An Assessment Of The Europe Agreements With A Special Emphasis To The Trade Aspects

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Abstract: The trade relations between the Central and Eastern European Countries and the European Union began to be developed in the very near past. The economic and political transformations which were realized during the last years of the 1980s, have attracted the attention of the European Union as well as the other industrialized countries. The trade relations began with the Trade and Cooperation Agreements and continued with the Europe Agreements, realizing the weaknesses of the predecessors. The most detailed subject is the trade related aspects of the Europe Agreements in which the areas ranging from the political dialogue to economic cooperation are inclusive. The Europe Agreements envisage the establishment of a free trade area for the industrial goods in ten years between the parties.

In this paper; the trade related aspects of the Europe Agreements which deal with the establishment of a free trade area envisaged by the Agreements have been examined and evaluated in general.

Key words: Central and Eastern Europe, Europe Agreements, European Union, Trade aspects.


Bu çalışmada; Avrupa Antlaşmalarında öngörülen serbest ticaret bölgelerinin oluşturulmasına yönelik olarak yer almış olan ticari düzenlemeler incelenmiştir ve genel bir değerlendirmeye yapılmıştır.

Anahtar kelimeler: Orta ve Doğu Avrupa Ülkeleri, Avrupa Antlaşmaları, Avrupa Birliği, Ticari Düzenlemeler.
1. INTRODUCTION

The political and economic transformations which have been occurred in the Central and Eastern European Countries (CEEC) are undoubtedly one of the greatest challenges facing the European Union in 1990s. The European Union had to respond effectively to the collapse of the communist regimes in Central and Eastern European Countries along with the 1992 Single Market Program.

The European Union had to establish a coherent European policy towards the Central and Eastern European Countries in order to integrate them to Europe. The most effective way of integrating the Central and Eastern European Countries to Europe is engaging them with closer trade relations. Hence, The European Union has responded to the historic transformations in the Central and Eastern European Countries with the trade liberalization regimes.

Trade liberalization of the European Union towards those countries began with the Trade and Cooperation Agreements in the last years of the 1980s. Realizing the weaknesses of the Trade and Cooperation Agreements, The European Union has submitted a new type of agreements, the so-called Europe Agreements, to the Central and Eastern European Countries in 1990s. The Europe Agreements offer more liberalization on trade than the predecessors. While analysing the trade relations between the European Union and the Central and Eastern European Countries, the size and the type of the trade liberalization offered via the Europe Agreements should become apparent.


Prior to 1985, it was really difficult to talk about a relationship between the European Union and the Eastern Europe. Although individual member states, likewise Germany had in recent years established bilateral trade relations with some East European Countries and the Soviet Union, the European Union itself had had relatively little direct and a unilateral relation with the so-called Comecon States.

After 1985, with the leadership of Mikhail Gorbachev, it became apparent that the European Union and the Comecon States relations were entering to a more constructive phase. As part of his general strategy of improving the Eastern and Western Europe relations, Gorbachev was enthusiastic in establishing a dialogue with the European Union, hoping to construct favourable trade relations in order to support his ambitious program of perestroika. As a consequence, a Joint Declaration was signed by the European Union and the Comecon States which involves mutual recognition and a commitment to the development of cooperation, in June 1988 (GOWER, 1994, pp:283-285).

Meanwhile, the economists and the international organisations have been imposing upon the industrial countries, especially the European Union, to renovate their trade regimes
vis-a-vis the Central and Eastern European Countries. Industrial countries were often urged to dismantle non-tariff barriers which are particularly restrictive in sectors where Central and Eastern European Countries have done relatively well. The sectors concerned are agriculture, textiles and clothing, steel and chemicals (OECD, 1991, pp:18-19).

