cc: PC.

CONFIDENTIAL

FCS/90/019

CDP 26/1

SECRETARY OF STATE FOR TRADE AND INDUSTRY

EC/Eastern Europe

1. Thank you for your letter of 13 December about developments in Eastern Europe.

2. I have also seen John Gummer's letter of 8 January to you, and your response of 12 January. I think we all agree that it was right for the UK to take the lead in encouraging a positive response to reform in Eastern Europe. Of course, trade concessions cannot be cost-free for all UK producers, but we have negotiated hard to ensure that the costs are fairly distributed among EC member states, and there will be considerable benefits for UK consumers. Like you, I think that allowing our people to buy genuinely competitive produce is the best form of assistance to Eastern Europe: allowing market mechanisms to operate ensures maximum benefit.

3. I agree with what you said about Inner German Trade, and we have taken this up in the context of the mandate for the EC/GDR negotiations: the Commission and the FRG are due to report back to member states.

4. I also agree with the suggestion in your letter of 15 January that ECGD investment insurance should be provided for Poland and Hungary. I am glad that you are keeping under review the position on export credit cover for Eastern Europe.

CONFIDENTIAL

5. We have announced that our Know-How Funds for Poland and Hungary will be rolled into one Fund covering all emerging democracies in Eastern Europe. I can confirm, in response to your letter of 19 January, that the Fund can indeed be used to promote investment (including meeting up to 50% of the cost of feasibility studies).

6. In assessing the new opportunities for British exports to Eastern Europe the first priority should be to ensure that UK firms are aware how best to secure business financed by the EC. If the Community is footing the bill, exporters can be fairly sure of being paid. I hope that we can come up with creative initiatives on the lines of the efforts we made to educate UK exporters on the opportunities for them in Southern Europe created by the doubling of the EC Structural Funds.

7. My office circulated on 22 January some further background on political and economic developments in Eastern Europe, prepared for my use at the meeting of Community Foreign Ministers in Dublin on 20 January. The meeting went well with Delors accepting the argument that programmes of assistance to Europe should be put together "bottom up" brick by brick, assessing specific requirements and identifying appropriate projects, not setting unrealistic targets top down. Delors claimed that the figures he mentioned in Strasbourg on 17 January (19 billion ecu a year for 10 years) had been designed only to demonstrate the absurdity of grandiose totals: they certainly achieved that.

8. Copies of this minute go to the Prime Minister and members of OD(E) and to Sir Robin Butler.

DH

(DOUGLAS HURD)

Foreign and Commonwealth Office
26 January 1990

FOR POL: East/West Relations PT20

MAFF

Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH

ukc
VRW

From the Minister

The Rt Hon Nicholas Ridley MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
London
SW1H 0ET

8 January 1990

Dear Secretary of State

EC - EAST EUROPE

I ~~was~~ at first most interested to see the paper circulated with your letter to Douglas Hurd of 13 December, on the implications for the UK of the East European economies. There are two points on which I should like to comment.

First, I was surprised to see the suggestion in paragraph 31(iii) that "we should actively press for EC trade concessions to cover the agriculture sector as fully as possible". You will be aware that the recent tariff reductions on agricultural and horticultural products exported by Poland and Hungary have incurred quite vigorous criticism from our own producers and processors who are likely to be hit by the measures. Some of this criticism is bound to be voiced from both sides of the House when the Scrutiny debate on the extension of GSP for Poland and Hungary takes place in the New Year.

So far we have successfully defended our policy by drawing attention to the fact that we managed to secure concessions that were more limited in scope than those originally proposed by the Commission, and by expressing our conviction that the end result represents the right balance between the interests of our own industry and the need to show our commitment to assisting the process of political and economic reform in Eastern Europe. We would not be able to use those defences if we were to start actively pursuing across-the-board agricultural concessions as your Department's paper suggests. I cannot therefore agree to this objective. The Commission are already quite well aware of the importance that East European countries attach to improved

FUR POL: East/West Relations Pt10

access for their agricultural products. They may therefore make further proposals. But we must examine these case-by-case to see what impact they would have for us domestically, and continue to seek a balance between reinforcing developments in Eastern Europe and safeguarding the future of our own industries.

My second concern is over health issues. I was pleased to see that you referred to this in your letter, among the problems of frontier controls over which we need to keep watch.

We have a degree of freedom from diseases of animals, plants - and fish - in this country which we do not want to throw away. I had asked my officials to assess what new risks there could be from the recent developments in Eastern Europe. One conclusion is that there is certainly a range of diseases present in those countries which we do not have and must continue to try and keep out. Procedures in force now should give us the protection we want but it seems inevitable that risks will increase with the greater volume of movement of people and goods, particularly between the GDR and the Federal Republic.

It is in my view important that we should seek assurances from the Federal Republic that they not only intend to maintain the procedures in force up till now but are also prepared to put in whatever additional administrative effort may be required to keep up levels of control in the new circumstances. I therefore strongly support the suggestion you make that we insist with the German Government that they maintain proper border checks at the inner German frontier. I hope our concern on this issue can be registered with the FRG quickly, through FCO channels.

I am copying this letter to the Prime Minister and members of OD(E), to Sir Robin Butler, Sir David Hannay and Sir Christopher Mallaby.

Yours sincerely

M D K Hanson

JOHN GUMMER
(approved by the Minister
and signed in his absence)

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CC PC / PU?

dti
the department for Enterprise

CONFIDENTIAL

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

Rt Hon Douglas Hurd CBE MP
Secretary of State for
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Our ref JW2AHT
Your ref
Date 13 December 1989

CDP 14/12.

Dear Douglas

EC-EAST EUROPE

A couple of weeks ago, I asked my officials to prepare a paper for me on the implications for UK trade and investment of the opening up of the East European economies. This is now attached for information of colleagues.

I do not think I need to summarise the conclusions and recommendations here. They are clearly set out in paragraphs 2 and 30 and 31. They are, I think very much in line with the thinking developed in the briefing for Strasbourg (and are not altered by the outcome of the Summit). I would though like to draw attention to two specific points.

The first is the question of controls at the inner German border, which we discussed in Cabinet last week. The paper deals with the question of Inner German Trade in paragraphs 9 - 11. We conclude that, whilst IGT has so far been run in such a way as to minimise economic problems for other member states, we will need to ensure for the future that it does not become a back-door route for evading EC commercial policy. This means that the German government must take any necessary action (which may be through internal controls as well as the frontier) to enforce Community rules. I understand that our Embassy in Bonn have advised that IGT goods will have to go through one of only four crossing points, which should make it easier for them to maintain existing controls, especially as the VAT rebate depends on the necessary documentation being obtained at the frontier. For the moment, then, the situation continues to look reasonably secure - but we will need to keep a very close eye on developments.

That leaves the problem of other frontier controls - the most important of which are those over people (for the purposes of controlling drugs, terrorism etc), and for animal and plant health reasons. It is an essential part of our position on the EC's <u>internal</u> border controls that the <u>external</u> frontier must be strengthened. We must therefore insist that the German Government maintains proper checks for these purposes at the inner German frontier. The same point seems to have occurred to some other member states, particularly those in the Schengen agreement who have to face the problem more starkly. The Embassy's advice is that, as things settle down again, the FRG will want to check travellers in both directions across the border to ensure that they are not bringing in unauthorised goods (including COCOM-controlled goods from West to East). With the much greater number of crossing points, that will be no easy task. The freer interchange between East and West will inevitably make the border more porous - but that is no excuse for not carrying out at least the level of control that member states apply for other non-EC goods and people.

The second point I would like to highlight is the question of ECGD cover, dealt with particularly in paragraph 31(vii) of the paper. I am reviewing the position urgently, particularly on investment insurance, and will write again in the light of ECGD's advice.

I am copying this letter to the Prime Minister and members of OD(E), and to Sir Robin Butler, Sir David Hannay and Sir Christopher Mallaby.

Yours

Nicholas

EC-EAST EUROPE

SUMMARY

1. This paper describes the current economic situation of the East European countries and the EC's trade relations with them; and analyses future prospects, with particular reference to the economic impact on the UK. It suggests some guidelines for the development of the EC's relations with these countries and considers whether, and if so how, HMG should seek to influence the response of UK business.

2. Its main conclusions are:

i) that developments in East Europe will first be an economic liability for the EC (above all for the FRG); second an opportunity for our exports and investments; and only third a threat (and a rather limited one at that)

ii) that the scale of the economic impact of these developments will be relatively small, but beneficial to the EC

iii) that though FRG is bound to play a predominant role, there are real opportunities for the UK in this so-far underdeveloped market

iv) that UK objectives should be to use such leverage as we (and the EC) have to bring forward economic reform and to help UK business; to ensure that the main focus of Western aid is to help these countries help themselves; to encourage burden-sharing, particularly through involvement of the EFTA countries in trade and financial concessions; and to ensure that long-term forms of association with the EC encourage the development of a balanced, fully reciprocal relationship

NATURE AND SIZE OF THE E.EUROPEAN ECONOMIES

3. At Annex A are brief pen-pictures of the East European economies. Main points to note are:

i) Total population of about 136 million (355 million with USSR, west of the Urals).

ii) But individually these countries are relatively small (e.g. GDR and Czechoslovakia, the two most advanced, each have about the same population as the Netherlands).

iii) Massive, and probably underestimated, debt (at least 100 Billion dollars). Poland (39 billion) and Hungary (20 billion) the worst cases. Czechoslovakia (5.7 billion) and Rumania (2.9 billion) the best. Poland, especially, and Hungary have by far the largest ratios of debt and debt interest payments to visible exports to the market economies.

iv) Industrial structure concentrated in Stalinist fashion on heavy industry (steel, basic chemicals)and extractive industry (coal). All have potentially rich agricultural lands, which they have generally failed to exploit effectively.

v) GDR has the most competitive industry (electronics, printing machinery, scientific instruments). Czechoslovakia retains some of its traditional engineering strength. Yugoslavia probably has the most effective enterprises.

vi) Accurate figures are not available to make comparisons of GNP levels.

TRADE PATTERNS : GENERAL

4 Annexes B and C give some raw figures. (Note: There are no statistics on trade in services). Key points:

i) Trade is to a large extent carried out with other E. partners, especially USSR e.g. around 70% of Czechoslovakia trade and 50% of Polish and Hungarian is with the East.

ii) Little trade with EC : 10% for Czechoslovakia; 20% for Poland and Hungary; 30% of Yugoslavia's imports and 25% of her exports.

iii) Altogether trade with E.Europe makes up a little under 2% of EC flows in both directions (if trade between EC members is included). EC-E Europe trade is broadly in balance with Yugoslavia the biggest trader in both directions, followed by GDR.

iv) Leaving aside the GDR (for which there are no detailed figures), over 80% of the value of EC exports is in manufactures (especially semi-manufactures and engineering goods). Of EC imports, 65% are manufactures, with simple consumer goods predominant. Imports from Poland, Hungary and, to a lesser extent, Bulgaria show quite a high proportion of agricultural products.

TRADE PATTERNS : UK

5. Main points:

i) Trade in both directions amounts to about 1% of total UK trade (excluding the USSR).

ii) In aggregate, trade is in deficit, the largest deficit being with Poland and the lowest export/import ratio with GDR.

iii) UK exports amount to 6-7% of total EC exports to the East. Our best market is Yugoslavia. We achieve our best performance relative to other OECD countries in Rumania.

iv) About 80% of UK exports are manufactures, but our agricultural exports are relatively more important than for the EC as a whole, especially to GDR. (The ratio for Poland seems to have been unusually high in 1987).

v) If the USSR is excluded about 75% of our imports are manufactures. Poland and Yugoslavia are our largest suppliers. But from the USSR alone our imports are primarily raw materials, mainly oil, timber and diamonds.

