designed to reinforce and intensify mutual relations in the political, economic and cultural fields. According to the Committee, the political dialogue must be a dynamic and integral part of the agreements. It must not degenerate into an empty formula. The need to avoid such an outcome is all the more pressing in view of the fact that both sides have

⁸ European Council, SN/428/90

expressly agreed that "respect for the democratic principles and human rights established by the Helsinki Final Act and the Paris Charter for a New Europe should inspire the domestic and external policies of the Parties and constitutes an essential element of the agreements"⁹.

3.9. The earliest possible conclusion of *Europe Agreements* with the Baltic States was first advocated by the Committee some months ago. For both political and economic reasons the Community must form closer links with these States and embed them in the pan-European edifice. This accords with the thinking of the European Council, which stressed at the Rome Summit in December 1990 that the Community should conclude Europe Agreements as quickly as possible and that "these will mark a new stage in the Community policy of developing increasingly close relations with ... (the countries of central and eastern Europe)"¹⁰. The Committee firmly supports the intention of the Danish Presidency not only to implement the trade and cooperation agreements without delay but also to expand relations with the Baltic States on the basis of agreements as soon as possible. With this aim in view, the Presidency has called for regular assessments to be made to determine whether the situation in the three Baltic States has made sufficient progress for exploratory talks to be initiated on the conclusion of Association Agreements¹¹. This is, of course, conditional upon these States (a) reaching the "point of no return" on the road towards democracy and the market economy and (b) pressing on successfully with the processes of political, social and economic renewal.

4. Future Europe Agreements with Estonia, Latvia and Lithuania

4.1. When preparing its Own-initiative Opinions on relations between the EC and the countries of central and eastern Europe, the Committee had to contend with the problem of how to obtain relevant information. The EC Commission was in principle ready to take part in talks and to provide answers to specific questions, but up-to-date reference material on, for example, the state of the negotiations on Association Agreements was extremely inadequate. The Committee regards this as an objective threat to its right to draw up Own-Initiative Opinions. Furthermore, the Committee had to recognize that the Commission was very unwilling to incorporate recommendations by the Committee in the negotiating brief and to have them endorsed by the Council. The Committee therefore wishes to submit its observations (including criticisms) before new guidelines for negotiations on European Association Agreements are finalized. It also wishes to inform potential negotiating partners in eastern Europe - in particular the Governments of the Baltic States - of the views of EC economic and social interest groups on individual aspects of the agreements. The Committee assumes in this context that the common framework on which the earlier Europe Agreements are based will continue to be used. This framework has proved its worth and is sufficiently flexible to enable proper account to be

taken of the respective situation in the individual states and their respective priorities.

Preamble

4.2. The Committee unreservedly endorses the need for consolidation of the political and economic freedoms which are at the heart of "association". It is also essential that a joint declaration of intent be made stipulating: that the process of establishing a new state and economic order will continue to be based on *recognition of the rule of law, respect for human rights and the rights of minorities*; that *multi-party electoral systems with free and democratic voting (based on the secret ballot)* will be introduced; that governments will press ahead with *economic liberalization* based on the principles of the market economy; and that a policy of *social justice* will be pursued. Parties to the Association Agreements must likewise give a clear indication of their readiness to accept the firm commitments arising from the CSCE process, in particular the full implementation of the principles and provisions set out in the Helsinki Final Act, the concluding documents of the follow-up conferences in Vienna and Madrid, the Paris Charter for a New Europe and the European Energy Charter.

4.3. The Committee would also once again draw attention to the need for the preamble to the Europe Agreements to include provision for the *social dimension* of the movement towards European unification and to make reference to the *EC Charter on Basic Social Rights for Workers*, adopted by 11 Member States at the European Council in Strasbourg in December 1989. Of fundamental importance in this context is the establishment of relations between employers and employees, acting as independent "social partners", whilst maintaining the role and the responsibility of the public authorities. In response to the Committee's earlier demands, it was repeatedly argued that there was no need for specific references to be made in the preamble since the agreements contained numerous passages with a social content. This line of reasoning misses the point. It is recognized that the above-mentioned Charter was not adopted unanimously (this is presumably the real reason why no reference is made to it) but the Community should bear in mind that the economic concepts underlying the switch-over from a centrally-planned economy to a market economy in eastern Europe pay scant attention to the social dimension. This at least is the impression received by the Committee. A particularly depressing aspect, noted by J.K. Galbraith¹², is "the casual acceptance (by industrialized western countries) of poverty, unemployment ... and a decline in living standards.

⁹ OJ No. L 403 of 31 December 1992

¹⁰ European Council, SN/428/90

¹¹ Work programme of the Danish EC Presidency for the first half of 1993, SN/1075/93

¹² J.K. Galbraith "Ein Rezept namens Kapitalismus" (A formula called "capitalism"). Article in "Die Zeit", Edition No. 44, dated 26 October 1990

These aspects are regarded as having a therapeutic value". The Committee firmly believes that it would be very helpful if the various EC Councils were to give more thorough consideration than has hitherto been the case to finding ways in which promising reform policies which pay proper attention to social aspects can be formulated in the Associated States in eastern Europe and implemented in the interests of Europe as a whole. If the task is mainly entrusted to international financial institutions, there is a danger that the approach will be one-sided.

