

EDITORIAL COMMENTS

The Community and the Council for Mutual Economic Assistance

The Council for Mutual Economic Assistance (CMEA or COMECON) was established at an economic conference in Moscow in January, 1949, very largely as a counterpart to the establishment of the Organisation for Economic Cooperation (OEEC – later, in 1960, reconstituted as the Organisation for Economic Cooperation and Development – OECD) which had been founded in the previous year in order to administer the Marshall Aid programme for Western Europe. Negotiations for the conclusion of an agreement between the Community and the CMEA began in 1978 but could not be brought to a successful conclusion. Talks broke down in 1988 when the Community rejected a proposed agreement which would have allowed the CMEA to intervene in bilateral trade arrangements between the Community Member States. Exploratory contacts were re-opened in 1985 with the aim of moving towards a progressive normalisation of relations between the Community and both the CMEA and its individual Member States. The policy of the Community was stated to rest upon three central principles – standardisation, parallelism and differentiation.

Substantial progress was made in 1987 in the bilateral negotiations and also in the liberalisation of trade under the various unilateral arrangements. The Commission developed exploratory talks with Poland and Bulgaria. The Council issued directives for negotiations with Romania, Hungary and Czechoslovakia with a view to concluding trade and cooperation agreements with the first two countries and a trade agree-

ment with the third. A dramatic breakthrough in this long and complex series of negotiations was reached on 25 June, 1988, with the signature of a Joint Declaration establishing official relations between the Community and the CMEA. Since then certain CMEA Member States, notably Bulgaria, Czechoslovakia, the German Democratic Republic and the USSR, have indicated that they wish to establish formal diplomatic relations with the Community. Negotiations with Czechoslovakia, Bulgaria, Poland and Romania have continued, and a trade agreement between the Community and Hungary was initialled on 1 July, 1988.

These developments will be certain to have a substantial impact upon the commercial policy of the Community, and upon the progress of the second phase of the Uruguay Round of multilateral trade negotiations within the framework of the GATT. At the present time, of the 96 Contracting Parties to the GATT, 25 are industrialised States, 9 are advanced developing States, 52 are developing States, and 6 are non-market economy States. Talks which may eventually lead to the accession of China have been under way since 1987, but, although the USSR did express interest in accession to the GATT before the opening of the Uruguay Round, this matter is currently in abeyance. If the GATT is to have an assured future as a general trading organisation, rather than as an organisation centred upon the market economy countries, then the eventual admission of China and the USSR will become an issue of crucial importance. So also will be the future status and function of the Community as a single Contracting Party in its own right. For the moment these issues are being played down but they lie close to the surface and fears of a "Fortress Europe" may well emerge as a dominant factor in the later stages of the Uruguay Round negotiations.

The Community is pledged to work toward the strengthening and reform of the GATT structures and institutions. It is entering upon a new era of trading relationships with non-market economy States. To date, the GATT has not shown a real ability to assimilate the needs and aspirations of widely disparate national economy systems within its network of rights, obligations, exceptions and exemptions. Its structure, because of its origins, is less than efficient and its rules are difficult to change or amend. Its central deficiencies lead to short-term settlements rather than to longer-term stability and predictability in international trading

relationships. The Community has tabled comprehensive proposals in the Uruguay Round negotiating group on the functioning of the GATT system (the FOGS group) which aim to establish for the GATT an authority and a place in international economic relationships comparable to that of the International Monetary Fund and the World Bank – the two other pillars of the original Bretton Woods system.

Yet the prospects for the Uruguay Round itself are bleak. The “mid-term” review of the negotiations which was completed in Montreal between 5 and 9 December, 1988, has shown the talks to be deadlocked. They will be reconvened after a four months “cooling-off” period in Geneva in April, 1989. The progress made so far is totally at risk because the Community and the United States have been quite unable to arrive at an acceptable compromise over the phasing-out of agricultural subsidies. Mr Clayton Yeutter, the United States Special Trade Representative in recent years, will retire from that office at the end of 1988 and has just been nominated by President-elect Bush as Secretary of State for Agriculture. He, and his opposite number in the new Commission who will take office at the same time, will have little room for manoeuvre and little opportunity for protracted discussions in order to secure an agreement upon which to move forward. The United States cannot hope to succeed with its “zero option”, but the Community, for its part, must be prepared to demonstrate that its commitment to agricultural policy reforms, demonstrated in the “Delors package” of February, 1988, is continuing. If the Community fails in this then the Uruguay Round negotiations will founder and the forces of protectionism in the United States will be given fresh encouragement. The breakthrough in trading relationships with Eastern Europe is a very considerable achievement for the Community and should enable it to make a unique contribution to the Uruguay Round negotiations – if they can be saved from the present impasse.