A note on ECGD cover is at Annex D. This also covers ECGD's attitudes to investment insurance.

TRADE PATTERNS : FRG

6. Main points:

i) Trade with E.Europe makes up 3-4% of FRG exports and imports.

ii) Trade with GDR alone makes up a little over 1% of FRG exports and 1.5 - 2% of imports. Its exports to GDR were 1.5 times the total between the rest of the OECD and GDR.

iii) FRG is by far the largest trader with the Eastern countries. It provides 60% of exports and receives 50% of imports. Leaving aside GDR, it provides between 35-40% of total OECD exports to all the E.countries except Rumania.

iv) 90% of its exports are in manufactures, and 75% of its imports.

v) But, to put matters in perspective, the FRG does more business with Denmark than it does with the USSR.

INWARD INVESTMENT

7. Athough investment in joint ventures has been possible in Hungary for at least 10 years, it is only in the last 3 years that inward investment has made any impact in E.Europe. Even now, probably no more than 40 of the 1000 or so joint ventures announced by the Soviet Union with W.partners are actually in operation (although some 800 of these were only agreed this year). Though there are fewer agreements with Poland and Hungary, more may actually be in operation, though very few of them are on any scale. There is little or no joint venture activity in the other E countries. The European countries are the major investors : over 70% of investment in USSR, Hungary and Poland. FRG investment predominates, especially in Poland. Joint venture investments are high risk - though anecdotal evidence suggests high profits can be made.

CURRENT TRADE RELATIONSHIPS WITH EC

8. Annex E shows the position in tabular form. Main points:

i) EC has followed a policy of differentiation, rewarding the economic and political reformers.

ii) Poland, Hungary and Yugoslavia all now have a very favourable trade relationship, with most QRs abolished or about to be so, and GSP concessions. (Yugoslavia is treated as a Mediterranean country by the Commission, which brings them within the current review of EC-mediterranean arrangements).

iii) Rumania also has GSP (dating back to when it too was a reformer), but further development of the relationship is stalled.

v) A new agreement has just been reached with USSR, and the Commission will soon propose a mandate for negotiations with GDR.

vi) Czechoslovakia has a limited agreement, and Bulgaria none at all.

vii) Leaving aside GSP concessions, the East Europeans face the EC's common external tariff (average industrial tariff is 6.2%)

viii) Anti-dumping action against E.Europe is relatively common.

ix) QRs on E.European exports to EC remain extensive (though they are being phased out for Poland and Hungary). They cover products such as gloves, footwear, tableware, TVs, as well as textiles, steel and agricultural goods. But they probably do not bite very hard. Virtually all the UK's remaining QRs are with E.European countries.

x) Czechoslovakia, Hungary, Poland, Rumania and Yugoslavia are GATT members, though they have honoured their obligations imperfectly, if at all. GATT observer status for the USSR is now not far away.

INNER GERMAN TRADE

9. We have already circulated a paper (at Annex F for ease of reference). Precise trade figures are not available. But FRG exports to GDR have been running at about DM 7-8 billion since 1985, with imports slightly less. FRG exports are strongest in machinery and electronic products (about 10% of the total) and chemicals (about 8%). GDR exports are strongest in chemicals and textiles/clothing (each about 12%). Otherwise raw materials and basic manufactures (petroleum products, agricultural products, non-ferrous metals, wood products, iron and steel) make up the great bulk of GDR exports.

10. This suggests that the main problem posed by IGT for other EC member states may be that it gives cheap access for the FRG to basic industrial goods, thus aiding FRG competitiveness and making it harder to sell into the FRG market. But this depends on the prices obtained by the GDR. Little information exists on this. Two factors suggest that prices may not be so low as to give the FRG a major advantage. The FRG is keen to prevent dumping of GDR goods, and exercises controls on pricing to this end; and GDR will want to obtain the highest price possible in a situation which, because of politics and the need roughly to balance the trade, gives them an opportunity to obtain some economic rent. If, nevertheless, we did see this as the major problem of IGT, it would be logical for the EC to reduce or abolish its own tariffs against the GDR to level the playing-field.

11. If, on the other hand, our main concern is with leakage (and this is the point on which complaints have concentrated - though they have not been very stong of late), then we need to ensure continuing FRG controls - especially after 1992, when it will become more difficult for member states to take safeguard action. The argument for such a stance is strengthened by the likelihood that GDR exports will grow in sectors where there is a relatively high EC tariff and goods are easily transported (e.g. textiles and electronics). We must also ensure that IGT does not become a backdoor route for evading EC commercial policy controls e.g by Japanese inward investors. This means that we must insist that German Customs

continue to take any necessary actions at the frontier with the GDR to enforce Community rules such as origin rules. Otherwise, there is a danger that controls will be relaxed over time in response to political rather than economic pressures.

COCOM

12. There are no figures which truly reflect the effect of the COCOM controls on UK or EC trade with the Eastern bloc. In the short term, it is unlikely that there will be much change as a result of current developments in the East. But many of the COCOM-controlled dual-use goods are essential prerequisites for economic development and the goods Western industry most wishes to sell. The pressure for relaxation of controls is therefore likely to grow rapidly.

EFTA-EAST EUROPE

13. The EFTA countries have a mixture of trade arrangements, with most generous treatment for Yugoslavia (including GSP and financial aid). Austria gives preferential tariff treatment to Hungary and is, apart from FRG, the biggest OECD trader with the GDR. Trade between Finland and USSR is covered by principles similar to those for IGT. Finland has a fairly active anti-dumping policy against E.Europe; Sweden has taken occasional anti-dumping action; the others none at all.

CURRENT STATE OF ECONOMIC REFORM

14. Note at Annex G. In practice, little progress has yet been made in converting command economies into market economies. Wages reform has gone furthest. In most other respects, organisational change has yet to bring significant practical effects, usually because of lack of convertible currency and foreign exchange. No significant moves have yet been made towards real pricing, and subsidies on basic products, especially food are rife.

ASSESSMENT OF PROSPECTS

i) Short term trade prospects

15. All of these countries will to a greater or lesser extent need to restructure their industries to reflect more accurately comparative advantage in a world context and introduce more productive machinery.The West must be a major source of such equipment. The difficulties of the agricultural sector, which has shown persistently slow growth in the 1980s, is likely to generate demand for food, animal

feed and fertilizers. One element in giving greater emphasis to competitive forces is likely to be the reduction of import barriers e.g. Hungary aims to reduce such barriers substantially over a three year period.

16. These factors all make for higher western exports. On the other hand, higher exports are likely to be impeded by major structural problems, particularly massive indebtedness. The Eastern countries will be reluctant to take on new debt unless existing debt can be substantially written off. Poland, especially, may be looking for grants. Private investment, usually as joint ventures, would clearly be helpful but just as some eastern countries will be reluctant to extend their debt commitments, so western firms are not likely to be quick to risk exposure to currency fluctuations and other uncertainties involved in investment e.g. lack of information on credit status of new trading bodies. This is also likely to be true of western banks and export credit organizations. In addition, COCOM arrangements limit the scope of technical transfer that takes place in imports from the west.

17. There is a clear need to improve eastern export performance to the west to help purchase the required imports. But this looks likely to be difficult for some time. Governments need to get to grips with overheated economies and this can only be painful. Exchange rates are, in some cases at least, much above free market levels but downward adjustments add to inflation.

18. Perhaps above all, there is the problem of producing goods of a quality that will sell competitively in world markets (in spite of high investment ratios). Output is of a kind frequently competing with the NIEs and to a significant extent meeting trade barriers or anti-dumping action in western markets. This situation will improve with the new trade agreements but in the short run, at least, E.European exports to the EC and the other western countries are not likely to rise very quickly and western firms are not likely to be swift to step up investment. Hard currency shortages will therefore persist and limit the scope for EC exports. Much will therefore depend on the terms on which aid can be obtained or, counter-trade deals arrived at. The terms of trade of the E.European countries seem more likely to worsen than to improve because of quality problems and the unrealistic levels of, at least some, exchange rates.

19. In most sectors of industry, the FRG is the best placed among EC countries to increase its manufactured exports to Eastern Europe and has more experience than others in co-operative ventures (e.g. outward processing of textiles). Exports from the UK (which have grown slowly even in value in the last few years) may show only relatively slow growth.

They should be helped by improved cost competitiveness this year but only a limited number of companies have much experience of selling in E.Europe. Credit cover is also rather limited and it is increasingly alleged by British businessmen that British banks are less supportive than German and Austrian ones, especially Deutsche Bank and Credit Anstalt.

ii) Longer Term

20. A change in this picture will depend mainly on the pace of structural adjustment within E.Europe, its opening up as part of the global market, and output patterns coming more into line with comparative advantage. This seems unlikely to be a very smooth process. It might be expected that E.Europe would gain from any gradual opening up of EC farm product markets arising from the GATT Round but this would require much improved supply performance. In general agriculture has been a relatively slow growing component of E.European output and in recent years there have been difficulties in meeting domestic needs. A much more open market of 130 million people would offer substantial export opportunities to EC and other western countries if the adjustment process goes well. In turn the eastern countries would provide new sources of goods and a further competition spur.

21. Over time, the economies of East and West Europe, are likely to become more closely integrated. For this to happen the eastern currencies will need to be made convertible, both with one another, with the USSR and with the rest of the world. At present, an appreciable part of their trade is with the USSR, and this will not change quickly. The bureaucratic system that has directed output and bilateral trade will take time to loosen. Further, there is almost no economic pricing. Given the reliance on the planning system, prices have no market role and costs are probably largely unknown, in terms of traded output. Thus it will be necessary to establish price relativities and adjust behaviour requiring, for example, the development of new banking institutions.

22. There will be a need for a framework to allow a relatively free international exchange of trade. Post-war reconstruction in W.Europe made rapid progress in the 1950s but this had the advantage of established legal and business practices, a disposition to use market mechanisms and monetary values. Nevertheless it required the institutional presence of the OEEC and, especially, the European Payments Union (EPU) together with the contribution to liberalization made by GATT to bring about the desired multilateral trading network. Although in the West there are now available sophisticated and experienced institutions such as the IMF, the IBRD and local

development banks to provide the relevent expertise, the only economic organisation that presently spans E.Europe is CMEA (Comecon). At present the CMEA is more a barrier than an aid to development and much will depend on Hungarian and other attempts to reform or replace it.

23. E.European debt, held by western banks, including UK banks, provides an opportunity for at least some debt/equity swap which could allow western banks a role in creating a market in Eastern Europe. Some of our banks are now taking a careful look at opportunities. Accounting practices are now being introduced at least in Poland and Hungary. This will help to provide the context for economic development and greater integration. A prior condition is, however, a considerable improvement in the quality of E.European goods even those aimed at the low price/quality end of western markets (and the LDCs).

24. In aggregate, therefore, the developments in E.Europe are likely to be first a liability to the EC because of the need for grant aid and other concessional finance; second, an opportunity for our investors and exporters; and only third a threat in some sectors (e.g. agriculture and textiles). These assessments apply above all to the FRG. They will provide the biggest chunk of financial aid, and investment. In the short-term this will put some strain on the FRG economy. In the longer term, the FRG will probably benefit most from closer integration with the E.European economies but the boost to growth and trade from this new market of 130 million people, previously starved of western goods should be of benefit to the whole Community, including the UK.