4.4. The Committee has repeatedly urged the Council to consider the question of accession by the Baltic States to the EC at an appropriate time. The preamble to the Europe Agreements with the Baltic States should, like the Association Agreements with the eastern European countries, make reference to the *possibility of accession* to the EC. This would emphasise the serious intention of both parties to place their joint relations on a much closer basis in the foreseeable future. Two prerequisites for such a reference are of course that the Baltic States (a) align their legal framework and practical legislation on EC law from an early stage and (b) follow basic EC thinking in their economic, financial and social policies. It would be wrong for these States to postpone adoption of the necessary measures on the grounds of supposed political imperatives or out of consideration for other interests. As the Commission rightly points out, countries wishing to join the Community must realize that future membership conditions will be very different; the Single Market, economic and monetary union, a common external and security policy, in addition to the body of existing EC legislation (*acquis communautaire*), will place considerable demands on would-be members. There is therefore little point in pressing ahead with accession to the EC as long as major hurdles have still to be overcome in the process of moving towards a market economy and as long as the competitiveness of the economies of the three Baltic States remains unsatisfactory. Pressing ahead under these conditions would mean that the Baltic States would be faced once again with profound problems of adjustment and would have to expect growth, levels of employment, prices and external trade to suffer major setbacks yet again.

Political dialogue

4.5. In the Committee's view, political dialogue is the key element in the Europe Agreements. The purpose of this dialogue is to facilitate integration of the eastern European states into the community of democratic nations, carry forward the step-by-step process of achieving closer relations with the European Community, forge new bonds of solidarity and help to achieve greater security and stability throughout Europe. At ministerial level political dialogue is conducted in the *Association Council*, at parliamentary level in the *Parliamentary Association Committee*.

4.6. The newly-emerging democracies of central and eastern Europe are exposed to significant risks during the present phase of the root and branch renewal of their political, economic and social systems. Any radicalization of

politics or social extremism will have a baleful effect on the integration process in Europe as a whole. Prevention of conflicts - particularly during the initial phase of the transformation processes - will place heavy demands on the form and quality of the political dialogue. Glossing over the problems and disagreements with verbose declarations is not enough. It is, of course, of major importance in this phase that politicians and social groups keep each other informed and consult each other. In the Committee's view it is therefore only logical that economic and social groups should participate *together* in the dialogue. The more thoroughly these groups discuss the issues with each other, the more fruitful will be their participation in the political dialogue.

4.7. The Committee has proposed on several occasions that provision be made, in an additional article of the Treaty, for participation by the economic and social interest groups in the dialogue in the Association Council; the Committee further proposed that an "*Advisory Committee for the Association*" be established after a transitional period. The tasks which might be attributed to this advisory committee were set out in a recent Committee Opinion on consultative machinery for economic and social organizations in central and eastern Europe¹³. Such an advisory body will clearly only be able to work efficiently if the economic and social organizations in the eastern European countries concerned are likewise fully informed about the Europe Agreements and are involved in their implementation. It has in the meantime become clear that the Committee's proposal has struck a chord. Romania and the EC agreed in a joint declaration that the "*Association Council ... is to examine ... the setting up of a consultative mechanism consisting of members of the EC Economic and Social Committee and their Romanian counterparts*"¹⁴. The Committee welcomes this joint declaration, which is an initial step in the right direction. It also calls upon the EC Council and Commission to reach an agreement on similar declarations with other Association States and have these declarations incorporated in the Europe Agreements which have already been negotiated.

General principles

4.8. New provisions were included in the Europe Agreements with Bulgaria and Romania stipulating that respect for democratic principles and human rights and the continued implementation of market economy reforms were *fundamental to the Association*. The Committee unreservedly welcomed this addition to the Association Agreements but called for inclusion in future of the further stipulation that the *safeguarding of basic social rights* and *respect for the rights of minorities* should also be regarded as fundamental to the Association. In Estonia and Latvia Russians account for more than 30% of the total population. In this context, the Committee wishes to highlight the decision

¹³ See OJ No. C 19 of 25 January 1993, page 114

¹⁴ See OJ No. C19 of 25 January 1993, page 88

taken at the CSCE Conference in Helsinki to appoint a High Commissioner for National Minorities. The Summit Declaration of 10 July 1992 stipulated that the High Commissioner was to draw attention in good time to tensions which could possibly lead, within the CSCE area, to conflicts liable to threaten peace, stability and relations between the signatory states. The new High Commissioner has already visited the Baltic States and acquainted himself thoroughly with the situation as regards national minorities in those states. The Committee is confident that the High Commissioner can make an important contribution to preventing and resolving conflicts in the Baltic area. At the same time the Committee urges that members of minority groups wishing to be naturalized be given Western assistance for specific purposes (e.g. financial assistance in respect of seminars, language courses and teaching materials).

