

EUROPEAN UNION

CHALLENGES AND PROMISES OF A NEW ENLARGEMENT

ANCA PUSCA



INTERNATIONAL DEBATE EDUCATION ASSOCIATION

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a New Enlargement

Edited by Anca Pusca

International Debate Education Association
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Introduction

The purpose of this book is to bring together some of the more interesting arguments surrounding the latest rounds of enlargement of the EU and to discuss some of the implications of Enlargement for the parties directly involved, for Europe as a region, and for the rest of the world. The European Union, as it stands today, is a regional organization unlike any other in the world. It has, for better or worse, been able to provide its citizens with political and economic stability for over half a century. At the heart of this union lies an alliance between France and Germany which many would have deemed impossible not long ago. The past 50 years, however, have transformed the Union into a more integrated region whose goal has become that of furthering stability and democracy within the European continent.

The fall of the Berlin Wall in 1989 and the reunification of Germany started the ball rolling for a new series of Eastern European countries to join the Union. Current members of the Union welcomed the fall of communism with great enthusiasm and looked forward to a larger re-unification of Europe beyond the borders of East Germany. The initial enthusiasm, however, was slowly tamed by institutional and economic concerns that reflected both the fear that the inclusion of so many new states at once would threaten to significantly disrupt the integration process of the EU and the fear that the Eastern European economies were developing too slowly to integrate smoothly into the larger EU economy. The adoption of the single currency and of the Growth and Stability Pact¹ has created a new challenge for future Enlargements, making the preparation process more tedious and inevitably longer.

The origins of the European Union

A better understanding of the challenges facing the current enlarge-

ment however, requires an understanding of the historical development of the European Union as well as a comparison between current and previous enlargements of the Union. The European Union dates back to an initiative by Jean Monnet and Robert Schuman to merge the French and German iron and coal industries, which materialized into the European Coal and Steel Community (ECSC) in 1951. In the post-WWII context, the ECSC became a symbol of a Europe that looked to economic cooperation as a means to reconstruct itself and guard against future conflict.

The ECSC was welcomed by a majority of countries in Europe, and joined by Italy, as well as the Benelux countries (Belgium, Netherlands and Luxembourg), which had already established a customs union in 1948. Both Monnet and Schuman, however, had a different vision for Europe, beyond that of the ECSC. Only three years after the creation of the ECSC, they put on the table a different idea, that of the transformation of the ECSC into a larger European Economic Community (EEC). The EEC called for the abolishment of quotas and tariffs of trade among the members, the establishment of a joint external tariff, the unification of trade policy towards the rest of the world as well as the organization of a single internal market. Despite opposition to the EEC idea, after three more years of ardent debate, the Treaty of Rome officially established the EEC as well as the European Atomic Energy Community (Euratom) in 1957.

Once the EEC became a reality, another important issue was brought to the table in 1958 by the DeGaulle government in France: the Common Agricultural Policy (CAP). DeGaulle's idea was to take the French national agricultural policy to the European level and transform it into a common policy that would be funded from the European budget. DeGaulle used the CAP as a bargaining chip in the integration and enlargement debates, and thus managed to introduce it at the European level despite strong opposition. DeGaulle is now blamed for having initiated a policy that should have never been brought to the supranational level and that continues to drain the largest part of EU resources. The debates surrounding the CAP provide a good insight into the current EU negotiating process by showing the constant give and take that characterizes this process.

In the 1960s, the EEC (also known as the “Common Market”) was dominated by a strong French state under the leadership of DeGaulle, thus making compromise harder and stalling the process of further integration of the EEC. At DeGaulle’s insistence, the British application to join the EEC was vetoed twice. It was not until the resignation of DeGaulle in 1969 that the push to transform the EEC into an even larger and better-integrated community could be revived. Following DeGaulle’s resignation, two equally important forces started to dominate the evolution of the EEC: one seeking to further integrate the existing members (deepening), and one seeking to expand the union toward new members (widening).

The second decade of the EEC: expansion and transformation

Two important integrating transformations took place within the EEC between 1969 and 1979. One was the creation of the European Monetary System (EMS) and the other was the official establishment of the European Council and the agreement to hold the first elections for the European Parliament in 1978. Discussions of a new monetary system were launched in the EEC as a result of the US announcement of the suspension of the dollar convertibility under the Bretton Woods system;² the beginning of a European recession as well as increasing inflation also fueled discussions. These discussions led to an agreement to keep the EC currency fluctuations within a 2.5% margin in 1972 and ultimately to the launching of EMS in 1979. The EMS was the predecessor of the European Monetary Union (EMU) and the larger economic union within a single market.

An important enlargement also took place within this period. The first country to seek to join the original six members of the ECSC, later transformed into the EEC, was Britain. Despite France’s strong opposition to further enlargement, DeGaulle’s resignation in 1969 allowed the EEC to reconsider the applications of Britain, Denmark and Ireland. France finally agreed to let them join the EEC in 1973, after obtaining a commitment from the other five members to continue to fund the controversial CAP.

Further integration and enlargement in the 1980s and 1990s

The 1980's and 1990's were also dominated by the integration and enlargement forces. Thus, in 1981, the European Community accepted Greece as a new member of the community, and in 1986, Spain and Portugal also joined in. These enlargements forced the EC to consider new strategies for economic integration that were needed in order to bring the new members to the same level of economic development as the existing members. Structural funds were created and funded by the EC to help develop the new states, and the CAP was also extended to the new states.

The integration process was also furthered through the passing of the Single European Act in 1986, a device meant to help launch the single market program. The Single European Act defined the internal market as an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured. It also created the European Council and the Council for the European Union, and set the stage for further collaboration on research and development, the environment, as well as further monetary, economic and social integration. Despite the fact that the Single Market was met with physical, technical and fiscal barriers, the European internal market is now the largest market in the world. The Single Market program, and the energy with which it was supported by the EC institutions, particularly the European Commission, paved the way for a successful launch of the single European currency.

The 1990s brought about another series of important transformations both in terms of integration as well as enlargement. The collapse of the Berlin Wall and the unification of Germany created a new impetus for further integration. Despite British opposition to the creation of a European Monetary Union and German unification, the Treaty in European Union (TEU) was signed in Maastricht in February of 1992, creating a new structure for the European Union (a union being stronger and more structured than a community). The new structure was based on three pillars: the first was the economic and monetary union, the second was common foreign and security policy and the third, justice and home affairs. TEU had five main objectives: the first was to promote further economic and social inte-

gration, the second was to establish a European identity that could represent the EU in the international world, the third was to create a European citizenship, the fourth was to promote cooperation in justice and home affairs and the fifth was to maintain the *acquis communautaire*, or what the EU had already managed to achieve in terms of its political, economic and social integration.

Criteria established for new Member States

With another enlargement planned that was to include Austria, Sweden and Finland, the new European Union had to devise more concrete criteria for EU applicants. A series of important considerations were kept in mind: geographical location, a democratic political system, a commitment to human rights, a functioning and competitive free market economy, an adequate legal and institutional framework, acceptance of the *acquis communautaire* and a willingness to participate in a common foreign and security policy and possibly a common defense policy. The European Council spelled out these specific criteria that the new applicants from Central and Eastern Europe were to be judged against in the Copenhagen Criteria in 1993: the first criterion was the stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; the second, the existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the EU; and the third, the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

In 1997, the EU decided to begin negotiations with ten countries from Central and Eastern Europe, as well as Cyprus and Malta, and started considering Turkey's application to join the Union as well. Almost 5 years later, the EU is getting ready to welcome ten new countries in 2004: Poland, the Czech Republic, Hungary, Estonia, Lithuania, Latvia, Slovenia, Slovakia, Cyprus and Malta. Three more countries are still in the negotiation process, with Bulgaria and Romania most likely to be welcomed in 2007, and Turkey at some time in the future. The 2004 enlargement is by far the largest round of enlargement in the history of the EU. The largest number of coun-

tries that the EU has welcomed in the past at one time has been three, when Austria, Sweden and Finland joined in 1995; other enlargements involved only one or two countries – e.g., Greece in 1981, Spain and Portugal in 1986, and East Germany in 1990.

Challenges posed by the latest enlargement

There are several challenges that the EU is facing in the new millennium. These challenges are triggered both by internal transformations that come as a result of further integration as well as by enlargement. The EU is getting ready to adopt a new Constitution, which will help establish a single European voice in the international arena as well as give more legitimacy to the current EU institutions. The EU is also facing increasing challenges from the introduction of the common currency and the failure of several countries in the Union to respect the Stability Pact in the face of the slow economic recession that began in 2000. The new enlargement, towards Central and Eastern Europe as well as South Europe, is starting to put increasing pressures on the current members both in terms of new budgetary assignments for the structural funds and the CAP as well as in terms of the increasing unemployment problem in Europe, which could threaten to explode faced with the possible migration of people from the East and South towards the stronger, central economies.

The new EU members waiting to enter the EU starting in 2004 are also facing important challenges. The ten Central and Eastern European countries, besides undergoing a series of important political, economic and social transformations since the fall of communism and the transition to democracy, are also forced to adopt another series of more specific reforms meant to prepare them for better integration within the EU. These reforms have led to further disruptions in an economic and political order that was just beginning to settle by the mid 90s. The new members waiting to be welcomed in 2004 and possibly 2007 are facing increasing concerns that local industries and farmers will not be able to compete with the larger established industries in the current EU members, as well as concerns that they will only be accepted as 'second-class' citizens, who, at least for the first few years, will not enjoy full rights

that are equal to those of the current members of the EU.

These challenges can best be analyzed and understood in light of past enlargements, as well as in light of current transformations taking place within the EU. Both the current and past rounds of enlargement were met with hopes, fears and challenges. There were hopes for expanding democratic rule to the west, with the inclusion of Spain and Portugal in 1986, increasing economic stability to the south with the inclusion of Greece in 1981, and creating a unified European space with the inclusion of East Germany in 1990, Austria, Sweden and Finland in 1995. These hopes were, however, counter-balanced by fears that these enlargements would significantly deplete the EU budget, thus requiring current members to subsidize incoming members, fears that the original members would lose some of their power in terms of seats in the EU institutions and number of votes, as well as that poorer citizens of the incoming countries would seek to migrate towards better economic areas, thus putting a stress on employment.

Similar hopes and fears surround the current enlargement process. The fears are, however, even stronger, partially because of the large number of countries being welcomed at once, and partially because of fears that the institutional and bureaucratic structure of the EU may not be able to sustain such a large number of members without a significant challenge to the integration process (an effort to create a European identity and structure beyond the national governments of the member states).

The role of the *acquis communautaire* and intergovernmental conferences

The articles included in this volume try to address some of these hopes, fears and challenges within larger theoretical frameworks, and to provide us with a better understanding of the debates that are currently taking place within the accession process. While the accession process is a very complex one, the framework on which it rests – the *acquis communautaire* – is fairly straightforward. The *acquis communautaire* represents the main values on which the European Union is based and is designed to ensure that the accession countries are ready

to satisfy the economic, political and social requirements that sustain the European Union as it exists today.

The *acquis* is divided into 31 main chapters that guide the negotiation process with each accession country. These chapters are: free movement of goods, people, services, capital, company law, competition policy, agriculture, fisheries, transport, taxation, Economic Monetary Union, statistics, social policy, energy, industry, small and medium size enterprises, science and research, education and training, telecommunication, culture and audiovisual, regional policy, environment, consumers and health protection, justice and home affairs, customs union, external relations, common foreign and security policy, financial control, financial and budgetary provisions, institutions and other. The ten countries that are ready to be welcomed in the EU in 2004 have already closed all their negotiating chapters. Two of the remaining candidates, Bulgaria and Romania, are still in the negotiation process, with 25 and 19 chapters closed respectively. Turkey does not have any chapters open, although it has applied to become a member of the EU.³

Beyond the *acquis communautaire*, the EU has sought to prepare for the new round of enlargements through several proposals and Intergovernmental Conferences (IGCs). Agenda 2000 was a proposal that sought to prepare the union for enlargement by suggesting some of the most important internal restructurings that the EU should pursue in order to be ready to welcome its new members. The proposal was first created in 1997 and was later approved at the Berlin Intergovernmental Conference in 1999. These included a significant restructuring of the Common Agricultural Policy (CAP), the Structural Funds and the EU institutions. The Common Agricultural Policy or CAP is a policy designed to help farmers within the EU maintain a similar standard of living to those involved in other sectors in the economy and to maintain the rural community as an essential part of European culture and identity. The Structural Funds were a creation that came about with the previous rounds of enlargements and were designed to help regions that lagged behind economically catch up through economic aid, educational training and structural help.

Some of the major issues that were agreed upon in Berlin regarding the CAP are: a 15% to 20% reduction in guaranteed prices to farmers, the maintenance of direct payments to farmers,⁴ the need for a new focus on rural development under programs to be developed by each national government, a push for more environmentally friendly policies, and the creation of SAPARD, a new program with an annual budget of 529 million euros, that will help finance the restructuring of agricultural sectors and rural economies in the candidate countries. Agenda 2000 also proposed that a percentage of the structural funds be made available to accession countries as early as the year 2000, as well as that the EU budget start earmarking a certain percentage of the structural funds for the years after the new enlargements. The institutional changes proposed under Agenda 2000 were later discussed and agreed upon at the Nice Intergovernmental Conference in 2000 (also known as the Treaty of Nice).

Agenda 2000 and the Treaty of Nice laid out some of the major restructurings to be undertaken within the EU institutions. These proposals concerned the number of seats available within each EU institution for new accession members, the distribution of votes within these institutions, the method of decision-making (moving from codecision to qualified majority voting) and the rotations in the EU presidency. The Constitutional Convention and the Future of Europe Debates taking place from 2000 to 2003 addressed similar institutional concerns, focusing mainly on the adoption of an EU Constitution⁵ that will help narrow the so-called democratic deficit and address some of the concerns over the EU's foreign and security policy. These internal restructurings are an integral part of the larger enlargement negotiation process.

The enlargement negotiation process occurs at several different levels: one is the macro level, in which the European Union institutions negotiate directly with the governments of the individual accession states; the other is the mid level, in which particular alliances are being formed between the current EU member states and the accession states, thus pulling the accession process along with particular benefits and restrictions enforced; and the last is the micro level, in which the citizens of both the current member states and the

accession states react to the changes that they foresee with Enlargement either by exhibiting hope and excitement or fear and apathy.

These levels interact with one another, shaping the enlargement process in unique ways, forming alliances and resistance. The main supporters of enlargement are the original members of the Union (France, Germany and to some extent Italy) that are most likely to benefit from it. Germany and Italy have, however, expressed concerns over migration and employment issues. The largest opposition to enlargement comes from either distant members or poorer members of the Union. England is less likely to benefit from enlargement and more likely to give more financially. Spain, Portugal and Greece are afraid that they will have to compete with the new, poorer states for the structural funds as well as for the agricultural aids under the CAP, while French farmers feel threatened by the inclusion of two large agricultural states, Poland and Romania, which will most likely require more agricultural aid and bring back on the table the question of the efficiency and even need for the CAP.

The enlargement process is, however, not limited to issues of integration of new states and the restructuring of the EU to fit that integration. It has become a new open field for the discussion of other important issues such as the nature of the European Union within a world of smaller sovereign states, the nature and role of the sovereign states within the European Union both inside the Union and on the international arena, the EU as an important contemporary social experiment, the EU as an example of structured regionalism and a solution to globalization, as well as the EU as a sustainable structure in the future.

It is important to understand the enlargement process within these larger debates, while not losing sight of the details. The dream of a peaceful, democratic and economically successful Europe is sustained by a very complex institutional and bureaucratic structure. The institutions of European Union form part of a broader governance network including national government representatives and institutions, with global institutions and organizations. The design of European institutions has become increasingly complex and has made use of mathematical equations to calculate representation and match

seats and votes with populations and minorities. While many of the articles chosen for this book address a lot of these details, they need to be understood within larger contexts: the discussion on the restructuring of EU institutions before enlargement belongs to a larger debate concerning democracy and the possibility of extending democracy to supranational bodies such as the EU; the economic implications of the enlargement pertains to the globalization debate as well the liberal vs. welfare state debate; the discussion of the Common Agricultural Policy can be viewed from the perspective of the modernization debate, and the transformation of agricultural societies into industrial and postindustrial societies; and, finally, the discussion of the social implications of Enlargement is embedded within the classical division between the civil society, economic, and political realms and the particular interactions between the three.

Part 1: Overview

The articles presented in the book have been divided into five parts. Part 1 provides a general overview of the enlargement process, highlighting salient issues. The first piece, “Enlargement of the European Union: An Historic Opportunity,” provides the official perspective of the European Commission as well as some background information on the accession countries. In “Central Europe on the Eve of EU Accession,” Wojciech Paczynski provides an overview of the challenges of European enlargement in terms of the state of integration between EU and the accession countries — the Czech Republic, Estonia, Lithuania, Latvia, Poland, Slovakia, and Slovenia, as well as Bulgaria and Romania. He assesses the political and economic situation of Central European countries according to the Copenhagen criteria and the EU objectives defined in the Amsterdam treaty. Accession countries lag behind on several political issues including the functioning of the public administration and the judiciary, corruption, the situation of ethnic minorities (especially the Roma minority), as well as in their capacities to implement reforms and economic policy. On a variety of criteria of democratization and rule of law, Bulgaria and Romania rank significantly lower than the other countries. The most contentious issue

remains justice and home affairs where all countries lack sufficient administrative and organizational capacities.

On the economic front, accession countries are catching up with Western Europe and their economies have experienced rapid structural change, notably in the service sector. Moreover, they are increasingly involved in trade with the EU, which is already their main trading partner. But, much as in the case of the political indicators, convergence is more pronounced for Slovenia, Hungary, the Czech Republic and Estonia. Although it is clear that Central European countries constitute a diverse group, stressing diversity and inequalities between accession countries should not mask differences within the EU itself. Paczynski concludes that overall, enlargement will have a limited economic impact on both EU members and accession countries given the already advanced stage of economic integration. The main gain for accession countries will be to secure macroeconomic stability and increased capital investments. The most substantial changes are likely to be experienced in terms of institutional reforms.

Part 2: EU Institutions and Enlargement

The second part of the book looks at some of the institutional challenges of enlargement and the kind of solutions that these challenges have been met with. The main forums concerning institutional changes have been the discussions leading to the signature of the Treaty of Nice (signed in 2000) as well as the recent European Convention for the Future of Europe (started in 2000) and the New European Constitution (draft recently submitted). The Treaty of Nice tries to solve the problem of how the incoming countries are going to be represented in the European Union Institutions, both in terms of seats within these institutions and in terms of the number and weighing of votes. The European Convention for the Future of Europe and the New European Constitution mainly try to address the question of the so-called 'democratic deficit' within the European Union. The 'democratic deficit' theory claims that there is too little decision-making power given to directly elected officials within the European Union (EU Parliament) and that this gets reflected in the high levels

of ignorance of European affairs amongst the European citizens as well as lack of trust in European institutions vs. national institutions. The New Constitution is designed to address these concerns, allow for more interactions between civil society groups and the EU institutions, and provide more legitimacy to the EU institutions themselves; it also addresses common security and foreign affairs concerns.

In "Preparing the EU for 2004," Heather Grabbe shows how the debate over enlargement and the adaptation of EU institutions to a larger membership has allowed long-standing reforms concerning institutional efficiency to gain renewed prominence and urgency. She proposes a reform of the European Council and the Council of Ministers that would allow for special representatives of the heads of governments to meet frequently on substantive issues. Foreign policy is also a prime locus of necessary reform, notably on the issue of the rotating presidency and the spread of responsibility between a High Representative for Common Foreign and Security Policy and the Commissioner for External Relations. National parliaments are also to be given added responsibility in matters relating to subsidiarity and EU legislation oversight, notably through the creation of an appropriate committee. The EU should redistribute current budgetary resources away from the financing of agriculture and human resources toward justice and home affairs. Finally, EU institutions should allow the individual policies to be driven flexibly by small coalitions of like-minded states with a direct stake in the issue at hand. Grabbe notes that those reforms highlight the fact that the EU needs a constitution to clarify its purposes and the division of its powers.

In "The Institutional Challenges of EU Enlargement," Cécile Barbier focuses on the results of the 2000 Intergovernmental Conference (that resulted in the signing of the Treaty of Nice) that dealt with institutional issues, notably the working of the European Commission and the Council, membership in the European Parliament, and enhanced co-operation. Since states will outnumber the members of the Commission, a fair procedure must be worked out to nominate Commissioners. In the Council, the weighting of votes will change as well as the voting procedures. Barbier assesses some of the different agreements that the member states came to under the Treaty

of Nice focusing on the adoption of the codecision process as the main mechanism for decision making in the EU institutions following enlargement. She also assesses the issue of enhanced cooperation (an issue much discussed at the 2000 IGC), arguing that it will most likely function on issues of taxation and Economic and Monetary Union rather than on social security. At the end of the article Barbier talks about the emergence of the discussions concerning a possible EU constitution that Heather Grabbe has discussed in more detail.

Part 3: Economic Implications of Enlargement

Parts 3 and 4 of the book both look at the economic implications of enlargement. Part 3 focuses mainly on the impact of enlargement on the European Monetary Union, while Part 4 looks more at the restructuring of the Common Agricultural Policy before enlargement. The debate surrounding the European Monetary Union and enlargement mainly looks at whether the new accession countries are ready or not to adopt the new European currency, and together with it to obey the strict rules of the Stability Pact. Other issues surrounding this debate are the economic stability of the accession states, the major impact of the four basic freedoms of the internal market — freedom of movement, of goods, of capital and of services — on the border areas between the current member and the accessing countries, as well as price increases and the differences in the standards of living in the different member and accession countries.

In “Does Enlargement Matter for the EU Economy?” Katinka Barysch argues that enlargement is likely to have little impact considering the small size of the economies of new member-states, and the already high integration of East European countries with Western Europe under the impulse of foreign trade liberalization. The competitiveness of the EU labor-intensive sectors will be increased as it moves toward the East, which is likely in turn to make productivity gains in those sectors thanks to increased investments in industries rather than privatized services. However, we will not witness a sustained eastward relocation of industries because of the large productive gaps between the EU and accession countries. Likewise, mass labor migration from Eastern Europe will not materialize because of

the difficulties of social integration. Migration will certainly concern only the most skilled and affect mostly bordering states, Germany principally. It will have a beneficial effect considering the aging of the EU population. Overall Barysch estimates that enlargement will have a small but positive impact on EU and accession countries.