CONSEQUENCES FOR THE UK

25. There are promising interests for us - particularly in services, consultancy advice etc; as well as for our big companies who are already there such as ICI and Courtaulds. This assessment is shared by the East Europe Trade Council. Their reactions to recent events are:

i) that Poland and Hungary in particular will have to rely on W. aid in the short term

ii) that, nevertheless, East Europe offers much more of an opportunity than a threat : it is the Communist system that has prevented us doing more business in the past, not any lack of latent demand

iii) British companies with subsidiaries in the FRG expect to be able to make even better use of them in E.Europe now

26. The arguments in this paper suggest that the pace and scale of increased competition from Eastern Europe, and from West Germany's taking advantage of closer links especially with East Germany, are not likely to represent significant additional difficulties for UK trade and payments. Nor are they likely to add significantly to the problems of adjustment we face because of recent excess demand, partly because it will take a number of years before there are any really significant industrial changes in the East.

27. For the most part the output of Eastern European countries is not dissimilar, food apart, from that of southern EC members and newly industrialising Third World countries. An increase in exports from the East is likely to be at the expense of exports from other countries rather than UK output. But if Eastern Europe does demonstrate comparative advantage, there should be classical gains from trade to offset any cost of adjustment.

28. More problematic could be the advantage that competitor firms in West Germany seek to reap from increased use of Eastern sources of intermediate supply particularly from the GDR. Against this, as para 10 argues, the GDR will want arrangements that capture at least part of the resulting economic advantage for itself. In this and other ways increased Eastern European activity can only strengthen the potential of its market for our goods and services. In any event, enhanced activity in West Germany is likely to be helpful since this is our largest export market, though there could be some adjustment between product areas in the United Kingdom as a result of changes in West German supply. As time goes by, however, greater economic interdependence in Europe should be of advantage to all, particularly if it manages to embrace a more productive USSR as well.

CONCLUSIONS

29. Certain facts of the present situation have to be taken as given. The EC has already settled the trade regime for Poland, Hungary, Yugoslavia and USSR. These agreements can be amended, but not, in the short term at least, so as to take away concessions already granted. The predominant role of the FRG will also be very difficult to shift (though, short-term, this may be to the FRG's economic disadvantage). Nor should we exaggerate the economic importance of these developments. All the countries of East Europe are poor and some are now in dire economic straits. It is as if the EC was taking on half a dozen new Greeces and Portugals, and not even Spains, let alone the EFTA countries. There will be a financial burden to us; some diversion of investment to take advantage of lower

costs; new markets opening up; but no major competitive threat.

30. Against this background, UK economic objectives should be:

i) to ensure that the leverage the EC has, by virtue of financial aid and trade concessions, is used - particularly with the stronger Eastern economies - to bring forward economic reform : proper pricing, a more secure climate for private investment, convertibility

ii) to ensure that our own leverage e.g. though the know-how fund for Poland is used, as far as possible, to facilitate UK penetration in areas such as consultancy, accountancy, services where we are strong

iii) to encourage freer trade and investment <u>between</u> the E.European countries and the USSR, so providing a more attractive market for western investors, and taking some of the burden off the EC. The aim should be to help reforming East Europeans to help themselves (and to suck the Russians into the process)

iv) to encourage burden-sharing especially by the EFTA countries, who need to open their markets further for agricultural goods in particular.

31. This means that:

i) <u>in the G24 and through the IMF</u> we should continue to look for ways in which financial aid can underpin economic reform, especially convertibility; encouragement of private investment; providing the necessary conditions for private investment (company law, accounting conventions, anti trust, abolition of state monopolies etc) and a move away from bilateralism in trading relationships. The European Payments Union and the OEEC set up under the Marshall Plan, may offer lessons and models

ii) <u>in the OECD</u>, we should look for ways of involving the E. countries who have made most progress with reform e.g. through technical assistance, seminars etc

iii) <u>in the EC</u>, we should continue the policy of differentiation, as the best way to encourage economic and political reform. We should press for EC trade concessions to cover the agricultural sector as fully as possible. We should also try to ensure that the EC drives a harder bargain in return for trade concessions with the more advanced economies, especially GDR and Czechoslovakia. This means obtaining commitments to further economic reform, and especially realistic pricing. Any agreement with the GDR should also involve satisfactory arrangements on IGT

iv) in the longer term, in the EC, we should be looking for forms of association with the East Europeans which make it possible to move over time to a more genuinely reciprocal relationship. Any new agreements should be flexible enough to accommodate a move from an essentially unbalanced, concessional relationship, through a Free Trade Area, to an EC-EFTA type relationship in which a level playing-field can more easily be assured e.g in control over subsidies. This will clearly be a very long process, but we should resist the temptation to move too rapidly to a situation in which inevitably, the E.Europeans would enjoy many of the rights but none of the obligations of EC membership

v) in the EC-EFTA negotiations, we should seek to persuade the EFTANs to make further trade concessions to the East

vi) in the UK, we should consider whether there are any further steps which HMG might take to facilitate UK business efforts, bearing in mind that other markets or investment opportunities are likely to continue to be more tempting and profitable, and that we should not therefore push companies Eastwards against their interests. But there may also be ways to help companies achieve access on the back of UK aid e.g. through the know-how Fund. We have particular expertise in accountancy, financial services, privatisation, competition policy which may create opportunities first for UK service-providers but also, in the longer run, for UK manufacturers.

vii) in this context, ECGD should urgently review its investment insurance scheme as it applies to East Europe. Major problems for ECGD are likely to arise in Poland and Hungary but, as events are moving so fast, ECGD will need continously to review its position on all markets. New medium term cover is not appropriate for Poland given its current debts to ECGD and its lack of creditworthiness (and in certain circumstances other markets e.g. Hungary might slip into the same category). If any new cover for Poland were to be agreed it might best be done by reactivation of ECGD's economic assistance powers as such business could not be taken into ECGD's trading accounts.

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In all East Europe markets the moves towards market economies will make the underwriting of ECGD cover for new "commercial" buyers more difficult.

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Annex A.

NOTES ON COUNTRIES IN EAST EUROPE

These notes concentrate on giving basic facts and on the extent to which each country is likely to be a liability, an export opportunity or an import threat to the UK.

Bulgaria

9 million people (≃ Sweden)
43,976 square miles (≃ Portugal)

Traditionally the Turks' kitchen garden but industrialised in the last 20 years.

Declared net debt of $7-8bn now understood to be nearer $10bn, and financial equilibrium in doubt. Therefore a possible liability in the fairly short term but case for UK contribution much weaker than for Poland or Hungary.

Thereafter much more an export opportunity than an import threat. UK already enjoys a favourable balance, especially in manufactured goods.

Czechoslovakia

15.6 million people (≃ Netherlands)
49,370 square miles (≃ Greece)

Traditionally the most industrialised country in Eastern Europe.

Declared net debt of $5.7bn probably correct, so less of a liability than Poland and Hungary; but run-down state of investment still means likelihood of claim for some assistance in the short term.

Thereafter as much an opportunity as a threat; potentially a good market.

GDR

16.6 million people (≃ Australia)
41,768 square miles

Not traditionally an industrial region though it now has probably the strongest industrial base in Eastern Europe.

Declared debt of $19bn may well be a substantial underestimate.

Not as much of a liability for the UK as Poland, Hungary or, potentially, Czechoslovakia but very much one for the FRG. At least as much an opportunity for UK exports as a threat of more imports in the medium term.

Hungary

10.6 million people
36,340 square miles

Never as industrialised as Czechoslovakia but could become a force in electronics.

Declared net debt of $17bn now believed to be at least $20bn, giving it much the highest per capita figure in Eastern Europe. For this reason very much a liability in the first instance. Thereafter more an opportunity for our manufactured goods than a threat on the agricultrual/horticultural front.

Poland

38 million people (≃Spain)
120,700 square miles (substantially larger than the UK)

A basically well endowed agricultural country with resources of coal, sulphur, timber and non-ferrous metals, undermined by Communism.

An enormous liability in the short term. Thereafter at least as much an opportunity as a threat. Arguably a very good opportunity to improve our balance of payments.

Romania

23 million people (≃Benelux)
91,671 square miles (≃UK)

Traditionally a rich agricultural area. Now a major Communist disaster area suffering the worst poverty in Europe.

Not a liability since net debt is now very low (under $3bn). Far more an export opportunity than an import threat once the current system has been rejected.

USSR

218.6 million people
2,150,957 square miles

At least as much an export opportunity as an import threat. Could have great potential for well managed large companies able to set up specialist departments (eg ICI, Shell, Rank Xerox).

Yugoslavia

[illegible].2 million people
98,700 square miles

Its net debt of over $17bn and strategic position in the Balkans make it a probable liability for Western Europe including the UK. It is however already a valuable trading partner and should be at least as good an export opportunity as an import threat. Their income from UK tourists should ensure that they remain a good market for British manufactured goods.

OT3/5
1 December 1989

Table 1

TRADE WITH EASTERN EUROPE, 1987

November 27 .

EC EXPORTS

million US $

	Secn 0	Secn 1	Secn 2	Secn 3	Secn 4	Secn 5	Secn 6	Secn 7	Secn 8	Secn 9	Total trade
GDR (*)	96	44	92	16	5	219	226	437	90	19	1,244
Poland	244	27	88	22	26	636	510	367	187	75	2,683
Czechoslovakia	131	21	133	11	5	465	350	1,039	209	35	2,398
Hungary	83	12	109	12	4	604	703	915	245	47	2,733
Romania	35	2	72	6	1	159	272	116	79	9	751
Bulgaria	55	18	59	28	3	356	328	708	99	24	1,679
Yugoslavia	134	35	196	86	10	986	1,649	2,537	517	58	6,207
Total above	778	159	750	180	54	3,425	4,038	6,618	1,426	267	17,696

EC IMPORTS

million US $

	Secn 0	Secn 1	Secn 2	Secn 3	Secn 4	Secn 5	Secn 6	Secn 7	Secn 8	Secn 9	Total trade
GDR (*)	45	2	91	86	1	254	426	370	307	6	1,588
Poland	700	6	377	530	9	189	654	356	536	28	3,386
Czechoslovakia	159	10	296	220	3	250	726	320	365	45	2,394
Hungary	559	16	226	93	10	236	432	253	483	41	2,349
Romania	129	9	82	956	1	126	387	194	851	5	2,740
Bulgaria	80	28	46	120		64	113	48	77	25	602
Yugoslavia	555	44	342	224	6	358	1,516	1,227	1,743	61	6,075
Total above	2,228	115	1,461	2,230	29	1,476	4,254	2,768	4,362	212	19,134

EC BALANCE

million US $

	Secn 0	Secn 1	Secn 2	Secn 3	Secn 4	Secn 5	Secn 6	Secn 7	Secn 8	Secn 9	Total trade
GDR (*)	51	42		-70	4	-36	-200	67	-217	13	-344
Poland	-456	21	-289	-508	17	447	-144	511	-349	47	-704
Czechoslovakia	-29	11	-163	-209	2	215	-376	719	-157	-9	4
Hungary	-477	-4	-117	-81	-6	369	271	661	-237	6	385
Romania	-94	-6	-10	-950		34	-115	-78	-772	4	-1,989
Bulgaria	-24	-10	13	-93	3	293	215	659	22	-1	1,076
Yugoslavia	-421	-10	-145	-138	4	628	133	1,311	-1,226	-3	132
Total above	-1,450	44	-711	-2,049	24	1,949	-216	3,850	-2,936	55	-1,439

EC EXPORT/IMPORT RATIO

per cent

	Secn 0	Secn 1	Secn 2	Secn 3	Secn 4	Secn 5	Secn 6	Secn 7	Secn 8	Secn 9	Total trade
GDR (*)	213	2,324	100	19	725	86	53	118	29	339	78
Poland	35	422	23	4	285	337	78	244	35	265	79
Czechoslovakia	82	204	45	5	161	186	48	325	57	79	100
Hungary	15	74	48	13	43	256	163	361	51	113	116
Romania	27	25	88	1	73	127	70	60	9	167	27
Bulgaria	69	66	127	23	3,859	559	290	1,460	128	95	279
Yugoslavia	24	78	57	38	175	275	109	207	30	94	102
Total above	35	139	51	8	184	232	95	239	33	126	92