Free movement of goods

4.9. The Europe Agreements provide for the phased establishment of a *free trade zone* within ten years. Under the provisions of the existing Agreements - and this will doubtless also be the case with future Agreements with the Baltic States - the European Community is to introduce free trade earlier than eastern European Associated States. The Committee has always endorsed this asymmetrical approach but has called upon the European Community to grant extensive access to its industrial-product market - subject to special provisions for a small number of sensitive sectors - as soon as the Association Agreement comes into effect. This recommendation is of particular importance to the Baltic States, which have to overcome major structural problems and create new markets for their products in northern and western Europe in order to be able to gradually loosen their close ties with the CIS Republics. The EC should as soon as possible jettison its traditional procedure of offering capital, technical assistance and advice but being hesitant to grant the simplest form of assistance, i.e. to open up its market quickly¹⁵. With the best will in the world, this strategy cannot be reconciled with the constantly repeated claim that the EC has always adopted an open approach.

4.10. The Commission's Report to the European Council in Edinburgh provides grounds for optimism. It notes with regard to the question of improved market access for Associated States in Central and Eastern Europe that: "... the pace of liberalization should be increased and trade obstacles in sensitive sectors removed more rapidly ... Indeed, economic expansion in central and eastern Europe will benefit both the countries directly involved and the Community"¹⁶. This is exactly the course of action which the Committee has repeatedly urged in its Opinions. The Association Councils should, however, carefully monitor the economic and social impact of liberalization and prevent "social dumping". The potential impact of liberalization on world trade has been demonstrated by an OECD study drawn up in 1992 in the light of a computer simulation exercise. This study found that the liberalization measures proposed in the GATT Uruguay Round could generate additional income worldwide of some \$200,000 million by

the year 2002, and that complete liberalization of world trade could generate an additional income of almost \$500,000 million¹⁷.

4.11. The Committee fully appreciates the need for *exceptions* in sectors in which the Community itself has major structural adaptation problems. These exceptions must however be kept to a minimum since the Community is committed to base its free-trade agreements on the relevant GATT provisions, which means that duties and other restrictive measures affecting bilateral trade have to be dismantled virtually across the board. In the long term no area can be excluded from reciprocal market opening.

4.12. Textiles and ECSC and agricultural products are classified as "sensitive". The Community will doubtless have recourse, if necessary, to the special rules for these products which are set out in protocols to the Europe Association Agreements.

4.12.1. The Baltic States have a number of major textiles enterprises which will very probably surmount their inherited problems quickly, catch up with their western competitors and continue the tradition of the period between the wars when *textiles and clothing* were an important industrial sector in the Baltic States. It is not impossible that "the development of the textiles industry in a band stretching from central/eastern Europe across the Baltic to St Petersburg and Moscow will be increasingly reflected by trade statistics in coming years"¹⁸. As in the cases of Bulgaria and Romania, outward processing duties will disappear once the trade sections of future agreements enter into force. The Committee assumes that the unequal treatment of "quota" and "non-quota" clothing will disappear from the outset. It also calls on the Baltic States to create stable legal and other conditions for external trade as soon as possible. These are a prerequisite for greater international trade in goods and services. The Community has a part to play here. It must ensure that trade hindrances, such as the difficulties with transit through Poland, are avoided in future. Trade barriers - whether open or concealed - are not suitable instruments for a free and fair European division of labour.

4.12.2. The Committee believes that *ECSC products* will not pose major negotiating problems. Latvia has a steelworks with an annual capacity of 550,000 tonnes of raw steel and 640,000 tonnes of rolled steel, but these quantities are not likely to cause any noticeable disturbances on the Community market. Nevertheless, when the necessary structural adjustments are made to the pan-European steel market, these capacities should enter into the equation.

¹⁵ G. Fels, *Morgendämmerung im Osten? ('A new dawn in the East?')* - Information service of the Institut der deutschen Wirtschaft, Cologne, Volume 19, 7 January 1993

¹⁶ Towards a closer association with the countries of Central and Eastern Europe. Report by the Commission to the European Council in Edinburgh on 11/12 December 1992

¹⁷ OECD document entitled "Trade liberalization: What's at stake?" Paris 1992

¹⁸ A. Gälli, *Nöte und Perspektiven der Textil- und Bekleidungsindustrie in Ostmitteleuropa und der GUS.* (ifo Schnelldienst), Munich IG. 45/No. 30/1992

4.12.3. *Agricultural products* play a part in the external trade of the three Baltic States, but data is still too incomplete to allow a reliable assessment of external trade in individual products. The statistics contained in IMF reports merely show that in 1990 food, agricultural and fisheries products accounted for a good 20% of the three countries' exports, whilst imports of these products varied from a good 10% (Estonia) to 25% (Lithuania). Whether this includes products which might realistically be considered by the Community as "particularly sensitive" will only become clear in the course of concrete association negotiations. In anticipation of these negotiations, the Committee recalls its proposal that agricultural surpluses, including those of the Baltic States, be sold to other eastern European countries, particularly the CIS republics, for hard currency, and that Community funding be made available for this purpose. The Council has in the meantime implemented this measure. The Committee also welcomes the conclusion of agreements with the Baltic States on cooperation in sea fishing (fishing rights and quotas; joint ventures; vocational training, etc.).