Until the late 1980s, the European Union’s trade regime vis-a-vis the Central and Eastern European Countries were at the bottom of the Union’s hierarchy of trade preferences. Only Romania and Yugoslavia had been benefiting from the European Union’s Generalized System of Preferences, while exports from the Central and Eastern European Countries were generally faced significant trade obstacles, often in the form of quantitative restrictions set at the European Union or national level (EUROPEAN COMMISSION, 1993, p:33).

The first Trade and Cooperation Agreement with a Comecon State was concluded with Hungary in 1988. The following Agreement was the one with Poland in 1989. The European Union’s anxiousness in supporting the Comecon States’ movement towards pluralist democracies and market economies has accelerated the conclusion of those agreements (PINDER, 1991, p:25). Moreover, in January 1990, Hungary and Poland were declared eligible to join the European Union’s Generalized System of Preferences.

Similar Trade and Cooperation Agreements were concluded with Czechoslovakia in 1990 and Bulgaria and Romania in 1991. The Generalized System of Preferences were granted to the other Central and Eastern European Countries in 1991 (BUCHER, HAYDEN, LAREDO, 1994, p:83).

The Trade and Cooperation Agreements envisaged specific provisions for certain sensitive sectors, mostly the textiles, the agricultural products and iron and steel which accounted for a substantial part of the Central and Eastern European Countries’ exports.

For textiles, Hungary and Poland which are participants in the Multifibre Agreement (MFA), accepted an interim agreement that provides quota increases of 13% for Hungary and 23% for Poland, while residual quantitative restrictions by Member States on non-MFA textiles imports from both countries were eliminated in November 1989.

Even though the trade concessions of the European Union were very limited in agriculture, the exports of Hungary and Poland to the European Union accounted for one quarter of their total sensitive commodity exports (EUROSTAT, 1992).

In the case of iron and steel, the Voluntary Restraint Agreements (VRAs) agreed for the last year, in view of the commitments within the framework of the steel trade liberalization arising from the European Union’s relations with the United States and the expected Multilateral Steel Arrangement.

The Protocols concerning the European Coal and Steel Community (ECSC) products were annexed to the Trade and Cooperation Agreements. Those Trade and Cooperation Agreements which have been concluded with Poland, Hungary and Czechoslovakia en-

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1 In this paper, Czech Republic, Hungary, Poland, Slovak Republic, Slovenia, Romania, Bulgaria, Lithuania, Latvia and Estonia are deemed as the Central and Eastern European Countries.
tered into force on 1 December 1991, 1 January 1992 and 1 April 1992 respectively. Consequently, as from 1992 on, the trade in ECSC products was completely liberalized for those three Central and Eastern European Countries (EUROPEAN COMMISSION, p: 34).

3. THE EUROPE AGREEMENTS
The Trade and Cooperation Agreements which have been signed between the European Union and the Central and Eastern European Countries were replaced with the Europe Agreements beginning with Hungary and Poland on 16 December 1991. Then, they have been concluded with Romania, Bulgaria, the Czech Republic and Slovakia on 1 February 1993, 8 March 1993 and 4 October 1993 respectively (http://europa.eu.int/en/agenda/ueace.html).

The Trade and Cooperation Agreements deemed unsufficient in the arrangement of the trade relations between two parties. The Europe Agreements were formulated in a more comprehensive manner in order to compensate the weaknesses of the preceding agreements.

3.1. The Structure and the Characteristics of the Europe Agreements
The Europe Agreements are contracts which aim to create a new climate for economic relations between the European Union and the Central and Eastern European Countries and the Baltic States. Although there are ten independent Europe Agreements, they differ only in detail and for the purposes of this paper are best treated as a group.

The Europe Agreements cover the areas like free movement of goods, workers, establishment and supply of services. They deal with the competition and other economic provisions besides the approximation of laws. They foresee economic, cultural and financial cooperation as well as cooperation in the prevention of the illegal activities.

Annexes 12 and 13 are related mainly to the trade chapters and listing individual products and rates of duty.

