

COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION

TO THE COUNCIL AND THE PARLIAMENT

Association agreements with the countries

of central and eastern Europe :

a general outline

From cooperation to association

The Community's network of trade and cooperation agreements with the countries of central and eastern Europe is now virtually complete. Normal diplomatic relations have been established and the opening of the first Commission delegations in the countries concerned is already facilitating cooperation. The Community has amply demonstrated its willingness to use to the full the instruments provided by these agreements notably to stimulate trade and to create new business opportunities.

But the dramatic changes in central and eastern Europe call for a more far-reaching response by the Community. Elections have now been held in most countries and the governments subsequently formed have expressed their interest in closer links with the Community through association. Formal requests for the opening of negotiations with a view to the conclusion of association agreements have been made by several countries.

In April, the Commission presented to the European Council and the Parliament an initial outline of the elements which could be included in future association agreements.* Since then, the pace of reform has quickened, with the announcement of economic measures which are necessary but which pose serious problems of adjustment. It is therefore particularly important for the Community to lend its support to this process both through the Commission's coordination of assistance from the Group of 24 industrialised countries and through its own bilateral relations.

For this reason, the Commission in its present Communication is providing further indications concerning the objectives and the content of association agreements which could be referred to as Europe Agreements to mark the importance of the political initiative which they represent. This will be followed by the opening of exploratory conversations with those countries giving practical evidence of their commitment to the rule of law, respect for human rights, the establishment of multi-party systems, free and fair elections and economic liberalisation with a view to introducing market economies. On the basis of these conversations, the Commission, before the end of the year, will recommend to the Council directives for the negotiation of a first round of association agreements. The preambles to these agreements should reflect in an appropriate manner the continuing importance for the parties of the consolidation of the political and economic freedoms on which the contract of association is based.

* SEC (90) 717 final

Procedure

In the light of conditions in Czechoslovakia, Hungary and Poland and requests received from their governments, exploratory conversations could begin with these countries following the Council's discussion of the general framework for association set out in this Communication. In determining the calendar for exploratory talks with Yugoslavia, the Commission will take fully into account its long established links with the Community, its declared intention of developing these from cooperation to association and its fulfilment of commitments to reform. The Community will continue to monitor closely the situation in Bulgaria and Romania, with a view to opening exploratory conversations as soon as the necessary conditions have been established.

The Soviet Union

As pointed out in April, the USSR raises specific questions in the context of internal reform, relations with the Community and integration into the international economic system. These questions are being actively pursued by the Commission further to the conclusions of the European Council held in Dublin on 25-26 June and the Commission will be reporting to the Council in October on the results of the study it is conducting in cooperation with the Soviet authorities. The trade and cooperation agreement which entered into force in April offers for the present an appropriate framework for Community-USSR relations. It will, however, be necessary to review these relations in the light of the above-mentioned study and to consider ways in which they can be developed to meet new needs arising from political and economic change.

Objectives

Association agreements should help create a climate of confidence and stability favouring political and economic reform and allowing the development of close political relations which reflect shared values. The new consensus on these values, set out in the documents of the Bonn and Copenhagen CSCE conferences, holds out considerable hope for the consolidation of democratic political systems and market-based economies. This process will be strengthened by political dialogue, within a regular institutional framework, which will be a key feature of association.

Secondly, association agreements should strengthen the foundations of the new European architecture. They will enable partners in central and eastern Europe to participate in the wider process of European integration, exemplified by the single European market and the new relationship to be negotiated by the Community and the European Free Trade Association. This will give tangible form to aspirations to return to the mainstream of European political and economic life and bring concrete reciprocal benefits.

A third set of objectives concerns the climate for trade and investment. Economic operators, especially in the private sector, will play a key role in raising living standards and stimulating non-inflationary growth. But smaller firms, in particular, are daunted by the risks involved in the uncertain conditions of new markets. These uncertainties can be reduced by a sound long-term relationship with the Community, involving progress towards free trade and the other fundamental freedoms of the single European market. Commerce will benefit from the development, in the context of association agreements, of instruments to strengthen trade, investment and the economic environment in which business decisions are taken.