(*) Note: EC trade with GDR EXCLUDES FRG trade with GDR - see FRG table

Note: £1 = $1.64 in 1987
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Table 2

TRADE WITH EASTERN EUROPE, 1987

November 2[illegible]

UK EXPORTS

million US $

	Secn 0	Secn 1	Secn 2	Secn 3	Secn 4	Secn 5	Secn 6	Secn 7	Secn 8	Secn 9	Total trade
GDR	21	5	23			29	10	25	16		129
Poland	52	3	12	2		65	37	87	33		293
Czechoslovakia	3	2	21			50	22	61	26		136
Hungary	2	1	5	1		60	33	43	19		165
Romania	1	1	3			11	25	44	5		91
Bulgaria	9	8	6	1	1	34	9	67	10		145
Yugoslavia	2	13	8	36		57	48	116	36	1	317
Total above	90	32	79	41	2	307	185	444	145	1	1,326

UK IMPORTS

million US $

	Secn 0	Secn 1	Secn 2	Secn 3	Secn 4	Secn 5	Secn 6	Secn 7	Secn 8	Secn 9	Total trade
GDR	1	1	17	6		40	108	37	84	1	296
Poland	31	1	99	102	2	32	108	48	74	1	498
Czechoslovakia	6	1	44			14	55	58	54		232
Hungary	21	3	5			19	33	19	34		137
Romania	13		6	12		5	31	28	57		152
Bulgaria	3	8	1	1		2	9	8	7		40
Yugoslavia	15	8	8	1		18	96	68	73	1	288
Total above	91	23	180	123	2	130	441	265	383	4	1,642

UK BALANCE

million US $

	Secn 0	Secn 1	Secn 2	Secn 3	Secn 4	Secn 5	Secn 6	Secn 7	Secn 8	Secn 9	Total trade
GDR	20	3	6	-6		-11	-98	-13	-68	-1	-167
Poland	21	2	-88	-100	-1	34	-71	39	-41	-1	-205
Czechoslovakia	-3	1	-23			36	-33	3	-28		-46
Hungary	-20	-1	-1			40		25	-15		28
Romania	-12	1	-2	-12		5	-6	16	-52		-61
Bulgaria	6	-1	5		1	32		59	3		106
Yugoslavia	-13	4		35		39	-48	48	-37		29
Total above		10	-101	-82		177	-256	178	-238	-3	-316

UK EXPORT/IMPORT RATIO

per cent

	Secn 0	Secn 1	Secn 2	Secn 3	Secn 4	Secn 5	Secn 6	Secn 7	Secn 8	Secn 9	Total trade
GDR	1,765	357	139	2		73	9	66	19	2	44
Poland	169	290	12	2	28	207	35	182	45	3	59
Czechoslovakia	55	267	48	93		350	40	105	49	6	80
Hungary	8	52	91	197	242	310	100	231	55	51	121
Romania	7	2,072	60	1		203	81	158	9		60
Bulgaria	313	94	523	83		1,719	100	851	136	205	365
Yugoslavia	12	150	102	4,159		322	50	171	49	113	110
Total above	100	143	44	33	118	236	42	167	38	27	81

Note: £1 = $1.64 in 1987
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Table 3

TRADE WITH EASTERN EUROPE, 1987

November 27, 1

FRG EXPORTS

million US $

	Secn 0	Secn 1	Secn 2	Secn 3	Secn 4	Secn 5	Secn 6	Secn 7	Secn 8	Secn 9	Total trade
GDR (*)											
Poland	95	4	21	10	18	297	275	481	94	45	1,341
Czechoslovakia	44	2	30	3	3	244	214	687	110	25	1,367
Hungary	46	2	46	4	2	300	394	642	158	22	1,616
Romania	14		14	3	1	81	146	37	26	4	327
Bulgaria	22	1	20	5	2	175	175	407	59	10	875
Yugoslavia	35	13	47	14	2	431	960	1,402	302	31	3,237
Total above	255	22	177	45	28	1,530	2,164	3,656	748	137	8,762

FRG IMPORTS

million US $

	Secn 0	Secn 1	Secn 2	Secn 3	Secn 4	Secn 5	Secn 6	Secn 7	Secn 8	Secn 9	Total trade
GDR (*)											
Poland	275	2	110	159	6	64	367	74	308	20	1,386
Czechoslovakia	35	7	126	207	3	125	334	83	165	39	1,175
Hungary	205	11	99	71	5	85	240	150	305	34	1,204
Romania	49	5	29	64	1	41	143	26	424	3	785
Bulgaria	24	11	17	15		13	29	12	52	24	197
Yugoslavia	116	27	36	23	4	109	492	539	1,320	53	2,720
Total above	754	64	418	539	19	437	1,605	884	2,573	172	7,466

FRG BALANCE

million US $

	Secn 0	Secn 1	Secn 2	Secn 3	Secn 4	Secn 5	Secn 6	Secn 7	Secn 8	Secn 9	Total trade
GDR (*)											
Poland	-181	2	-90	-149	12	234	-92	407	-214	25	-45
Czechoslovakia	-41	-5	-96	-199		119	-120	604	-55	-15	192
Hungary	-159	-9	-54	-67	-2	215	154	492	-146	-11	413
Romania	-35	-5	-15	-60		40	3	11	-398	1	-458
Bulgaria	-3	-10	3	-10	2	162	147	394	7	-13	678
Yugoslavia	-81	-14	11	-9	-2	322	467	863	-1,019	-22	518
Total above	-499	-42	-240	-494	9	1,093	559	2,772	-1,825	-35	1,297

FRG EXPORT/IMPORT RATIO

per cent

	Secn 0	Secn 1	Secn 2	Secn 3	Secn 4	Secn 5	Secn 6	Secn 7	Secn 8	Secn 9	Total trade
GDR (*)											
Poland	34	178	19	6	285	467	75	646	30	228	97
Czechoslovakia	52	23	24	4	89	195	64	829	67	62	116
Hungary	22	18	46	6	55	352	164	429	52	66	134
Romania	28	6	48	5	71	198	102	140	6	147	42
Bulgaria	89	9	116	31	30,717	1,365	614	3,269	113	44	444
Yugoslavia	30	47	130	61	54	395	195	260	23	59	119
Total above	34	34	42	8	150	350	135	413	29	80	117

(*) Note: FRG exports to GDR 3,706 million US $; FRG imports from GDR 4,127 million US $ in 1987

Note: £1 = $1.64 in 1987
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Table 4

TRADE WITH EASTERN EUROPE, 1987 November 27, 19

COMMODITY COMPOSITION

EC EXPORTS

per cent

	Secn 0	Secn 1	Secn 2	Secn 3	Secn 4	Secn 5	Secn 6	Secn 7	Secn 8	Secn 9	Total trade
GDR (*)	8	4	7	1		18	18	35	7	2	100
Poland	9	1	3	1	1	24	19	32	7	3	100
Czechoslovakia	5	1	6			19	15	43	9	1	100
Hungary	3		4			22	26	33	9	2	100
Romania	5		10	1		21	36	15	11	1	100
Bulgaria	3	1	3	2		21	20	42	6	1	100
Yugoslavia	2	1	3	1		16	27	41	8	1	100
Total above	4	1	4	1		19	23	37	8	2	100

EC IMPORTS

per cent

	Secn 0	Secn 1	Secn 2	Secn 3	Secn 4	Secn 5	Secn 6	Secn 7	Secn 8	Secn 9	Total trade
GDR (*)	3		6	5		16	27	23	19		100
Poland	21		11	16		6	19	11	16	1	100
Czechoslovakia	7		12	9		10	30	13	15	2	100
Hungary	24	1	10	4		10	18	11	21	2	100
Romania	5		3	35		5	14	7	31		100
Bulgaria	13	5	8	20		11	19	8	13	4	100
Yugoslavia	9	1	6	4		6	25	20	29	1	100
Total above	12	1	8	12		8	22	14	23	1	100

(*) Note. excludes FRG trade with GDR

Note: £1 = $1.64 in 1987
EME3d

E66/CPEXM

Tab 5

TRADE WITH EASTERN EUROPE, 1987 November 27, 19

COMMODITY COMPOSITION

UK EXPORTS per cent

	Secn 0	Secn 1	Secn 2	Secn 3	Secn 4	Secn 5	Secn 6	Secn 7	Secn 8	Secn 9	Total trade
GDR	17	4	18			23	8	19	12		100
Poland	18	1	4	1		22	13	30	11		100
Czechoslovakia	2	1	11			27	12	33	14		100
Hungary	1	1	3	1		36	20	26	12		100
Romania	1	1	4			12	28	49	6		100
Bulgaria	6	5	4	1		24	6	46	7		100
Yugoslavia	1	4	3	11		18	15	37	11		100
Total above	7	2	6	3		23	14	33	11		100

UK IMPORTS per cent

	Secn 0	Secn 1	Secn 2	Secn 3	Secn 4	Secn 5	Secn 6	Secn 7	Secn 8	Secn 9	Total trade
GDR			6	2		14	36	13	28		100
Poland	6		20	21		6	22	10	15		100
Czechoslovakia	3		19			6	24	25	23		100
Hungary	16	2	4			14	25	14	25		100
Romania	9		4	8		4	21	18	37		100
Bulgaria	7	21	3	4		5	23	20	18		100
Yugoslavia	5	3	3			6	33	24	25		100
Total above	6	1	11	8		8	27	16	23		100

Note: £1 = $1.64 in 1987
EME3d

E66/CPEXM

Table 6

TRADE WITH EASTERN EUROPE, 1987

November 27, 1

COMMODITY COMPOSITION

FRG EXPORTS

per cent

	Secn 0	Secn 1	Secn 2	Secn 3	Secn 4	Secn 5	Secn 6	Secn 7	Secn 8	Secn 9	Total trade
GDR											
Poland	7		2	1	1	22	21	36	7	3	100
Czechoslovakia	3		2	1		18	16	50	8	2	100
Hungary	3		3			19	24	40	10	1	100
Romania	4		4	1		25	45	11	8	1	100
Bulgaria	2		2	1		20	20	47	7	1	100
Yugoslavia	1		1			13	30	43	9	1	100
Total above	3		2	1		17	25	42	9	2	100

FRG IMPORTS

per cent

	Secn 0	Secn 1	Secn 2	Secn 3	Secn 4	Secn 5	Secn 6	Secn 7	Secn 8	Secn 9	Total trade
GDR											
Poland	20		8	11		5	27	5	22	1	100
Czechoslovakia	7	1	11	18		11	28	7	14	3	100
Hungary	17	1	8	6		7	20	12	25	3	100
Romania	6	1	4	8		5	18	3	54		100
Bulgaria	12	6	9	8		7	14	6	26	12	100
Yugoslavia	4	1	1	1		4	18	20	49	2	100
Total above	10	1	6	7		6	22	12	34	2	100

Note: £1 = $1.64 in 1987
EME3d

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Annex C

BULGARIA

1. **TRADE FIGURES** (all figures quoted are in £'000)

TOTAL IMPORTS	1987	24,325	1988	28,066	+15.4%
TOTAL EXPORTS	1987	88,761	1988	82,156	- 7.4%

(January to April)

TOTAL IMPORTS	1988	7,590	1989	12,252	+38%
TOTAL EXPORTS	1988	29,838	1989	38,204	+28%

Share of OECD Exports	1986	(Position)	1987	(Position)
UK	5.4%	7th	6.1%	5th
FRG	35.6%	1st	37.0%	1st
France	5.8%	6th	5.4%	6th