In “The Economic Impact of Enlargement on the European Economy,” Paul Brenton stresses the microeconomic challenges posed by enlargement, notably in terms of the regulation of the Single Market. He notes that the requirements for membership include a functioning market economy, the capacity to cope with market competition within the EU, and the ability to fulfill membership obligations. Non-border regulatory policies that affect trade, mainly safety and health standards, are also of crucial importance. The EU approach so far has been mainly based on the mutual recognition of national regulations. In case of failure to accept mutual recognition, the EU steps in to harmonize technical specifications through either detailed product-by-product legislation or indications on essential requirements. However, European standards are developing too slowly and corporations are still reluctant to rely on mutual recognition and tend to adapt their products nationally. Enlargement will further undermine mutual recognition because of the lack of administrative capacity of new members and increased cultural diversity, which engenders varying tastes and preferences for goods. Therefore, the author concludes that microeconomic adjustments may lead to difficulties yet unforeseen by policy-makers.

In “EU: The Costs and Benefits of Enlargement and Accession,” Renate Langewiesche emphasizes one particular aspect of this enlargement, given the need to integrate the extensive *acquis communautaire*. She reiterates the argument that the costs and benefits of enlargement, though unequally distributed, will be relatively small thanks to the division of labor between EU and accession countries, the propitious nature of foreign investments dedicated to improving market access of Western European companies in Eastern Europe, and the already substantial, structural transformation of accession countries. Langewiesche also draws attention to the shortcomings in the social structures of new market-based economies. She argues that

Eastern European countries have yet to develop efficient systems of management of labor relations, to enact and enforce new labor and social legislation, to promote unified trade unions and expand their reach to small and medium-sized enterprises in the private sector, and to create frameworks for the organization of tripartite dialogues and the conclusion of collective agreements.

Part 4: The Common Agricultural Policy (CAP) and Enlargement

Part 4 of the book looks in more detail at the particularly important economic and social implication of enlargement and the extension of the Common Agricultural Policy to the new member states. The Common Agricultural Policy was adopted with the Treaty of Rome and expressed a particular interest of the French to shift the costs of subsidizing their farming economy to the European Union level. The CAP has remained a very soft issue in the European Union debates and has been surrounded by many controversies, many of them concerned with issues of cost. The CAP alone takes up over €50 billion per year out of the EU budget, which represents an average of 40% of the budget. While the CAP has been claimed to be expensive, wasteful and environmentally unfriendly, it has become a great bargaining tool for the strong farmer unions across the EU, and particularly France. Even though EU support for the CAP may at this point be mainly a political strategy to gain the support of strong farmer unions, within the accession countries the CAP remains a controversial issue. Agricultural countries such as Poland and Romania look at the CAP both as a possible solution for restructuring their agriculture as well as a possible threat to their already weakened farmer communities.

We begin Part 4 with an EU document on enlargement and agriculture; it recapitulates the main issues and data of interest. In “Reaping What The EU Sows,” Tomas Doucha argues that enlargement could be an opportunity for the CAP to move away from costly subsidies toward a greater share devoted to support structural development in the agricultural sector. He takes the example of the Czech Republic where policies are aimed at restructuring the agricultural sector rather than based on direct payments. Change is still on the way in the areas of agricultural property and privatization, the marketing and

transformation of agricultural products, ownership structure between landowners and tenants, and the removal of the burden of debt on agricultural producers. With proper financing, improvements in management standards and marketing channels, and new foreign investments, the Czech agricultural sector may actually converge toward the EU average by the time of accession.

In “EU Enlargement and Governance of the CAP,” Bernhard Brümmer and Ulrich Koester point out the severe governance problems ensuing from EU agricultural regulation on its Member States. They use a principal-agent framework to analyze the CAP, which highlights the hierarchy of implementation of agricultural policy and asymmetric information between the different levels. As responsibility for the implementation and monitoring of agricultural policy is delegated further and further away from EU regulators, multiple opportunities for deviations from rules, corruption and cheating emerge. While the EU engages in regulating new areas from foreign trade to production, problems of governance have been more acute and will increase with additional membership.

Part 5: Social Implications of Enlargement

Part 5 of the book looks at some of the major social implications of Enlargement that have been discussed in academic debates. The first two articles address a common fear that the new enlargement will open wide the doors to work immigrants from Eastern Europe, thus threatening to bring up unemployment rates amongst the nationals of the particular countries to which they will emigrate (mainly Germany, Italy and France) and disrupt an already shaken economic order. The last two articles in this part address questions of gender relations and labor as well as some questions surrounding social protection issues.

In “The Flood that Won’t Happen,” Andras Gal closely analyzes the prospect for massive emigration out of Hungary. He notes that Hungarians seem less and less interested in opting for permanent migration. Moreover, few Hungarians actually speak a foreign language, which renders difficult their eventual integration into another country. Pointing toward previous enlargements, he recalls that

Spanish, Portuguese and Greek workers actually went back home when their country acceded to the EU and exhibited a higher growth rate than the rest of Western Europe. There is therefore no supportive evidence toward the view that enlargement will lead to “excessive” labor migration.

Gal’s essay is followed by excerpts from a document by the EU Commission, “The Free Movement of Workers in the Context of Enlargement,” which concurs with Gal’s assessment. In addition, it recapitulates the measures EU countries can take to face labor market disruptions in the wake of possible migration flows. First, new member-states can benefit from the full extent of the *acquis* (reviewed in Annex 3 to the chapter). Second, EU countries have the option of implementing safeguard clauses based on an assessment of the situation of their labor market or on a fixed threshold. Third, preventive measures have the advantage of offering assurance against possible detrimental inflows of labor but they require permanent monitoring and fine-tuning. Fourth, EU countries could impose a transitional period before allowing free trans-border movement of people or fixed quotas.

Little attention is given to the fact that in many substantive areas accession countries are actually achieving better results than EU members, notably in the case of gender relations and social policy. In “Gender Labour Relations and EU Enlargement,” Rossitsa Rangelova looks at evolving gender relations in the workplace in Western and Eastern Europe in the post-war years. In Western Europe, participation rates of women into the labor force increased substantially only in the 1970s and 1980s while economies were undergoing substantial structural change toward a larger service sector where women were traditionally more present. On the contrary, for ideological and political reasons, women’s employment was very high in the centrally planned and heavily industrialized economies of Central and Eastern Europe where women benefited from equal pay and advanced education. Unlike Western Europe, women were more present in the manufacturing and agricultural sector than in the service sector. However, women were still excluded from senior top posts and gender stereotyping in education was not uncommon, thereby limiting women to a limited range of sectors and occupations. Moreover, household work

and childrearing remained female tasks, thus putting substantial downward pressure on female wages and occupational positions. The transition to a market economy has substantially weakened the position of women by putting additional pressure on families due to cut-backs in social services and state benefits. Economic disruptions have also weighed more on women than on men, notably because of labor market segmentation. Finally, the author notes the low representation of women in politics. This fact renders even more difficult the necessary changes in labor legislation to include gender equality.

In “The Entry of Transition Countries of Central Europe in the European Union: Some Social Protection Issues,” Vladimír Rys tackles issues of pensions and health protection in the Czech Republic, Hungary and Poland. He notes the gradual reduction of the basic pension scheme and the increasing reliance on mandatory private pension funds depending on the state of the banking and financial systems. Except in Poland, the reform of the healthcare system has been haphazard and tended toward the implementation of a health insurance scheme to replace the free national health services. Considering that accession countries are unlikely to withdraw social protection just for the sake of being more “competitive,” enlargement should not pose major challenges to social protection if it is respectful of the social context of new member-states. In the end, enlargement offers an opportunity for the EU to devise new models of governance and redesign the welfare state.

Conclusion

Part 6 comprises source readings — excerpts from the main documents and treaties addressed in the book as well as some important indicators concerning enlargement. We have also included, as Part 7, a glossary of important terms that will help guide you through some of the articles. At the end of each of the five parts of the book we have included short bibliographies for further readings on the subject, as well as a box discussing some of the major debates within that particular area. We hope you will enjoy the book!

FOOTNOTES

1. The Growth and Stability Pact was created as a mechanism of support for the Economic Monetary Union and the single currency. The pact is an agreement to maintain deficits at the certain percentage of GDP as well as maintain interest and inflation rates within a previously established margin.
2. The Bretton Woods system was an international monetary framework of fixed exchange rates after WWII drawn up by US and Britain in 1944. The system ended in 1971 when Nixon decided to stop trading gold at the fixed price of \$35/ounce, thus severing the formal links between the major world currencies and real commodities.
3. These numbers are available on the European Commission website on enlargement at:
http://europa.eu.int/comm/enlargement/negotiations/pdf/stateofplay_dep_june2003.pdf
4. Although direct payments will be maintained within the current members of the EU, for lack of funds, farmers from accession members will only receive a portion of these direct funds which will be distributed through a local commission set up by the national governments with the help of the EU. This decision has led to a series of demonstrations in the accession countries, particularly Poland, a strong agricultural country, which complained that unequal direct payments make for unequal competition.
5. The text of the new Constitution has been submitted by the specially assigned commission headed by former president Valery Giscard D'Estaing in May 2003 and deliberations are ongoing.

Part 1

Overview

Enlargement of the European Union An Historic Opportunity

General overview of the enlargement process and the
pre-accession strategy of the European Union

The European Commission, Enlargement Directorate-General

“A new era is dawning for the European Union. Ten new Member States will join the Union on 1 May 2004 thereby bringing the post-war division of Europe to a peaceful conclusion. Enlargement lays the foundations for lasting peace, stability and prosperity for future generations. It is an inclusive and irreversible process. The members of the European family are joining their forces and capabilities to further enhance welfare and prosperity in a widened Union. By enlarging, the Union will also gain cultural and regional diversity and become an even more inspiring place to live and work.

However, in order to realise the full benefits of enlargement, the Community will have to revisit its policies, and make its institutions more efficient and democratic so as to better respond to the needs and expectations of the people of Europe.

I am confident that Europeans will wholeheartedly embrace this enlargement of our Union and seize the many opportunities it brings.”

*Günter Verheugen,
Member of the European Commission responsible for Enlargement*

An unprecedented enlargement

Enlargement is one of the most important opportunities for the European Union as it begins the 21st century. Its historic task is to further the integration of the continent by peaceful means, extending a zone of stability and prosperity to new members. In June 1993, at its Summit in Copenhagen, the European Council declared that 'the associated countries of Central and Eastern Europe that so desire shall become members of the Union'. In December 1997, at Luxembourg the European Council launched the process that will make enlargement possible. This process presently embraces thirteen countries: Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic, Slovenia and Turkey. In June 2001, at Gothenburg, the European Council affirmed that the objective was to complete accession negotiations by the end of 2002 with those countries that would be ready to join.

In December 2002, meeting again in Copenhagen, the European Council concluded accession negotiations with ten countries. The Union now looks forward to welcoming Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia as members from 1 May 2004. The Accession Treaty with the ten acceding countries was signed on 16 April 2003 in Athens. Negotiations with Bulgaria and Romania continue. Depending on further progress in complying with the membership criteria, the Union's objective is to see Bulgaria and Romania join the European Union in 2007. With regard to Turkey, the Copenhagen European Council confirmed that it would re-examine Turkey's progress towards meeting the accession criteria at its meeting in December 2004, on the basis of a report and a recommendation from the Commission. If the European Council then decides that Turkey meets the political criteria, the European Union will open accession negotiations with this country without delay. Building on the historic decisions of the 2002 European Council in Copenhagen, the Union continues to work towards the completion of the ongoing enlargement process which is at once continuous, inclusive and irreversible.

The EU has a long history of successful enlargements. In 1957 six founding members signed the Treaty of Rome: Belgium, France, Germany, Italy, Luxembourg and the Netherlands. Four enlargements have followed:

1973	Denmark, Ireland and the United Kingdom
1981	Greece
1986	Portugal and Spain
1995	Austria, Finland and Sweden.

The enlargement facing the EU today is without precedent in terms of scope and diversity: the number of candidates, the area and population and the wealth of different histories and cultures.

The benefits of enlargement are both political and economic. In brief:

- The extension of the zone of peace, stability and prosperity in Europe will enhance the security of all its peoples.
- The addition of more than 100 million people, in rapidly growing economies, to the EU's market of 370 million will boost economic growth and create jobs in both old and new member states.
- There will be a better quality of life for citizens throughout Europe as the new members adopt EU policies for protection of the environment and the fight against crime, drugs and illegal immigration.
- Enlargement will strengthen the Union's role in world affairs – in foreign and security policy, trade policy, and the other fields of global governance.

Benefits are already visible:

- In Central and Eastern Europe, stable democracies have emerged.
- The economic reforms in these countries have led to high rates of economic growth (twice the recent EU average) and better employment prospects.
- This process has been helped and encouraged by the prospect of EU membership, and by the EU's financial assistance.

- The Union currently enjoys a trade surplus of approximately €18 billion with the 13 candidate countries and this generates employment and growth in the member states.

Non-member countries will also benefit from an enlarged Union. A single set of trade rules, and a single set of administrative procedures will apply across the Single Market of the enlarged Union. This will simplify dealings for all firms within Europe and improve conditions for investment and trade, bringing benefits not only to the EU but also to our trading partners across the world.

FROM CO-OPERATION TO ACCESSION

Soon after the fall of the Berlin Wall in 1989, the European Community quickly established diplomatic relations with the countries of Central and Eastern Europe. It removed long-standing import quotas on a number of products, extended the Generalised System of Preferences (GSP) and, over the next few years, concluded Trade and Co-operation Agreements with Bulgaria, the former Czechoslovakia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovenia.

In the meantime, the European Community's Phare Programme, created in 1989, set out to provide financial support for the countries' efforts to reform and rebuild their economies. Phare soon became the world's largest assistance programme in Central and Eastern Europe, providing technical expertise and investment support.

During the 1990s, the European Community and its Member States progressively concluded Association Agreements, so called 'Europe Agreements', with ten countries of Central and Eastern Europe. The Europe Agreements provide the legal basis for bilateral relations between these countries and the EU. The European Community had already established similar Association Agreements with Turkey (1963), Malta (1970) and Cyprus (1972). In the case of Turkey, a Customs Union entered into force in December 1995.

ASSOCIATION AGREEMENTS

The Europe Agreements cover trade-related issues, political dialogue, legal approximation and other areas of co-operation including industry, environment, transport and customs. They aim progressively to establish a free-trade area between the EU and the associated countries over a given period, on the basis of reciprocity but applied in an asymmetric manner (i.e. more rapid liberalisation on the EU side than on the side of the associated countries). The Association Agreements with Cyprus, Malta, and Turkey cover similar fields (except political dialogue), and were designed to establish progressively a customs union. With Turkey, this goal was achieved through the Customs Union Agreement of 1995; with Cyprus and Malta, progress towards a customs union has been taken up in the accession negotiations.

Country	Europe Agreement signed	Europe Agreement came into force
Hungary	December 1991	February 1994
Poland	December 1991	February 1994
Bulgaria	March 1993	February 1995
Czech Rep.	October 1993	February 1995
Romania	February 1993	February 1995
Slovak Rep.	October 1993	February 1995
Estonia	June 1995	February 1998
Latvia	June 1995	February 1998
Lithuania	June 1995	February 1998
Slovenia	June 1996	February 1998
Country	Association Agreement signed	Association Agreement came into force
Turkey	September 1963	December 1964
Malta	December 1970	April 1971
Cyprus	December 1972	June 1973

Under the Europe Agreements, trade between the EU and the countries of Central and Eastern Europe grew rapidly, not least because these countries reoriented their trade away from the markets of the former Soviet Union's Council for Mutual Economic Assistance (CMEA). As their single largest source of trade, assistance and investment, the EU soon became the main economic partner for the countries of the region (see Annexes 5 and 6). Indeed, as early as 1994, the EU had become the most important market for exports originating in the region, absorbing more than half of the total. Today the EU absorbs approximately 68% of exports from the countries of Central and Eastern Europe.

MEMBERSHIP APPLICATIONS

The Europe Agreements recognised the associated countries' aspiration to become members of the European Union, an objective that was later confirmed in the individual applications for membership by these countries.

Dates of Application for EU Membership

(in chronological order)

Turkey	14 April 1987
Cyprus	3 July 1990
Malta	16 July 1990
Hungary	31 March 1994
Poland	5 April 1994
Romania	22 June 1995
Slovak Rep.	27 June 1995
Latvia	13 October 1995
Estonia	24 November 1995
Lithuania	8 December 1995
Bulgaria	14 December 1995
Czech Republic	17 January 1996
Slovenia	10 June 1996

The basic conditions for enlargement were already set out in Article O of the Treaty of Rome, now article 49 of the Treaty on the

European Union as further modified by the Amsterdam Treaty. They stipulate that: “Any European state which respects the principles set out in Article 6(1) [i.e. “liberty, democracy, respect for human rights and fundamental freedoms, and the rule of law”] may apply to become a Member of the Union. It shall address its application to the Council, which shall act unanimously after consulting the Commission and after receiving the assent of the European Parliament, which shall act by an absolute majority of its component members.”

ACCESSION CRITERIA

In 1993, at the Copenhagen European Council, the Union took a decisive step towards the current enlargement, agreeing that “the associated countries in Central and Eastern Europe that so desire shall become members of the European Union.” Thus, enlargement was no longer a question of ‘if’, but ‘when’. Concerning the timing, the European Council states: “Accession will take place as soon as an associated country is able to assume the obligations of membership by satisfying the economic and political conditions required.” At the same time, it defined the membership criteria, which are often referred to as the ‘Copenhagen criteria’.

COPENHAGEN EUROPEAN COUNCIL

Membership criteria require that the candidate country must have achieved

- stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union;
- the ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union;
- that their administrative and legislative structures are able to transpose European Community legislation into national law.

MADRID EUROPEAN COUNCIL

Membership criteria also require that the candidate country must have created the conditions for its integration through the adjustment of its administrative structures, as underlined by the Madrid European Council in December 1995. While it is important that European Community legislation is transposed into national legislation, it is even more important that the legislation is implemented effectively through appropriate administrative and judicial structures. This is a prerequisite of the mutual trust required by EU membership.

AGENDA 2000 AND THE EUROPEAN COMMISSION'S OPINIONS

The Madrid European Council in December 1995 called on the European Commission to submit an assessment of the candidates' applications for membership, and to prepare a detailed analysis of what enlargement would mean for the EU.

In July 1997, the Commission presented Agenda 2000, a single framework in which the Commission outlines the broad perspective for the development of the European Union and its policies beyond the turn of the century; the impact of enlargement on the EU as a whole; and the future financial framework beyond 2000, taking into account the prospect of an enlarged Union. It also included the Commission's Opinions on the candidate countries' applications for membership.

The Commission's Opinions evaluated the situation of each country in relation to the accession criteria (see previous page). The Commission took into account information provided by the candidate countries themselves; assessments made by the Member States; European Parliament reports and resolutions; the work of other international organisations and international financial institutions (IFIs); and progress made under the Europe Agreements. Finally, the Opinions were not only an assessment of the performance of each country up until 1997, but also a forward-looking analysis of expected

progress. The Commission had already issued Opinions on Turkey in 1989 and Cyprus and Malta in 1993.

Having evaluated the extent to which the candidates already met the accession criteria, the European Commission recommended in its 1997 Opinions that accession negotiations start with the Czech Republic, Estonia, Hungary, Poland, Slovenia and Cyprus.

Following up on the Opinions, the Commission submits Regular Reports to the Council on further progress achieved by each candidate country (see below page 59). On the basis of the 1999 Regular Reports, the Commission recommended that accession negotiations be opened also with Latvia, Lithuania, Malta, the Slovak Republic, and, subject to certain specific conditions, with Bulgaria and Romania. Subsequently, based on the 2002 Regular Reports, the Commission recommended that accession negotiations be concluded with Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia. The Commission recalled that these countries fulfilled the political criteria, and added that, bearing in mind the progress achieved by these countries, their track record in implementing their commitments, and taking into account their preparatory work in progress and foreseen, the Commission considered that these countries will have fulfilled the economic and *acquis* criteria and will be ready for membership from the beginning of 2004. Both in 1999 and 2002, the European Council endorsed the Commission's recommendations.

Pre-accession Strategy

At the end of 1994, the Essen European Council defined a pre-accession strategy to prepare the countries of Central and Eastern Europe for EU membership. This strategy was based on three main elements: implementation of the Europe Agreements, the Phare Programme of financial assistance, and a 'structured dialogue' bringing all Member States and candidate countries together to discuss issues of common interest.

Following the proposals of the European Commission in Agenda 2000, the Luxembourg European Council, at the end of 1997, decid-

ed on an enhanced pre-accession strategy for the ten candidate countries of Central and Eastern Europe, with a specific strategy for Cyprus (including participation in Community programmes, participation in certain targeted projects and use of TAIEX assistance). Following Malta's reactivation of its application for membership in October 1998, a specific pre-accession strategy was developed also for Malta. Furthermore, in December 1999, on the basis of a recommendation by the Commission, the Helsinki European Council decided to prepare a preaccession strategy for Turkey.

More recently, in December 2002, the Copenhagen European Council endorsed the roadmaps put forward by the Commission for Bulgaria and Romania. The roadmaps provide Bulgaria and Romania with clearly identified objectives and give each country the possibility of setting the pace of its accession process. The Copenhagen European Council confirmed that further guidance in these countries' pre-accession work would be provided by revised Accession Partnerships to be presented in 2003. In addition, the European Council at Copenhagen decided to strengthen the accession strategy for Turkey and invited the Commission to submit a revised Accession Partnership for Turkey. In parallel, the Union committed itself to a significant increase in pre-accession financial assistance for all three countries. From 2004, the assistance for Turkey will be financed under the Union's budget for "pre-accession expenditure".