4.13. The Committee has repeatedly set out its detailed views on *supporting measures designed* to facilitate the establishment of a free-trade area. The Committee has constantly expressed support in principle for a package of measures including production standstill agreements, consultations over dumping, safeguard clauses, agreements on non-discrimination and on the settlement of disputes, and establishment of preferential rules of origin. The Committee has also emphasized its expectation that these agreements would help to avoid disruptions in visible trade between the EC and the Associated States or, at least, to resolve them rapidly.

4.13.1. The Committee has attached particular importance to consultation following identification of *dumping* and has repeatedly called for GATT codes (on anti-dumping measures and subsidies) to be observed in their entirety. The Associated States in eastern Europe should also enter into a binding commitment to respect EC rules on subsidies unreservedly. It is recognized that recent experience with regard to the dumping of eastern European products on the EC market, is scarcely encouraging. Two questions have to be answered here: were the relevant passages in the Agreements drafted sufficiently clearly? (The Committee criticized the earlier Agreements for this reason); and do the available sanctions come into play too late and with insufficient effect? Attention is drawn in this context to the discussions on Article 60 of the Vienna Agreement on Treaty Law.

4.13.2. The Committee went along, for political reasons, with the classification of the Associated States from the outset as "states operating a market economy" which it regarded as providing an incentive for these states to press ahead resolutely with the reform process. As the Committee pointed out in its most recent Opinion on Bulgaria and Romania, the EC Commission is, however, likely to face a rather difficult task in the next few years when it is called upon to

make a "fair" comparison, under the EC anti-dumping regulation, between the export price of a given product and its "normal value". The fact that the Commission needed almost a year to reach a decision on the need for anti-dumping duties to be levied on seamless steel tubes and on the rate of the duty, provides further proof of the difficulties which may be caused by being too hasty in assuming that the reforming eastern European countries already have "operating" market economies.

4.13.3. The Committee has expressed concern over the (very restrictive) *rules of origin* set out in the trade provisions of the Europe Agreements. In the light of the division of labour in Europe, it is essential to have a uniform set of rules of origin which will apply to the EFTA States as well as to the Associated States in central and eastern Europe. The Committee has therefore urged that the European Economic Area (EEA) provisions, together with an alternative percentage-based criterion, be incorporated in all the Europe Agreements ("pan-European" cumulation). The claim that the differentiation of rules of origin, hitherto advocated by the EC Commission, is based on a carefully considered policy cannot be taken seriously. The Committee has similar difficulty in comprehending the argument that different rules of origin are necessary in order to underpin the restructuring processes in the states of central and eastern Europe. Only one fact is certain: the plethora of origin rules in Europe is a considerable barrier to a further broadening of the division of labour in Europe as a whole. The existence of different rules of origin means that enterprises have to meet an unjustifiably high level of expenditure on organization and administration which often nullifies the advantage gained as regards customs duties and which can lead to enterprises being forced, to a large extent, to abandon plans to send products for processing to other European countries because of insuperable practical problems. It is above all SMEs which are adversely affected by this situation. Bearing in mind these considerations, the Committee welcomes the fact that the EC Commission is gradually being won over to the idea of "pan-European" cumulation. In its recent report on the development of closer association with the states of central and eastern Europe, the Commission emphasizes that the EC must promote regional economic cooperation by authorizing cumulation, in respect of rules of origin, for all products from the Associated States of central and eastern Europe and from EFTA States. The Committee trusts that the European Council in Copenhagen will accept the view of the Commission and call for relevant improvements to the existing Europe Agreements. The Committee urges the Danish Presidency to press for the authorization, in respect of rules of origin, of alternative-percentage criteria for imports from non-EC countries. Under the COMECON provisions, Association States of central and eastern Europe, and not least the Baltic States, were - and to a certain extent remain - closely linked with other countries of central and eastern Europe and with Asian countries. Absence of a suitable percentage-based criterion will seriously hamper their attempts to expand trade with the West.