These are followed by Protocols, which are fully part of the Agreements and which cover specific areas such as trade in textiles, ECSC products, processed agricultural goods, rules of origin, specific transitional arrangements for trade with Spain and Portugal, mutual assistance in customs matters.

Finally, there are the Joint Declarations which were made during the negotiations and which help to interpret the articles of the Agreements.

The Europe Agreements are mixed agreements, which are based on Articles 238 and 228(3) of the Treaty on European Union.

Article 238 of the Treaty on European Union allows the European Union to conclude with one or more States or international organisations, agreements establishing an association involving reciprocal rights and obligations, common action and special procedures.
Article 228 of the Treaty on European Union deals with the procedures of the conclusions of agreements between the European Union and one or more States or international organizations in general.

Article 228(3) specifies that the agreements referred to in Article 238 should be concluded after the assent of the European Parliament has been obtained.

As a conclusion, The Europe Agreements are association agreements which create reciprocal rights and obligations and require the assent of the European Parliament.

Another feature of the Europe Agreements lay in their mixed character. Mixed agreements are international treaties in which the contracting parties comprise the European Union and one or more Member States on the one side and one or more non-Member signatories on the other. Such treaties are not explicitly provided for in the Treaty of Rome but envisaged in Article 102 of the Euratom Treaty and therefore applicable to the whole Union (LASOK, 1994, p:62). Such treaties were considered by the European Court of Justice in the Opinion on National Rubber (Opinion 1/78 [1979]).

3.2. Trade Related Aspects of the Europe Agreements

Trade related aspects are the most promising parts of the Europe Agreements. The Interim Agreements which allow to start the trade liberalization in advance came into force soon after the conclusion of the Europe Agreements, taking into consider of the time consuming feature of the ratification process. The Interim Agreements replaced with the Europe Agreements when the latter had come into force. The trade related aspects that examined in this paper are the parts of the Europe Agreements.

3.2.1. Free Movement of Goods

The Europe Agreements state that the European Union and the associated country will gradually establish a free trade area over a period of ten years from the entry into force of the Agreement, with a shorter timetable of liberalization on the European Union side. This refers the asymmetry of concessions. Free trade areas would be established over a period of six years for Lithuania and Latvia from the entry into force of the Agreements and immediately for Estonia.

The industrial goods are merely subject to the free movement within the extent of the Europe Agreements. Trade liberalization does not apply to agricultural goods where the existing quotas and tariffs are left largely unchanged. The regime that would be implemented to the agricultural goods is dealt with in Annex 1 of the Europe Agreements. The trade in agricultural goods is excluded from the scope this paper as the trade regime implemented to the agricultural goods differs from the regime implemented to the industrial goods.
The European Union has abolished the tariffs for the majority of the industrial goods when the Interim Agreements came into force. Exclusions are the groups of special goods in Annexes II and III and Protocols 1 and 2.

Annex II deals with the trade liberalization in certain raw materials and primary products. For products in Annex IIA, tariffs would be halved when the Interim Agreement came into force and abolished in the following year. The European Union would reduce tariffs by 20% annually for products in Annex IIB (WINTERS, 1994, p: 19).

After the Copenhagen European Council in June 1993 in which it was agreed to improve the market access, the tariffs on the products within the context of the Annex IIB eliminated in two years instead of five (COMMISSION OF THE EUROPEAN COMMUNITIES, 1993).

Annex III is related to the industrial products which approximately correspond to the sensitive products of the Generalized System of Preferences. The European Union offers duty-free imports of certain quotas and up to certain ceilings to the industrial products within the context of Annex III. The tariffs would be gradually reduced by 15% annually for the excess quantities while the duty-free quantities would be increased by 20% annually (SCHUMACHER, MÖBIUS, 1994, p: 36). A complete liberalization for those sensitive products which include some items of chemicals, furniture, leather goods, footwear, glass and vehicles is envisaged after five years of entering into force of the Interim Agreements (WINTERS, 1994, p: 19).