Fourthly, association agreements will enable the countries of central and eastern Europe better to manage the transition from command economies and an artificial division of labour to more rational economic structures and full participation in the international economic system. They will open up new economic prospects at a time when flows of trade and investment between CMEA members are contracting. Economic relations between these countries remain important and association should improve the conditions for trade between them. The rights and obligations attaching to association with the Community will provide experience of competitive market conditions, within a framework of support and solidarity. This will be especially valuable in coping with the social consequences of structural adjustment. Technical assistance, training and contacts between management and labour in the Community and associated countries can help facilitate the necessary redeployment in acceptable social conditions. Initiatives in these areas being developed notably through the European Training Foundation and Tempus will receive renewed impetus from the association agreements.

Fifthly, association agreements will improve the transparency and coherence of Community financial support and will enable this to adapt to new priorities identified within the consultation mechanisms of the agreements. This will provide a firm basis for the multiannual financial cooperation which the Community is developing with the countries of central and eastern Europe.

Finally, association agreements will promote a better two-way flow of information and cultural cooperation. This should reinforce joint activities in the political and economic fields by encouraging a shared sense of European identity, especially among young people.

Several governments have referred to their interest in eventual membership for their countries in the Community. This, however, is not among the objectives of the association agreements discussed in this Communication. These agreements, as the Commission has pointed out, have a special value in themselves and should be distinguished from the possibility of accession to the Community as provided for by article 237 of the EEC Treaty. This possibility would not be affected by the conclusion of association agreements.

A common framework

The qualitative change in reciprocal relations marked by the passage to association will be reflected in the common overall framework of these agreements. This framework consists of the elements adumbrated in the Commission's Communication of 18 April and analysed in more detail in the annex to this Communication, namely

- political dialogue
- free trade and freedom of movement
- economic cooperation
- cultural cooperation
- financial cooperation
- Institutions of association.

These common elements are required to meet the objectives set out above and to create a coherent basis for association. Each agreement will have a similar institutional structure, providing for joint decision-making and consultations at different levels. These common features of the agreements are outlined below.

Specificity and differentiation

A common framework is necessary but each of the Community's partners presents a different political and economic profile with its own particular needs and absorptive capacity. Individual agreements will, therefore, be adapted to the circumstances of the country concerned.

The specificity of the situation of each associated country implies differentiation in the balance within and between the common elements comprising the future agreements. It is evident, for example, that associated countries will not be ready to meet the challenge of each step towards free trade at the same moment. Financial cooperation will have a different significance for partners whose economies develop at different rates. Economic cooperation will vary according to each country's sectoral priorities and, indeed, its geographical location and characteristics. This is particularly clear in such areas as transport and environmental protection.

Flexibility to adjust the balance between the agreements' main elements is in the interest both of the Community and its partners. This also corresponds with each government's insistence that, after decades of subjection, its country should be associated with the wider European enterprise through structures which correspond with its own situation and priorities.

Legal Basis

The far-reaching character of association, going considerably beyond the provisions of first generation trade and cooperation agreements, requires an appropriate legal base. This should correspond with the content of the agreements and with their political significance. These involve extensive reciprocal obligations, with the associated country adopting certain rules and practices established in the Community. As indicated in the annex, the agreements will establish association councils, which will be competent, where appropriate, to take decisions on matters arising under these agreements, as well as other joint institutions. For these reasons, article 238 of the EEC Treaty is appropriate. This provides for the conclusion of agreements by the Council with the assent of Parliament.

Association agreements : general outline

POLITICAL DIALOGUE

Association agreements will provide an institutional framework for political dialogue within which views can be exchanged on bilateral and multilateral issues arising in the context of the agreement as well as broader questions of concern to the parties. Such exchanges will be especially valuable during the transition to new forms of European integration and cooperation in which the Community will play a central role.

The Association Council established by each agreement will provide a forum for discussion at the highest political level. Immediate issues of mutual concern arising between sessions of the Association Council can be discussed by the Association Committee. The Parliamentary Association Committee will also make its contribution to the dialogue between the parties.

FREEDOM OF MOVEMENT

Contracting parties will gradually establish a free trade area on the basis of balanced, reciprocal obligations, according to arrangements laid down in the agreements. Overall, the Community will move more rapidly towards free trade than associated countries, thus assisting their economic recovery. Associated countries will adopt the Combined Nomenclature for the classification of goods.