The EU's pre-accession strategy towards the candidate countries of Central and Eastern Europe is founded on

- Europe Agreements
- Accession Partnerships and National Programmes for the Adoption of the *Acquis* (NPAA)
- Pre-accession assistance, including
 - the Phare Programme
 - environment and transport investment support (ISPA Programme)
 - agricultural and rural development support (SAPARD Programme)
 - co-financing with the international financial institutions (IFIs)

- Opening of European Community programmes and agencies.

The EU's pre-accession strategy towards Cyprus and Malta is based on

- Association Agreements
- Accession Partnerships and National Programmes for the Adoption of the *Acquis* (NPAA)
- Specific pre-accession assistance
- Opening of European Community programmes and agencies.

The EU's pre-accession strategy towards Turkey builds on the European Strategy, which was developed in 1998. In March 1998, the European Commission adopted its first operational proposals for this strategy. They covered the deepening of the Customs Union, the extension of the Customs Union to the agricultural and services sectors and the strengthening of co-operation in several other fields. The participation in Community programmes and agencies was also foreseen. In line with the Helsinki conclusions, the pre-accession strategy for Turkey encompasses

- Association Agreement and Customs Union Agreement
- Enhanced political dialogue
- Accession Partnership and National Programme for the Adoption of the *Acquis* (NPAA)
- Specific assistance under a single financial framework; as from 2004, assistance will be financed under the Union's budget for "pre-accession expenditure"
- Participation in European Community programmes and agencies.

THE EUROPE AGREEMENTS WITH THE COUNTRIES OF CENTRAL AND EASTERN EUROPE

As basic legal instruments of the relationship between the EU and the ten associated countries of Central and Eastern Europe, the Europe Agreements cover trade related issues, political dialogue, legal approximation and various other areas of cooperation. The Europe Agreements aim to establish free trade between the

EU and the associated countries over a maximum period lasting ten years for Bulgaria, the Czech Republic, Hungary, Poland, Romania and the Slovak Republic, six years for Lithuania and Slovenia, and four years for Latvia. Free trade was established with Estonia from 1 January 1995. No new customs duties or quantitative restrictions are to be introduced in trade between the European Community and the associated countries from the date of entry into force of each Europe Agreement. For other areas, the association includes a maximum transition period: for Bulgaria, the Czech Republic, Hungary, Poland, Romania and the Slovak Republic, this period is limited to ten years; for Slovenia, six years; for Latvia and Lithuania, no later than 31 December 1999. Estonia has no transition period. The Europe Agreements provide for progressive alignment with Community rules as well as a number of specific provisions in areas such as capital movement, rules of competition, intellectual and industrial property rights and public procurement.

Despite the asymmetry of the Europe Agreements, which lift restrictions on exports from the countries of Central and Eastern Europe more quickly than those on EU exports, the overall trade balance of the EU with these countries remains largely positive, although it has declined in recent years. In 2001 the trade surplus was €15 million vis-à-vis all ten candidate countries of Central and Eastern Europe.

Since 1994, for each country with which a Europe Agreement is in force, there has been a cycle of annual meetings of the Association Council (ministerial level) and the Association Committee (high-level civil service) as well as frequent multidisciplinary sub-committee meetings (technical level). These institutions of the Europe Agreements have assumed an enlarged role within the reinforced pre-accession strategy, in particular in regard to monitoring the progress made by the partner countries in the adoption and implementation of the *acquis* and the implementation of the Accession Partnerships.

THE ASSOCIATION AGREEMENTS WITH CYPRUS, MALTA AND TURKEY

The legal framework for the relationship between the European

Community and respectively Cyprus, Malta, and Turkey, are the Association Agreements, which date back to the sixties and early seventies. These Agreements cover trade-related issues and various other areas of co-operation. They aim progressively to establish a customs union between the European Community and each of the countries concerned. In the case of Turkey, this objective was achieved in 1995, with the entry into force of the Customs Union Agreement. For Cyprus and Malta, progress towards a customs union was taken up in the framework of the accession negotiations. As opposed to the more recent Europe Agreements, these early Association Agreements do not provide for political dialogue. Such dialogue takes place, in the case of Cyprus and Malta, on the basis of a specific decision of the General Affairs Council, and, in the case of Turkey, on the basis of specific Association Council resolutions and the conclusions of the Helsinki European Council.

ACCESSION PARTNERSHIPS

In Agenda 2000 the European Commission highlighted the need to direct assistance towards the specific needs of each candidate country by providing them with support to overcome particular problems, as illustrated in the Opinions and subsequently in the Regular Reports which the Commission has been producing since 1998. The Accession Partnership responds to this need, and constitutes the central pillar of the reinforced pre-accession strategy. It sets out the priorities for the candidates as they prepare themselves to become members of the EU and brings together all the different forms of EU support within a single framework. The European Council in Luxembourg in December 1997 endorsed the Accession Partnership as the key instrument in strengthening the pre-accession strategy. The first Accession Partnerships for the countries of Central and Eastern Europe were decided in March 1998 and updated for the first time in 1999 and for a second time in January 2002. For Bulgaria and Romania, a third update took place in spring 2003. For Cyprus and Malta, Accession Partnerships were decided in March 2000, on the basis of a separate (similar) Council Regulation and were updated in January 2002. A first Accession Partnership with Turkey was adopted in

March 2001, equally on the basis of a separate (similar) Council Regulation. It was updated in spring 2003. Each country's Accession Partnership sets out clear priorities for further work with a view to preparing for accession. It also highlights the main instruments and financial resources available, all of which should be maximised to target the objectives effectively. The Accession Partnerships have thus become the single programming framework for European Community assistance.

Candidate countries have drawn up National Programmes for the Adoption of the *Acquis* that set out in detail how they intend to fulfil the priorities of the Accession Partnership and to prepare for their integration into the EU. In this way, the NPAA complements the Accession Partnership: it contains a timetable for achieving the priorities and objectives and, where possible and relevant, indicates the human and financial resources to be allocated.

Based on the priorities of the 2002 Accession Partnerships for the twelve countries with which negotiations were underway, in spring 2002 the European Commission prepared jointly with each of these countries an Action Plan to reinforce their administrative and judicial capacity. Taking the 2002 Accession Partnership priorities as a point of departure, the Action Plans identify the concrete measures that remain to be taken for each country to achieve an adequate level of administrative capacity by the time of accession. The Action Plans identify targeted assistance required to support the countries in their efforts. Furthermore, the Action Plans note the relevant commitments made in the negotiations and any additional monitoring actions that may be required in certain areas to assess each country's preparations. The Action Plans have given a new impetus to candidate countries' efforts in reinforcing their administrative and judicial capacity.

Bulgaria**JUDICIAL CAPACITY**

implement a strategy for reform of the judicial system, paying particular attention to strengthening the administrative capacity of key institutions, such as the Supreme Judicial Council and Ministry of Justice, through building budgetary, supervisory, planning and human resource management capacity.

Cyprus**ADMINISTRATIVE CAPACITY**

improve the capacity to take on the obligations of membership across a variety of sectors: work towards a political settlement.

Czech Republic**ADMINISTRATIVE CAPACITY**

complete the reform of the public administration system by implementing the recently adopted Civil Service Act and ensure that the benefits of reform are felt immediately from the first years of accession.

Estonia**POLITICAL CRITERIA**

continue the integration of non-citizens by implementing concrete measures, including language training, for non-Estonian speakers; provide the necessary financial support for the implementation of these measures.

Hungary**ADMINISTRATIVE CAPACITY**

ensure that the designated managing and paying authorities progressively develop their capacity in order to be able, upon accession, to fulfil their responsibilities and deliver the tasks assigned to them according to the Structural Funds Regulations.

Latvia**POLITICAL CRITERIA**

continue to implement further concrete measures for the integration of non-citizens on the basis of the National Programme for the Integration of Society in Latvia and provide the necessary financial support. Concrete measures include language training and information campaigns.

Lithuania**ENERGY**

implement a National Energy Strategy, and prepare for the final closure and decommissioning of the Ignalina Nuclear Power Plant in particular the legal, technical, economic and social aspects.

Malta**ENVIRONMENT**

adopt a strategy and a detailed, directive-specific programme for the transposition, the implementation and the enforcement of the EU environmental *acquis*, in particular through the development of framework and sector legislation, together with preparation of the necessary implementing regulations and capacity building requirements.

Poland**ADMINISTRATIVE CAPACITY**

upgrade the capacity of the agricultural administration and complete preparations for the enforcement and practical application of the management mechanisms of the Common Agricultural Policy.

Romania**ADMINISTRATIVE CAPACITY**

implement a comprehensive public administration reform package enabling reform of the legal framework for the civil service. Issues to be addressed include: devising mechanisms to ensure the political independence and accountability of civil servants, improving provisions for both initial and in-service service training, and ensuring a career structure based on transparent promotion and assessment.

Slovak Republic**ECONOMIC CRITERIA**

ensure medium-term sustainability of public finances, complete the financial sector restructuring and privatise the remaining state-owned banks and insurance company; ensure implementation of the bad-debt recovery mechanisms; implement new bankruptcy and investment promotion legislation.

Slovenia**POLITICAL CRITERIA**

continue improving the functioning of the judiciary especially by further reducing the backlog of pending court cases.

Turkey**POLITICAL CRITERIA**

continue working towards ensuring the stability of institutions guaranteeing democracy, the rule of law, human rights, prevention of torture and respect for and protection of minorities.

PRE-ACCESSION ASSISTANCE

In line with the conclusions of the Berlin European Council of March 1999, the Community has more than doubled its pre-accession assistance to the candidate countries of Central and Eastern Europe since the year 2000: as proposed by the European Commission in Agenda 2000, €3,120 million (1999 figures) is being made available annually between 2000 and 2006 through the Phare Programme and two other pre-accession instruments, ISPA and SAPARD (see below), which were introduced in 2000.

Programming under these three pre-accession instruments follows the principles, priorities and conditions set out in the Accession Partnerships. After the accession of the first ten new Member States, pre-accession assistance for the remaining candidate countries – Romania, Bulgaria as well as Turkey will be significantly reinforced. For Bulgaria and Romania, assistance will be progressively increased so as to reach the level of an additional 40% in 2006, compared to the average assistance for these two countries under Phare/ISPA/SAPARD in the period 2001 to 2003. For Turkey, total assistance will be substantially increased from 2004 and by 2006 will be at least double its current level.

Pre-accession assistance to Cyprus and Malta

Pre-accession assistance is provided for Cyprus and Malta under a specific Council regulation, with an allocation of €95 million for 2000-2004. Assistance focuses on the harmonisation process (based

on the priority areas specified in the Accession Partnerships), and, in the case of Cyprus, on bi-communal measures.

Pre-accession assistance to Turkey

Pre-accession assistance is provided to Turkey under a specific Council Regulation with an annual target allocation of €177 million on average. Financial assistance is aimed at institution building and investment in all sectors, including integrated regional development programmes. Particular weight is attached to measures designed to help Turkey meet the Copenhagen political criteria.

THE PHARE PROGRAMME

In Agenda 2000, the European Commission proposed to focus the Phare Programme on preparing the countries in Central and Eastern Europe for EU membership by concentrating its support on two crucial priorities in the adoption of the *acquis*: Institution Building and investment support. Following a Communication from Commissioner Verheugen to the Commission: 'Phare 2000 Review- Strengthening preparations for membership' two additional challenges concerning Phare were identified for the period 2000-2006: delivering on past reforms and linking to the Structural Funds. Phare provides a bridge to the Structural Funds and it aims to help the candidate countries familiarise themselves with the structures and procedures that they will need in order to use the Structural Funds efficiently upon accession.

PRE-ACCESSION INSTRUMENTS FOR THE COUNTRIES OF CENTRAL AND EASTERN EUROPE FROM THE YEAR 2000:

Phare:

- finances Institution Building measures across all sectors and investment in fields not covered by the other two instruments, including integrated regional development programmes;
- has an annual budget of €1,560 million;
- comes under the responsibility of the Enlargement Directorate General, which also assumes the overall co-ordination between the three instruments, supported by the Phare Management Committee.

ISPA:

- finances major environmental and transport infrastructure projects;
- has an annual budget of €1,040 million;
- comes under the responsibility of the Regional Policy Directorate General.

SAPARD:

- finances agricultural and rural development;
- has an annual budget of €520 million;
- comes under the responsibility of the Agriculture Directorate General.

INSTITUTION BUILDING

Institution building means adapting and strengthening democratic institutions, public administration and organisations that have a responsibility in implementing and enforcing Community legislation. The integration process is not simply a question of introducing legislation, it is also one of ensuring the effective and efficient implementation of the *acquis*. The process includes the development of

relevant structures, human resources and management skills.

Institution building means designing management systems and training and equipping a wide range of civil servants, public officials, professionals and relevant private sector actors: from judges and financial controllers to environmental inspectors and statisticians, to name but a few. Approximately 30% of Phare funds are being used to meet these institution-building needs, in accordance with the conclusions of the Luxembourg European Council, in particular through the Twinning mechanism. The Action Plans for administrative and judicial capacity [see page 15] which the European Commission prepared jointly with each of the negotiating countries in spring 2002 have played an important role in highlighting specific areas in which institution building is required, and identifying targeted assistance required to support the countries concerned in their efforts. To accompany these efforts, the Commission has mobilised additional financial assistance of up to €250 million in 2002, bringing the Community's total effort to strengthen the administrative and judicial capacity of these countries in 2002 to around €1 billion.

TWINNING

Twinning was launched in May 1998 as the principal instrument for institution building. It aims to help the candidate countries to develop modern and efficient administrations, with the same structures, human resources and management skills needed to implement the *acquis* as already exist in the Member States.

Twinning involves the secondment of EU experts to the candidate countries to accompany an ongoing process. Each Twinning project is led by an official from the candidate country who, together with an official from a Member State administration, is responsible for the thrust of its design and implementation. At least one Pre-Accession Adviser, an individual seconded from a Member State administration or other mandated Member State body to work full time in the corresponding ministry in the candidate country for a minimum of 12 months, ensures the daily progress of the project. A carefully designed work programme of ad-hoc advisory or training missions by Member State staff complements the permanent presence.

A total of 683 Twinning projects, primarily in the fields of agriculture, environment, public finance, justice and home affairs and preparation for the management of Structural Funds, have been funded by the EU between 1998-2002. These represent principal priority sectors that have been identified in the Accession Partnerships. But also other important sectors of EU legislation have been addressed through Twinning for example, social policy, the fight against drugs, transport, telecommunications regulation and so forth.

In this way Twinning provides the framework for administrations and semi-public organisations in the candidate countries to receive advice and support from their counterparts in Member States in developing and implementing projects involving the transposition, enforcement and implementation of a specific part of the *acquis*. The main feature of Twinning projects is that they set out to deliver specific and guaranteed results. They are not designed to foster general co-operation, but to achieve specific targets agreed between the parties in advance for the implementation of priority areas of the *acquis*, as set out in the Accession Partnerships.

Initially, Twinning was limited to the countries of Central and Eastern Europe. However in 2001 Cyprus and Malta began participating in the programme. In early 2003 the first Twinning project in Turkey got underway and preparations for more projects there are well advanced.

TWINNING: EXAMPLES OF PROJECTS

Bulgaria: Improvement of the efficiency of the SAPARD Task Force (Greece, lead partner). The project achieved the following results:

- preparation and approval of the National Agricultural and Rural Development Plan (NARDP),
- establishment of the legal and administrative organisation of the SAPARD paying agency.
- reinforcement of the capacity and the skills of the Bulgarian officials of the Ministry of Agriculture and Forestry and of the State Fund Agriculture.

Cyprus: Twinning project in the area of Justice and Home Affairs (Spain/Greece). This project has as its objectives the establishment of a National Drugs Monitoring Centre (Reitox Focal Point) and the strengthening of the administrative capacity of the Anti-Drugs Council of Cyprus to review and implement a national drugs strategy, including a drugs demand reduction strategy.

Czech Republic: Restructuring of the Ministry of Agriculture and Establishment of Market Intervention Agency (Germany, lead partner).

This Twinning project focuses on:

- analysis of the general organisation, functions and activities of the Czech Ministry of Agriculture (at both central and regional level) and proposals for restructuring,
- establishment of a State Agricultural Intervention Fund for the implementation, financing and control of CAP measures, including a Paying Agency, adaptation of the Czech Market Organisations to the CAP rules, implementation of an agricultural market information system to deliver agricultural data in real time for the use of operators and administrators at national and EU level.

Estonia: Sound Financial Management and Control Systems for the strengthening of good governance and accountability in the public sector (Ireland, lead partner). Significant efforts are required for Estonia to meet EU standards in respect to financial control systems in order to be able to handle the increased responsibility of managing pre-accession instruments and EU funds upon accession. The Irish partners provide support for the analysis and development of financial control systems, drafting of legislation, capacity building of financial control departments and training of trainers and auditors.

Hungary: Training for Investigation of Organised Crime (United Kingdom, lead partner, in co-operation with the Netherlands, Germany, Italy, France).

The project aims to establish a training programme for Hungarian law enforcement agencies, in order to strengthen their capacity to efficiently and effectively combat organised crime. The training is targeted at trainers enabling them to develop their own training strategy and design and implement programmes to meet future demands. The training is of a highly specialised nature and includes several modules devoted to criminal terrorism, witness protection, cross border criminality, criminal intelligence analysis, corruption, financial and computer related crime, and undercover operations.

Latvia: Improvement of the State Revenue Service (Sweden/Belgium). This project seeks on the one hand to create and implement a human resources development plan for the Latvian tax administration, and on the other to establish a pre-arrival control system for the transit and import of prohibited, sensitive and highly taxed goods.

Lithuania: three Twinning projects (Denmark, lead partner) are taking place in the Lithuanian energy sector. The aim of the Twinning project located in the Ministry of Economy is to ensure that policy and a legal basis for the regulation of the energy sector is put in place. At the two energy utilities, Lithuanian Energy and Lithuanian Gas, Twinning projects assist with restructuring, introducing western management techniques and information systems, and supporting the unbundling process.

Malta: Strengthening Malta's operational and administrative capacity to implement the EU *acquis* in respect of border management and asylum (United Kingdom/Spain). The project aims on the one hand to train all staff involved in border management and asylum and on the other hand to improve the technical infrastructure with the aim of strengthening the controls necessary for the management of the future EU external border. The project also aims to develop a national strategy for the integration of Malta's national information technology systems with

the Schengen Information System.

Poland: Reinforcement of the Ministry of Internal Affairs and the Ministry of Justice in the fight against organised crime (France, lead partner), through the training of specialised prosecutors and scientific police. The project focuses also on white collar crime and operational training for forensic police in the treatment of finger prints, criminal analysis, and information technology.

Romania: Establishment of a National Anti-Corruption Structure (Spain, lead partner). Within the General Prosecutor's Office a special unit will be established dedicated to investigating and combating corruption and related organised crime, involving national officials in relation to both "active corruption" and "passive corruption". This highly topical project will strengthen the role of the newly created unit and expose staff to modern investigation techniques.

Slovakia: Water Management and Protection (Netherlands, lead partner). This Twinning project focuses on the harmonisation of sectoral policy and institutional strengthening in the field of water management. A strategy defining the legal and organisational implications of the EU Water Framework Directive and recommendations for a time schedule for its phased implementation are being elaborated. In parallel, the monitoring performance for water quality is being assessed and Slovak policy makers and managers are being trained.

Slovenia: Employment project (Sweden, lead partner) focusing on helping Slovenia to implement the *acquis* on free movement of workers and improve the social security schemes. Emphasis on strengthening the capacity of the Slovene institutions will enable them to participate in the co-ordination of social security at EU level.

INVESTING IN THE ACQUIS

Phare's second objective, investment, takes two forms: investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis* is now complemented with investment in Economic and Social Cohesion. Around 70% of Phare resources are allocated for investment, this percentage being equally divided between the two types of investment.

The adoption of the *acquis* means that the candidate countries have to adapt their enterprises and main infrastructure to respect Community norms and standards as soon as possible. This requires considerable investment. This is particularly the case for the enforcement of Community rules in areas such as environment, nuclear safety, transport safety, working conditions, marketing of food products, consumer information, control of production processes.

Investment efforts are necessary to adapt to Community norms and to develop major infrastructure. Such investments in regulatory infrastructure enhance candidate countries' ability to meet the EU's accession requirements and to cope with competitive pressure.

Launched in 2000, the second component of investment support is action in the field of Economic and Social Cohesion, based on a National Development Plan. This type of investment focuses as a priority on helping the candidate countries strengthen the institutions that will be needed to implement Structural Funds after accession.

In general, the two types of investment support include diversified actions such as structural and social actions, SME development, adoption of European Community norms, and small and medium - scale infrastructure. Since the year 2000, ISPA and SAPARD (see above) have more than doubled the investment capacity in *acquis*-related projects under EU public funding for the candidate countries of Central and Eastern Europe.

CO-FINANCING WITH THE EIB AND INTERNATIONAL FINANCIAL INSTITUTIONS

In December 1999, the Council of Ministers agreed an envelope of €9,280 million (originally €8,680 million) for guaranteeing the lending activities of the European Investment Bank (EIB) to Central and

Eastern Europe for the period February 2000 - January 2007. In January 2000, the EIB's Board of Governors approved an extension of the EIB's pre-accession facility for lending to the candidate countries for an amount of up to €8,500 million over a period of three and a half years. Cyprus, Malta and Turkey are at present also eligible for EIB pre-accession financing.

The EIB's pre-accession support covers priority investment in all the candidate countries, in particular those projects that facilitate the adoption of the *acquis communautaire* and strengthen integration with the EU. The financing covers all sectors normally eligible for EIB support, and focuses on environmental protection; the development of transport, telecommunication and energy links; industrial competitiveness and regional development.

The effectiveness of pre-accession support is enhanced when it mobilises funds from the international financial institutions (IFIs). With this in mind, the European Commission signed a Memorandum of Understanding on 31 March 2000 with the European Bank for Reconstruction and Development (EBRD), the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the Nordic Investment Bank (NIB), Nordic Environment Finance Corporation (NEFCO) and the Council of Europe Development Bank to reinforce their co-operation in pre-accession preparation for Central and Eastern European countries and to facilitate co-financing. The EIB works closely with the European Commission in serving the EU's policy objectives and collaborates with the other IFIs in the spirit of the Memorandum of Understanding.