1986 Top 5 Imports

Petroleum and petroleum products	6,680
Iron and steel	3,853
Coal and coke	3,684
Beverages	2,923
Miscellaneous manufactured articles	2,786

1987 Top 5 Imports

Beverages	4,994
Iron and Steel	4,401
Machinery (Specialised)	1,789
Machinery (General)	1,731
Apparel and clothing accessories	1,302

1986 Top 5 Exports

Cereals	11,954
Machinery (Specialised)	9,482
Professional, scientific and controlling Instmts	5,758
Electrical Machinery apparatus & appliances	4,498
Machinery (General)	4,275

1987 Top 5 Exports

Machinery (Specialised)	15,831
Machinery (General)	7,800
Electrical Machinery apparatus & appliances	7,790
Organic chemicals	5,796
Chemical materials and products	5,094

BULGARIA: MAJOR WESTERN TRADING PARTNERS

US $ MILLION SOURCE : OECD

		1984	1985	1986	1987	1988	* SHARE OECD EXPTS %
WEST GERMANY	exp	470.4	566.4	777.6	874.8	891.6	36.6
	imp	150.0	160.8	184.8	196.8	182.4	
	bal	+320.4	+405.6	+592.8	+678.0	+709.2	
ITALY	exp	138.0	166.8	194.4	211.2	205.2	8.4
	imp	80.4	84.0	96.0	103.2	111.6	
	bal	+57.6	+82.8	+98.4	+108.0	+93.6	
AUSTRIA	exp	114.4	131.6	159.1	152.6	196.3	8.1
	imp	33.2	37.2	28.3	28.2	28.9	
JAPAN	exp	84.0	123.6	162.0	118.8	159.6	6.5
	imp	66.0	22.8	18.0	25.2	49.2	
	bal	+18.0	+100.8	+144.0	+93.6	+110.4	
	bal	+81.2	+94.4	+130.8	+124.4	+167.4	
FRANCE	exp	104.4	159.6	127.2	127.2	152.4	6.2
	imp	56.4	56.4	72.0	69.6	62.4	
	bal	+48.0	+103.2	+55.2	+57.6	+90.0	
UK	exp	74.4	142.8	117.6	145.2	146.4	6.0
	imp	22.8	28.8	48.0	39.6	50.4	
	bal	+51.6	+114.0	+69.6	+105.6	+96.0	
USA	exp	44.4	104.4	96.0	88.8	127.2	5.2
	imp	28.8	36.0	56.4	42.0	27.6	
	bal	+15.6	+68.4	+39.6	+46.8	+99.6	
SWITZERLAND	exp	122.5	94.9	155.2	153.8	124.0	5.1
	imp	21.2	13.6	12.8	12.2	14.4	
	bal	+101.3	+81.3	+142.4	+141.6	+109.6	
NETHERLANDS	exp	42.6	45.7	65.4	75.6	84.0	3.4
	imp	21.7	34.3	34.3	43.2	34.8	
	bal	+20.9	+11.1	+31.1	+32.4	+49.2	

* Figures based on total OECD exports of $2436

CZECHOSLOVAKIA

1. **TRADE FIGURES** (all figures quoted are in £'000)

TOTAL IMPORTS	1987	141,472	1988	148,248	+4.8%
TOTAL EXPORTS	1987	114,101	1988	130,4[illegible]	-14.3%

(January to May)

TOTAL IMPORTS	1988	62,968	1989	60,861	-2.9%
TOTAL EXPORTS	1988	51,807	1989	49,676	-4.1%

Share of OECD Exports	1987	(Position)	1988	(Position)
UK	5.6%	7th	6.1%	6th
FRG	41.3%	1st	36.4%	1st
France	6.4%	5th	6.0%	7th

1987 Top 5 Imports

Road Vehicles	20,941
Wood	20,847
Miscellaneous manufactured articles	10,476
Textile yarn, fabrics	9,605
Footwear	8,978

1987 Top 5 Exports

Office machines and data processing equipment	10,966
Machinery (specialised)	10,714
Professional and scientific instruments	10,200
Artificial resins and plastics materials	7,085
Organic chemicals	6,309

1988 Top Five Imports

Wood	22,059
Road vehicles	18,683
Miscellaneous manufactured articles	10,720
Textile yarn, fabrics	10,450
Non-metallic mineral manufactures nes	8,314

1988 Top 5 Exports

Machinery specialised for particular industries	13,607
Office machines and automatic data processing eqpt	13,298
Professional, scientific and controlling instruments	11,693
Chemical materials and products nes	7,646
Organic chemicals	7,315

CZECHOSLOVAKIA: MAJOR WESTERN TRADING PARTNERS

US $ MILLION SOURCE: OECD

		1984	1985	1986	1987	1988	*SHARE OECD EXPORTS %
WEST GERMANY	EXP	733.2	819.6	1075.2	1367.0	1384.8	36.4
	IMP	840.0	859.2	1017.6	1174.8	1251.6	
YUGOSLAVIA	EXP	443.9	342.2	297.7	421.1	528.7	13.9
	IMP	535.9	394.4	404.8	538.0	452.8	
AUSTRIA	EXP	174.8	189.1	261.6	311.3	379.8	10.0
	IMP	393.0	405.1	428.4	468.1	490.0	
ITALY	EXP	120.0	173.2	195.6	246.0	282.0	7.4
	IMP	216.0	217.2	258.0	285.6	337.2	
SWITZERLAND	EXP	111.4	126.2	180.4	208.1	242.8	6.4
	IMP	80.8	79.2	90.8	102.0	113.5	
UK	EXP	104.4	130.8	139.6	186.0	231.6	6.1
	IMP	157.2	136.[illegible]	183.6	231.6	264.0	
FRANCE	EXP	114.0	13[illegible].8	164.4	211.2	230.4	6.0
	IMP	157.2	157.[illegible]	201.6	228.0	249.6	
NETHERLANDS	EXP	81.4	98.5	117.6	156.0	156.0	4.1
	IMP	122.2	113.3	157.6	165.6	159.6	
SWEDEN	EXP	65.0	70.[illegible]	86.5	103.9	118.7	3.1
	IMP	74.9	76.4	83.8	104.4	111.7	
BELGO/LUX	EXP	57.5	6[illegible].2	91.2	91.2	91.2	2.4
	IMP	54.5	55.7	73.2	82.8	92.4	
FINLAND	EXP	51.0	44.3	58.7	76.2	66.4	1.7
	IMP	54.6	59.5	76.7	103.0	107.2	
DENMARK	EXP	33.5	28.4	43.6	49.9	61.3	1.6
	IMP	68.6	68.0	72.4	72.1	67.7	

* Figures based on Total OECD Exports of $3804m between Jan-Dece 1988

GERMAN DEMOCRATIC REPUBLIC

1. **TRADE FIGURES** (all figures quoted are in £'000)

TOTAL IMPORTS	1987	180,299	1988	152,977	-15.1%
TOTAL EXPORTS	1987	81,849	1988	113,339	+38.4%

(January to May)

TOTAL IMPORTS	1988	55,611	1989	68,775	+23.7%
TOTAL EXPORTS	1988	43,473	1989	47,839	+10.0%

Share of OECD Exports	1987	(Position)**	1988	(Position)
UK	5.2%	10th	6.7%	7th
Austria	N/A	1st	15.5%	1st
France	15.1%	2nd	11.8%	2nd

** due to the unique trading relationship that exists between the GDR and the FRG, the latter's total trade value is not included in the OECD figures. However, in 1988, the FRG exports to the GDR were nearly 1.5 times the total OECD/GDR export total.

1987 Top 5 Imports

Non-ferrous metals	33,467
Furniture	31,175
Fertilisers manufactured	16,488
Rubber manufactures	11,219
Miscellaneous manufactured articles	10,487

1988 Top 5 Imports

Furniture	27,917
Non-ferrous metals	18,335
Fertilisers manufactured	16,347
Miscellaneous manufactured articles	9,684
Rubber manufactures	9,619

1987 Top 5 Exports

Metalliferous ores and metal scrap	8,052
Organic chemicals	8,001
Cereals	6,887
Professional and scientific instruments	5,828
Machinery (specialised)	5,485

1988 Top 5 Exports

Cereals and cereal preparations	27,688
Machinery specialised for particular industries	12,233
Textile fibres	7,108
Professional, scientific and controlling instruments	6,379
Metalworking machinery	6,371

GERMAN DEMOCRATIC REPUBLIC : MAJOR WESTERN TRADING PARTNERS

US $ MILLION   SOURCE : OECD

		1984	1985	1986	1987	1988	* % SHARE OF OECD EXPORTS
WEST GERMANY	exp	2257	2710	3435	4115	4025	**
	imp	2729	2618	3147	3694	3879	
AUSTRIA	exp	340	215	248	472	463	15.5
	imp	127	129	157	160	169	
FRANCE	exp	208	203	336	383	353	11.8
	imp	260	289	390	408	458	
SWITZERLAND	exp	63	77	135	236	336	11.3
	imp	47	54	72	77	90	
YUGOSLAVIA	exp	329	209	331	336	327	10.9
	imp	310	258	383	330	353	
NETHERLANDS	exp	88	92	132	230	270	9.0
	imp	157	204	203	198	198	
ITALY	exp	132	102	188	232	265	8.9
	imp	114	126	188	197	212	
UK	exp	124	83	119	133	202	6.7
	imp	265	265	287	295	272	
SWEDEN	exp	97	81	110	149	189	6.3
	imp	346	382	277	312	321	
BELGO/LUX	exp	73	64	119	127	154	5.2
	imp	132	160	177	192	198	
JAPAN	exp	151	138	120	203	152	5.1
	imp	42	44	52	60	94	
DENMARK	exp	33	35	49	65	115	3.8
	imp	181	180	184	158	150	
USA	exp	137	72	68	54	109	3.6
	imp	149	91	86	85	110	

* Figures based on Total OECD Exports of $2976

** Figures not published in OECD.

The FRG enjoys the largest proportion of the GDR market. In 1988 their Exports amounted to 1.5 times the OECD/GDR Export Total.