However, the tariffs on sensitive products were eliminated over three years following the decisions of the Copenhagen European Council on the improvement of market access (COMMISSION OF THE EUROPEAN COMMUNITIES, 1993).

The textiles and clothing and the ECSC products are dealt with special Protocols as they are considered products that have strategic importance.

Protocol 1 arranges the liberalization of textiles and clothing trade. Protocol 1 states that, the tariffs on textiles and clothing would be reduced in six steps, by two sevenths when the Agreements came into force and by a further one seventh every year, beginning two years later. It means that they would be lifted in six years after the coming into force of the Interim Agreements. The tariffs on outward processed goods would be abolished when the Agreements came into force. Quantitative restrictions would continue to exist and dismantled within the next six years (SCHUMACHER, MÖBIUS, 1994, p: 36).

However, the Copenhagen European Council decisions reduced the lifting time of the tariffs on textiles and clothing to five years from six.

The bilateral agreement on quantitative restrictions was concluded with Hungary in December 1992, as part of the negotiations with all trading partners in the MFA. Similar agreements have been made with other associated countries. Those agreements, forced on all the associated countries by the European Union as well as the other industrialised

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2 Chapters 25 to 97 of the Combined Nomenclature with the exception of the agricultural products.
countries, determine in great detail how the quantitative restrictions would be operated and policed. They exclude outward processing traffic in both directions.

Article 1 of these agreements and an exchange of letters confirm that all quantitative restrictions and equivalent measures would be abolished on 1 January 1998, unless the Uruguay Round resulted in a longer period than the agreed time. As this was not the case, this was the date on which free trade in imports into the European Union began. From that date on, only relatively low customs duties in the Central and Eastern European Countries affect the trade on the textiles and clothing (MAYHEW, 1998, pp:62-63).

The free movement of ECSC products is examined in the Protocol 2. The Protocol 2 provides that quantitative restrictions on those products were to be immediately lifted by both parts (GUGGENBÜHL, 1995, p:249) while the duties on coal from Czechoslovakia and Poland would be abolished at the latest one year after the entry into force of the Agreements, with only Germany and Spain having three more years.

As Protocol 2, the tariffs on steel imports would be reduced by 20% per year for the first four years after the Agreements enter into force and by 10% at the beginning of the fifth and sixth years (SCHUMACHER, MÖBIUS, 1994, p:36).

As an outcome of the Copenhagen European Council, the European Union agreed to eliminate the tariffs on steel imports in four years. Customs duties were finally removed for all the Central and Eastern European Countries on 1 January 1996. The Central and Eastern European Countries negotiated longer periods for the elimination of the duties. In the case for Poland, the period extended to seven years and for Hungary and Czechoslovakia to nine years (MAYHEW, 1998, p:63).

3.2.2. Antidumping and Safeguard Measures

The Europe Agreements authorize both the European Union and the Central and Eastern European Countries to counter dumping in accordance with the agreements relating to the application of Article VI of the GATT and related internal legislation and establish a prior information and consultation system on trade practices affecting bilateral trade (MARESCEAU, MONTAGUTI, 1995, p:1345).

Besides the Article VI of the GATT, there is the Council Regulation (EEC) No 2423/88 of 11.7.1988 of the European Union on dumping. It deals with the protection against dumped or subsidized imports from countries which are not members of the European Union (O.J. L 209, 2.8.1988).

3 Outward processing traffic is a scheme where the European Union textile producers can export unprocessed materials to a third country, have the materials processed in that country and re-import them into the European Union free of duty.