Since 2000, the pre-accession instrument ISPA has been the main facility for cofinancing infrastructure projects with the EIB and other IFIs. Jointly financed projects in the environmental and transport sectors are under implementation in all the candidate countries of Central and Eastern Europe.

Under Phare, the main co-financing instrument is the SME facility which was created in 1999 in co-operation with the EBRD. The EIB joined in 2001, with the CEB and the Kreditanstalt für Wiederaufbau (KfW) also participating. In addition, the Commission decid-

ed to extend the reach of the facility for Turkey through a €4 million co-operation with CEB/KfW.

Since 2002, the EIB has also been co-operating with the Commission in two newly created instruments:

- a special EIB programme: the Municipal Infrastructure Facility to finance local municipalities in border regions (in the framework of the Commission Communication on Impact of enlargement on Border Regions)
- the Municipal Finance Facility (developed by the Commission together with EBRD and KfW/CEB) designed to provide incentives for banks in the candidate countries to expand their lending to municipalities for the financing of small infrastructure investments, to extend loans over longer maturities, and to enhance their capacity to assess and monitor the related risks and to manage their loans. Collaboration with the EIB, the EBRD and other IFIs has resulted in the joint co-financing of a substantial number of projects since 1998.

At the project level, the exchange of information is carried out at a very early stage in the procedure of project identification in order to identify possible proposals for co-financing.

However, the needs of the candidates in terms of alignment with European Community standards and norms are too great to be met solely by Community grants or loans from the EIB or IFIs. Greater investment in the candidate countries by EU companies would considerably lighten the burden, in particular in areas such as the environment. It is for the candidate countries to put in place the legal framework, such as public service franchises, which will allow the private sector to help them meet the challenge of alignment with Community standards through investment that cannot be financed solely from public funds.

EXAMPLES OF CO-FINANCING BY ISPA AND IFIS

- The Transit Roads III Rehabilitation programme in Bulgaria was jointly financed by ISPA and the EIB. It concerned the rehabilitation of the main trunk roads along the priority route Pan-European Transport Corridors IV, VIII and IX. It was a con-

tinuation of the successful Transit Roads I and II programmes financed by the EIB, Phare and Bulgaria. It provides fast and efficient road connections - thereby fostering Bulgaria's efforts to promote trade and economic development – reduces operating costs, and enhances road safety.

- A wastewater treatment plant in Krakow, the third largest city in Poland, was financed jointly with the EBRD under a single turnkey contract. It complies fully with Community legislation, and has had a major impact on the local water quality and improved conditions in the Baltic Sea. The area was identified as a hot spot in the Helsinki Convention. The investment includes a new biological and tertiary treatment plant, sludge handling and bio-gas utilisation.

OPENING OF EUROPEAN COMMUNITY PROGRAMMES AND AGENCIES

Community programmes are designed to promote co-operation between Member States in specific policy areas (such as public health, environment, research and energy) and to support student and youth exchanges (such as Socrates, Leonardo da Vinci and Youth). The principle of opening up Community programmes to the countries of Central and Eastern Europe was decided by the European Council in Copenhagen in June 1993, and confirmed by the Essen European Council in December 1994. The objective of the candidate countries' participation in Community programmes in a wide range of areas is to familiarise them with the way Community policies and instruments are put into practice and to facilitate, for instance, the exchange of students, young people, scientists, and civil servants, prior to the accession of their countries to the European Union.

In Agenda 2000, and in the conclusions of the European Council meeting in Luxembourg at the end of 1997, the importance of participation in Community programmes as part of the enhanced pre-accession strategy was reiterated.

Furthermore, the European Council indicated that candidate countries should steadily increase their own financial contribution, but agreed that Phare, in the case of the ten associated countries of Cen-

tral and Eastern Europe, if necessary, would continue to part-finance these countries' financial contributions "up to 10 per cent of the Phare appropriation, not including participation in the research and development framework programme". The European Council also stated that candidate countries should be allowed to take part, as observers and for points that concerned them, in the management committees responsible for monitoring the programmes to which they contributed financially. Following the conclusions of the Helsinki European Council in December 1999, equivalent part-financing may be applied to Cyprus, Malta and Turkey on the basis of the relevant Community "pre-accession" funds devoted to these three candidate countries.

At present, all candidate countries from Central and Eastern Europe as well as Cyprus, Malta and Turkey participate in Community programmes, in particular in the fields of education, vocational training, youth, culture, audio-visual policy, social policy, public health, research, energy, the environment, small and medium-sized enterprises, customs, indirect taxation and information technology. Similar participation of candidate countries in Community agencies is also underway. Participation may take several forms, ranging from full participation as members of the agency to participation in occasional meetings, groups of experts and other specific work of mutual interest being carried out by the Agencies. The 13 candidate countries have ratified their respective membership agreements allowing their full participation in the European Environment Agency in 2003. Concerning the European Monitoring Centre for Drugs and Drug-Addiction (EMCDDA), bilateral agreements on full participation are to be concluded with Bulgaria, Romania and Turkey in 2003. The remaining 10 candidate countries are to join the EMCDDA through their accession to the Union in 2004. Moreover, Phare support is provided for the implementation of preparatory measures for full participation in further eight Community agencies.

In order to define a consistent approach to this matter, in a communication to the EU Council in December 1999, the European Commission proposed general guidelines for the participation of all candidate countries in Community programmes, agencies and committees.

As a result, new legal instruments have been put in place to streamline procedures facilitating the participation of the candidate countries in Community programmes. Consequently, numerous Memoranda of Understanding on participation in specific programmes have been signed between the Commission and the governments of these countries in 2002.

REVIEW PROCEDURE - REGULAR REPORTS

In order to assess progress achieved by each country in preparing for accession, following the publication of the Commission's Opinions on the applications for membership of the candidate countries in 1997, the Commission submits Regular Reports to the Council. The reports serve as a basis for the Council to take decisions on the conduct of the negotiations or their extension to other candidates on the basis of the accession criteria (see page 36). The Commission submitted the first set of Regular Reports, covering the ten associated countries in Central and Eastern Europe, Cyprus and Turkey, to the Council in November 1998. Following the reactivation by Malta of its application for membership in October 1998, the Commission adopted, on 17 February 1999, an update of its Opinion from 1993. Since that time, the Commission has presented a complete set of Regular Reports on a yearly basis, covering the ten associated countries in Central and Eastern Europe, Cyprus, Malta, and Turkey.

On the basis of its fifth set of Regular Reports, presented in October 2002, the Commission recommended to the European Council that:

- Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia fulfil the political criteria. Bearing in mind the progress achieved by these countries, the track record in implementing their commitments, and taking into account their preparatory work in progress and foreseen, the Commission considers that these countries will have fulfilled the economic and *acquis* criteria and will be ready for membership from the beginning of

2004. The Commission therefore recommends to conclude the accession negotiations with these countries by the end of this year with the aim to sign the Accession Treaty in spring 2003.

- The Commission hopes to see a re-united Cyprus acceding to the European Union on the basis of a comprehensive settlement, as the best outcome for all concerned. As indicated in the conclusions of the Seville European Council, the EU is ready to accommodate the terms of a political settlement in the accession arrangements in line with the principles on which the European Union is founded. The Commission welcomes the continued UN involvement and urges all parties concerned and, in particular Turkey, to lend full support to efforts to reach a comprehensive settlement this year. Cyprus' terms of accession can be adapted to reflect the comprehensive settlement as well as its implications for the application of the *acquis* throughout the island. The Commission has proposed that considerable resources should be made available to support the northern part of the island to catch up and to back up a settlement. In the absence of a settlement, the decisions to be taken in December by the Copenhagen European Council will be based on the conclusions of the Helsinki European Council.

- Acceding countries need to implement the *acquis* by the date of accession, except in cases where transitional arrangements have been agreed. Commitments undertaken in the negotiations must be fully met before accession. The Regular Reports point to a number of areas where further improvements need to be made in the context of the political and economic criteria and in relationship to the adoption, implementation and enforcement of the *acquis*. These should be vigorously pursued. In order to analyse progress and to facilitate successful membership of the European Union, the Commission will regularly monitor this and report to Council. The Commission will produce six months before the envisaged date of accession a comprehensive monitoring report for the Council and the European

Parliament. The Commission considers that a specific safeguard clause needs to be introduced in the Accession Treaty. This clause should allow the Commission for a limited period of time to take appropriate measures in the internal market field.

- Conclusion of negotiations requires that the necessary solutions be found to the remaining open questions in the negotiations.

- Bulgaria and Romania have set 2007 as their indicative date for accession. The Commission will strongly support the two countries in achieving this objective, which will continue to be guided by the principles of differentiation and own merits. The Commission will propose, on the basis of the analysis in the 2002 Regular Reports, detailed roadmaps for Bulgaria and Romania before the Copenhagen European Council. In order to prepare Bulgaria and Romania for membership in the European Union, an increased focus will be put on judicial and administrative reform. Furthermore, pre-accession assistance provided to Bulgaria and Romania should be increased considerably from the date of the first round of accessions and linked to progress in implementing the roadmaps. As the accession negotiations with all twelve negotiating candidate countries are an inclusive process, the Accession Treaty should acknowledge that the results reached in the negotiations with those candidates which will not join in the first round of enlargement will not be put into question.

- Through constitutional reform and a series of legislative packages Turkey has made noticeable progress towards meeting the Copenhagen political criteria, as well as moving forward on the economic criteria and alignment with the *acquis*. Nonetheless, considerable further efforts are needed. Against this background and in view of the next stage of its candidature, the Commission recommends that the EU enhance its support for Turkey's pre-accession preparations and provide significant additional

resources for this purpose. The Commission will propose a revised Accession Partnership and intensify the process of legislative scrutiny. It recommends renewed efforts to extend the Customs Union and improve its functioning, with a view to deepening EC - Turkey trade relations and increasing investment flows. Turkey is encouraged to pursue its reform process and thus to carry forward its candidature for EU membership.

The European Council at its meetings in Brussels and Copenhagen in October and December 2002 respectively endorsed the recommendations put forward by the Commission.

The Accession Process from Negotiation to Ratification

On the basis of the recommendations of the European Commission in December 1997, the Luxembourg European Council decided to launch an 'overall enlargement process' for all countries wishing to join the EU. It encompasses

- the European Conference, which brings together the countries aspiring to join the EU. The Conference is a multilateral forum for discussing issues of common interest, such as foreign and security policy, justice and home affairs, regional co-operation or economic matters. This conference met for the first time in London on 12 March 1998.

In December 1999, the Helsinki European Council announced a review of the future of the European Conference, so as to take account of the evolving situation. The Nice European Council in December 2000 concluded that the Balkan countries covered by the stabilisation and association process and the EFTA countries be invited to attend as prospective members. With a view to strengthening the Union's relationship with its near neighbours, the Gothenburg European Council announced that Ukraine and Moldova would also be invited to join the Conference.

- the accession process which was launched in Brussels on 30 March 1998 and encompasses all ten Central and Eastern European countries, Cyprus, Malta and Turkey. It is an evolving and inclusive process in the sense that all these countries are destined to join the EU on the basis of the same criteria.

NEGOTIATIONS: THE PRINCIPLES

The main principles behind the accession negotiations are fourfold. Firstly, the negotiations focus specifically on the terms under which candidates adopt, implement and enforce the *acquis*. Secondly, transitional arrangements may be possible, but these must be limited in scope and duration and should not have a significant impact on competition or the functioning of the internal market. In addition they should be accompanied by a plan with clearly defined stages for the application of the *acquis*. A third underlying principle in the negotiations is the concept of differentiation. The decision to enter into negotiations simultaneously with a group of countries does not imply that these negotiations will be concluded at the same time. The negotiations with the candidate countries are conducted individually; the pace of each negotiation depends on the degree of preparation by each candidate country and the complexity of the issues to be resolved. Finally, there is the principle of catching up. In deciding to open negotiations with a second group of countries, the Helsinki European Council, in December 1999, stipulated that “*candidate States which have now been brought into the negotiating process will have the possibility to catch up within a reasonable period of time with those already in negotiations if they have made sufficient progress in their preparations.*” Each candidate is thus judged on its own merits.

Chapters of the *Acquis*

- Chapter 1 Free movement of goods
- Chapter 2 Freedom of movement for persons
- Chapter 3 Freedom to provide services
- Chapter 4 Free movement of capital
- Chapter 5 Company law
- Chapter 6 Competition policy
- Chapter 7 Agriculture
- Chapter 8 Fisheries
- Chapter 9 Transport policy
- Chapter 10 Taxation
- Chapter 11 Economic and monetary union
- Chapter 12 Statistics
- Chapter 13 Social policy and employment
- Chapter 14 Energy
- Chapter 15 Industrial policy
- Chapter 16 Small and medium-sized enterprises
- Chapter 17 Science and research
- Chapter 18 Education and training
- Chapter 19 Telecommunications and information technologies
- Chapter 20 Culture and audio-visual policy
- Chapter 21 Regional policy and co-ordination of structural instruments
- Chapter 22 Environment
- Chapter 23 Consumers and health protection
- Chapter 24 Co-operation in the fields of justice and home affairs
- Chapter 25 Customs union
- Chapter 26 External relations
- Chapter 27 Common foreign and security policy
- Chapter 28 Financial control
- Chapter 29 Financial and budgetary provisions
- Chapter 30 Institutions
- Chapter 31 Other

At the Nice European Council in December 2000, a further element to the negotiation process was introduced, that of the “roadmap” pro-

posed by the Commission. The objective of the roadmap was to bring the negotiation process forward, and ensure that all parties to the negotiations commit themselves to a realistic timetable. In concrete terms, the Union undertook to present common negotiating positions and to deal with related requests for transitional periods on individual negotiating chapters in accordance with an agreed timetable. The roadmap adheres to the guiding principles of differentiation and catching up. Chapters may be closed before the envisaged timing, to the extent the level of preparedness of the candidate country in question so permits. The Gothenburg European Council in June 2001 reaffirmed the roadmap as the framework for the successful completion of the accession negotiations. At the Seville European Council in June 2002, the roadmap adopted at Nice was given further credit for enabling the accession negotiations to move forward in the areas of agriculture, regional policy, financial and budgetary provisions, and institutions.

NEGOTIATIONS: THE PROCESS

The actual negotiations take the form of a series of bilateral inter-governmental conferences between the EU Member States and each of the candidate countries. Following a detailed examination of the different chapters of the *acquis* ("screening"), such as free movement of goods, agriculture, environment, etc., negotiations are opened with the candidate countries, chapter by chapter (see box). The Commission proposes common negotiating positions for the EU for each chapter. Negotiating positions are then approved unanimously by the Council. Negotiating sessions are held at the level of ministers or deputies, i.e. Permanent Representatives for the Member States, and Ambassadors or chief negotiators for the candidates. A chapter is considered "provisionally closed" with a candidate country when the EU notes that the chapter does not require further negotiation and the candidate concerned accepts the EU common position. The EU however may return to the chapter at a later stage during the negotiation process, in case new *acquis* would have been adopted with regard to the chapter concerned, or in case the candidate country concerned fails to implement the commitments it has taken on this chapter.

NEGOTIATIONS: ANALYTICAL EXAMINATION OF THE ACQUIS ('SCREENING')

Starting from spring 1998, the Commission conducted a process of analytical examination of the *acquis* with all candidate countries except Turkey. The aim of this exercise was to help the countries concerned to increase their understanding of the rules that underpin the EU and identify more clearly which issues they need to address as they adopt and implement the *acquis*. For the negotiating countries this exercise also served to prepare the negotiating process.

In December 1999 the Helsinki European Council invited the Commission to prepare a process of analytical examination of the *acquis* with Turkey. As of 2000 the structures under the Association Agreement with Turkey provide for preparing this process. At Copenhagen in December 2002, the European Council concluded that the process of legislative scrutiny with Turkey would be intensified.

NEGOTIATIONS: THE STATE OF PLAY

Accession negotiations were opened on 31 March 1998 with six countries: the Czech Republic, Estonia, Hungary, Poland, Slovenia and Cyprus. Subsequently, on 15 February 2000, they were launched with six more countries: Bulgaria, Latvia, Lithuania, Malta, Romania and the Slovak Republic. Accession negotiations with Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia were concluded at Copenhagen on 13 December 2002. Negotiations with Bulgaria and Romania continue, on the basis of the same principles that have guided the accession negotiations so far, and whereby each country is judged on its own merits. All twenty-nine chapters of the *acquis* and the institutions chapter have been opened with both countries. As of February 2003, 23 chapters had been provisionally closed with Bulgaria, and 16 with Romania.

MONITORING AND SAFEGUARDS

The European Council has emphasised that progress in negotiations must go hand in hand with progress in incorporating the *acquis* into legislation, and actually implementing and enforcing it. In mid 2000

the Commission launched a process of monitoring the negotiations. Its purpose is to assess the implementation of the commitments candidates have made in the negotiations, making it possible to identify any delays that may have occurred in the adoption and implementation of the *acquis* by each candidate, and highlighting problems that exist or may be anticipated.

As proposed by the European Commission and confirmed by the Brussels and Copenhagen European Councils, monitoring is to continue after the signature of the Accession Treaty, up until accession. This serves a double purpose, i.e. to give further guidance to the acceding states in their efforts to assume the responsibilities of membership, and to provide the necessary assurance to current Member States.

Continued monitoring is taking place through established channels such as the structures of the Association Agreements, peer reviews, and questionnaires, whereby the Commission signals any delays or problems in the fulfilment of commitments made in the negotiations.

All relevant information resulting from these activities is being pulled together in monitoring reports presented regularly to the Council. Six months before the envisaged accession date of 1 May 2004, i.e. in autumn 2003, the Commission will produce a comprehensive Monitoring Report, which will look at the advancement of the implementation of the necessary reforms and all commitments in the field of the *acquis* by each acceding country.

In addition to comprehensive monitoring, safeguard clauses provide for measures to deal with unforeseen developments that may arise during the first three years after accession. In line with the approach taken on the occasion of previous enlargements, a general safeguard clause has been included in the Accession Treaty, and can be used when difficulties arise which could bring about a serious deterioration in the economic situation of a given area. Two other safeguard clauses have also been included in the Treaty and may be invoked in cases where a new Member State fails to implement commitments made in the negotiations in the areas of the internal market and with regard to mutual recognition in judicial co-operation.

The comprehensive Monitoring Report will identify any areas where, in the absence of remedial action, safeguard measures may be considered. This will allow, where needed, for an early warning to be given before membership.

After accession, the Commission will continue to check how the *acquis* is implemented by the new Member States using the same mechanisms as those applied to the existing Member States.

RATIFICATION PROCESS

Once negotiations are concluded on all chapters the results of the negotiations are incorporated in a draft Accession Treaty, which is agreed between the Council and the acceding countries. This draft Treaty is subsequently submitted to the Commission for its opinion and to the European Parliament for its assent. After signature, the Accession Treaty is submitted to the Member States and to each acceding country concerned for ratification by them in accordance with their own constitutional procedures. In several of the acceding countries, this entails the holding of a referendum on the subject of EU membership. In the acceding countries where there is no constitutional obligation, advisory referenda are being organised. When the ratification process has been concluded and the Treaty takes effect, the candidate becomes a Member State.

INTERIM ARRANGEMENTS

In the period between the signature of the Accession Treaty and the actual accession of the new Member States, a number of interim arrangements apply. In line with the approach taken on the occasion of previous enlargements, an “information and consultation procedure” has been established. It ensures that acceding countries are kept adequately informed of any proposal, communication, recommendation or initiative which might lead to decisions by the EU institutions or bodies, and gives these countries the opportunity to comment where needed.

As from the signature of the Accession Treaty, acceding States have “active observer status” in all relevant bodies, in particular Council Working Groups as well as committees and various expert

groups chaired by the Commission. Acceding States may also send observers to meetings of the Boards or Governing Councils of decentralised Community bodies (agencies). The observers have the right to speak but cannot participate in voting.

The EU'S Preparations for Enlargement

BUDGETARY ARRANGEMENTS

At its meeting in Berlin on 24-25 March 1999, the European Council confirmed that enlargement is a historic priority for the European Union, and that the accession negotiations would continue "each in accordance with its own rhythm and as rapidly as possible". In the framework of Agenda 2000, the Berlin European Council adopted new financial perspectives for the Union in the context of enlargement, covering the period 2000-2006. These perspectives make a financial provision both for pre-accession expenditure and for the first new Member States to join the EU between 2002-06. On the basis of the Berlin decisions, the total financial package agreed by EU leaders at the Copenhagen European Council in favour of the ten new Member States amounts to nearly €41 billion in terms of commitments (with €25 billion foreseen for payments) for the period 2004-2006. The largest share of this package will be to fund structural actions in the new Member States. Some €22 billion has been set aside for this purpose over the three years 2004-2006, one third of which will be for the cohesion fund and two thirds for structural funds. Almost €5 billion has been reserved for the common agricultural policy (market measures and direct payments) in the new Member States, as well as a further €5 billion for rural development in the period 2004-2006. New Member States will also be able to benefit fully from the Community's existing internal policies (e.g. the 5th Framework Programme on Research, education programmes such as Socrates, or the Trans-European Networks) as well as from a new transition facility to be created to continue support for reinforcing administrative capacity to implement and enforce Community legislation. The financial package also includes funds to help beneficiary countries to finance actions to implement the Schengen *acquis* and

external border control. Additional funds are earmarked to further support nuclear safety in Lithuania and Slovakia.

In addition, the Copenhagen deal also includes €2.4 billion to be paid to the new Member States in the period 2004-2006 from a temporary 'cash-flow facility', in order to prevent any possible cash-flow difficulties in the first years of accession, as well as temporary budgetary compensation payments of nearly €1 billion to the Czech Republic, Cyprus, Malta and Slovenia, the only new Member States for whom otherwise there would be a risk of their net budgetary position being worse on accession compared to their position in 2003.