HUNGA'

1. TRADE FIGURES (all figures quoted are in £'000)

TOTAL IMPORTS	1987	83,267	1988	98,288	+18%
TOTAL EXPORTS	1987	101,300	1988	131,212	+29.5%

(January to August)

TOTAL IMPORTS	1988	62,859	1989	66,763	+6.2%
TOTAL EXPORTS	1988	107,178	1989	78,656	-36.2%

Share of OECD Exports	1987	(Position)	1988	(Position)
UK	4.3%	7th	5.8%	4th
FRG	41.4%	1st	39.2%	1st
France	5.6%	4th	5.6%	5th

1987 Top 5 Imports

Apparel and clothing accessories	9,454
Vegetables and fruit	7,340
Organic chemicals	5,955
Textile yarn, fabrics	4,994
Non-ferrous metals	4,460

1988 Top 5 Imports

Apparel and clothing accessories	11,668
Vegetables and fruit	8,732
Electrical Machinery, Apparatus and Appln	7,357
Miscellaneous Manu Art.	5,257
Non ferrous metals	5,155

1987 Top 5 Exports

Organic Chemicals	16,144
Paper and Paperboard	8,358
Machinery (General)	8,188
Machinery (Specialised)	6,335
Professional, Scientific and controlling Instmts	5,150

1988 Top 5 Exports

Other Transport Equip	30,146
Organic Chemicals	10,732
Machinery (General)	9,887
Textile yarn, fabrics	9,004
Machinery (Specialised)	7,557

(Value £ Thousand)

HUNGARY: MAJOR WESTERN TRADING PARTNERS

US $ MILLION SOURCE : OECD

		1984	1985	1986	1987	1988	% SHARE OF OECD EXPORTS
OECD TOTAL	exp	2520	2820	3468	3900	4008	****
	imp	2544	2604	2988	3696	4116	
	bal	-24	+216	+480	+204	-108	
EEC	exp	1696	1896	2405	2736	2796	69.8
	imp	1476	1556	1883	2352	2592	
	bal	+220	+340	+522	+396	+204	
WEST GERMANY	exp	960.0	1052.4	1383.6	1616.4	1572.0	39.2
	imp	722.4	771.6	963.6	1203.6	1286.4	
	bal	+237.6	+280.8	+420.0	+412.8	+285.6	
AUSTRIA	exp	347.9	445.7	511.2	523.9	552.7	13.8
	imp	405.4	413.5	435.5	488.6	515.8	
	bal	-57.5	+32.2	+75.7	+35.3	+36.9	
ITALY	exp	205.2	235.2	268.8	304.8	319.2	8.0
	imp	303.6	306.0	324.0	404.4	483.6	
	bal	-98.4	-70.8	-55.2	-99.6	-164.4	
UK	exp	134.4	139.2	149.0	165.6	234.0	5.8
	imp	102.0	109.2	113.3	135.6	175.2	
	bal	+32.4	+30.0	+35.7	+30.0	+58.8	
FRANCE	exp	145.2	168.0	200.4	219.6	223.2	5.6
	imp	162.0	154.8	208.8	261.6	292.8	
	bal	-16.8	+13.2	-8.4	-42.0	-69.6	
SWITZERLAND	exp	130.7	136.4	178.8	213.5	222.2	5.5
	imp	161.0	142.9	150.7	159.5	160.1	
	bal	-30.3	-6.5	+28.1	+54.0	+62.1	
NETHERLANDS	exp	111.0	117.7	168.0	178.8	187.2	4.7
	imp	78.5	80.8	101.6	114.0	118.8	
	bal	+32.5	+36.9	+66.4	+64.8	+68.4	
SWEDEN	exp	75.8	80.4	104.3	121.2	146.3	3.6
	imp	66.5	70.9	82.7	104.6	124.9	
	bal	+9.3	+9.5	+21.6	+16.6	+21.4	
BELGIUM/ LUXEMBOURG	exp	77.4	81.6	47.0	129.6	128.4	3.2
	imp	34.2	32.9	56.3	80.4	80.4	
	bal	+43.2	+48.7	-9.3	+49.2	+48.0	
JAPAN	exp	51.6	84.0	82.8	92.4	102.0	2.5
	imp	48.6	54.0	61.2	98.4	164.4	
	bal	+3.6	+30.0	+21.6	-6.0	-62.4	

POLAN

1. TRADE FIGURES (all figures quoted are in £'000)

TOTAL IMPORTS	1987	303,418	1988	303,013	-0.1%
TOTAL EXPORTS	1987	181,451	1988	175,685	-3.2%

(January to August)

TOTAL IMPORTS	1988	213,675	1989	224,837	+5.2%
TOTAL EXPORTS	1988	107,178	1989	128,457	+19.8%

Share of OECD Exports	1987	(Position)	1988	(Position)
UK	7.7%	3rd	6.3%	4th
FRG	34.9%	1st	33.0%	1st
France	7.1%	4th	6.4%	3rd

1987 Top 5 Imports

Coal and coke	41,535
Cork and Wood	21,557
Petroleum and petroleum products	20,715
Crude fertilisers and minerals	18,729
Footwear	16,290

1988 Top 5 Imports

Coal and coke	43,971
Cork and wood	24,748
Iron and Steel	22,468
Crude fertilisers and minerals	18,607
Footwear	16,753

1987 Top 5 Exports

Cereals	27,181
Machinery (specialised)	14,706
Machinery (General)	13,945
Artificial resins and plastics materials	9,740
Organic Chemicals	9,364

1988 Top 5 Exports

Machinery (General)	19,232
Organic Chemicals	16,026
Machinery (Specialised)	14,247
Medicinal and Pharmaceutical products	9,302
Professional, Scientific and controlling instr.	9,364 8,523

Value £ Thousand

Nov 1989

POLAND: MAJOR WESTERN TRADING PARTNERS

US $ MILLION SOURCE : OECD

		1984	1985	1986	1987	1988	% SHARE OF OECD EXPORTS
OECD TOTAL	exp	2952	3120	3372	3972	4968	****
	imp	3984	3924	4224	4920	5652	
	bal	-1032	-804	-852	-948	-684	
WEST GERMANY	exp	826.8	972.0	1136.4	1340.4	1641.6	33.0
	imp	970.8	1059.6	1201.2	1386.0	1657.2	
	bal	-144.0	-87.6	-64.8	-45.6	-15.6	
ITALY	exp	201.6	246.0	247.2	310.8	376.8	7.6
	imp	350.4	304.8	324.0	391.2	446.4	
	bal	-148.3	-58.8	-76.4	-80.4	-69.6	
FRANCE	exp	273.6	201.6	241.2	273.6	320.4	6.4
	imp	336.0	295.2	292.8	351.6	373.2	
	bal	-62.4	-93.6	-51.6	-78.0	-52.8	
UK	exp	226.8	238.8	267.6	296.4	312.0	6.3
	imp	356.4	415.2	453.6	495.6	583.2	
	bal	-129.6	-176.4	-186.0	-199.2	-271.2	
USA	exp	318.0	237.6	151.2	238.8	303.6	6.1
	imp	219.6	219.6	232.8	296.4	378.0	
	bal	+98.4	+18.0	-81.6	-57.6	-74.4	
AUSTRIA	exp	170.0	208.6	224.9	236.2	301.4	6.1
	imp	251.6	232.2	284.4	317.8	343.2	
	bal	-81.6	-23.6	-59.5	-81.6	-41.8	
NETHERLANDS	exp	168.8	172.8	195.1	201.6	271.2	5.5
	imp	211.3	208.6	181.7	237.6	295.2	
	bal	-42.5	-35.8	+13.4	-36.0	-24.0	
JAPAN	exp	63.6	73.2	147.6	168.0	258.0	5.2
	imp	70.8	69.6	56.4	76.8	115.2	
	bal	-7.2	+3.6	+91.2	+91.2	+142.8	
SWEDEN	exp	154.8	148.2	141.5	163.1	216.0	4.3
	imp	190.8	223.3	218.0	297.4	314.3	
	bal	-36.0	-75.1	-76.5	-134.3	-98.3	
SWITZERLAND	exp	109.7	122.2	146.9	175.1	199.2	4.0
	imp	61.0	54.6	56.3	70.3	71.3	
	bal	+48.7	+67.6	+90.6	+104.8	+127.9	

ROMANIA

1. **TRADE FIGURES** (all figures quoted are in £'000)

TOTAL IMPORTS	1987	92,526	1988	98,288	+6.2%
TOTAL EXPORTS	1987	55,688	1988	50,111	-10.0%

(January to May)

TOTAL IMPORTS	1988	38,617	1989	43,294	+12.1%
TOTAL EXPORTS	1988	13,583	1989	13,165	-3.1%

Share of OECD Exports	1986	(Position)	1987	(Position)
UK	7.3%	5th	7.0%	5th
FRG	20.8%	1st	25.2%	1st
France	9.6%	4th	8.9%	3rd

1988 figures are not yet available

1987 Top 5 Imports

Articles of apparel and clothing accessories	18,573
Furniture	11,783
Petroleum and products	7,152
Power generating machinery & equipment	5,143
Other transport equip	4,964

1988 Top 5 Imports

Articles of apparel and clothing accessories	21,319
Petroleum and products	13,250
Furniture	13,124
Wood manufactures	5,876
Non-metallic mineral manufacturers nes	5,308

1987 Top 5 Exports

Other transport equip	14,530
Power generating machinery & equipment	7,968
Textile yarn, fabrics	4,339
Non-ferrous metals	3,964
Non-metallic mineral manufactures nes	2,509

1988 Top 5 Exports

Other transport equipment	6,596
Non-ferrous metals	5,852
Power generating machinery and eq'ment	5,247
Textile yarn, fabrics	4,619
Chemical materials and products nes	4,482

ROMANIA : MAJOR WESTERN TRADING PARTNERS

US $ MILLION SOURCE : OECD

		1984	1985	1986	1987	1988	* % SHARE OF OECD EXPORTS
WEST GERMANY	exp	314.4	316.8	342.0	326.0	327.6	25.5
	imp	535.2	544.8	764.4	784.8	789.6	
USA	exp	248.4	208.8	250.8	192.0	202.8	15.8
	imp	892.8	882.0	753.6	715.2	680.4	
FRANCE	exp	154.8	141.6	157.2	115.2	118.8	9.3
	imp	288.0	316.8	524.4	542.4	472.8	
YUGOSLAVIA	exp	96.2	88.1	177.4	114.0	105.8	8.2
	imp	91.8	78.8	159.5	132.8	159.1	
UK	exp	96.0	102.0	120.0	91.2	88.8	6.9
	imp	302.4	133.2	127.2	151.2	180.0	
AUSTRALIA	exp	59.4	39.5	58.1	85.9	85.1	6.6
	imp	7.3	13.1	7.0	12.2	38.6	
TURKEY	exp	54.6	46.7	40.2	47.8	76.0	5.9
	imp	123.7	63.4	106.8	226.9	197.9	
ITALY	exp	94.8	159.6	156.0	78.0	72.0	5.6
	imp	972.0	904.8	634.8	871.2	829.2	
JAPAN	exp	74.4	90.0	112.8	76.8	52.8	4.1
	imp	127.2	66.0	96.0	134.4	141.6	
NETHERLANDS	exp	42.8	40.6	45.6	44.4	48.0	3.7
	imp	98.5	126.1	134.4	140.4	134.4	
GREECE	exp	37.9	39.2	47.5	47.5	47.5	3.7
	imp	57.7	56.4	53.8	53.8	66.8	
CANADA	exp	17.9	28.7	86.3	40.8	45.6	3.5
	imp	36.6	33.0	40.2	43.2	57.6	
AUSTRIA	exp	56.2	55.0	65.5	71.2	41.4	3.2
	imp	85.2	78.2	71.5	70.1	68.2	
BELGO/LUX	exp	47.6	51.2	46.8	33.6	26.4	2.1
	imp	29.3	38.2	49.2	57.6	58.8	

* Figures based on Total OECD Exports of $1284m

SOVIET UNION

Trade Figures (all figures in £m).

Total Imports	1987	875	1988	732	1989	563 (Jan - Aug.)
Total Exports	1987	492	1988	512	1989	376 (Jan - Aug.)

