The countries of Central and Eastern Europe and the independent states of the former Soviet
Union are becoming important partners in EIPA's cooperation, consulting and training projects
with non-Community countries. This is indirectly and in some cases directly facilitated by the
closer relations which have been built between the EC and these countries over the past five
years or so. An account and some comments concerning the development and scope of the
agreements between the Community and the countries in question can be found below.

Towards Trade and Cooperation Agreements

The state of cold war that existed between East and West meant that until 1988 the EC and
Comecon had no formal relations. The absence of such relations constituted a serious
impediment to trade liberalization between the EC and Central and Eastern Europe. Instead,
there were numerous sectoral agreements and special trade measures governing trade with the
East, which were generally restrictive.

The first of a series of steps paving the way for freer trade was the joint EC-Comecon
declaration of July 1988. This was soon followed by the conclusion of the first-generation'
agreements or Trade and Cooperation Agreements with Hungary and Poland in late 1988
and 1989 respectively, and with all other Central and Eastern European countries and the
former Soviet Union in the period from 1990 to 1992.

These agreements formalized bilateral relations between these countries and the EC and
extended MFN treatment to them. The Trade and Cooperation Agreements have the objective
of promoting trade on the basis of non-discrimination and reciprocity. An important aim of
these agreements was the elimination of specific quantitative restrictions applied by EC
Member States to imports from centrally-planned economies. The provisions on trade
liberalization cover all products except coal and steel, and textiles and clothing, for which
sectoral arrangements have been negotiated. The agreements also provide for broad
commercial and economic cooperation.

Following a request from the G24 gathered in Paris in July 1989, the Community undertook
responsibility for coordinating Western aid to Poland and Hungary, intended to encourage
their process of economic and political reform. The operation was called PHARE\(^1\) and an
action plan was adopted in October 1989 which was based on five priorities: improved access
to markets, food aid, agricultural restructuring, promotion of investment, vocational training
and cooperation on environmental protection. The PHARE programme accorded GSP
treatment to Poland and Hungary (including certain agricultural concessions of particular
importance to them) and, ahead of the agreed timetable, it eliminated all quantitative
restrictions applied to these countries and it suspended all non-specific quantitative restrictions
by 1 January 1990. In the following years the other Central and Eastern European countries
were included in the PHARE programme.

Association Agreements

The EC Summit in Strasbourg in December 1989 affirmed that the Community was ready to
strengthen bilateral relations beyond existing trade agreements. In 1990, Association
Agreements or Europe Agreements' were considered by the EC Council to be the most suitable
instrument for the development of closer relations with Czechoslovakia, Hungary and Poland
which were thought to be closer than others to the goal of democratic and market-oriented
economies. The objectives of the Agreements were:

- to increase stability in the three countries so as to encourage and consolidate the reform process;

- to provide a strong link between the EC and the associated countries;

- to raise certainty for the economic operators (domestic and foreign) in the three countries about the commitment to economic reforms and access to the EC market.

After a year of negotiations, the three Agreements were signed on 16 December 1991 and are now awaiting ratification (see below) by the Member States and assent by the European Parliament. Their structure is almost identical, with some minor differences in the details of certain provisions. Notably, in the preamble of each Agreement a reference is made to possible future membership of the EC.

The main provisions of the Agreements include the following:

a) establishment of a political dialogue;

b) establishment of a free trade area over a maximum period of 10 years: immediate elimination (for less sensitive products) and gradual elimination (for more sensitive products) of quotas and duties on both sides, with more rapid liberalization on the part of the EC (abolition of quantitative restrictions of EC on trade in textile products is dependent upon the Uruguay round);

c) granting of limited trade concessions for agriculture and fisheries;

d) non-discrimination of workers from the associated country (already) legally employed in the EC and vice versa, and the application of rules in force in the Member States in the area of mobility of workers;

e) national treatment of individuals and companies;

f) liberalization of services (with special arrangements for transport), and free movement of capital and payments related to free movement of goods and foreign direct investment;

g) application of competition rules (including anti-dumping) similar to those of the EC, with more liberal allowances for state aids in the associated countries during the transition period;

h) approximation of Czechoslovak, Hungarian and Polish legislation to EC legislation;

i) economic cooperation; and cultural cooperation;

j) joint institutions.