Freedom of movement for workers, right of establishment and freedom to provide services

4.14. The provisions of the Europe Agreements on (cross-frontier) *labour mobility* are mainly concerned with non-discrimination of workers who are citizens of a contracting party and legally employed within the territory of another contracting party. Bilateral agreements between EC Member States on access to jobs are to be improved and amplified where possible. At a later juncture the respective Association Council is to consider ways and means - allowing for social and economic circumstances and the employment situation - of opening up access to jobs still further. In its Opinions the Committee has always endorsed the integration of legally employed workers from eastern Europe but, in view of the continuing difficult employment situation in the Community, has expressed concern about easing cross-frontier access to jobs too quickly. The Commission, however, is keeping to its previous line and suggests, in its latest paper on closer association with the countries of central and eastern Europe, that "Member States should be encouraged to apply the provisions of the Europe Agreements concerning access to employment as soon as possible, notably through the conclusion of bilateral agreements on quotas". Once again, there are no concrete references to the critical employment situation in the Community, which - with a few exceptions - holds out no hope of an additional demand for labour in the foreseeable future. Another Commission department states in the 1993 annual economic report that this year there will be almost two million more jobless in the Community than in 1991 and the total number of unemployed may reach seventeen million or so. This means that the progress made in the second half of the eighties will be lost in the first three years of the nineties. It is possible that an even better coordination of the Commission departments will make it possible to word Agreement provisions on cross-frontier labour mobility more realistically in future. In addition, the Commission should inform the EC Member States in detail of its ideas about bilateral agreements on quotas (in the extreme case, currently more than seventy agreements). In the final analysis, what is needed is a convincing approach to the cross-frontier labour market which opens up realistic prospects for the central and eastern European parties to the Agreements. This approach should at the same time cover the problem of undeclared workers which - despite the criticism voiced by the Committee - is not mentioned by any of the current Europe Agreements. The Committee welcomes the outcome of the Budapest conference on uncontrolled migration. It should also be recognized that the draft partnership and cooperation agreements with the former Soviet republics already contain the first actual indication that the Cooperation Council is to consider joint efforts to control illegal immigration.

4.15. With regard to the agreements on the *right of establishment*, the Committee has repeatedly asserted that freedom of establishment will promote the transition to a market economy and help to ensure that the economies of the partner countries of eastern and central Europe are modern and

competitive. The Committee is, however, sceptical about the protective measures agreed for firms in the partner countries which suffer a "drastic" loss of their share of their home markets. Apart from the fact that the Agreement provisions (relevant market, market variable, market-share definition), can be interpreted in many ways and sooner or later will probably give rise to discussions in the Association Councils, the Committee is surprised by the structural thinking which these provisions seem to suggest. (Multi-annual) safeguard clauses which postpone the elimination (presumably in many sectors) of firms at the expense of competitors will waste resources which could be used more productively elsewhere and will make it more difficult for the reforming countries of eastern and central Europe to achieve a competitive economic structure. It is true that the reform countries - which are already in a weak position - find themselves abruptly faced with major challenges. The radical structural problems associated with reform are compounded by increased competition from imported products and by the rise in their energy and raw-material costs. Companies, and especially the workers concerned, are hard hit by the attempts to resolve these problems. But one-sided structural measures designed to maintain the status quo are liable to simply treat the symptoms and have undesirable long-term side-effects. They will not remove the real causes of the "drastic" market losses in reform countries or create the prerequisites for mastering economic and social change.

4.16. The macroeconomic importance of the *service sector* and of trade in services varies from EC Member State to EC Member State. Although the sector is multifarious and difficult to quantify, it is reasonable to assume that services account directly or indirectly for some 60% of employment in the Community. This fact alone warrants determined pursuit - for instance in the Agreements with the Baltic countries - of phased, mutual liberalization of the trade in services. The Committee has repeatedly welcomed the readiness of the Community and its associated partners in eastern and central Europe to incorporate the outcome of the GATT Uruguay Round in the Agreements at an appropriate juncture. It remains to hope that the premature exclusion of individual sectors (telecommunications, financial services, sea and air transport, etc.) will not create a precedent for further exclusions and thus create too many exceptions to the hoped-for agreements in GATT on the rules and principles of trade in services.

Capital transactions, competition and approximation of legal provisions

4.17. Freedom of cross-frontier capital transactions is of great importance for the economic integration of the Baltic States. Freedom of *capital transactions* promotes monetary-policy cooperation and action to ensure stability. The Committee Opinion on the European Association Agreements endorses all provisions which promote the liberalization of capital transactions between the Community and the partner countries of eastern and central Europe. Of particular value is the undertaking to ensure, after a transition period

beginning at the effective date of the Agreements, the freedom of capital transactions pertaining to direct investments, their liquidation and the repatriation of profits. Particular emphasis should be put on the promise of the Associated States that they will take over the Community provisions on capital transactions en bloc after a transition period.

4.17.1. The Baltic States have taken the first steps towards liberalization of capital transactions. The priority aim is currency convertibility, which must be perceived as a core element of market economy transactions. If they know that they can convert Baltic currencies into foreign currencies, potential foreign investors will not worry about their capital being blocked in a "mouse trap currency". Last year Estonia and Latvia became the first of the former Soviet republics to break away from the Russian rouble. In July 1992 the Latvian rouble became the sole legal tender in Latvia and became convertible in reality. At the beginning of March Latvia brought the first bank notes of its new currency into circulation. The new currency, the lat, replaces the Latvian rouble and is to be convertible by the summer of this year. The Estonian crown has been classified as a genuine hard currency since its introduction in June 1992, and the country's money supply is covered by its gold and foreign-currency reserves. The crown's fixed exchange rate of 8 crowns to one deutschmark helps exporters but increases the cost of urgently needed imported products such as oil, natural gas and artificial fertilizers. In Lithuania the "Talona" voucher currency functions as a parallel currency to the Russian rouble. The new government has said it will introduce a national currency, but it is not certain whether this will be done in 1993. At all events, the situation is complicated by the intention of the Lithuanian Government to reintroduce administered prices in order to curb inflation, which is rapid and continuing to gain momentum.