1988 Top Imports into UK.

Petroleum and its products	314
Wood	137
Vehicles	67
Inorganic Chemicals	36
Wood Manufactures	25

1989 Top 5 Imports into UK (Jan - Aug.)

Petroleum and its products	278
Wood	89
Vehicles	41
Organic Chemicals	21
Cork and Wood Manufactures	18

1988 Top 5 Exports to USSR

Scientific and control Instruments	60
Cereal and Cereal preparation	49
Specialised Machinery	46
Inorganic Chemicals	38
Chemical Materials	31

1989 Top 5 Exports to USSR (Jan - Aug.)

Cereals and cereal preparation	86
Specialised Machinery	36
Scientific and Control Instruments	31
Chemical Materials	23
Iron and Steel	23

Recent Events

Visit by Mr Kamentsev, Deputy Prime Minister and Chairman State Foreign Economic Commission, 6-9 February.
"Hospital" Exhibition, BOTB supported, in USSR, 14-21 March.
Visit of Mr Gorbachev and Mr Kamentsev, 5-7 April.
UK/USSR Chemical Working Group, 13-14 April.
British Month Exhibition, 11-29 April, in Moscow. Opened by Mr Cecil Parkinson, Secretary of State for Energy and visited by Sir James Cleminson, Chairman BOTB, and Mr Malcolm Stephens, Chief Executive ECGD.
Visit by Mr Kenneth Clarke, Secretary of State Health, 27-31 May.
UK/USSR Railway Working Group and Railway exhibition, BOTB supported, 30 May-2 June.
Review of Joint Commission, 15-16 June.
UK/USSR Machine Tools Working Group, 25-30 June.
Visit by Lord Young, Secretary of State DTI, to USSR, 25 June - 1 July.
UK/USSR Agriculture, Food Processing and Packaging Working Group, 3-7 July.
Visit by Mr Biryukova, Deputy Prime Minister, Member of Polibureau and Chairman of Bureau for Social Development accompanied by Mr Bykov, Minister for Medical and Microbiological Industry, 24-28 July.
Polypack Exhibition, BOTB supported, in USSR, 10-18 August.
CBI Anglo-Soviet Economic Conference, Moscow, 13-15 October.
UK/USSR Joint Commission, in Moscow, 17-19 October.
UK/USSR Machine Tools Symposium, Moscow, 13-15 October.
Elektronmash Exhibition, BOTB supported, Moscow, 18-25 October.

YUGOSLAVIA

1. **TRADE FIGURES** (all figures quoted are in £'000)

TOTAL IMPORTS	1987	175,301	1988	197,254	+12.5%
TOTAL EXPORTS	1987	206,932	1988	203,466	-1.7%

(January to May)

TOTAL IMPORTS	1988	83,161	1989	90,388	+8.7%
TOTAL EXPORTS	1988	87,340	1989	84,384	-3.4%

Share of OECD Exports	1987	(Position)	1988	(Position)
UK	4.2%	6th	4.1%	6th
FRG	40.4%	1st	39.4%	1st
France	7.0%	3rd	6.9%	4th

1987 Top 5 Imports

Furniture	18,440
Road vehicles	16,626
Non-ferrous metals	14,135
Electrical machinery and apparatus	10,510
Textile yarn, fabrics and apparatus	9,996 / 7,275

1988 Top 5 Imports

Furniture	22,910
Road vehicles	19,161
Electrical machinery and apparatus	18,590
Non-ferrous metals	14,540
Rubber manufactures	12,870

1987 Top 5 Exports

Petroleum and products	22,046
Iron and Steel	19,559
Office machines and data processing equipment	14,334
Professional and scientific instruments	14,204
Machinery (general)	13,010

1988 Top 5 Exports

Iron and steel	17,599
Professional, scientific and controlling instrumants nes	14,152
Telecommunications and sound recording equipment	13,761
Beverages	13,282
Chemical materials and products nes	13,058

YUGOSLAVIA: MAJOR WESTERN TRADING PARTNERS

US $ MILLION SOURCE: OECD

		1984	1985	1986	1987	1988	* % share of OECD Exports
WEST GERMANY	EXP	1939.2	2040.0	2983.2	3237.6	3489.6	39.4
	IMP	1438.8	1620.0	2257.2	2719.2	3039.6	
ITALY	EXP	987.2	1185.6	1350.0	1440.0	1575.6	17.8
	IMP	1101.6	1150.8	1346.4	1826.4	2284.8	
AUSTRIA	EXP	383.3	401.3	502.7	536.4	630.7	7.1
	IMP	220.3	231.0	260.4	310.8	379.1	
FRANCE	EXP	403.2	390.0	507.6	564.0	613.2	6.9
	IMP	322.8	325.2	464.4	531.6	602.4	
USA	EXP	432.0	594.0	528.0	460.8	534.0	6.0
	IMP	477.6	542.4	645.6	796.8	847.2	
UK	EXP	218.4	230.4	276.0	338.4	361.2	4.1
	IMP	145.2	158.4	212.4	286.8	350.4	
SWITZERLAND	EXP	198.0	188.2	284.9	284.5	311.8	3.5
	IMP	77.2	80.5	93.4	109.3	107.3	
NETHERLANDS	EXP	189.0	221.8	272.4	277.2	296.4	3.3
	IMP	162.2	148.2	184.8	232.8	240.0	
SWEDEN	EXP	113.2	150.7	200.5	194.2	251.6	2.8
	IMP	79.7	83.6	104.0	129.0	143.3	
BELGO/LUX	EXP	112.2	139.9	169.2	160.8	194.4	2.2
	IMP	55.0	70.8	85.2	92.4	121.2	
JAPAN	EXP	43.2	70.8	73.2	78.0	122.4	1.4
	IMP	44.4	39.6	24.0	30.0	163.2	
AUSTRALIA	EXP	59.2	69.7	72.6	47.4	89.3	1.0
	IMP	20.6	24.0	20.6	32.6	39.7	

* Figures based on total OECD Exports of $8856

UK MARKET POSITION IN BRACKETS

...D EXPORTS TO USSR (%)

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 Q1
WEST GERMANY	15.9	22.6	20.2	15.4	17.0	19.7	17.3	17.1	20.9	21.2	21.6	20.0
FINLAND	10.7	9.1	11.5	15.7	15.3	14.6	11.7	13.9	16.2	15.0	13.1	12.6
JAPAN	12.9	13.0	12.8	14.7	17.1	12.6	11.4	13.3	15.8	12.6	12.6	11.1
ITALY	11.6	8.2	5.9	5.9	6.6	8.4	7.2	7.2	7.9	10.7	8.5	6.3
FRANÇE	10.3	9.2	11.4	8.4	6.8	9.9	8.9	9.1	7.3	8.5	7.8	5.3
USA	4.5	14.7	7.0	11.0	11.4	8.9	15.0	11.5	6.0	7.2	11.2	19.6
CANADA	3.7	3.2	6.1	7.1	7.4	6.4	7.5	5.6	4.2	3.1	3.8	2.0
UK	9.2 (6th)	3.7 (7th)	4.9 (9th)	3.8 (8th)	2.7 (9th)	3.0 (8th)	4.5 (8th)	3.3 (8th)	3.8 (8th)	3.9 (7th)	3.7 (8th)	3.7 (8th)
AUSTRIA	3.1	1.7	2.2	2.2	2.4	2.7	3.2	3.1	3.3	3.1	3.6	2.7
AUSTRALIA	2.7	2.8	5.2	3.2	3.0	2.2	2.7	2.8	3.3	N/A	2.3	4.2
BELGIUM/ LUXEMBOURG	2.0	2.8	2.9	2.7	2.4	3.0	2.5	,3.0	2.3	2.4	2.1	2.0
NETHERLANDS	1.7	1.7	2.4	2.8	1.9	2.4	3.8	1.6	1.5	2.0	1.9	2.0

SOURCE: OECD Monthly Statistics of Foreign Trade (Series A) } (Based on monthly
OECD Historical Statistics of Foreign Trade (Series A)} averages)
averages)

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ANNEX D

ECGD COVER FOR EASTERN EUROPE

BULGARIA

Short term cover is available without restrictions. Current short term exposure is £7m. Cover for medium/long term business is available within a market limit of £175m and current exposure is £65m. Until recently Bulgaria was an excellent market with no claims paid. However recently there have been a few problems on the short term side. Bulgaria is building up its external debts quite considerably and may be getting into payments difficulties which would have obvious implications for new medium/long term business.

In principle ECGD Investment Insurance cover would be available for UK investment. The scope of such cover would reflect the availability of cover for medium/long term export business. ECGD has no current exposure.

CZECHOSLOVAKIA

Short term cover is available without restriction and current exposure is £14m. Cover for medium/long term business is available within a market limit of £200m and current exposure is £22m. ECGD experience of this market is very good with no claims being paid. There is unlikely to be any change in the cover position in the near future given Czechoslovakia's low external debts.

In principle ECGD Investment Insurance cover would be available for UK investments. The scope of such cover would reflect the availability of cover for medium/long term export business. ECGD has no current exposure.

GDR

Short term cover is available without restriction and current exposure is £4m. Cover for medium/long term business is available within a market limit of £350m and current exposure is £59m. To date ECGD experience of this market has been good with no claims paid. The cover position is unlikely to be changed in the immediate future given GDR's relatively low net external debt situation.

In principle ECGD Investment Insurance cover would be available for UK investment. The scope of such cover would reflect the availability of cover for medium/long term export business. ECGD has no current exposure.

HUNGARY

Short term cover is available with payments over £50,000 being subject to a guarantee of the Foreign Trade Bank or National Bank. Current exposure is £7m. Medium/long term cover is currently available within a market limit of £125m with present exposure being £23m. As the Hungarians are getting into increasing financial difficulties the market is under review given the need for caution on new medium/long term cover.

ECGD Investment Insurance cover is available for individual exposures of up to £1m for equity investments in export orientated enterprises. This policy is under review because of the possible suspension of medium/long term cover for exports. ECGD has no current exposure but have issued a time limited approval in principle for an exposure of £320,000.

POLAND

Short term cover is available as long as payment is secured by an Irrevocable Letter of Credit confirmed by a bank outside Poland. Current exposure is £4m. Medium/long term cover has not been available since 1982 when Poland started rescheduling its debts. Poland currently owes ECGD about £1.2bn and cannot be considered creditworthy. ECGD cannot therefore consider resuming cover on its own account. If ECGD were to provide new medium term cover it would thus need to be insulated from their trading accounts and would have public expenditure implications.

ECGD Investment Insurance cover for equity investment in Polish enterprises is available for War and Expropriation risks only. No cover is available for the Restriction on Remittances (Transfer) risk. Current exposure on one case is £0.9m with a potential to rise to £2.2m. Two further cases relating to equity investments totalling £2.5m are being considered.

ROMANIA

Short term cover is available where payment is secured by an Irrevocable Letter of Credit confirmed by a bank outside Romania. Current exposure is about £1m. No medium/long term cover has been available since Romania had to reschedule its debts in 1982. Over the last 2-3 years Romania has been repaying all its foreign debts including those to ECGD. It has said it will not take any further credits. ECGD has no medium/long term exposure on Romania and there is no demand in view of the Romanian attitude.

In principle ECGD Investment Insurance cover is available for UK investments made in Romanian enterprises. The scope of cover that would apply to any business submitted would need to be reviewed. ECGD has no exposure on this market.

USSR

Short term cover is available without restriction and current exposure is £19m. Medium/long term cover is subject to a market limit of £1925m. Current exposure is £1180m of which £545m is the take-up of the current market limit. Thus £1380m cover remains available. The perceived risks in this market are increasing - albeit marginally at present - and are likely to lead to higher premia. It is vital that the Soviets adopt adequate monitoring and control mechanisms for their take up of new foreign debt, if they are to maintain their creditworthiness (NB - commercial bank attitudes are hardening significantly.) There are also problems with new buyers with no track record which makes it impossible at present to assess their creditworthiness.

ECGD Investment Insurance cover for equity investment in USSR enterprises is available for War and Expropriation risks. Cover for the Restriction on Remittances risk is conditioned to the ability of the enterprise to earn sufficient foreign currency to allow the investor to receive his share of the profits in hard currency. ECGD has no current exposure on USSR but four cases are in negotiation for an investment total of £8m.

YUGOSLAVIA

Short term cover is available subject to payment being guaranteed by an Irrevocable Letter of Credit issued by an approved Yugoslav bank. Current exposure is about £5m. Medium/long term cover has not been available since Yugoslavia started rescheduling its debts in 1982. ECGD is owed about £290m by Yugoslavia. The market is currently being reviewed in the light of economic developments and there is the possibility that some medium term cover may be resumed once Yugoslavia has a new IMF approved programme in place.