*Europe Agreements - Interim Agreements for Trade Concessions*

The Europe Agreements are mixed agreements, i.e. three agreements between the EC and Member States, on the one hand, and Czechoslovakia, Hungary and Poland respectively, on the other. This has as a consequence that for the Agreements to become effective, assent by the European Parliament and ratification by the Member States and associated countries are required.
However, by singling out the parts of the Agreements dealing with trade, for which the Community has exclusive competence, in Interim Agreements the trade concessions could enter into force without waiting for ratification. Three Council Decisions were adopted by the Council of Ministers on 25 February 1992, approving the Interim Agreements signed by the Council and the three countries on 16 December 1991, the date on which the Europe Agreements were initialed. The Interim Agreements entered into force on 1 March 1992 and will be effective until the Europe Agreements enter into force. At the time of writing, the associated countries and only a few Member States have ratified the Europe Agreements.

The Interim Agreements replace the trade and trade-related provisions of the Trade and Cooperation Agreements mentioned above and their objectives go far beyond the first-generation' agreements. The EC has abolished quotas on all industrial products (except for textiles and coal) and customs duties on a substantial number of industrial products upon entry into force of the Agreements. For more sensitive industrial products, including coal and steel, customs duties will be gradually eliminated over a period of 5 years whereas the abolition of duties on textiles will be accomplished over a period of 6 years.

The associated countries for their part liberalize trade gradually over longer periods and according to differentiated calendars: 7 years for Poland, and 9 years for Czechoslovakia and Hungary. However, Poland and Czechoslovakia have abolished all quantitative restrictions (except for textiles) and customs duties on some products upon entry into force of the Agreements.

The economic significance of the trade liberalization for the associated countries is difficult to assess. On the one hand, the value of imports from the EC and exports to the EC has already increased considerably after the conclusion of the Trade and Cooperation Agreements. The Interim Agreements are likely to boost trade even further as a consequence of the sweeping nature of some of the measures. With respect to steel, for instance, for which all quantitative restrictions on exports to the EC were abolished upon entry into force on 1 March 1992, exports from Slovakia in particular have surged substantially. This kind of competition is considered by EC steel producers to be unfair as East European steel exports are distorting the market due to predatory, i.e. lower than cost, prices. This is a consequence of the fact that most East European steel works are not privatized yet and are often heavily subsidized. The effect of increased trade on growth in the associated countries must be positive but is difficult to determine at this stage. In fact, industrial output in those countries has continued to fall since the collapse of Comecon.

On the other hand, the trade concessions of the EC have in the past not always been exploited by the countries of Central and Eastern Europe. In such cases, it was not the formerly existing import restrictions that were impeding trade, but rather structural weaknesses in the economies of the countries, or simply the fact that the concessions were related to products which were not produced in Central and Eastern Europe.

**Europe Agreements - Other Areas**

The objective of establishing free trade between the EC and the three countries (although negotiations for a free trade area among the three associated countries are still ongoing) together with the non-trade-related provisions make the Europe Agreements very comprehensive. Some major elements of the non-trade part of the Agreements are discussed below.

In the field of the free movement of workers, the Agreements leave it up to the Member States to conclude bilateral agreements aiming to improve access of workers from the associated countries to the Member States' labour markets and the Member States shall consider
favourably the possibility of concluding similar agreements'. However, most Member States conduct a very restrictive immigration policy regarding the countries in question. This part of the Agreement may be disappointing but it is the result of the fact that the Community does not have a common immigration policy. The Maastricht Treaty, once ratified, will only provide a basis for intergovernmental cooperation among the Twelve in this area.