4.17.2. It would be unrealistic to expect the Baltic States to produce for the association negotiations a concrete liberalization programme giving firm dates for the full liberalization of the various categories of financial transactions. Instead, the Committee considers that at the end of the first transition stage the Association Councils should consider the issue of liberalization and discuss further individual steps. Even the major western industrialized countries have left themselves a great deal of time for the introduction of full liberalization of cross-frontier capital transactions. Individual EC Member States operated a comprehensive system of capital-transaction and foreign-exchange controls for decades. The Association Agreements must, however, ensure that domestic companies have completely free access to foreign currencies for current-account transactions. This minimum requirement is broadly consonant with the IMF definition of convertibility. The statutes of the IMF require its members - which include the Baltic States - to impose no foreign-exchange restrictions on payments and transfers which figure in the balance on current account. Also in line with this is the provision in the Europe Agreements that current-account payments in freely convertible currencies are to be authorized by the contracting parties.

4.17.3. Convertibility is a necessary but not a sufficient condition for increased foreign investment in the Baltic States. There must also be an "appropriate" environment for direct investments by foreigners. All three Baltic States adopted relevant investment laws quickly and hoped that the greater influx of foreign investment capital would boost their economic growth, improve the jobs situation and lead to the transfer of know-how and technology. These hopes have not always been borne out, to judge from the registered joint ventures. Especially in Lithuania, which adopted a "foreign investment act" in December 1990 and two decrees in May 1991, the legal framework did not always correspond to the ideas of foreign investors. It reflected a fear that the economy would fall into the hands of foreign capital, and the dominance of state influence also acted as a deterrent. In parts, the first Lithuanian investment act and the two decrees read like "a report on a defensive war against hostile foreign investors". Lithuania has now made significant improvements to its investment environment and this is likely to encourage inward investment. The laws of Estonia and Latvia were more investor-friendly from the start. For instance, foreign investors in Estonia are free to convert their profits into foreign currencies if they pay their taxes and meet their other obligations. They are also completely free to liquidate and repatriate their investments. Similar provisions are contained in the Latvian "foreign investment act", though investments of over one million US dollars still have to be authorized. The influence on the Latvian economy (job creation, use of Latvian raw materials and services) and the expected impact on productivity, product quality, competitiveness and the environment all play a role in decisions on whether to authorize such investments.

4.18. *Competition* is a cornerstone of the international division of labour. It encourages industry to be receptive to and participate actively in technological and economic progress, to adjust to structural change, and thus to ensure growth of the economy and safeguard jobs. In the context of this by no means exhaustive list of the functions of competition, the Committee has broadly endorsed the competition provisions of the Europe Agreements and emphasized that without competition the process of pan-European integration would have major gaps. The Committee therefore expects the competition provisions of future Association Agreements with the Baltic States to be likewise based on Articles 85, 86 and 92 of the EEC Treaty. It is essential that there should be a clear provision on the transparency of state aids. In this connection, the Committee repeats its recommendation that the Agreements should also include the state aid controls set out in Article 93 of the EEC Treaty. Recent developments - on the steel market, for instance - should have made it absolutely clear to the Community that ongoing, comprehensive aid controls are necessary. The Committee is convinced that annual reporting on the aggregate total and breakdown of state aids, provided for in the current Agreements, is too late and inadequate. The Committee also considers that in future state aids should not lead to the artificial preservation of antiquated structures, but should promote structural adjustment and further the establishment of new industrial structures. What is needed is

direct (problem-orientated) targeting of bottlenecks - infrastructure, training, elimination of pollution problems inherited from the past and basic research, to give just a few examples. All these problems are of particular importance in the Baltic States. The Committee considers that in the course of association negotiations with the Baltic States, the Commission would be well-advised to refer in concrete terms to these aspects of a successful aid policy and explain to its eastern partners the Community's basic concepts of a European industrial policy in an open, competitive environment.