ECGD Investment Insurance cover remains available for UK investment in Yugoslavia and current exposure on two cases that have operated trouble free since 1978/79 is £1.3m. Neither investment has generated much profit and amounts remitted to the UK have been modest. The scope of cover for any large scale equity investment that might be put to ECGD for cover would be reviewed.

ECGD
8 December 1989

Annex E

EC AGREEMENTS WITH EASTERN EUROPE

COUNTRY (Date signed)	Date of last informal talks	Mandate Approved by FAC	Formal Negotiations	Proposal to Council	Trade	Commercial Cooperation	Economic Cooperation
	PROGRESS OF NEGOTIATIONS				CONTENT OF AGREEMENT		
HUNGARY (26/09/88)	<---------- COMPLETED ----------> 10 year agreement				All products but not ECSC nor MFA. Liberalisation of all QRs by 1995. MFN.	YES	Yes; Industry, mining, energy, tourism and agriculture.
CZECHOSLOVAKIA (19/12/88)	<---------- COMPLETED ----------> 4 year agreement				All industrial goods, but not ECSC nor MFA. Partial QR liberalisation.	NO	NO
POLAND (18/09/89)	<---------- COMPLETED ----------> 5 year agreement				Industrial and agricultural products but not ECSC nor MFA. Partial QR liberalisation. MFN.	YES	Yes; industry, tourism, transport and environment
ROMANIA (28/07/80)	<---------- COMPLETED ----------> 5 year agreement (rolled over pro tem)				Industrial goods but not ECSC nor MFA. Some QRs liberalised.	NO	NO
ROMANIA New agreement	COMPLETED	15/06/86	21-22/11/88	N/A	Successor agreement covering trade, commercial and economic cooperation under negotiation. Talks indefinitely stalled because of Romanians unrealistic demands and concern over their human rights performance.		
BULGARIA	13-14/09/88	20/02/89	06-07/04/89 29-30/05/89	N/A	As Poland, but EC will give, but not seek, MFN. Other bilaterals have been given greater priority.	YES	Yes; probably industry, tourism, transport and environment
USSR	17/02/89	28/04/89	19-20/07/89 09/10/89 22-24/11/89	N/A	Industrial and agricultural products but not textiles or steel. Term: 10 years. Part QR liberalisation. MFN. Separate textile agreement being discussed	YES	Yes; standardisation, transport, environment and energy
GDR	18-19/01/89	N/A	N/A	N/A	A trade agreement without cooperation initially proposed but consensus in EC now favours an agreement with cooperation elements if GDR so wishes		

November 1989

Key : QR = Quantitative Restriction MFN = Mutual recognition of Most Favoured Nation status

Annex F.

dti

the department for Enterprise

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Date 22 November 1989

Dear Stephen,

INNER GERMAN TRADE

I agreed with Charles Powell that it might be helpful for us to circulate a note on present condition of Inner German Trade, in view of current discussion of the Community's future relations with the GDR. This is attached. The main points to note are that:

i) IGT has, in practice, largely been in raw materials and semi-manufactured goods. This may provide some economic advantage to the Federal Republic, but IGT represents a very small proportion of supply needs in the FRG, and we doubt whether it gives German manufacturers a real competitive advantage. (This is borne out by the static nature of the trade and the efforts the FRG have to make to encourage it.)

ii) Although they consider the goods to be in free circulation, the Federal Republic regulates IGT in ways which minimise the leakage into the rest of the EC, and ensure the goods really are of East German origin.

iii) The FRG therefore estimates leakage to be about 1% of the total trade. Our own experience is that very few of the complaints made to us about IGT can be substantiated.

iv) Member states can take safeguard action against leakage. We have never needed to do so. This facility may be unworkable after 1992 but the FRG have so far shown themselves willing to find an effective replacement.

Up to now, therefore, we have considered the situation reasonably secure. When DTI and FCO officials discussed it in dti

the department for Enterprise

Bonn earlier this year, the Germans were anxious to reassure us that they wanted to maintain strict controls - both now and after 1992. I think we now need to look at this again. Recent developments may have caused some change of view in the FRG; and with the East German economy potentially attracting much West German investment and becoming more competitive, there must be a chance that leakage will start to grow and the Germans determination to control it will diminish. I think therefore that it would be useful for our official to make further contact with the IGT office in Bonn to probe current thinking and subsequently to keep a very close watch on the situation. My officials will be in touch with yours about this.

I am copying this letter to Charles Powell, to Private Secretaries to Cabinet Ministers, to Trevor Woolley and to Sir David Hannay.

Yours ever

Neil Th

NEIL THORNTON
Principal Private Secretary

INNER GERMAN TRADE (IGT)

THE SYSTEM

1. The principal feature of IGT is that goods on a list comprising most industrial categories may be traded between the Federal Republic and the GDR free of import duty and other restrictions. (The Federal Republic maintains some quotas on categories of steel, textile, ceramic and agricultural products). Payment for these goods is effected in units of account (equal in value to the West German Mark) held in a closed arrangement between the two central banks. GDR credits at the Federal Bank are not convertible into western currencies and may only be used for purchases in the Federal Republic. The GDR therefore cannot earn foreign exchange from Inner German Trade and is under pressing economic need to increase its direct exports to other Community and Western countries.

COMPOSITION OF IGT

2. The level of trade between the two Germany's has been fairly static since 1982 at around DM6 or 7 billion in each direction. The structure of Inner German Trade has shown a preponderance of raw materials and semi-finished products; the GDRs exports of capital goods have declined in importance since the 1960s and the Federal Republic's exports have also comprised mainly raw materials and semis until the last few years, when the drop in the GDR's purchases of petroleum products produced a rise in the proportion of capital goods.

CONTROLS

3. Industry in the UK and other Member States has nevertheless expressed concern about leakage of these goods into the rest of the Community, circumventing the Common External Tariff, and in addition that some of these goods may not originate in the GDR. The Federal Republic's response is that only a very small proportion (less than 1% i.e. DM 60 million) of goods imported from the GDR is re-exported into the Community and that their Customs carry out checking procedures to ensure as far as possible that the origin rules of IGT are properly observed.

4. The controls take the following form. To confirm origin, the Federal customs carry out detailed checks at the Inner German border including, if necessary, a physical inspection of cargo. Once the goods are in the FRG, companies participating in IGT are monitored to ensure that the system of VAT credits for which importers are eligible functions properly (although the Federal authorities admit that the present arrangement for recovering VAT on re-exported goods is unsatisfactory and should be tightened up). The companies involved all have to register with the Federal authorities.

Although there are 7,000 firms involved, some 80% of trade is in the hands of just 300 companies.

SAFEGUARDS

5. The Federal Republic considers IGT imports to be in free circulation within the Community and the Commission has supported this view. Re-exported goods are not automatically subject to import duty in other Member States (unlike goods imported direct from the GDR). However, under the EC Treaty's Protocol on Inner German Trade, Member States are able to take safeguard action against GDR goods entering their territory via the Federal Republic. France and Benelux have done so. This action could extend from say, surveillance licensing through duty reimposition to the prohibition of imports, but a recent European Court of Justice ruling established that the measures adopted by a Member State must be in proportion to the threat of economic injury.

THE FUTURE

6. The Federal Republic is sensitive to the need to address other Member States' concerns about the policing of the system, and DTI and FCO officials had talks on 18 April with Bonn on current administrative procedures and how these may be adapted in the light of the Single Market. The German side explained their procedures very fully and offered to investigate any specific complaints we raised.

7. The Commission would resist any strengthening of the Community's internal frontier controls against IGT goods but would support increased monitoring by Customs at the Inner German border. The concerns of UK industry would, however, be better addressed if the Federal authorities were to impose full EC duties on IGT goods re-exported to other Member States. This idea was first mooted by the Economics Ministry to us in April, although the Commission's view of it is not yet clear. We intend to examine in a further meeting with the Economics Ministry whether the present climate of change is affecting their thinking on issues arising from the operation of IGT.

Annex G

ECONOMIC REFORM IN EASTERN EUROPE

Summary

For all the noise about reform in Eastern Europe, very little significant progress has yet been made in converting command economies into market economies. In the last resort control and the leading role of the Communist Party have always taken preference over the introduction of real pricing or the devolution of the managerial role to those nominally in charge of factories. Now that the Communist Party has lost control in Poland and Hungary the new administrations are finding that they cannot both service their debt and bring in significant reforms. Poland has already abandoned the attempt to service its debt. Hungary may have to follow. For this reason above all Eastern Europe is seen first and foremost as a liability; then in due course both as an opportunity and, to a lesser extent, as a threat to particular small sectors of the British economy. The latter aspect is not developed in this note.

Introduction

1. Communist regimes in Eastern Europe have talked of reform for many years, in Hungary since 1968 and even in Bulgaria throughout the 1980s. Possibly the only significant administrative change occurred in the GDR which organised much of its industry into vertically integrated Kombinats, presumably as a means of overcoming the bottlenecks so familiar in other Communist countries. Neither Kombinats nor other devices have escaped from central bureaucratic or banking control, and claims made for growth in GNP have not been reflected in local supplies of consumer goods or in the avoidance of inflation, which is now well over 200% in Poland and about 1500% in Yugoslavia. Recognising the failure of the reforms attempted so far in Yugoslavia, their new trade Minister, Mr Horvat, told Lord Trefgarne earlier this month that the Yugoslav Government are no longer reforming the old system but establishing a new one, based on the market. Evidence to support this claim is still awaited.

Wages Reform

2. What evidence there is of effective reform is largely limited to a recognition of the need for differential wages, at least within any one enterprise. Previously commercial enterprise was much reduced by the reservation of higher wages for the security forces (police, secret police) or the party hierarchy and nomenklatura (including top bureaucrats and armed forces personnel). Others, including doctors and dentists, were usually paid much the same as the man on the factory floor. In some countries this has been or is being changed. In most other respects reform has amounted to organisational change without real effect, usually because of the lack of convertible currency and foreign exchange. For instance the right to engage in foreign trade is no longer monopolised by the Ministry of Trade in Hungary or the USSR. Instead the use of foreign currency is controlled by the Bank of Foreign Trade in Hungary and, in

practice, by the similar institution in the USSR (Vneshekonombank) except to the extent that Hungarian and Soviet enterprises are allowed to retain a proportion of the hard currency they have earned.

Price Reform

3. While the shortage of real money has seriously inhibited the movement towards decentralising commercial decisions, no significant progress seems to have been made to move towards real pricing. Subsidies on basic products such as meat distort the budgets of most countries in Eastern Euorope, including the USSR, Any change is held to threaten social unrest and certainly in Poland there is experience to support this apprehension.

4. From the UK's point of view the absence of real pricing and indeed of our concept of real costs, including land, is perhaps the main worry to British industry and the main justification for quantitative restrictions (QRs). While we have had to go along with EC pressure to remove QRs on Polish and Hungarian goods with effect from 1 January 1990, this concession will not be matched by any corresponding adoption of real pricing or Western cost accounting. Whatever the view of the Polish and Hungarian authorities they lack the trained personnel to implement it and for this reason a main feature of HMG's Know How Fund for Poland is to provide training and text-books on book-keeping, accountancy, elementary banking, etc.

5. Apart from safeguards written into the EC's agreements with Poland and Hungary and the generally applicable anti-dumping procedures, the main reason for doubting if there is any great threat to British industry lies in the very limited capacity of Polish and Hungarian industry to make goods of export quality in any consistent quantity.

OT3/5
24 November 1989

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