Non-discrimination of workers with respect to working conditions, remuneration or dismissal only applies to workers who are legally employed in the territory of a Member State. The contracting parties have also agreed mutually to grant national treatment to companies and nationals. With respect to the latter, the provisions apply to workers already legally employed in one of the Member States and to self-employed persons.

Approximation of law is a provision which aims at preparing the associated countries for their economic integration into the Community by approximating their existing and future legislation to that of the EC in the field of customs law, company law, banking law, company accounts and taxes, intellectual property, protection of workers at the workplace, financial services, rules on competition, predication of health and life of humans, animals and plants, food legislation, consumer protection including product liability, indirect taxation, technical rules and standards, transport and the environment. Technical assistance for realizing this approximation can be provided in the framework of the PHARE programme to the countries by private and public organizations with the relevant expertise in the EC.

Finally, economic cooperation will be undertaken in a large number of areas ranging from, among other things, education, training and cooperation in science and technology, to industrial cooperation, industrial standards, conformity assessment, agro-industry, energy, nuclear safety, environment, SMEs, public administration, telecommunications, banking and regional development.

Poland and Hungary have adopted programmes in the framework of PHARE which allow for the provision of technical assistance from EC-based organizations to the public administrations in order to facilitate the implementation of the Europe Agreements. This assistance can consist of, for instance, training of officials or consultancy to departments dealing with approximation of laws.

The Europe Agreements with Bulgaria and Romania for which negotiations started in May 1992 have largely the same structure as the existing ones. One important difference between them will be the reference to human rights and democracy in the former, in anticipation of requirements laid down by the Maastricht Treaty on European Union. The trade concessions to these two countries are similar to those that have been accorded to Czechoslovakia, Hungary and Poland, and the same formulation concerning future membership in the Preamble has been adopted. However, it is expected that their integration into the Community would be considerably slower and more difficult.

**Partnership and Cooperation Agreements**

The Commission obtained a negotiating mandate from the Council on 5 October 1992 to negotiate a new generation of bilateral agreements with Russia and the other independent states of the former Soviet Union. These new-style agreements called Partnership and Cooperation Agreements are intended to be non-preferential agreements, but will be based on GATT principles (MFN treatment, in particular). This means that the countries concerned will not receive more favourable treatment from the Community than that given to other GATT countries. However, the Agreements may eventually provide for more extensive opening of the EC market by extending GSP treatment to these countries. Separate agreements will cover trade in textiles and nuclear materials. The Agreements will be tacitly renewable after a period of 10 years.
They will have a wider scope than the Trade and Cooperation Agreement concluded with the former Soviet Union in 1990, and will govern a broad range of political, economic and trade relations between the parties. They will include provisions on financial assistance, cooperation and aid. Economic cooperation will contribute to the reconstruction and sustainable development, restructuring, privatization, industry, training and investment. Special attention will be paid to support for regional cooperation among the independent States. Cooperation links with the Community will be pursued in various other sectors, such as agriculture, energy, transport, the environment, tourism and regional development. Economic cooperation and other forms of cooperation could be backed by technical assistance from the Community.

Like the Europe Agreements, the Partnership and Cooperation Agreements will be mixed and will include provisions formalizing political dialogue on issues of mutual interest and provisions for cultural cooperation. Respect for democratic principles and human rights will form an essential aspect of the partnership.

At the time of writing, negotiations have already started with the Russian Federation. Preparations for negotiations were also under way with Kazakhstan, the Ukraine and Belarus.

1 Assistance for Economic Reconstruction in Poland and Hungary, later extended to Czechoslovakia, Bulgaria, Romania, Albania, the Baltic States and Slovenia.

2 The Europe Agreements with Romania and Bulgaria were initialled on 17 November and 22 December 1992 respectively; the former was signed on 1 February 1993 and is now awaiting assent by the European Parliament and ratification by Romania and the Member States, the latter is likely to be signed in March 1993.