Once associated countries' economies have been brought substantially into line with the Community's consideration can be given to the free movement of services, capital and persons.

A. Trade in Industrial products

- (a) When imported into the Community, industrial products originating in an associated country will benefit from the phasing-out of customs duties, remaining non-specific quantitative restrictions and measures having equivalent effect .

- (b) When imported into the associated country, Industrial products of Community origin will benefit from the phasing out of customs duties, quantitative restrictions and measures having equivalent effect.
- (c) Liberalisation will be accomplished in two broad phases whose timetable will be negotiated bearing in mind progress in achieving a market economy. Passage to the second phase will depend on the associated country's economic situation. Flexibility will be needed in the event of economic difficulties.

In the first phase, the associated country will maintain its import rules or gradually relax them while the Community improves access to its market more rapidly.

In the second phase, the associated country, which should by then have improved its competitive position, will catch up with the Community in improving market access. Reciprocal free trade will be achieved by the end of this phase.

During this process the safeguards referred to in section G below will apply.

B. Agricultural products

Agriculture is particularly important to the economies of several of these countries. The modernisation of production, distribution and marketing, as well as demonopolisation throughout the chain of food supply, are key objectives of economic reform. The agreements will contribute to this process both through technical assistance, training and the other forms of economic cooperation mentioned below and through increased possibilities for trade.

Special arrangements will be negotiated to promote trade in agricultural and fisheries products, taking fully into account their particular character and the functioning of the common agricultural and fisheries policies.

C. Services

As the economies of associated countries adapt to international competitive conditions, services will make an important contribution to added value. Economic cooperation, provided for by the agreements, will help associated countries to build up the modern service sectors needed to bolster their competitive position. During the negotiations, agreement should be sought on the conditions for liberalising trade in services, in keeping with progress in economic reconstruction, mutual interests and international rules agreed in the context of the Uruguay Round. As with trade in industrial goods, a phased approach should be developed, allowing the associated country gradually to adopt the rules governing trade in services within the single European market.

D. Capital

The freedom of movement of capital is an essential feature of the single European market. Associated countries aspire to the benefits of this freedom, when their competitive position so permits. As with trade in industrial goods and services, the negotiations should permit a phased approach.

In the first phase, certain improvements in market access could be made while the parties seek to create the conditions for the subsequent application of Community rules on the freedom of capital movements. At this stage technical cooperation, training and joint ventures can make an important contribution to building up a competitive financial sector in associated countries.

In the second phase, the parties will move towards the full application of Community rules on capital movements.

E. Persons

The free movement of persons is a key element of the single European market of major economic and symbolic significance.

In a first phase, and bearing in mind the competence of the Community and its Member States, certain improvements could be made in the conditions affecting the movement of persons. In addition, technical assistance should be given in the establishment of adequate social security systems which will be especially important in the process of economic adjustment and the redeployment of labour.

In a second phase, once social and economic conditions in associated countries have been brought substantially into line with those in the Member States, consideration should be given in the Community and in the institutions of association to further improvements in the freedom of movement of persons.

F. Approximation of laws

The progressive approximation of the laws of associated countries with those of the Community will be essential if they are to share the benefits of the single European market.

Areas for approximation include: company law, company accounts and taxes, financial services, rules on competition, health and safety at work, consumer protection, the environment, indirect taxation, technical rules and standards, transport, intellectual property.

G. Additional measures

The agreements should contain back-up provisions to facilitate the measures of liberalisation outlined above. A systematic presentation of these will be given in the draft negotiating directives, following exploratory conversations. They are likely, however, to include the following:

1. Non-discrimination

No tax measure or practice which discriminates between the products of one contracting party and like products from the other contracting party will be permitted.

2. Customs cooperation

Effective cooperation between customs administrations will be introduced to ensure compliance with the provisions of the agreements and other mutual obligations.

3. Intellectual property

Protection for industrial, commercial and intellectual property rights will be ensured.

4. Sensitive technologies

Restrictions on the export of sensitive technologies to associated countries will need to be taken up in the framework of the agreements.

5. Restrictions

The Agreement will not preclude the enforcement of prohibitions or restrictions on imports, exports or goods in transit mentioned in Article 36 of the Treaty of Rome.