4 Article VI(1) of the GATT defines dumping in terms of introducing the products of one country into the commerce of another country at less than its normal value which is, as a rule, the comparable price in the ordinary course of trade, for the like product when destined for the consumption in the exporting country. Article VI was interpreted and supplemented by three subsequent agreements, the so-called Anti Dumping Codes in 1969, 1979 and 1994 and to some extend, by the 1979 Subsidies Code.
According to the Council Regulation (EEC) No 2423/88, a product is considered to be dumped if its export price to the European Union is less than the normal value of the like product. Hence, the normal value is the crucial factor in determining whether dumping has taken place. There are different rules which are set out in calculating the normal value of exports from market economies and non-market economies. So the consideration of the Central and Eastern European Countries as market or non-market economies gains strategic importance in calculating the normal value of the exports.

The antidumping provisions of both the Europe Agreements and the Interim Agreements imply that the Central and Eastern European Countries fall under the market economy rules in the calculation of dumping margins as opposed to the special provisions relating to the non-market economies applied hitherto (COSTELLO, LAREDO, 1994, p:166).

Apart from antidumping measures, safeguard clauses are the other commercial defence instruments contained in the Europe Agreements.

According to the Europe Agreements, a general safeguard clause can be resorted where the increase in import causes or threatens to cause serious injury to domestic producers or serious disturbance in any sector of the economy or in any region of one of the parties.

There is also a specific safeguard clause allowing the Central and Eastern European Countries to raise customs duties on imports coming from the European Union under certain circumstances. These are infant industries and sectors undergoing restructuring or facing serious difficulties, especially when these difficulties produce important social problems.

The other specific safeguard clauses exist in the area of state aids and in the rules on establishment. Moreover, the usual safeguard clause occurs on restrictions on the grounds of public morality, public policy and public security (MAYHEW, 1998, pp: 65-66).

3.3. Trade Between the Parties of the Europe Agreements

As the main theme of the paper is to examine the trade aspects of the Europe Agreements, an evaluation of the trade relations between the European Union and the Central and Eastern European Countries is considered an essential complementary to the study.

In Table 1, the external trade of the European Union with the Central and Eastern European Countries between 1987 and 1997 is given. The trade relations between the parties before the political and economic transformations and after the Europe Agreements can be seen in Table 1.

Table 1 shows that; the percentage of the European Union exports to the Central and Eastern European Countries within the total extra-European Union exports has grown from 5.2 to 12.1 in a ten years time. The percentage of the European Union imports from the Central and Eastern European Countries within the total extra-European Union imports has increased from 5.4 to 9.0 in the same period.
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Table 1. External Trade of the EU With the Central and Eastern European Countries (1000 million ECU).

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Extra EU Exports</th>
<th>Total Extra EU Imports from CEEC</th>
<th>% of Total Extra EU Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>323.4</td>
<td>17.7</td>
<td>5.2</td>
</tr>
<tr>
<td>1988</td>
<td>344.7</td>
<td>19.0</td>
<td>5.1</td>
</tr>
<tr>
<td>1989</td>
<td>391.0</td>
<td>21.8</td>
<td>5.2</td>
</tr>
<tr>
<td>1990</td>
<td>398.9</td>
<td>24.3</td>
<td>5.6</td>
</tr>
<tr>
<td>1991</td>
<td>411.0</td>
<td>28.6</td>
<td>6.2</td>
</tr>
<tr>
<td>1992</td>
<td>471.9</td>
<td>32.5</td>
<td>7.2</td>
</tr>
<tr>
<td>1993</td>
<td>526.1</td>
<td>39</td>
<td>7.9</td>
</tr>
<tr>
<td>1994</td>
<td>573.3</td>
<td>48</td>
<td>8.3</td>
</tr>
<tr>
<td>1995</td>
<td>625.1</td>
<td>58.7</td>
<td>9.1</td>
</tr>
<tr>
<td>1996</td>
<td>718.6</td>
<td>70.8</td>
<td>10.2</td>
</tr>
<tr>
<td>1997</td>
<td>718.6</td>
<td>87.2</td>
<td>12.1</td>
</tr>
</tbody>
</table>

Table 2. EU-Central and Eastern European Countries Trade by Product Group, 1998.