INSTITUTIONAL REFORM

The Nice European Council in December 2000 was a major step towards enlargement, with agreement on a new Treaty. Its ratification in 2002 and entry into force in February 2003 has opened the way for the EU to welcome new members. Some important changes were made to streamline decision-making in an enlarged Union. These include:

- the extension of majority voting to more policy areas in the Council of Ministers, in place of decision-making by unanimity;
- a new weighting of votes of member states in the Council, to take account of the arrival of new members;
- a new allocation of seats in the European Parliament;
- an increase in authority of the President of the European Commission, in relation to the Commissioners and their portfolios.

A Protocol and Declarations on Enlargement, annexed to the new Treaty, provided the basis for adapting key elements of the EU's institutional system such as votes and seats due to the accession of new Member States. These provisions are designed for an EU of 27. The Accession Treaty will tailor them to suit a Union of 25 Member States, in full respect of the principles of the Nice Treaty.

COMMUNICATION STRATEGY

Enlargement can be successful only if it is a transparent process that

has the democratic support of the citizens of Member States and candidate countries. It is therefore, important that citizens of the Union and candidate countries understand what enlargement means. A wide-ranging dialogue is now taking place following the conclusion of the accession negotiations in Copenhagen, and as the debate on the future of Europe progresses. The Commission's Communication Strategy for Enlargement enables the Commission's Representatives in the Member States and its Delegations in the Candidate Countries to take part in the debate, informing the citizens of current and future Member States of the changes that may occur after this enlargement. In this task, they complement the efforts of national and regional authorities whose role it is to explain the implications of the Accession Treaty.

CONCLUSION

Enlargement of the European Union will help to bring stability and prosperity. It offers major economic benefits, both to the existing Union and to the acceding countries. But it is more than just another increase in the number of EU Member States. Beyond the economic and political benefits, this enlargement will mean the integration of European countries that share common values and objectives, but which were artificially separated from each other for most of the last century. It will contribute to the reunification of our continent.

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Central Europe on the Eve of EU Accession

Wojciech Paczyński

"Europe will not be made all at once, or according to a single, general plan. It will be built through concrete achievements, which first create a de facto solidarity."

*Robert Schuman, extract from a press conference,
9 May 1950*

1. Introduction

Within the next 15 months or so ten countries, including eight from Central Europe, will most likely join the European Union.¹ This will constitute the biggest EU enlargement to date and will probably be the most difficult, both for current members and candidates alike. It will also necessitate several changes to the functioning of the EU, as was the case with previous enlargements. These changes will add to the significant reforms the Union has gone through over the last decade. The EU today is a very different creature from what it was in 1989 when Polish parliamentary elections set off the democratic revolution in this large part of the continent. It has also changed since the Central European countries formally applied for membership, some years after this. However, it is the current applicant countries that have undergone the most revolutionary reforms over the last 13 years. As recently as the mid-90s the prospects for their membership seemed a matter of decades rather than years.² For all potential EU

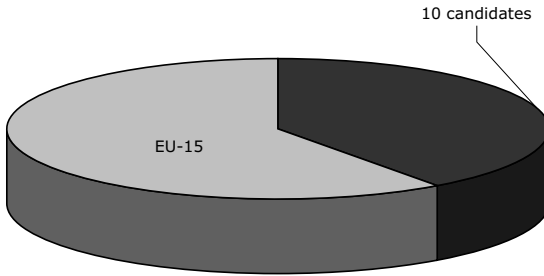
members from Central Europe (be it within several months or a couple of years from now) joining the most powerful political and economic organisation on the continent will, on the one hand, complete their long path to freedom, independence and prosperity, but on the other will also confront them with new challenges.

Enlargement will be significant in terms of the number of new entrants (an increase of 66% — to 25 member states), in terms of land area (an increase of 19% — to nearly 4 million square kilometres) and population (an increase of 20% — to over 450 million inhabitants). At the same time it will boost the Union's GDP by a mere 4.5%. The group of candidate countries is very diverse. Besides two big countries (Poland and Romania) it is made up of a mixture of small and very small countries. Of the eight CEECs that are advanced in accession negotiations Poland has comparative potential to the other seven combined (Czech Republic, Hungary, Slovakia, Lithuania, Latvia, Estonia and Slovenia). These seven countries combined are slightly larger in terms of land area than Poland (by a third) and GDP (by 10%) and slightly smaller in terms of population (by 10%). All candidates lag far behind the EU-15 average and even the EU's poorest members with regard to levels of economic development, though discrepancies within the group of candidates are also very substantial. GDP per capita in Slovenia is more than double the level in Bulgaria, Romania, Lithuania and Latvia,³ for example.

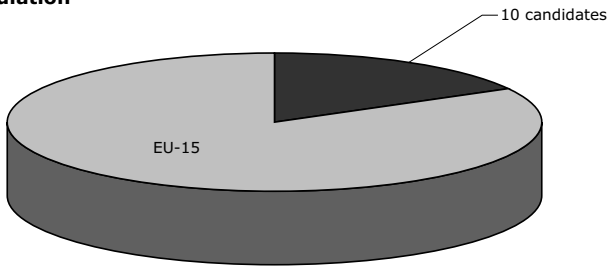
This report overviews the current degree of integration between the CEECs and the EU-15 and points to the most important likely consequences of EU enlargement for the present member states and applicants alike. We feel that the public debate to date on the costs and benefits of enlargement has largely concentrated on short-term issues of secondary importance, while ignoring many crucial dimensions of European integration. Given the upcoming enlargement referenda such a situation seems worrying. A proper understanding of the advantages and threats of enlargement (a far from uncomplicated process) is also vital in order to take advantage of the former and avoid the latter. The report deals only with CEECs that are currently negotiating their terms of accession to the EU, i.e. the Czech Republic, Estonia, Lithuania, Latvia, Poland, Slovakia, Slovenia as well as

The Union of 25 – a comparison of the potential of the new and the old members

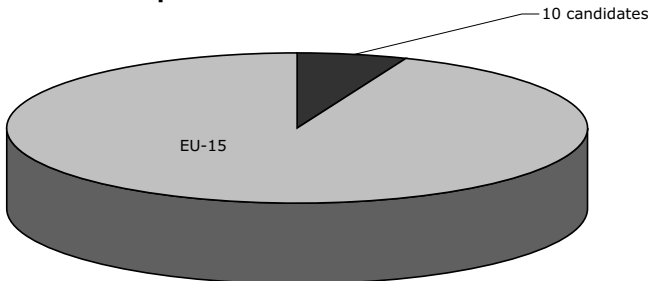
Number of countries



Population

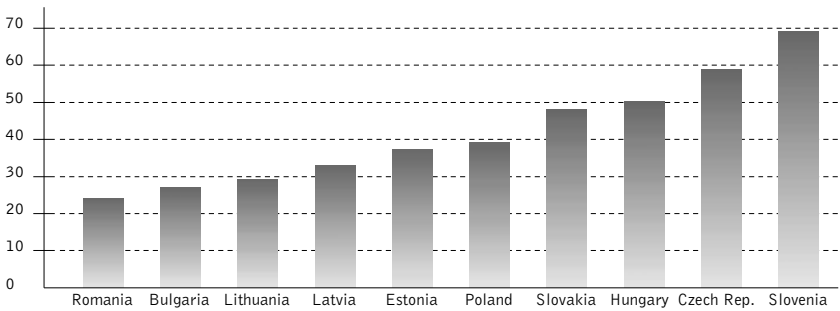


Gross domestic product



Note: The group of 10 candidates includes countries likely to join in 2004, i.e. all countries currently negotiating accession, except for Bulgaria and Romania .
Source: Eurostat yearbook 2002, IMF, World Economic Outlook (WEO) database, April 2002.

GDP per capita (index: UE-15 average = 100; 2000 data)



Note: GDP expressed in terms of PPS (purchasing power standards), i.e. taking into account price level differences among countries. The numbers presented in the graph differ from GDP statistics compared on the basis of market exchange rates.

Source: Eurostat yearbook 2002.

Bulgaria and Romania. Section 2 contains a brief historical overview. In section 3 we analyse the current degree of integration between the EU-15 and the candidate countries in a few selected areas that we see as the most important. The penultimate section discusses the expected effects of enlargement on the Union's current and future member states and we conclude by sketching possible scenarios for the next several months and pointing out problems that will likely be critical for the longer-term future of the EU.

2. Historical overview

The beginnings of the formal integration processes between the EU and CEECs go back to the period shortly after the fall of communism. Already in late 1991 European Agreements were signed with the first countries (Hungary and Poland). The Copenhagen summit of 1993 acknowledged that CEECs would be able to become full members of the Union provided some specific conditions were fulfilled. The so-called 'Copenhagen criteria' stated that applicants must have stable institutions guaranteeing democracy, the rule of law, human rights and protection for minorities, as well as functioning market economies and the capacity to cope with competitive pressures within the Union. Membership further requires that candidate countries are able to meet the obligations of membership, including those concerning political union and monetary union and that their adminis-

trative structures are suited to effectively implementing the *acquis communautaire*. The Union's capacity for taking in new members was also mentioned as a prerequisite for enlargement. In 1994, Hungary, Poland and Romania formally applied for EU membership and in 1998 accession negotiations started with the six countries forming the so-called 'Luxembourg group', including five CEECs (Czech Republic, Estonia, Hungary, Poland, and Slovenia). Two years later negotiations started with six other candidates (the 'Helsinki group'), including five CEECs (Lithuania, Latvia, Slovakia, Bulgaria and Romania). Lithuania, Latvia and Slovakia progressed vigorously and quickly joined the Luxembourg group in the negotiation progress. In late 2001 the EU noted ten countries that had chances of finishing accession negotiation by the end of 2002 and of acceding in January 2004 (eight CEECs, plus Malta and Cyprus). At the time of preparing this report (summer 2002) such a scenario is still possible, though enlargement may in fact take place a few months or up to a year later than anticipated. Bulgaria and Romania will not be included in the first accession wave, but both countries' progress in implementing reforms and improving their economic situations makes them likely to become EU members within the next 5–7 years.⁴

3. EU and CEECs – how far apart?

Assessing the current level of integration, or more widely, the strength and character of various links between CEECs and the EU-15 is essential for any assessment of accession preparations. We are here conceiving of the European Union as a union of values and action.⁵ European Communities were designed to support economic cooperation and integration, with the underlying goal (never stated explicitly) of securing peace, freedom and prosperity in one part of post-war Europe. Interestingly, direct references to common values have appeared in EU documents only relatively recently, and this was motivated by changes on the political map of the continent. The 1977 Community declaration on fundamental rights was adopted when Greece, Spain and Portugal, countries with then recent experiences of dictatorships, became serious candidates for membership. A year later the Copenhagen summit agreed the Declaration on

Democracy, in this way making the efficient functioning of the democratic system a prerequisite for membership of the EU. The first of the 1993 Copenhagen criteria for CEECs' membership follows directly from this background. Article 6(1) of the Amsterdam Treaty (adopted in 1997) states that "The Union is founded on the principles of liberty, democracy, respect for human rights, and fundamental freedoms, and the rule of law, principles of which are common to the Member States". The EU clearly also constitutes a union of action that is focused on achieving its objectives. These basic objectives are defined in Article 2 of the Amsterdam Treaty and refer to economic and social progress, common foreign and security policy (CFSP), and co-operation in justice and home affairs (JHA). This article also obliges member states to maintain in full the *acquis communautaire* and to amend it if necessary to make the EU more effective. A proper analysis of the extent to which the fundamental values are indeed shared by the societies of the EU-15 and the candidate countries goes well beyond the scope of this paper. Instead we choose to confine our investigation to a few selected areas where affinity and integration are important. The selection criteria for these areas are presented in the above-mentioned Copenhagen criteria and EU objectives defined in the Amsterdam Treaty. The analysis in this chapter draws from annual Commission reports on the progress of accession and reports of other institutions. It is worth noting that such monitoring and formulation of specific advice by the EU is an element that was not present in previous enlargement waves.

3.1. Political issues

The Commission's reports since 1997 recognise that the CEE candidates already fulfil Copenhagen's political criteria, while at the same time listing several problematic areas.⁶ Issues raised in various reports (including the most recent, November 2001) include the functioning of public administration and judiciary, corruption, the situation of ethnic minorities, especially the Roma minority, several problems in the implementation of reforms and economic policy, inter alia. There are clear and substantial differences between candidates and some problems pertain only to one or a few countries. CEECs have con-

stantly improved the functioning of their democratic political systems for the last several years, thus closing the standards gap on their EU neighbours. (One should stress that there are substantial differences among EU countries in this respect, too.) For obvious reasons (including the level of economic development) one should not expect all difficulties to disappear overnight. The next Commission report, expected in October 2002 and which will result in recommendations on the CEECs that should be able to conclude accession negotiations this year will not refer to problems in the political sphere that could hamper membership. However, the effective functioning of democratic procedures and the rule of law will be crucial for assuring maximum benefits from accession and the functioning of the enlarged Union. For these reasons it is worthwhile studying the issue in more detail. A proper assessment of the functioning of democratic procedures is difficult in the case of a single country and cross-country comparisons are not free from shortcomings. Nevertheless, despite the limitations, interesting things do emerge from in-depth research in the field. The recently published (August 2002) report *Nations in Transit* offers a CEECs ranking on a "democratisation score" and a "rule of law score".⁷ The democratisation ranking takes into account an assessment of political processes, development of civil society, media independence and the functioning of the public administration. On this score Poland leads the CEECs, followed by Slovenia, Lithuania, Estonia, Hungary and Slovakia. A lower score on media independence brought the overall assessment of the Czech Republic down. Bulgaria and Romania lag behind the other candidate countries. In the "rule of law" ranking (composed of evaluations of a constitutional, legislative and judicial framework plus corruption) Poland and Slovenia come out best, followed closely by Estonia, Hungary and Slovakia. The next group is formed by Lithuania, Latvia and the Czech Republic, while Bulgaria and Romania again note the weakest scores.

Corruption, especially in public administration, has proved to be one of the major obstacles to the efficient functioning of the state, its ability to implement necessary reforms in various spheres and to social and economic development more widely. The very nature of

corruption makes it very difficult to precisely measure its scope and carry out meaningful cross-country comparisons. The corruption rankings published by several institutions only give a proxy picture. Two recently published reports by Transparency International and Freedom House, institutions that have been involved in corruption research for many years, offer some indication as to the differences between the scope of the corruption problem in candidate countries.⁸ Slovenia, Estonia and Hungary came out as possibly the least corrupt countries (perceived as least corrupt) in both reports, whereas Romania gets the worst scores. The two sources differ in the ranking of other CEE candidates.⁹

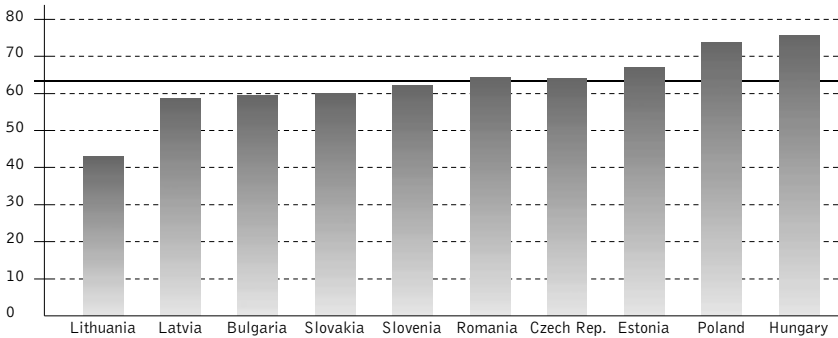
Policy towards ethnic minorities is a good example of an area in which EU pressures have led to substantial changes in candidate countries. The status of minorities has at one time or another been problematic in most countries in the region (with the possible exceptions of Poland and Slovenia). The most recent Commission report (from November 2001) emphasised the progress that has been recorded in the policies towards the Roma minority by the Czech Republic, Hungary, Slovakia, and Slovenia, and towards the Russian minority by Estonia and Latvia. On the other hand problems with implementation of actions preventing discrimination against Roma in Bulgaria were referred to and all the countries were urged to continue efforts aimed at improving the status of minorities.¹⁰

Common foreign and security policy and co-operation in justice and home affairs deserves closer examination in the context of enlargement, given the specific status of these policies within *acquis communautaire*. CFSP does not embrace very many efficiently functioning instruments, with the exception of the High Representative's office. The CFSP is not equipped with the legal instruments (directives, regulations) that exist for other Community policies. Actions carried out by single member states, and as part of NATO, are still more important. Whether this situation will change in the future depends of the evolution of NATO (see the first part of this report) and on EU decision making capacity, at least in the CFSP sphere. CEE candidate countries have different visions on co-operation in this field, just as is the case with the current EU members. Given the

specific nature of the CFSP *acquis*, all candidates have closed their respective chapters in negotiations without any transition periods.

Co-operation in JHA is the most rapidly evolving sphere of the EU's activities. The terrorist attacks of 11 September 2001 were a further stimulus to deepening co-operation and making it more efficient, despite the discrepancies between the EU-15 concerning a JHA model. No CEE candidate applied for transitory periods and eight of them (Bulgaria and Romania are exceptions) provisionally closed their respective negotiation chapters. However, scepticism on the EU side remains evident as to whether CEECs will be able to functionally implement the relevant elements of the *acquis*. Some delays in adapting the necessary legislative acts are of minor importance in this progress, compared to the insufficient administrative and organisational capacity of the prospective new members resulting in problems at the implementation stage. These problems largely stem from the fact that JHA demands significant financial flows over long periods (to increase staff, introduce IT systems, buy new equipment, etc.). One should expect financial issues, closely related to the level of economic development, to be of major importance for the effectiveness of co-operation in JHA. Despite the above-mentioned doubts that are certainly justified to a certain extent EU enlargement will improve the situation of the current Union members in several fields. For instance, strengthening controls at the enlarged EU's new borders (this process has been taking place for several years now) lessens the chances of illegal immigrants reaching EU-15 territory. Controls at the borders between the new and the old members will remain in place for some time after enlargement and their abolition will ultimately depend on an assessment of the new members' ability to function within the Schengen area. Given the experience of Italy and Greece, which have waited for 8 and 7 years, respectively, this transitory period may be quite long. Besides the issues of border controls, which mostly pertain to candidate countries with borders that coincide with long stretches of the Union's external borders, the co-operation of police and judiciary is of vital importance for the functioning of JHA.

CEEC exports to the EU-15 as a share in total exports, 2001 (%)



Note: The solid line represents the average level of intra EU trade for EU member countries.
Source: DB research.

3.2. Economic links

Deep economic integration (including monetary union) remains one of the building blocks of the European Union and consequently the appraisal of economic convergence between the EU and the CEECs is of vital importance. Firstly, one should bear in mind the existence of a substantial gap in economic development levels between the current member states and the candidates. The CEECs' economies have been growing at a much faster pace than the EU for the last decade, but it will take another few decades before the discrepancies in GDP per capita levels start to disappear. The structural changes that have taken place in candidate countries have already significantly reduced the discrepancies in the structure of their economies relative to the EU. The services sector has grown rapidly, whereas the share of industry and agriculture in GDP has been reduced, though the share of agriculture in total value added is still higher than the EU average, and the differences in employment shares are even higher.¹¹ EU enlargement by the 10 CEECs would today increase the number of farmers in the Union by 120%.¹²

CEE candidates have very strong trade links with the EU and the share of their exports going to the EU-15 is higher than the share of intra-EU trade for the current members of the Union. Given the substantial trade between candidate countries in the enlarged EU, the new members will be more integrated in terms of export than the EU-15

countries. As far as the commodity composition of trade is concerned, there are significant differences among the candidates. For instance, Hungary, Czech Republic and Slovakia are increasing their exports of technology-driven or high-skill products, while Bulgaria, Romania and Latvia specialise in low-skill and labour intensive exports.¹³

Prospects of EU membership have strongly contributed to FDI inflows to CEE candidate countries. The attractiveness of the region stems on one hand from specific factors (relatively cheap and well qualified labour, etc.) and on the other the expected integration with the EU market (no trade barriers). Transnational corporations from the EU lead by far among foreign investors in CEECs, followed by the US companies.¹⁴ Direct investments and intensification of trade also stimulate stronger relationships between EU and CEEC companies and drive the establishment of Europe-wide corporate production systems.

There are several other aspects of economic integration that we have too little room to deal with in this report. An interesting overview is presented by the Deutsche Bank convergence indicator.¹⁵ It documents the gradual lessening of the differences between EU and CEECs economies (taking into account several analysed variables). There are, however, substantial differences between candidate countries in this respect. According to data and forecasts from summer 2002, the most advanced group comprises Slovenia, Hungary, Czech Republic and Estonia, which recently improved its ranking. Slovakia, Latvia and Lithuania have caught up with Poland and these countries form the second group. Bulgaria and Romania are lagging behind. Slovenia recorded good scores in all analysed categories of indicators. Hungary's strong overall result was due to its maintenance of growth momentum and efficiently functioning state institutions, while its indicators of fiscal and monetary policy were less favourable. In the Czech Republic swift economic growth and good results of foreign trade and FDI contrasted with imbalanced public finances. Strong growth and improvement in the institutional setting helped to improve convergence indicators in Estonia, Slovakia, Latvia and Lithuania. The current results of Bulgaria and Romania correspond to the results of the Luxem-

bourg group countries from 1998, suggesting that there is still some time to go until these two countries will be able to withstand competition on the common market.

4. Opportunities and risks of enlargement

The public debates on the EU enlargement in both the candidate group and existing EU (to somewhat lower extent) have so far largely concentrated on issues connected with accession negotiations. The discussions have focused on the short-term balance of costs and benefits. As a result, a few issues of limited real importance are widely perceived as major enlargement problems, while thinking about the real difficulties of European integration has been put in the background. Exaggerating only a little, one can say that for the average citizen of a candidate country, EU membership is associated with the threat of land buy-outs or claims on land ownership by richer neighbours from EU countries (in the case of the Czech Republic, Hungary and the Baltic states) or with the imperative to secure maximum direct payments to domestic farmers (most countries). Anti-EU campaigns often refer to very detailed issues (like legalisation of homosexual marriages, etc.), often inaccurately presenting actual EU regulations. In turn, the campaigns of EU enthusiasts are often limited to citing overly optimistic calculations of EU transfers within the next 2–3 years. At the same time, on the EU side (where interest in and knowledge about bringing in new members is rather low) the actions of some interest groups has resulted in a reduction of the perceived major enlargement-related problems to a list including threats to the labour market (especially in Germany and Austria), lower transfers to the least developed regions (Spain, Portugal, Greece), the perils of necessary reform of the Common Agricultural Policy (France and the southern countries) or burden to the Union's budget (the biggest net payers – Germany, UK, Netherlands). Protests against the Czech Ignalina nuclear power plant mainly in Austria are a good example of an anti-enlargement campaign concentrated on a very specific topic.