6. Competition and state aids

Free competition should be ensured through provisions based on those applying within the Community; associated countries might initially benefit from certain exemptions in respect of state aid.

7. Dispute settlement

Contracting parties should seek to settle any disputes through the institutions of association. If necessary, recourse could be made to arbitration, arrangements for which will be set out in the agreements, notably in disputes of a commercial character.

8. Dumping

Should it be established that dumping is taking place, it will be possible, after consultations, to take appropriate measures, in accordance with relevant GATT rules.

9. Safeguards

A contracting party will be entitled to take appropriate measures if its economy is severely disturbed or threatened with serious disturbance.

ECONOMIC COOPERATION

Economic cooperation is an essential complement to the arrangements for liberalisation outlined above. It can help associated countries to equip themselves with the economic means to compete on European and world markets. For this reason, industrial standards, certification and testing as well as other areas necessary to the functioning of the single market are of particular importance. The scope for enhanced cooperation will be examined in exploratory conversations, with particular attention to technical assistance and training.

This section indicates sectors in which economic cooperation could be developed.

M

1. Industrial cooperation

Capital, technology and know-how from the Community can make a vital contribution to economic reconstruction. At the same time, associated countries possess areas of excellence which can form the basis for profitable joint ventures with Community enterprises. Industrial cooperation will cover:

- The modernisation and conversion of industry from a centrally planned system to a market economy, in acceptable environmental conditions.
- Restructuring of individual sectors (e.g. iron and steel industry, chemical industry, cement industry), conversion of defence industries.
- The development of new sectors, particularly in light industry, consumer goods and market services.
- Support for the development of small and medium-sized enterprises, including involvement in Community operations aimed at small businesses (e.g. BC-Net, Euro-Info Centres).

2. Investment promotion and protection

Flows of private capital through direct investment are one of the most effective means to stimulate economic reconstruction. Investors will only be tempted into new markets on a significant scale, however, when the economic situation is favourable. Convertibility will be an important step in ensuring that funds generated by investments can be freely transferred. Association can help improve the investment climate by encouraging:

- a favourable legal framework for investment
- satisfactory rules concerning the transfer of funds
- better investment protection
- exchanges of information on investment opportunities through fairs, exhibitions, business weeks and other means
- consultancy services to improve knowledge of unfamiliar markets

3. Industrial standards, certification and testing

- Cooperation aimed at reducing differences in the areas of standardisation and certification: promoting the use of Community standards in associated countries, agreements on the mutual recognition of tests and certificates.

- The increased involvement of associated countries in the work of specialist organisations (CEN, CENELEC, ETSI).

4. Scientific research and technological development

- Cooperation in science and technology.
- Joint R & D activities aimed at encouraging the transfer of technology and know-how.
- Training operations and mobility programmes for researchers.

5. Vocational training and higher education

In-service training and retraining, for managers, skilled workers and civil servants in priority areas (e.g. banking, insurance and other financial services, agriculture, environment, accounting, transport and languages) in coordination with the European Training Foundation;

Cooperation between universities and between universities and firms, mobility for teachers, students and administrators, in coordination with TEMPUS.

6. Modernising agriculture and the agro-industrial sector (especially in countries with a large agricultural sector)

- The development of private farms and distribution channels, the development of methods of storage, marketing, etc.
- The modernisation of rural infrastructure (transport, water distribution, telecommunications).
- The improvement of productivity and quality by using appropriate methods and products; training in and monitoring of anti-pollution methods connected with inputs.
- The development and modernisation of processing firms and their marketing techniques.
- Encouragement of complementarity in agriculture.
- Encouragement for industrial cooperation and the exchange of know-how especially between the private sector in the Community and in associated countries.

7. Energy

In the transition from the COMECON economic and trade system to fuller participation in the open international system, the modernisation of energy production, greater energy efficiency, the reorientation of trade and better environmental protection will be crucial. For this reason, cooperation should focus on such areas as

- Energy policy and planning.
- Better transit and delivery systems.
- Energy efficiency and environmental protection.
- The transfer of technology and know-how.