<table>
<thead>
<tr>
<th>Product group (SITC Rev.3)</th>
<th>Exports</th>
<th>Imports</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>Value</td>
<td>Value</td>
<td>1993</td>
</tr>
<tr>
<td></td>
<td>68.0</td>
<td>90.2</td>
<td>7.2</td>
</tr>
<tr>
<td>0-4 Primary products</td>
<td>8.5</td>
<td>7.7</td>
<td>-1.5</td>
</tr>
<tr>
<td>0+1 Food</td>
<td>2.8</td>
<td>4.4</td>
<td>0.9</td>
</tr>
<tr>
<td>2+4 Crude materials</td>
<td>3.4</td>
<td>1.9</td>
<td>-1.1</td>
</tr>
<tr>
<td>3 Energy</td>
<td>2.3</td>
<td>1.4</td>
<td>-1.3</td>
</tr>
<tr>
<td>5-8 Manufactured goods</td>
<td>58.7</td>
<td>80.4</td>
<td>8.4</td>
</tr>
<tr>
<td>5 Chemicals</td>
<td>3.3</td>
<td>10.4</td>
<td>2.3</td>
</tr>
<tr>
<td>6+8 Other manufacture articles</td>
<td>29.9</td>
<td>29.7</td>
<td>-2.1</td>
</tr>
<tr>
<td>7 Machinery, vehicles</td>
<td>25.5</td>
<td>40.3</td>
<td>8.1</td>
</tr>
<tr>
<td>9 Articles not classified</td>
<td>0.6</td>
<td>0.7</td>
<td>0.3</td>
</tr>
</tbody>
</table>

Table 2 shows that the trade by product groups focused mainly on the other manufactured articles which is accounted 44.8% of the total imports and 33.6% of the total exports of the European Union and machinery and vehicles which is accounted 37.5% of the total imports and 44.7% of the total exports of the European Union.

The most striking information taken from the Table data is the remarkable increase in the trade deficits of the Central and Eastern European Countries. Until 1990, the Central and Eastern European Countries had a trade surplus in their trade with the European Union. But after 1990, the year that the political and economic transformations in Eastern Europe began, the trade surplus has transformed to a trade deficit.


Table 2 shows that the trade by product groups focused mainly on the other manufactured articles which is accounted 44.8% of the total imports and 33.6% of the total exports of the European Union and machinery and vehicles which is accounted 37.5% of the total imports and 44.7% of the total exports of the European Union.

The European Union and the Central and Eastern European Countries trade in primary products is more or less in balance but in the case of the manufactured goods, the European Union has a surplus of ECU 21.7 billion. This surplus is derived mainly from trade in machinery and vehicles which is accounted ECU 14.8 billion.

4. CONCLUSIONS

The Central and Eastern European Countries were not at the foreign trade agenda of the European Union until the last years of the 1980s. The first significant trade links had been constituted by the Trade and Cooperation Agreements though were deemed unsufficient.

The new era which has begun with the conclusion of the Europe Agreements in the first half of the 1990s, accelerated to establish stronger economic and political ties between the parties.

Even though the Europe Agreements comprise subjects like economic cooperation as well as political dialogue, the most enthusiastic parts are the trade related aspects.

The Europe Agreements do not provide a full liberalization to the European Union and the Central and Eastern European Countries trade as because the existing quotas and tariffs are left largely unchanged on agricultural goods.

The European Union protects the sensitive products which have strategic importance to the Central and Eastern European Countries by the Europe Agreements. But the protection is not a longstanding one, lasting in three to six years.

The Central and Eastern European Countries have gained major concessions by the Europe Agreements. They have been enjoying a privileged market access in most of the industrial goods.

In spite of the trade concessions gained by the Europe Agreements, the Central and Eastern European Countries have been exposed to the trade deficits. In the course of the Europe Agreements time, those countries have just started to experience the market economy rules and have been introduced with the trade deficits.

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