While some of the above-mentioned issues may be of genuine importance (at least locally), the reduction of the enlargement-

related discussion to such a list does not reflect the real importance of the process as a whole. For this reason a brief survey of the expected consequences of EU enlargement for both the current and the new members is necessary.

4.1. The consequences for current EU members

EU enlargement will first and foremost mean enlarging the area of a stable political and economic order in Europe and contribute to the development of the continent as a whole. Besides its symbolic and historical dimensions, which are already important, the process has several more measurable consequences. In the first place these are related to security issues. The experience of a decade of wars and conflicts in the Balkans has clearly demonstrated that European security is not divisible, as dangers easily flow out of unstable regions to other areas (e.g. the problem of displaced people and immigrants). The acceptance of new members in the Union will widen the stability zone on the continent and reduce the risk of potential future conflicts and the associated costs. The role of NATO in this context should also be mentioned. Moreover, the EU-15 will certainly gain more control over some processes which have pan-European repercussions, such as the activities of international criminal groups, illegal migration, arms and drug smuggling, environment pollution, nuclear security, etc.

At the same time, enlargement also brings a potential major problem to the Union, namely the risk that its ability to function effectively will be undermined – in the black scenario that would mean a paralysis of EU institutions. Other fears are that some of the gains of integration may be lost (e.g. within the common market, CFSP, JHA). These dangers stem mainly from the significant differences in the level of economic development and resulting weakness of administrative and regulatory institutions, police, judiciary, etc. in the candidate countries. (The relatively short period of independence under democratic rule is another issue here.) The highest risks relate to the period just after accession, and should recede over time. Analysis of the factors that will determine the enlarged Union's ability to function effectively deserves a separate full discussion.¹⁶

4.1.1. *Economic consequences*

There is a vast literature dealing with the economic consequences of enlargement on the EU-15 and selected member states.¹⁷ The findings generally support the conclusion that accepting new members will have a positive, though limited, impact on the EU-15 economies. Enlargement is not expected to add more than 1% to the EU's GDP over the next decade. Furthermore, it is clear that the distribution of benefits will be unequally spread, with those countries which at the moment have the strongest ties with candidate countries likely to gain most. No very significant impact on trade flows is expected, though the elimination of border controls might play some sort of role in developing further and/or faster movements of goods and services. Most of the trade effects have already taken place thanks to the liberalisation that has been gradually implemented since the early 1990s. Its impact has been significant: during the first five years of transition EU-CEECs trade roughly doubled. In 2000, CEECs trade with the EU amounted to 212 billion euro, half the value of EU-US trade (428 million euro), but more than the EU's exchange with EFTA (204 million euro), Japan (130 million euro) and China (95 million euro). Poland, Czech Republic and Hungary were among the ten biggest trade partners of the EU-15 in 2000.¹⁸ Looking from the perspective of EU member states, candidate countries amount to only 1% to 5% of their total imports, with the exception of Austria and Germany (11% and 8%, respectively). The export shares look similar. As already discussed, the impact on capital flows into CEECs has also already been largely felt. EU enlargement is likely to further intensify these flows with favourable outcomes for both capital exporters and importers.

The impact of enlargement on EU labour markets remains one of the most controversial issues in the public debate. There is also significant variability in results obtained by the various studies on this subject. However, in the most likely scenario, increased labour force migration will have only a local impact, largely confined to Austria and Germany and the consequences will be most likely unevenly distributed among labour market sectors. Increased immigration might in some cases result in short term hikes in unemployment or wage reduc-

tions, but these effects are not expected to be particularly strong. The flexible transitory periods that were agreed in accession negotiations (up to seven years, depending on the decision of the given country) should allow for optimal management of labour market policies, thus minimising possible negative outcomes. In the long-run, increased integration of the European labour market should bring several advantages, among other things reducing problems of labour shortages in certain labour market segments and reducing the effects of ageing societies and the resulting strains on national pension systems.

Enlargement will bring new items to the EU budget expenditure list. The biggest transfers will be related to the Common Agricultural Policy and structural funds. The size of these transfers is largely dependent on the EU's own decisions on the future of the CAP and the way in which the new members will be introduced to the CAP's mechanisms as well as decisions on the future shape of regional policy. At this point one should stress another very important aspect of enlargement: it should serve as a mechanism pushing institutional reform of the Union, especially with regard to the CAP and structural funds. This might somehow act as a counterbalance against the EU's reduced effectiveness, referred to in the preceding section. As early as the mid-1990s several voices were suggesting that enlargement would give a unique chance to reform the CAP, which, they argued is ineffective and has several negative spillover effects. The overly high costs of including new countries (foremost Poland) in CAP mechanisms as they were then was seen as the key argument against the opposition of France and mainly southern European countries who wanted to maintain the status quo, and thus their budgetary gains. The Commission's proposals from July 2002 give hope for a gradual reform of the CAP. On the other hand, delay in discussions about reform may add to difficulties in the final round of negotiations in the agriculture chapter.

4.2. The consequences for candidate countries

For CEE candidate countries, accession to the EU will represent a real measure of the extent to which they have travelled since the collapse of communism and their gaining of real independence. In gain-

ing EU membership they will be returning to the community of Europe, a community in which they were barred for political reasons from fully participating in for most of the 20th century. EU membership will provide the best possible guaranties for internal stability and external security (the role of NATO in this sphere is also crucial). Even the briefest glance at the historical experience of the candidate countries shows clearly that this aspect of their long-term development prospects can hardly be overestimated.

4.2.1. European integration as a catalyst of reforms

The connections between integration processes and expectations related to EU accession on one side and social, political and economic transformation on the other are so strong that it seems justified treating them as one of the major aspects of EU enlargement. Adaptation to the conditions imposed by EU membership and participation in the common market would be largely necessary even without the prospect of entry, as meeting the main elements of the transition are a prerequisite for stable development in the era of globalisation. However, the possibility of joining the Union has made several relevant reforms far easier to accept and implement for all interested parties, as it is widely understood that there exists no viable alternative. EU accession has consistently been declared a strategic objective by almost all serious political forces in the region. As a result, all governments - despite policy differences - have in certain respects been obliged to continue reforms made by their predecessors. Consistency of reform efforts has, in turn, been one of the key sources of success. In most cases the closer the prospects of EU accession, the stronger the determination in economic and social policies (e.g. the issue of ethnic minorities). Slovenia, where reforms gained momentum after the start of accession negotiations in 1998, stands as a good example here. A similar process could be observed in Romania starting in 2000. The situation differed among other CEECs. The Baltic states were able to maintain consistency in their economic reforms for many years despite initially uncertain prospects of EU membership, and the radical change in Slovak policies after Meciar's defeat in 1998 allowed the country to catch up with other candidates for accession.

While the above-described processes have already had a large impact on CEE candidate countries, further integration and EU membership will continue to exert pressure for further changes and in particular institutional reforms, thus reinforcing even firmer social and economic development. To date, the building of effective institutional environments supporting the creation of a civil society and market economy have proved more difficult than legislated reforms, macroeconomic stabilisation and liberalisation. One should note, however, that in some cases tensions arise between the adoption of EU standards and the transformation processes. Examples include some environment protection regulations, elements of the common market or JHA that demand financing and effort above the limits suitable for CEECs given their present level of development. Allocation of large resources to these spheres could hinder the CEECs' growth potential. Despite such tensions (that will likely occur also in the future), the balance of the adoption of the *acquis communautaire* by CEECs (with all transitory arrangements that were agreed) seems very favourable. The contrast with other ex-socialist countries that did not engage in EU integration processes is instructive in this respect.

4.2.2. *Economic consequences*

The various economic gains that EU accession should bring candidate countries are reasonably well known. The list includes obtaining secure macroeconomic stability within the EMU (though the road to the adoption of the euro will likely pose some dangers) and resulting improvement in the investment climate and capital inflows as well as gaining access to the large EU market (trade liberalisation in the last decade has already allowed for utilisation of some of these advantages) and more intense corporate co-operation. As proved by the experience of the least developed regions within the EU-15, transfers from the EU budget can have a significant impact on strengthening development capacities and bridging gaps with more advanced regions. In particular, one can expect improvements in infrastructure. Rural areas and the agricultural sector, that currently play a bigger role in CEECs than in the EU-15, will be given a chance to restruc-

ture and sort out their development problems thanks to the CAP (ideally, already reformed) and other instrument of regional policy.

Finally, there are numerous other potentially advantageous processes the impact of which is difficult to quantify. Free movement of people, expected intensification of scientific and educational cooperation and several other processes will add to the improved quality of life for CEECs' citizens.

5. Looking into the future

EU enlargement can now be regarded as certain. This colossal political project makes economic sense and has been built into the expectations of various actors on the political and economic scene over the years. These expectations have resulted in several decisions being taken. Still, there remain several unresolved issues that could potentially delay the enlargement process or increase its costs. One should mention here:

- the possibility of a correction in the policies of the EU-15 resulting from weak support for enlargement in some EU countries,
- a potential impasse in discussions on EU reform, especially concerning the functioning of the CAP,
- uncertain results of the second Irish referendum on the ratification of the Nice Treaty (despite the declaration of the Seville summit in June 2002),
- the possibility of rejection of membership in referenda in some candidate countries (Latvia, Estonia – the likelihood of such a scenario is, however, low; for survey results on support for EU membership consult Annex 3).

In our view, any delay in bringing the 10 new countries into the EU by up to a year (to 1 January 2005 at the latest) would not represent a major setback for the project as a whole. However, it would certainly weaken support for EU membership in the public opinion of the candidate countries. The more dangerous scenario, of the partial enlargement in 2004 and delays of the entry of the remaining countries, seems unlikely precisely because of the risks it entails

and the Union's determination to make the enlargement project a success.

The enlarged Union will be characterised by much more diversity than it is at present (though it is already something of a simplification to treat the EU as a homogenous body).¹⁹ In particular, discrepancies in the level of economic development will widen substantially. This should be viewed with particular attention, given the fact that various of the transformation problems of the CEECs are less and less related to their communist legacy and more and more related to their economic backwardness (relative to the EU-15). Consequently, the creation of a favourable environment supporting stable and strong economic growth in the EU's new member states will ultimately have a major impact on the prospects for these countries and for the EU as a whole. The ability of the enlarged Union to preserve the gains of previous integration processes and continue its internal reforms that are essential for securing and strengthening the EU's international position will be largely influenced by the economic situation of the new member countries (and the resulting efficiency of their administrations, judiciaries, etc.).

The functioning and development of the Union of 25 or in the not-too-distant future, 27 or more, member states will certainly face several new problems. Continued reforms will be necessary to confront the new challenges. The experience of the last 50 years shows that despite all its shortcomings the Union is capable of sensibly integrating very diversified countries and ensuring stable conditions for their development. History also shows that the position of particular countries within the Union largely depends on their capacity to absorb financial transfers and the quality of the functioning of the state institutions allowing for constructive and efficient actions benefiting them and the Union as a whole. The new member states will be given a chance to operate on such a scale for the first time in decades. Responsibility for utilising this chance to the greatest possible extent rests with them.

	Chapter	Czech Rep.	Estonia	Hungary	Slovenia	Bulgaria	Latvia	Lithuania	Romania	Slovakia	Poland
14	Energy	x	x	x	x	0	x	x	0	x	x
15	Industry	x	x	x	x	x	x	x	x	x	x
16	Small and medium enterprises	x	x	x	x	x	x	x	x	x	x
17	Science and research	x	x	x	x	x	x	x	x	x	x
18	Education and training	x	x	x	x	x	x	x	x	x	x
19	Telecommunication	x	x	x	x	x	x	x	0	x	x
20	Culture and audiovisual policy	x	x	x	x	x	x	x	0	x	x
21	Regional policy	x	x	x	x	0	x	x	0	x	0
22	Environment	x	x	x	x	0	x	x	0	x	x
23	Consumers and health protection	x	x	x	x	x	x	x	x	x	x
24	Justice and home affairs	x	x	x	x	0	x	x	0	x	x
25	Customs union	x	x	x	x	x	x	x	0	x	x
26	External relations	x	x	x	x	x	x	x	x	x	x
27	Common Foreign and Security Policy	x	x	x	x	x	x	x	x	x	x
28	Financial control	x	x	x	x	0	x	x	0	x	x
29	Financial and budgetary provisions	0	0	0	0	0	0	0	~	0	0
30	Institutions	(x)	x	(x)	x	x	(x)	x	x	x	x
Chapters opened		30	30	30	30	30	30	30	27	30	30
Chapters closed		25	28	26	28	21	27	28	13	27	26

0 – Chapter opened, under negotiations

x – Chapter provisionally closed

(x) – Chapter for which the provisional closure proposed in the EUCP has not been accepted by the candidate country

~ – Chapter not yet opened to negotiations

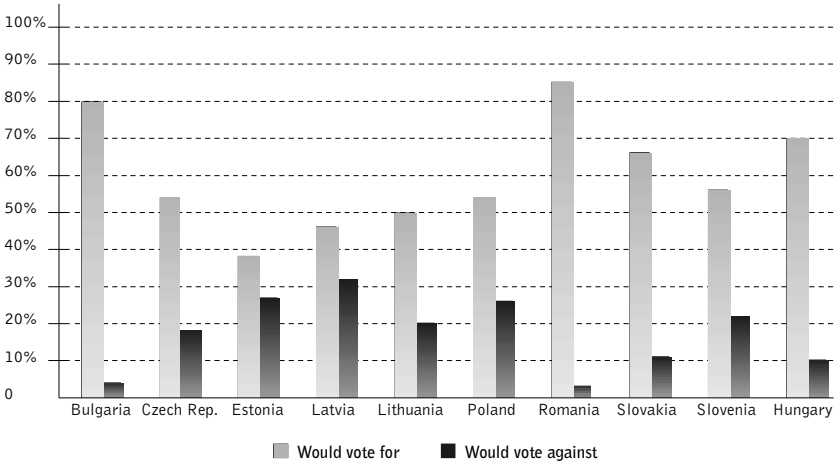
Source: Commission, 29–30 July 2002,

http://www.europa.eu.int/comm/enlargement/negotiations/pdf/stateofplay_july2002.pdf

Note: Up-to-date information on the accession progress and agreed transitory arrangements can be found at <http://europa.eu.int/comm/enlargement/negotiations/chapters/index.htm>.

Annex 3. Support for EU membership

If there were to be referendum tomorrow on the question of (country's) membership of the EU, would you personally vote for or against it?



Note: The results of these surveys (carried out in autumn 2001) can be compared between countries.

Source: Commission, Applicant Countries Eurobarometer 2001, Brussels, March 2002, http://europa.eu.int/comm/public_opinion/cceb/cceb20011_en.pdf

Support for EU membership in referenda – recent opinion polls (various research centres, differing methodology)

Country	Yes (%)	No (%)	Source quoted	Date
Bulgaria	66	10	BBSS Gallup International	June 2002
Czech Rep.	42	17	CVM	June 2002
Estonia	54	38	EMOR	June 2002
Hungary	72	10	GfK	May 2002
Latvia	42	38	Latvijas Fakti	June 2002
Lithuania	53	25	Vilmorus	June 2002
Poland	66	25	CBOS	June 2002
Slovakia	69	24	UVVM	March 2002
Slovenia	55	27	CPOR	June 2002

Note: The results are not fully comparable between countries.

Source: Commission, <http://www.europa.eu.int/comm/enlargement/opinion/index.htm>.

Annex 4. Selected macroeconomic indicators**GDP per capita, 1997–2002 (USD)**

	1997	1998	1999	2000	2001	2002
Czech Rep.	5150	5536	5316	4979	5534	5964
Estonia	3023	3496	3529	3466	3778	4148
Lithuania	2587	2903	2882	3062	3254	3487
Latvia	2308	2516	2779	3008	3283	3537
Poland	3720	4092	4009	4083	4562	4480
Slovakia	3624	3962	3651	3584	3700	4089
Slovenia	9149	9891	10086	9107	10605	11096
Hungary	4511	4658	4812	4839	4658	5461
Bulgaria	1136	1381	1406	1404	1504	1599
Romania	1557	1868	1589	1642	1768	1902

Note: GDP in current prices calculated at market exchange rates.
IMF forecasts for 2002.

Source: IMF, WEO database, April 2002.

Economic growth, 1997–2002 (%)

	1997	1998	1999	2000	2001	2002
Czech Rep.	-1	-1	0	3	4	3
Estonia	10	5	-1	7	5	4
Lithuania	7	5	-4	4	5	4
Latvia	9	4	1	7	7	5
Poland	7	5	4	4	1	1
Slovakia	6	4	2	2	3	4
Slovenia	5	4	5	5	3	3
Hungary	5	5	5	5	4	4
Bulgaria	-7	4	2	6	5	4
Romania	-6	-5	-1	2	5	5

Note: IMF forecasts for 2002.

Source: IMF, WEO database, April 2002.

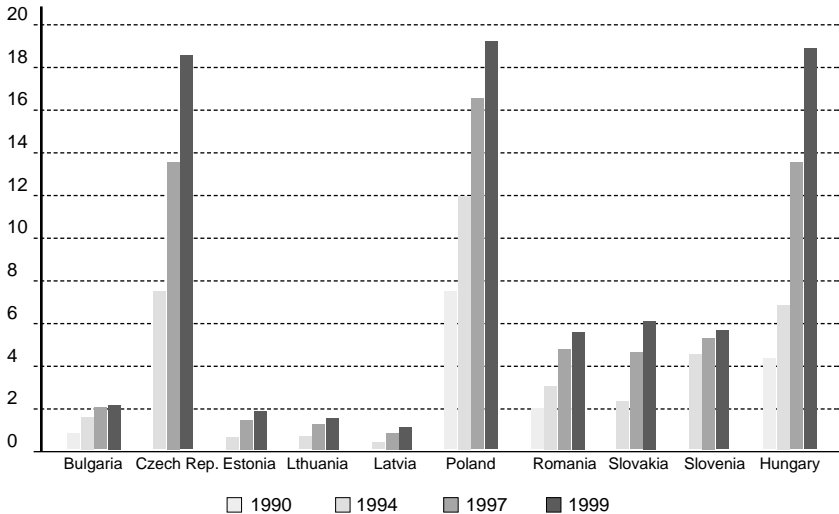
Inflation, 1997-2002 (%)

	1997	1998	1999	2000	2001	2002
Czech Rep.	9	11	2	4	5	4
Estonia	11	8	3	4	6	4
Lithuania	9	5	1	1	1	3
Latvia	8	5	2	3	3	3
Poland	15	12	7	10	5	3
Slovakia	6	7	11	12	7	4
Slovenia	8	8	6	9	8	7
Hungary	18	14	10	10	9	5
Bulgaria	1061	19	3	10	8	5
Romania	155	59	46	46	35	25

Note: IMF forecasts for 2002.

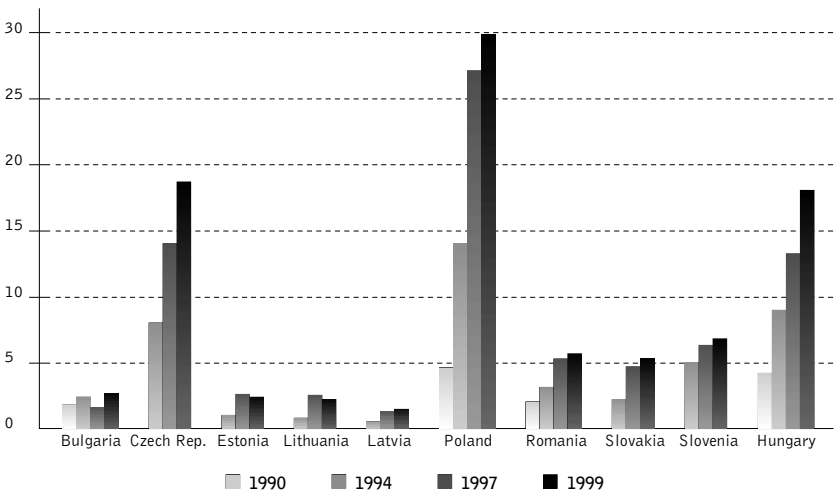
Source: IMF, WEO database, April 2002.

Exports to EU-15, 1990-1999 (billion USD)



Source IMF, Directions of Trade Statistics Yearbook 2000

Imports from EU-15, 1990–1999 (billion USD)



Source: IMF, Directions of Trade Statistics Yearbook 2000

Annex 5. Democratic functioning

Democratisation and the rule of law

Country	Democratisation score	Rule of law score	Political process score	Civil society development	Independent media score	Governance and public administration rating
Poland	1.5	1.88	1.25	1.25	1.5	2
Slovenia	1.81	1.88	1.75	1.5	1.75	2.25
Lithuania	1.88	2.88	1.75	1.5	1.75	2.5
Estonia	1.94	2.13	1.75	2	1.75	2.25
Hungary	1.94	2.5	1.25	1.25	2.25	3
Slovakia	1.94	2.63	1.75	1.75	2	2.25
Latvia	1.94	2.88	1.75	2	1.75	2.25
Czech Rep.	2.13	3.13	2	1.75	2.5	2.25
Bulgaria	3	4	2	3.25	3.25	3.5
Romania	3.31	4.5	3	3	3.5	3.75

Notes: Countries are listed according to the democratisation score. The democratisation score is a simple average of ratings of political processes, civil society, independent media and governance and public administration. All ratings are based on a scale of 1 to 7 with 1 representing the highest (best) level. Any analysis based on these results should take into account their limitations.

Source: Freedom House, Nations in Transit 2002.