4.19. In its Opinion on the Europe Agreements with the Visegrad countries, the Committee stated that European undertakings involved in cross-frontier planning and cooperation have the problem that they have to live with three legal systems. Firstly, their own (domestic) law; secondly, Community law, which is of increasing importance for partners in eastern and central Europe; and thirdly the law of the country which is the destination of exports or investment. The same set of circumstances is often assessed differently and regulated in contradictory ways. So the quicker the legal framework is adjusted to Community law, the more favourable the environment for cross-frontier cooperation - for instance between East and West - and the better the prospects for an increase in visible and invisible trade and in capital transactions. The *approximation of legal provisions* is admittedly a gigantic task and cannot be completed overnight. The Committee has therefore repeatedly said that the Europe Agreements should specify which legal and administrative provisions of the Associated States should first be adjusted to Community law. The Committee is pleased to note that the Commission, too, is ready at long last to consider the idea of setting priorities. In the already quoted report to the European Council in Edinburgh, the Commission recommends that "specialized groups should be set up within the framework of the Association Committees to identify priorities for approximation" of legal and administrative provisions; it states that these include customs law, competition policy and the protection of intellectual property. The Committee welcomes this selection but - as in previous Opinions - feels that the list should include environment law, provisions for protection at work and a number of consumer-protection Directives. In addition, Lithuania should guarantee to adapt laws and administrative provisions on nuclear technology at an early date and to take over EURATOM safety provisions for its nuclear power plant in Ignalina immediately. Apart from this, additional technical assistance should be given straightaway under the PHARE programme to the three Baltic States, which still have to negotiate Europe Agreements with the Community, with a view - after obtaining the agreement of the three countries - to making a start in advance on the adaptation of legal provisions to Community law.

Economic cooperation

4.20. *Economic cooperation* between the European Community and the contracting parties in eastern Europe is an important feature of the Europe Agreements. The EC Com-

mission sees economic cooperation as an essential complement to the moves towards liberalization of movement of goods, persons, services and capital. Joint activities are designed to consolidate the economic reform process, whilst at the same time taking account of the requirements of "lasting social change". Such measures also seek to promote the harmonious development of the region. Economic, scientific and technical links are to be established and subsequently diversified. The Commission considers that this measure will underpin structural change in the Associated States, prepare enterprises in those states to face competition on the world market and help integrate them into the international division of labour. Another positive factor is the contracting parties' declared intention of taking environmental considerations into account from the very start in all their economic activities. This also means a great need for advice when environmental effects have to be assessed. In the Baltic States there is no shortage of examples which prove that foreign investors refuse to produce environmental impact assessments.

4.21. The above objectives point to a large number of areas in which cooperation is both possible and essential. The Committee has repeatedly praised the scope of the cooperation, which it supports in principle. The Committee does, however, have well-founded doubts as to whether the EC bodies will be in a position to initiate convincing measures in all the listed fields in the foreseeable future. Neither the personnel nor the financial resources available to the EC bodies are likely to prove adequate to give a genuine boost to the entire range of cooperation areas. Most of the measures are of a multilateral nature. They have been readily entered into by the (ratifying) EC Member States and are also to be carried out on a joint basis. Although multilateral measures are to a certain extent more difficult to implement, it should be possible to overcome this difficulty. In the Committee's view, there is a pressing need to consider how tasks are to be allocated at EC level and to put forward proposals without delay in respect of (a) the fields of action in which the EC Member States can be most effectively engaged from the outset and (b) the areas in which the EC bodies should start work immediately. A good example is provided by the Nordic Council of Ministers which recently considered the question of general Baltic-east European cooperation and debated which areas could best be entrusted to the Nordic Council of Ministers and which areas lend themselves best to bilateral cooperation.

4.22. A number of EC states have, in the meantime, taken the initiative and stepped up their advisory activities in the eastern European states bordering on the Community. The Federal Republic of Germany, for example, has decided to increase its assistance within the framework of a "general blueprint for providing advice on the establishment of democracy and the social market economy". The states of central and eastern Europe covered by this plan include the Europe Agreement States, the Baltic States and the four CIS states situated close to the EC. The assistance provided in the economic field covers, inter alia: support in establishing a social market economy; advice on privatization and

exchanges of experience with the Treuhandanstalt (the trust responsible for overseeing the privatization of state-owned businesses in the former German Democratic Republic); and assistance in establishing efficient infrastructures, an efficient SME sector, an operational services sector and a modern market-economy orientated financial administration (with responsibility for taxes, customs duties and the budget). Advice is also provided on procedures for establishing new constitutional and legal systems and government administrations based on the principles of the rule of law. Help is also provided with the establishment of bodies representing the various sectors of society. Needless to say, the activities being carried out by the EC Member States, the Nordic States and EC Commission should be coordinated before the Europe Agreements come into effect. The Committee therefore proposes that a coordinating committee be set up without delay at Community level for the purpose of collating and coordinating the many forms of advisory assistance and avoiding duplication wherever possible.

4.23. There is no doubt that the necessary deepening and broadening of economic cooperation with the Baltic States would be made much easier by progress in the field of regional cooperation between the Baltic States. Although the Baltic Council, which provided a forum for coordinating the bases of external and economic policy in the 1930s, has been reinstated, there has not yet been any breakthrough on achieving closer economic cooperation. While there are plans for joint investment in areas such as telecommunications, motorway construction, energy network and oil-refinery products, these projects will have a relatively long lead time. The plan to establish a free-trade area embracing Estonia, Latvia and Lithuania has also been frozen for the time being. This was prompted - according to reports from Estonia - by the desire to concentrate first of all on solving individual problems under bilateral agreements. A further major complication is the fact that the Baltic States had only loose economic ties with each other in previous decades because the structure of trade within the former USSR, or, to be more exact, within COMECON, was determined more by arbitrary political action than by the desire to achieve an economically sound and efficient division of labour. When leading representatives of the European Community hold their political discussions with the Governments of the Baltic States, they should refer more to the need for closer economic cooperation between these three countries.