8. Environment

Concern over the environment was one of the factors leading to the political and economic changes which paved the way to reform and, hence, to association with the Community. Continuing concerns about environmental pollution need to be met by action both at national and European levels. Association can foster action in such key areas as

- Air, water and soil pollution, improvements in monitoring, waste processing and disposal, nature conservation, anti-pollution equipment, long-term strategies for protecting the environment;
- Nuclear safety;
- Cooperation within the European Environment Agency;
- Cooperation between enterprises.

9. Transport

- The development of infrastructures and routes of mutual interest.
- The harmonisation of equipment and the development of new technologies.
- Complementarity of services.

10. Telecommunications

- The integration of trans-European systems.
- Technology transfers and the use of European standards.
- Training and advisory activities.
- The promotion of new communications facilities, especially those with business applications.
- Information exchange.

11. Health and safety

These sectors have been relatively neglected in most countries in past decades. Association has a considerable contribution to make in helping to raise standards towards those prevailing in the Community. Technical assistance, training and cooperation between enterprises will be important in this regard.

12. Tourism and related services

Most associated countries have a considerable potential for export earnings through tourism. They lack, however, the necessary infrastructure. The future agreements will provide a framework to strengthen this infrastructure through industrial cooperation, training in management techniques and by other means.

13. Customs cooperation

Most future associated countries are only now putting into place tariffs and other customs practices which are normal in countries participating in the international economic system. Technical assistance will be of value in bringing customs arrangements into line with those in the Community. Cooperation between customs authorities will facilitate the measures of trade liberalisation referred to above.

14. Statistical cooperation

The inadequacy of statistics in future associated countries is an obstacle to rational economic management and international cooperation. The goal will be to assist them in applying international standards through cooperation with statistical institutes in the Community.

15. Cooperation between economists

The "ACE" programme has been launched to promote contacts between economists involved in advanced research. Such initiatives should be further developed within the framework of the agreements.

16. Regional development

Exchange of experience with different techniques of regional development, in particular in the conversion of regions heavily dependent on a single industry now in decline. Cooperation involving local and regional authorities, regional development agencies and other practitioners.

CULTURAL COOPERATION

The revival of traditional cultural ties and the promotion of new cultural movements to help assert Europe's shared cultural identity, especially among young people. Literary, artistic and audiovisual events, actions concerning Europe's historical and architectural heritage, historical research, teaching, translation. Improving the two-way flow of information.

FINANCIAL COOPERATION

A sound multiannual basis will be needed for financial support to the process of structural adjustment, especially regarding the development of a healthy private sector. Needs and absorptive capacity will be assessed during the course of the negotiations, drawing on experience gained through programmes and projects developed as part of the PHARE Operation. If the process of economic renewal proceeds satisfactorily, it should be possible, after an initial period, to scale back support for macro-economic adjustment in the form of grant assistance. A detailed assessment of requirements for financial cooperation will be made when contacts with the future associated countries are more advanced.

Financial cooperation should take the form of the mix of grants and loans tailored to the relative level of each country concerned. With respect to loans, care should be taken to ensure that credits do not exceed repayment capacity based on reasonable growth expectations. Specific forms of financial cooperation could include grants for training, technical assistance and interest rebates; venture capital for joint companies, especially involving smaller firms; export credit and investment guarantees; financing to cover short-term difficulties associated with the passage to currency convertibility; loans for restructuring from the ECSC and the EIB as well as possible new instruments. In this regard, the European Bank for Reconstruction and Development will also play an important role.

The Community will wish to maintain a certain flexibility in financial cooperation to take into account changing needs and the performance of the associated country in maintaining the economic and political conditions underlying the contract of association.

INSTITUTIONAL FRAMEWORK

- Association Council
the highest political body established by the agreement to supervise its implementation and meeting normally at ministerial level;
a forum for dialogue on major issues arising under the association agreement as well as broader international questions of mutual concern;
competent to take decisions on matters arising under these agreements, where appropriate;
may settle disputes between contracting parties;
meets periodically as the need arises;
may establish subsidiary bodies for particular aspects of cooperation;
- Association Committee
prepares the work of the Association Council;
meets at senior official level whenever the need arises;
ensures continuity between meetings of Association Council;
a forum for discussion of technical issues arising under the association agreement;
- Parliamentary Association Committee
a forum for discussion between members of Parliament from the associated country and members of the European Parliament;
meets periodically;
may make recommendations to the Association Council;

DURATION

Agreements will be concluded for an indefinite period.