Corruption level

	Corruption rating FH	Corruption perception index TI	Country ranking on the TI list of 102 countries (ranked by CPI)
UE-15 average	-	7.6	
Slovenia	2.00	6	27
Poland	2.25	4	45-49
Estonia	2.50	5.6	29-30
Hungary	3.00	4.9	33-35
Slovakia	3.25	3.7	52-56
Czech Republic	3.75	3.7	52-56
Latvia	3.75	3.7	52-56
Lithuania	3.75	4.8	36-39
Bulgaria	4.50	4	45-49
Romania	4.75	2.6	77-80

Notes: The Freedom House (FH) corruption index is based on a scale of 1 to 7 with 1 representing the lowest level of corruption. The Transparency International (TI) Corruption Perceptions Index (CPI) ranges from 0 (worst result) to 10 (no corruption). The index is obtained from the analysis of several other studies including Freedom House report. For detailed methodological discussion see J.J Lamsdorff, Framework Document 2002. Background paper to the 2002 Corruption Perception Index, TI and Göttingen University, July 2002.

Countries are listed according to FH corruption index. Any analysis based on these results should take into account their limitations.

Sources: FH, Nations in Transit 2002, TI, 2002 Corruption Perception Index.

NOTE

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SOURCE

Originally published by The Centre for Eastern Studies (CES). The Centre for Eastern Studies is a Warsaw-based research institute. It monitors and analyses the political, social and economic developments in the countries of Central and Eastern Europe, the Balkans, the Caucasus and Central Asia.

FOOTNOTES

1. Formally, the name 'European Union' only refers to the period after the Maastricht Treaty came into force in 1993. For the sake of simplicity in this report the term EU is used also in relation to all stages of the institutional functioning of the Communities, along with other names.
2. See R. Baldwin, *Towards an Integrated Europe*, CEPR 1994. Baldwin did not expect full membership to be possible earlier than within 20 years, for several reasons.
3. For other macroeconomic statistics see Annex 4.
4. More detailed information on the progress of negotiations can be found in Annex 2.
5. Compare WRR, *Towards a Pan-European Union*, Haga 2001.
6. Slovakia constituted an exception, as the Commission acknowledged its fulfilment of the political criterion only in the 1999 Report.
7. Freedom House, *Nations in Transit 2002*. The report also contains a part on methodology. See also Annex 5.
8. Freedom House, op.cit. and Transparency International, *Corruption Perceptions Index 2002*. Both report were published in August 2002.
9. See Annex 5 for rankings' results.
10. For a detailed discussion of the situation of Roma and Hungarian minorities in the region see 'Ethnic conflicts in Central and South-Eastern Europe' *CES Studies* no. 6.
11. In 2000, value added in agriculture amounted to around 2% of GDP in the EU, and among the eight CEECs that are advanced in negotiations it ranged from 3.2% in Slovenia to 7.6% in Lithuania. It was significantly higher in Bulgaria (nearly 27%) and Romania (40%). (Sources: European Commission, *Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries*, Annex 2, November 2001; Eurostat, *Statistics in focus*, 17/2002, 1/2002).
12. J. Swinnen, *Budgetary implications of enlargement: agriculture*, CEPS Policy Brief No. 22, May 2002.

13. McKinsey & Company, *Business consequences of EU enlargement. Major change or non-event?*, 2002.
14. EU-based MNCs accounted for some 77% of 1996-2000 cumulative FDI inflows to 13 candidate countries (10 from CEE, Turkey, Cyprus, and Malta). (Source: Eurostat, *Statistics in focus*, 24/2002).
15. See Deutsche Bank Research, *EU Enlargement Monitor*, various issues.
16. Among other things, the functioning of the Council and the Commission will require improvements. In the case of the Council some of the solutions adopted in the Nice Treaty arguably pose a risk of reducing the decision-making capacity of this body.
17. A recent survey is provided, e.g. by J. Firmuc i in., "EU Enlargement to the East: Effects on the EU-15 in General and on Austria in Particular", Österreichische Nationalbank, *Focus on Transition* 1/2002, Vienna. An analysis of impact on selected industry and services sectors can be found in McKinsey & Company, *op.cit.*
18. Eurostat, *Statistics in focus*, 3/2001, 8/2001.
19. Compare H. Wallace, 'Introduction: Rethinking European Integration', w: H. Wallace (red.), *Interlocking Dimensions of European Integration*, Palgrave Publishers 2001.

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DEBATE QUESTIONS

1. What are some of the short-term vs. long-term issues that need to be discussed in the debate on the costs and benefits of enlargement?
2. What are some of the major differences between the current EU members and Central and Eastern European Countries (CEECs) waiting to enter the Union? To what extent are these differences reconcilable?
3. What are some of the costs and benefits of the enlargement process towards Eastern Europe that are already visible?
4. Should enlargement be mainly concerned with economic, political and institutional implications or should it be concerned more with social and identity implications?
5. Is the EU pre-accession strategy effective? Are there elements of this pre-accession strategy that are discriminatory towards the applicants for enlargement?
6. What are some of the implications of separating enlargement towards Eastern Europe in stages (10 countries going in 2004 and 2 in 2007)? What are the implications of the latest enlargement for the Former Yugoslav Republic?
7. What does the “widening vs. deepening” debate refer to?

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Part 2

EU Institutions and Enlargement

Preparing the EU for 2004

Heather Grabbe

- The debate about the future of Europe is supposed to consider how the Union will function after enlargement. In practice, the agenda set at Laeken addresses longstanding institutional problems, but does not pay sufficient attention to the qualitative changes that enlargement will bring.
- Before 2004, the EU urgently needs to reform the European Council, the rotating presidency, and the organisation of its foreign policy-making. It should also increase the involvement of national parliaments. The Union should produce a short and clear constitutional document to set out its aims and explain the added value of European integration, for the benefit of its current citizens and those that are soon to join.

Debating the future of Europe

To prepare for the inter-governmental conference of 2004, the Laeken European Council established a Convention to debate the future of the Union for a year from March 1st 2002. By the end of 2002, reform will become more urgent, because negotiations with the members-to-be will be close to conclusion.

The Laeken declaration set out a long list of questions for the Convention to answer (see box on page 105), with an agenda so broad that it is hard to see what exactly the Convention will focus on. The danger is that it will end up debating abstract points of principle, rather than the concrete problems that the enlarged Union will face. The debate could also be incoherent owing to the number of voices competing to be heard. The Convention will have 113 representatives from both current member states and the candidate countries – from governments, national parliaments, the European

Parliament and the Commission. The chair, former French president Valéry Giscard d'Estaing, will have to give a very strong steer if the Convention is to produce some useful results rather than degenerate into a talking-shop.

The Laeken agenda is dominated by traditional remedies for long-standing problems, rather than the new challenges that enlargement will bring. There are some familiar refrains, for example, the suggestion of more qualified majority voting to ease decision-making, and enhancing the role of the Commission and the European Parliament in foreign policy and internal security. The EU needs to look beyond the problems in its current system, and think imaginatively about how the political dynamics of the Union will change when another dozen members join.

The Laeken declaration set out four very broad areas for the Convention to consider, with many questions attached:

- 'A better division and definition of competence in the European Union
- Simplification of the Union's instruments
- More democracy, transparency and efficiency in the European Union
- Towards a Constitution for European citizens'

Three areas need radical change before 2004:

1. Reforming the European Council and the Council of Ministers

The Laeken summit demonstrated yet again that the six-monthly European Council is not an effective forum for complex decision-making and the solution of long-term problems. The agenda is too often overcrowded with items that the presidency has failed to resolve, or overwhelmed by a sudden crisis. It is a monumental waste of prime ministerial and presidential time to spend days haggling over minor issues, so that each has some small victory to present to the electorate on returning home. Often, the result is low-quality decisions, because the heads of government are prone to grandstanding and cannot necessarily follow all the details of the issues they are discussing.

The European Council needs a very tight agenda that sticks to the issues which cannot be decided below the level of heads of government. That requires more pre-cooking of the summits by senior civil servants and ministers, perhaps in a council of deputy prime ministers or senior ministers designated by the prime ministers. This 'Council of Prime Representatives' could meet more frequently than the six-monthly European Council to work on the detail of the dossiers. It would replace the co-ordinating role of the General Affairs Council, which currently comprises the foreign ministers. This new council would assist the European Council, by thrashing out deals before they reach the prime ministers. It would also help in co-ordinating the work of the sub-groups of the Council of Ministers: the Prime Representatives would try to resolve disputes across different dossiers. They would have greater authority than foreign ministers, because a Prime Representative could appeal to his or her prime minister in the event of a conflict between national ministries.

This idea would meet with opposition from the finance ministers, who are jealous of their powers, and would not want to submit themselves to the Prime Representatives. But even the finance ministers will have to recognise that the EU needs a more effective full-time horizontal co-ordination body, so that an EU of 25-plus members can take decisions.

The European Council needs a different mechanism to resolve disputes over the location of agencies and appointments to important posts, to avoid the unseemly horse-trading. The Union should establish an independent body of 'wise people' to consider the bids from candidates for top jobs and cities wanting to host EU bodies. The wise people should decide more objectively than prime ministers, and according to a set of clear criteria. As for the European Council's other business, the heads of government should vote according to the procedure used for a given policy area in the Council of Ministers, whether that is unanimity or a qualified majority vote.

2. An integrated foreign policy organization

The rotating presidency for foreign policy has to be abolished if the EU is to be taken seriously abroad. The EU loses diplomatic clout

when its agenda changes every six months, as a new group of officials takes over and starts promoting another country's own pet projects. The EU sends mixed messages because several people claim to speak for it. It has to send a three-person delegation around the world to represent the presidency, the Commission and the High Representative for foreign policy.

The EU's credibility may also suffer when a small country holds the presidency. Although small countries often run the most effective presidencies, they are not taken seriously in Washington, Moscow or Beijing. They may lack the diplomatic weight to speak for Europe. Instead of the rotating presidency, the EU should have a permanent staff for foreign policy, based around the office of Javier Solana, the High Representative for foreign policy.

The EU should also merge Solana's job with that of Chris Patten, the commissioner for external relations. In theory, the division of labour between them is clear. Solana does the diplomacy, while Patten implements the EU's aid programmes and manages political instruments. However, in practice it is hard for them to join up their resources. The money and the diplomacy need to be united. The most elegant solution would be simply to merge the two jobs, creating a new foreign policy supremo. The new High Representative could be placed inside the Commission – with a special status – but answerable to EU foreign ministers. The new foreign policy supremo should still be appointed by the European Council, to emphasise the member states' ownership of the common foreign and security policy.

More generally, the EU needs to overhaul its ramshackle decision-making structure for foreign policy. It has a huge number of policies that influence other countries, but they are made in separate fora by different ministers and too often with conflicting objectives. The EU needs to match its foreign policy objectives with other policies, such as trade, aid, migration and border policies. To achieve that, a new foreign affairs council is needed to ensure that the Union's huge range of policies supports an overall diplomatic strategy. If the General Affairs Council is to make way for the Prime Representatives, as argued above, then the foreign ministers need their own council to discuss external policy.

3. Involving national parliaments

In his Warsaw speech of October 2000, Tony Blair proposed a second chamber of the European Parliament, consisting of national parliamentarians. The role of this chamber would be to check legislation for compatibility with a charter of competences, and also to oversee the EU's work on foreign and defence policy. However, this idea has not won support from many other governments, while the European Parliament – fearing a putative rival – is strongly opposed.

Nevertheless, all governments recognise the importance of involving national parliaments in the workings of the EU. Each member state has to work out how its parliament can best monitor the EU legislative process; for example, in Denmark the Folketing follows EU affairs closely and exerts great influence on the Danish government.

While there is little appetite for creating a major new institution consisting of national MPs, there may be a role for a more modest institutional reform that would enhance the role of national parliaments. More than a decade ago, Lord Brittan – then Sir Leon, a European commissioner – proposed a new committee of national parliamentarians. This would have the power to ask the European Court of Justice to rule on whether a law violated the principle of subsidiarity. The committee could make this request at any stage of the legislative process. The EU has since set up COSAC – the Conference of Community and European Affairs Committees – to allow parliamentarians to meet and exchange views on European affairs. However COSAC remains an obscure body, unable to attract the best and the brightest MPs to sit on it, because it has no real power. The EU should consider remodelling COSAC to take on the kind of task envisaged by Lord Brittan.

This committee should also look back on past EU legislation, some of which may no longer be necessary. Once a year, this committee of national MPs could present the European Council with a list of outmoded laws. The heads of government would then take a political decision on which of them should be kept, and which repealed, and instruct the EU institutions to implement their decision. For example, should the EU really regulate the sale of ornamental plants, or the noise emissions of lawnmowers? Such a procedure might well

have a positive impact on public opinion: people would see that the EU could give up powers as well as take on new ones. And national parliaments would gain a greater stake in the EU's political system.

Principles for the 2004 debate: policies should shape institutions

In reshaping the institutions, the EU's leaders should consider which policies will become most important over the next decade. The 2000 Eurobarometer poll showed that the top three concerns of EU-15 citizens are subjects which the EU has only recently begun to address: tackling unemployment; maintaining peace and security in Europe; and fighting organised crime and drug trafficking. The EU has moved only slowly into these areas. It still spends a wildly disproportionate amount of its resources – financial, institutional and political – on old policy areas of little interest to most citizens, such as agriculture. The EU needs to re-order its resources to match its new priorities; for example, nearly half the Community budget is spent on the Common Agricultural Policy, and it takes up over half of the 80,000 pages of EU rules and regulations (known as the *acquis*). The EU also needs to re-deploy its officials to fit its changing activities. The old directorate-generals in the Commission – dealing with areas like internal administration – have plenty of bureaucrats, while new ones like Justice and Home Affairs consist of small teams stretched to the limit. There is a case for allocating more officials to the mergers task-force, and fewer to sport, for example.

Europe's leaders also need to show more imagination in thinking about how the enlarged Union will function. At present, they tend to assume it will just be a bigger version of the current EU. More member states and greater diversity will put the current structure under strain, but the difference will be more than arithmetical. There will be a qualitative change in the Union's ambitions, political dynamics and responsibilities.

In terms of ambitions, the enlarged Union should become a more important actor on the world stage because of its greater size and because of Washington's need for a strong ally. At the same time, most of its 25-plus members will have strong views on external policy. It will have to square a circle, between the small group of large coun-

tries which will drive foreign policy – owing to their size, and military and diplomatic assets – and the others, which will want to be involved, but are unwilling or unable to play a major role. The EU needs to find an answer to the question of how member states can meet in groups numbering between two and the total membership, without provoking resentment that a directorate of large states is running foreign policy. Soon there will be 25 members, increasing the risk of paralysis. The answer may lie in informal coalitions of countries with an interest in particular parts of the world: for example, Germany with the new member states on eastern policy, the southern member states on the Mediterranean and North Africa, or Finland and the Baltic states on the northern dimension.

The enlarged EU's political dynamics will change because it will have to become more flexible. The ability and willingness of member states to be integrated into the EU's policies will vary much more than in the current Union. Progress in individual policy areas – like economic reform, taxation and borders policies, as well as foreign policy – will often be driven by coalitions of the willing and able, rather than by the Franco–German relationship.

The old remedy for reconciling competing interests is an extension of qualified majority voting (QMV). This is unlikely to suffice in future: the policies left with unanimity are the most politically sensitive, so QMV will soon reach its limits. That is the reason why the open method of co-ordination – whereby governments set targets for themselves and publicly monitor each other's progress – should be used more often. In sensitive areas like taxation and labour markets, the EU will only be able to integrate through unanimity or the open method.

The EU already has a number of areas of flexibility, where the member states are involved in a policy area to different degrees – the most important are participation in the euro, border policies and defence. More issues like this will emerge after enlargement, where the new members are unwilling or unable to participate fully – energy taxation is one example. The Union needs to consider how to manage flexible coalitions successfully. The key is to ensure that it can maintain a consensus on the broad principles of European inte-

gration, even if members' involvement in individual policies varies.

The accession of ten new members will also bring the EU new responsibilities. It will cover another third of the European continent, and share a border with poor countries that need its help to achieve stability. The EU may not want to continue enlarging indefinitely, so it will need to forge new bonds with neighbours like Ukraine and Russia that are not based on membership aspirations. The Union will also need a much more coherent aid and development policy for its poorer and less stable neighbours, to prevent them from becoming security threats.

The EU needs to consider how to unite its different internal and external security policies. In particular, the division of the Union into three different 'pillars' may be unsustainable; at present, there is an uneasy and increasingly fuzzy separation between the areas of intergovernmental decision-making – for foreign and security policy, and the police and judicial co-operation parts of justice and home affairs – and the areas that are dealt with through the EU's institutions. For example, every one of the three pillars now supports some form of police co-operation, but in different fora and potentially with different aims.

Aims for an EU constitution: short, clear and ambitious

The Laeken declaration was right to call for a constitution for the Union. It needs a constitution not because of it aims to become a state, but in order to clarify the Union's purpose and the division of its powers. The idea of a constitution need not frighten the most eurosceptical member-states. A serious debate about the purpose and powers of the Union would draw the eurosceptics' sting. Those who want to clip the EU's wings should welcome an open debate about what the EU should and should not do. It is much better for Danish and British ministers to put forward publicly the arguments in favour of a constitution, and to lead the discussion on its content, than to play a defensive game by claiming that it will never happen.

A constitutional document or basic treaty is also essential to clarify to the people of central and eastern Europe what kind of Union they are joining and what its fundamental aims are. There is consid-

erable confusion in the candidate countries that could turn to euroscepticism in some. The EU must be careful not to export its democratic deficit eastwards, and the candidate countries must be fully involved in writing the constitution.

But the final document has to be the right sort of constitution. It should not be just a messy amalgamation of the four existing treaties. The document needs to focus on outcomes, not just processes. Certainly, any constitution has to define the division of powers between political institutions. But the constitution's function should be to set out the EU's aims and clarify its purpose. It should not be concerned primarily with the minutiae of committee structures and competence-sharing. Those issues are important, but they should be detailed in an accompanying legal text. This second, technical part could then be changed by intergovernmental agreement rather than ratification by parliaments, to keep it up to date.

The constitution needs to be short, so that people will actually bother to read it. It needs to be clear and written in everyday language, so that children can read it and understand it in school. And it needs to be ambitious in setting out the EU's guiding principles and its aims. The document should state what the EU does, not just what the Union is. The aim should not just be an 'ever closer union', but rather to secure essential benefits for the population. The EU needs a sound-bite that people can quote when asked what the EU is for. It needs to explain the added value of the EU to nation states and regions in dealing with a complex world.

The CER's suggestion for a mission statement reads as follows: "The European Union exists to enable the peoples of Europe to achieve greater prosperity, security and democracy than any can achieve alone." That is an objective to which all Europeans could subscribe, but which does not bind them to any particular constitutional model. The EU can remain an 'unidentified political object' – as Jacques Delors calls it – but its purpose needs to be evident to all.

NOTE

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SOURCE

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The Institutional Challenges of Enlargement

Cécile Barbier

Introduction

The enlargement process to incorporate twelve candidate countries into the European Union poses a considerable challenge to the structures put in place in the aftermath of the Second World War through the Treaties constituting the European Community (Treaty of Paris for the European Coal and Steel Community; Treaty of Rome for the European Economic Community and Euratom). These Treaties were modified at the time of the various accessions but especially on the occasion of Treaty reforms, the pace of which has accelerated over the past ten years since the conclusion of the Treaty on European Union (Maastricht Treaty, 1992), followed by the Treaties of Amsterdam (1997) and Nice (2000).

Whatever criticism – justified or otherwise – may be levelled at it, the Treaty of Nice, signed on 26 February 2001, meets its prime objective, namely to allow for enlargement of the Union. The decisions and commitments made to this end send out a positive signal to the candidate countries. It is now known what common position will be defended by the Fifteen when the institutional chapter of the accession negotiations is tackled. At a time when the support of public opinion around Europe is far from certain - within the European Union fewer than three people out of ten consider enlargement to be a priority for the Union¹, people had also been expecting the Nice European Council to shed light on potential scenarios for accession. Proposals made by the Commission on 8 November last year had set out a “road map” detailing the priorities of the accession negotiations for the next eighteen months.²

It emerges from this document that the chapter on institutional

provisions will not be opened before the first half of 2002, along with the final budgetary issues and other unresolved matters. For this reason it appears unlikely that those candidate countries hoping to accede to the Union in 2003 will achieve their aim, since the process of ratifying the accession agreements may take between eighteen and twenty-four months. The lack of a cut-off date for actual accession is one of the principal difficulties confronting the governments of these countries, due to the cost of incorporating the *acquis communautaire* into their economic, legal and political systems. The Treaty of Nice sheds some light here too, in particular by envisaging that the candidate countries will participate in the next European elections in 2004.

Another major challenge needing to be resolved before the forthcoming accessions can become effective is the budgetary aspects of enlargement and their repercussions on other EU policies, above all the common agricultural policy and the Structural Funds. The budgetary framework for the period 2000-2006, adopted at the Berlin European Council in March 1999, provides a general guide: no additional resources are earmarked to finance enlargement. Nevertheless, the limitations of these budgetary perspectives are all the more apparent in the aftermath of the Kosovo crisis which highlighted the pressing need for economic aid in the stabilisation of the Balkans. This is even more true after the decision to extend the accession negotiations to include all the candidate countries, which ultimately paves the way to a Europe of 27 members, thereby calling into question the financial framework designed for a European Union of 21. Official acts will need to be drawn up, and there can be no certainty that the Treaty of Nice sets out the requisite conditions for the adjustment of a financial framework: after all, deferring the decision does not in itself constitute a decision.

Finally, the Treaty negotiators themselves implicitly acknowledged the shortcomings in the text which they had just adopted, by deciding to launch a brainstorming process on the 'future' of the Union, which is to be concluded at another IGC in 2004. The debate on Europe's future could culminate in the drafting of a Constitution. This process will have to include the countries currently conducting

negotiations, whereas future candidates will be involved in the process via the European Conference.

1. From one Treaty to another

By initialling the Amsterdam Treaty in June 1997, the Heads of State and Government fulfilled the obligations they had undertaken when ratifying the Maastricht Treaty. The latter stipulated that an Intergovernmental Conference should be convened in 1996 and enumerated certain points for revision. Yet none of the leaders were ready for this exercise, especially in respect of institutional matters.