Financial cooperation

4.24. In making the transition from a centrally-planned economy to a market economy, the Baltic States are having to face much greater challenges than the other countries undergoing reform in central and eastern Europe. Although the "independent" COMECON states were also subject to the Eastern Bloc's economic division of labour, they did retain a degree of freedom to decide the form of their participation, both as regards their domestic economies and their

foreign trade. The Baltic States, on the other hand, which were part of the former USSR, had to gear their economic structures and trade relations solely to the dictates of Soviet internal economic planning. Over 90% of the Baltic States' "external trade" was conducted with the other Soviet Republics. The task currently facing the Baltic States, namely the need for a root and branch reorganization of their economic structures and the need to establish trade relations with industrialized Western states as part of the process of moving towards a market economy, thus calls for much more comprehensive support from the West. It should, however, be possible to meet the (relatively) higher financial requirements of the Baltic States since their economies are rather small. In addition, in view of the fact that the funding involved falls within reasonable limits, the efficient use of resources is more readily guaranteed and easier to monitor than in the other countries undergoing reform.

4.25. In addition to the assistance required to convert and modernize the economies of the Baltic States, to build and develop an infrastructure that meets needs, and to enable their workforces to acquire the necessary skills, additional aid may also be required in order, for example, to underpin a currency's convertibility and to enable them to pay for imports of important commodities in hard currencies. It may also be necessary in the future to provide short-term aid in emergencies (food, medicinal products, etc.).

4.26. Up to mid-1992, the G24 States had promised aid totalling some MECU 100,000 to the whole of eastern Europe, including MECU 70,000 for the ex-USSR. The largest donor is the European Community (Member States plus Institutions) with a share of over 70%. However, the amount of aid to have actually reached its destination is unknown. Estimates put the figure at one third or MECU 30-35,000. The G24 States had committed themselves by mid-1992 to providing just under MECU 500 to the three Baltic States. The financial requirements in respect of balance of payments are estimated by the IMF to be of a similar order. In this context, the Committee welcomes the aid coordination agreements reached by the Group of 24 in Riga at the end of November 1992. In order to ensure that funding is used effectively, all financial aid should be continuously monitored, both when it is allocated and while it is being spent, so as to secure observance of the binding criteria laid down by the donors. The outcome of the monitoring should be discussed in the Association Council and communicated to the donor states and the international financial institutions.

4.27. The Committee underlines the need to observe the principles generally applied in respect of the granting of aid. It is above all essential to ensure (a) that civil rights are respected in the beneficiary state in accordance with appropriate international practice, and (b) that minorities are secured a status which also reflects the need for political and social stability and "good neighbourly relations".

APPENDIX

Social indicators for the Baltic States¹

	Unit	ESTONIA	LATVIA	LITHUANIA
Population:	1,000	1,582	2,668	3,752
Male	%	47	47	47
Female	%	53	53	53
Life expectancy:	Years	70	70	71
Male	Years	65	64	66
Female	Years	74	75	76
Population structure (nationalities):	%	100.0	100.0	100.0
Estonians	%	61.5	—	—
Latvians	%	—	52.0	—
Lithuanians	%	—	1.3	79.6
Russians	%	30.3	34.0	9.4
Poles	%	—	2.3	7.0
Belorussians	%	1.8	4.5	1.7
Ukrainians	%	3.1	3.5	1.2
Others	%	3.3 ²	2.4 ³	1.1 ⁴
Labour force	1,000	796	1,409	1,853
Population density	per km ²	35	41	57
Official language (since 1989)	—	Estonian	Latvian	Lithuanian

¹ The data refer in the main to 1990, though the population structure according to nationalities is based on the 1989 census.

² Including Latvians and Lithuanians.

³ Including Estonians.

⁴ Including Estonians and Lithuanians.

Sources: Estonia: (IMF), Washington, D.C., April 1992

Latvia: (IMF), Washington, D.C., March 1992 - Latvia Today and Latvia in Figures 1991 (State Committee for Statistics of the Republic of Latvia), Riga 1992.

Lithuania: (IMF), Washington, D.C., April 1992 - The Baltic States. A Reference Book, Tallin-Riga-Vilnius 1991.

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ECONOMIC AND SOCIAL COMMITTEE
Division for Information, Publications
and Relations with Socio-economic Groupings

Rue Ravenstein 2
B - 1000 Brussels

Tel. 519 90 11
Fax 513 48 93

Telegrams ECOSEUR
Telex 25 983 CESEUR

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