The accession negotiations concerning the candidates coming from the European Free Trade Association (EFTA) had for their part demonstrated the impossibility of resolving institutional issues in the context of accession negotiations. The signing of the Ioannina compromise in 1994 proves the point.³

Nonetheless, the 1996-1997 IGC completed its work without any clear response having been given to the major problems raised by the prospect of a new enlargement on a quite different scale: how should the Union's institutional mechanisms be adjusted to prevent enlargement automatically having the effect of paralysing the decision-making procedures? How can the coherence and the deepening of integration be reconciled?

The essential issues of the composition and size of the Commission, the weighting of votes in the Council, as well as the possible extension of qualified majority voting (QMV) in the Council, had not been resolved. The only outcome was the adoption of a protocol to the Treaty specifying that these issues should be settled "*at least one year before the membership of the European Union exceeds twenty*". In the meantime, on the entry into force of the first enlargement of the Union, "*the Commission shall comprise one national of each of the Member States, provided that, by that date, the weighting of the votes in the Council has been modified, whether by reweighting of the votes or by dual majority, in a manner acceptable to all Member States, taking into account all relevant elements, notably compensating those Member States which give up the possibility of nominating a second member of the Commission*".

This approach aroused sufficient concern for Belgium to propose

appending to the Treaty a declaration stating that the institutional issues, including a significant extension of recourse to QMV, must be settled in advance of any further enlargement. France and Italy backed this demand.

Remit of the 2000 IGC

In conformity with decisions taken at the Cologne and Helsinki European Councils (June 1999 and December 1999), the task of the Intergovernmental Conference was to resolve the institutional issues left pending at Amsterdam. Its work was in addition intended to cover “other necessary amendments to the Treaties arising as regards the European institutions in connection with the above issues and in implementing the Treaty of Amsterdam”. As well as enhanced co-operation, this agenda naturally encompassed other issues such as the individual accountability of Commissioners, following the collective resignation of the Commission in March 1999. The IGC likewise addressed itself to other institutional matters such as reform of the Court of Justice and limiting the number of members of certain European institutions and bodies. Furthermore, following the coming to power of an extremist party in Austria, there was also the issue of establishing a procedure to monitor respect for democracy and human rights, enabling the EU to react, should these democratic principles be infringed. In practice, this meant envisaging the possibility of setting up an early-warning system.

The European institutions’ opinions on the IGC prior to its launch

In accordance with the European Treaties, the Commission must give its opinion in advance of any institutional reform (Article 48 of the Treaty on European Union). This opinion was adopted on 26 January 2000, a few days before the Intergovernmental Conference began its work (on 14 February). The document is in two parts: one on the functioning of the European institutions in the enlarged Union, the other on the effectiveness of the decision-making procedures.⁴ In addition to certain proposals for new Treaty articles, it contains three annexes: a list of decisions which, for sound reasons, would continue to require the unanimous agree-

ment of all Member States; provisions which could henceforth be adopted by a qualified majority; and the representation of Member States in the EU institutions, based on an extrapolation of the present system.

After having delivered a positive opinion in February on the convening of the IGC,⁵ the European Parliament adopted in April 2000 a lengthy resolution detailing its approach for each individual institution and body, as well as on the decision-making procedures.⁶

Finally, on 14 February, the General Affairs Council gave the green light for the convening of the IGC, which opened in Brussels on that same day in the presence of Nicole Fontaine, President of the European Parliament and two other MEPs as observers, Elmar Brok and Dimitris Tsatsos. Every ministerial session, plus every meeting at Heads of State and Government level, was preceded by an exchange of views with the President of Parliament assisted by her two representatives. Ten such ministerial meetings were held before the IGC was concluded in Nice at the longest European Council in the history of the European Community.

At the official signing of the Treaty of Nice, on 26 February 2001, by the Foreign Ministers of the Fifteen, several people spoke out in favour of completing the ratification procedure by the end of 2002. One must recall here that the opinion of the European Parliament is a political necessity but not a legal obligation. By contrast, the accession treaties negotiated between the European Union and each of the candidate countries must receive its assent.

Pressure of enlargement

This pressure intensified with the presentation in October 1999 of the report by a "Group of Wise Men" established by the President of the European Commission, Romano Prodi.⁷ It was clearly no accident that this report was circulated on 18 October, just a few days after the Commission recommended that the accession negotiations be extended to all the candidate countries, a recommendation subsequently backed by the Helsinki European Council in the following December. According to the report by the three Wise Men, enlargement meant on the one hand making it feasible for the Union to operate flexibly and, on the other, separating the Treaties. It was in

fact only after heated discussion that the Feira European Council finally decided to extend the IGC's mandate to include enhanced cooperation. As to the second proposal, objections were raised to separating the texts on the grounds that the "basic treaty" would smack too much of a Constitution.

The pressure of enlargement now weighed more heavily than ever on the Intergovernmental Conference. Indeed, in keeping with the conclusions adopted at Helsinki by the Heads of State and Government, "after ratification of the results of that Conference the Union should be in a position to welcome new Member States from the end of 2002 as soon as they have demonstrated their ability to assume the obligations of membership and once the negotiating process has been successfully completed". This no doubt explains the cautious attitude of the candidate countries towards the IGC (see IGC Info No. 4).

It is worth noting that the Nice European Council reiterated its support for the European Conference, which represents "a useful framework for dialogue between the Union's Member States and the countries in line for membership". And, following the Zagreb summit held at the end of November 2000 between the EU countries and the Western Balkan countries with which stabilisation and association agreements are in place (Albania, Former Yugoslav Republic of Macedonia, Bosnia Herzegovina, Croatia and the Federal Republic of Yugoslavia), the European Council proposed that the "countries covered by the stabilisation and association process and the EFTA countries be invited to attend as prospective members". The inclusion of the Western Balkan countries in the European Conference confirms the terms of the stabilisation agreements which hold out the prospect of EU accession for these countries.

2. Results of the 2000 IGC

The negotiators of the Treaty of Nice had not set out to expand the Union's fields of activity. The task of the Intergovernmental Conference was in fact to resolve eminently political issues, namely subjects related to power-sharing among the EU institutions and allowing little scope for the kind of bargaining which normally accompanies such negotiations. The proof is that, in the final moments of the

negotiations, Germany relinquished its demand for an increased share of the votes under the new weighting system for the Council, whereas Belgium on the other hand agreed to being given one vote less than the Netherlands. It would appear that, by way of “compensation”, Belgium and Germany obtained larger numbers of seats in the European Parliament; this is to the detriment of the extension of QMV and the simultaneous extension of co-decision in the legislative sphere. The climate in which these deals were done also resulted in a rather surprising alteration in the number and distribution of votes allocated to the candidate countries and to their representation in the EP. These figures appear in a declaration containing the position to be defended by the Fifteen once the institutional chapter of the accession negotiations comes up for negotiation. It remains to be seen what room for manoeuvre this will leave the candidate countries, but as implied in the declaration on the qualified majority threshold in a Union of 27 members, the definitive figures will only become known once the final accession agreements are signed.

- **Size and composition of the Commission**

The Protocol on the enlargement of the European Union, annexed to the Treaty of Nice, confirms that the large countries will lose their second Commissioner as from 1 January 2005, “with effect from when the first Commission following that date takes up its duties” and assures the candidate countries that they will be individually represented within the Commission.

This will be the case until such time as the European Commission has 27 members. Once the next European Commission following the accession of the 27th Member State takes up its duties, the number of Commissioners will be “less than the number of Member States”. No mechanism has been laid down for the appointment of Commissioners, whose number has not been established for the time when not all countries will be represented any longer. It will be up to the Council to lay down the number, once the treaty of accession has been signed with the twenty-seventh State. The Council will also have to take a decision on the rules for a “fair rotation” in accordance with two principles: the absolute equality of Member States when determining

the order of appointment of Members of the Commission and the duration of their mandates; and respect for the demographic and geographical features of all the EU Member States.

In the final stages of the negotiations, it was agreed that the President of the European Commission would be appointed by a qualified majority. The same applies to the list of other Members of the Commission, and to the replacement of a Member who has resigned or died.

The re-wording of Article 217 of the EC Treaty reflects the “lex Prodi”, namely the role of the President in organising the College, allocating and where necessary reshuffling responsibilities, and his authority over the Commission. The resignation of a Commissioner at the behest of the President must however be approved by the College, which reduces the political impact of this provision.

• **Weighting of votes in the Council**

The number of votes required to achieve a qualified majority underwent some last-minute corrections at the end of December. According to the definitive version of the Treaty of Nice, the qualified majority threshold prior to enlargement is set at 169 votes out of 237, which represents 71.3% of the votes. Whereas this is comparable with the current situation (62 votes out of 87, or 71.26% of the votes), the Treaty introduces one significant change: in addition to 169 votes, the qualified majority must express votes in favour cast by at least a majority of the Member States if the decision is based on a Commission proposal and at least two thirds of members in other cases. In all cases, if, following a request for verification from a member of the Council, the decision proves not to represent at least 62% of the votes (democratic threshold), that decision is not adopted. Therefore a total of three thresholds are now in place: a qualified majority of the votes, a majority of States and 62% of Europe’s population. Finally, as concerns the demographic safety-net, we would point out that, by joining forces with just two large countries (France, the UK or Italy), Germany will be able to block any decisions which it finds unpalatable. The reason for this is its population size (17% of the future Europe of 27), which will enable it to reach the demo-

graphic blocking threshold in this manner. The same does not apply to the other large countries which, without Germany, will be obliged to seek out more difficult four-way alliances.

Finally, the declaration on enlargement establishes the number of votes required to achieve a qualified majority in a Union of 27 at 258 votes out of 345, or 74.78% of the votes. Another declaration stipulates that the percentage of votes required to achieve a qualified majority will rise to a maximum of 73.4% and, once the Union has 27 members, establishes at 91 the number of votes constituting a blocking minority. It is worth noting that setting the blocking minority at this level amounts to saying that the qualified majority corresponds to 73.91% of the votes, which is higher than the 73.4% referred to in the declaration. We shall in fact have to await the conclusion of the last accession agreement or agreements before knowing the final figures for a Union of 27 members.

Weighting of votes in the Council (EU 15) as from 1 January 2005

COUNTRY	VOTES
Belgium	12
Denmark	7
Germany	29
Greece	12
Spain	27
France	29
Ireland	7
Italy	29
Luxembourg	4
Netherlands	13
Austria	10
Portugal	12
Finland	7
Sweden	10
United Kingdom	29
Total	237

The weighting of votes in the Council EU 27

Members of Council	Current Situation	Approved at Nice	Population (thousands of inhabitants)
Germany	10	29	82,038
United Kingdom	10	29	59,247
France	10	29	58,966
Italy	10	29	57,612
Spain	8	27	39,394
Poland		27	38,667
Romania		14	22,489
Netherlands	5	13	15,760
Greece	5	12	10,533
Czech Republic		12	10,290
Belgium	5	12	10,213
Hungary		12	10,092
Portugal	5	12	9,980
Sweden	4	10	8,854
Bulgaria		10	8,230
Austria	4	10	8,082
Slovakia		7	5,393
Denmark	3	7	5,313
Finland	3	7	5,160
Ireland	3	7	3,744
Lithuania		7	3,701
Latvia		4	2,439
Slovenia		4	1,978
Estonia		4	1,446
Cyprus		4	752
Luxembourg	2	4	429
Malta		3	379
TOTAL	87	345	481,181

Extension of QMV or the move to co-decision

Unlike the spheres in which the intergovernmental method applies (common foreign and security policy, and police and judicial co-operation, but also in particular processes predicated on the “soft law” deriving from sources including the Lisbon European Council), in the context of the EC Treaty Community interests have been furthered through the implementation of the “Community method” based on the triangular interplay of institutions (European Commission, Parliament and Council). The role of each institution is crucial in the decision-making process but also in terms of the legitimacy of the European Union’s actions (expressed likewise in the role assigned to the EC Court of Justice).

Depending on the matter in hand, the Council acts unanimously or by a qualified majority. As the case may be, the Council reaches its decision after having received the opinion of the European Parliament and, for socio-economic matters, that of the Economic and Social Committee. Similarly, the Committee of the Regions must be consulted on all matters pertaining to economic and social cohesion. The Commission may amend or withdraw its proposal at any stage, until such time as the Council has given its final verdict. According to the provisions of Article 250 of the EC Treaty, unanimity in the Council is always required for an amendment to a Commission proposal (except under the co-decision procedure in the context of the Conciliation Committee).

As far as co-decision is concerned, the general rule is QMV in the Council, except for the area of cultural affairs,⁸ and three cases linked to free movement (free movement of persons⁹, free movement of workers¹⁰ and the recognition of qualifications when exercising a profession¹¹), for which unanimous votes are always required.¹² Article 18 of the TEC (European citizenship, right to move and reside freely) is the only case which has shifted to “normal co-decision” (a qualified majority in the Council) under the Treaty of Nice.

The co-decision procedure, introduced by the Maastricht Treaty, enables the Council and European Parliament jointly to adopt legal acts. Its scope had been extended by the Amsterdam Treaty to twenty-three new cases, eight of them created by new provisions in the

Amsterdam Treaty. Some fundamental sectors are excluded, such as the common agricultural policy, indirect taxation and the new fields of Community activity under the third pillar (asylum and immigration, together with issues related to the free movement of persons). This situation remains unchanged with the Treaty of Nice, which does provide for asylum and immigration to move to co-decision - but not until 1 January 2004.

In principle, the Parliament acts by a simple majority of its Members. When votes are taken on major decisions, specific quorums must be achieved¹³; in the case of legislative procedures, the amendment or rejection of the Council's common position in the context of the co-operation procedure¹⁴ and the co-decision procedure¹⁵ necessitate an absolute majority; similarly, the adoption of the common project emerging from the Conciliation Committee under the co-decision procedure requires an absolute majority.

Overall, the number of provisions moving from a qualified majority with or without co-decision (see Annexes I, II and III) is far lower than that envisaged in the preparatory lists. For a number of important decisions the move is deferred until 2004 or will only apply as from 2007 (economic and social cohesion and the Structural Funds; financial regulations). Apart from the appointment of the President of the European Commission and the list of its Members, where the political importance is manifest, the move from unanimity to QMV applies to a number of procedural matters (appointments and approval of rules of procedure). Generally speaking, here again the Treaty falls well short of simplifying the decision-making machinery in the European Union.

The agreement on external economic relations is particularly complex (Article 133 of the TEC). It concerns trade in services and the commercial aspects of intellectual property. The Commission must report regularly to a Special Committee in all fields except cultural affairs. The European Parliament is not given a role, but will merely be consulted if and when a procedure is embarked on with a view to extending commercial negotiations to other agreements on intellectual property. The Parliament, backed by the Commission, had asked that all international agreements falling

under Article 300 of the EC Treaty should be subject to its assent once the co-decision procedure applies internally.

In respect of social policy (Article 137 of the TEC), the combating of social exclusion and the modernisation of social protection systems are brought into the sphere of co-decision (and, consequently, QMV but only for the adoption of measures designed to encourage cooperation between the Member States). Furthermore, the Council may – on a proposal from the Commission and after consulting the European Parliament – unanimously decide the move to co-decision on matters relating to the protection of workers where their employment contract is terminated, the representation and collective defence of the interests of workers and employers, including co-determination, and the conditions of employment for third-country nationals legally residing in Community territory. This does not affect the provisions on social security and the social protection of workers, which will remain subject to unanimity.

The Treaty fails to simplify an already complex situation in the Treaty of Amsterdam concerning the free movement of persons, asylum and immigration. There will be a move to co-decision as soon as the Treaty enters into force, but only in respect of the provisions of Article 65 of the TEC on judicial and civil co-operation, with the exception of aspects relating to family law. Measures relating to asylum will move to co-decision only once the basic legislation has been adopted (Article 63 (1a, b and c)). The measures giving temporary protection to displaced persons (Article 63 (2a)) will also be affected, provided that Community legislation defining the common rules and basic principles has been adopted.

Under the terms of the declaration relating to Article 67 of the TEC, the Council will rule by co-decision as from 1 May 2004 on matters concerning the free movement of third country nationals (Article 62 (3) of the TEC) as well as illegal immigration (Article 63 (3b)).

As from 1 May 2004, co-operation among administrations (Article 66 of the TEC) will move to a qualified majority.

Measures relating to checks on persons at the EU's external borders (Article 62 (2a)) will not move to QMV until an agreement has

been reached on the scope of these measures. Finally, the Council will endeavour to make the co-decision procedure applicable by 1 May 2004 or as soon as possible thereafter to the other areas covered by this part of the Treaty.

These results do not of course go as far as the proposals put forward by the Parliament and the Commission. As far as the institutions are concerned, the heightened complexity of decision-making in the Council obviously fails to match the expectations of the Parliament and Commission. As concerns decision-making procedures, the Parliament considered that the co-decision procedure and QMV in the Council should become the general rule for legislative decisions. Parliament also wished the co-decision procedure to apply to legislation concerning police and judicial co-operation in criminal matters. It also called for an extension of QMV to decisions related to appointments to the institutions and bodies of the Union, while unanimous voting in the Council would be limited to decisions of a constitutional nature which – by virtue of the Treaty – must be approved by the national parliaments. The Parliament – backed by the Commission – proposed extending the instances in which it would be called on to give its assent (on all international agreements falling under Article 300 of the EC Treaty where the co-decision procedure applies internally, on decisions relating to own resources and for appointments to the Court of Auditors, Court of Justice and Court of First Instance as well as to the Executive Board of the ECB).

All in all, the IGC deferred the move to co-decision for all the most sensitive aspects. This is particularly true in respect of economic and social cohesion. Co-decision is scheduled to apply as from 1 January 2007, which means that this decision will not in fact become operational until the expiry of the financial perspectives for 2007-2013. This amounts to saying that, until that date, it will still be possible for the so-called existing “cohesion countries”¹⁶ to attempt to forestall the reforms rendered necessary by enlargement rather than running the risk of losing their Community aid. The second report on economic and social cohesion is most enlightening on this point and suggests a rethink of the cohesion policy so as to ensure its maintenance and effectiveness.¹⁷

Observers are unanimous that national considerations took precedence over the desire to equip the Union with the means to function after its enlargement to include the twelve candidate countries. However, other adjustments are needed. For example, the co-decision procedure does not apply to all quintessentially legislative matters, and the very notion of a Community legislative act has yet to be clearly defined. This is an issue which crops up regularly at IGCs but remains in limbo. Here too, enlargement will protract procedures and necessitate a distinction between strictly technical acts and those of a legislative nature subject to co-decision. In this case, as in others, it would seem that the Union will not be able to avoid a clarification which is necessary in view of enlargement and inherently connected with the simplification process. This is without doubt one of the elements likely to offer food for thought in terms of the declaration on the future of the Union appended to the Treaty of Nice (see below).

• **Members of the European Parliament**

As far as the European Parliament is concerned, it is noteworthy that the previously adopted threshold of 700 MEPs has now been raised to 732 (see Annex IV). The “consolation prizes” for some of the compromises made on the re-weighting of votes appear to have been increases in the number of MEPs. Thus Germany, which is not “uncoupled” from France in terms of voting strength in the Council, does outstrip the other large countries in its number of MEPs (99 as opposed to 72). Conversely, Belgium, which has been uncoupled from the Netherlands in the Council, narrows the gap with its Dutch neighbour in terms of its MEP count.

According to the Protocol on enlargement, the breakdown of seats for the 15 Member States from 1 January 2004 onwards is to be as follows:

These 535 MEPs will be joined by the tally of representatives from the new Member States. For the 2004-2009 term the total could temporarily exceed the ceiling of 732 laid down in Article 189 of the TEC. If the total number of Members is less than 732, a correction will be applied so that the total number is as close as possible to 732, without however exceeding the number of representatives of the 15

current EU Member States (1999-2004 term). The declaration on enlargement contains the number of seats allocated to the candidate countries and will be the common position of the Fifteen when the institutional chapter of the accession negotiations comes up for negotiation (see Annex IV).

Country	Seats
Belgium	22
Denmark	13
Germany	99
Greece	22
Spain	50
France	72
Ireland	12
Italy	72
Luxembourg	6
Netherlands	25
Austria	17
Portugal	22
Finland	13
Sweden	18
United Kingdom	72
Total	535

- **Enhanced co-operation**

In addition to the “Amsterdam left-overs”, the other key issue at the IGC was enhanced cooperation. The only hint of a response given by the Amsterdam Treaty to the challenges of enlargement consisted in the insertion of a new Title on “enhanced co-operation” into the Treaty on European Union, whose purpose is to allow for differential development within the Union by enabling certain Member States to “forge ahead”. But, according to the current provisions, aside from certain conditions to be met in the context of the EC Treaty, a Member State may object to the initiation of closer co-operation “for important reasons of national policy”. Under the common foreign and security policy there is a mechanism known as “constructive

abstention”, it too indirectly authorising the taking of initiatives limited to certain States. In all cases, the right of veto is granted to any Member State considering that its political interests are harmed by such co-operation. Several commentators have concluded that the conditions for engaging in enhanced co-operation are so stringent as to prevent any at all from taking place.¹⁸ Although it is unclear whether or not enhanced co-operation will function in respect of social security, recent events have confirmed that taxation and Economic and Monetary Union are potential areas for its application. Thus Michael Schreyer, European Commissioner responsible for the budget, has envisaged the possibility of resorting to enhanced co-operation in respect of energy taxation;¹⁹ similarly, the possibility of its use is envisaged in the multilateral surveillance process for Economic and Monetary Union.²⁰

The debate on future enhanced co-operation did not feature prominently at the IGC until summer 2000. On the margins of the IGC, but also at the Conference itself, various key individuals have expressed their views on enhanced co-operation. The most important aspects are summarised below.

A “Federation of nation-states” and an “open avant-garde” according to Jacques Delors

A few days before the start of the IGC, commenting on the decision taken at the Helsinki European Council to extend the process of accession negotiations to encompass all the candidate countries (and to include Turkey among them but to defer the start of accession talks with that country), Jacques Delors described enlargement as a “*fuite en avant*”²¹. Enhanced co-operation could not function because of the unanimous voting requirement and the fact that it does not apply to the whole of the Maastricht Treaty. Although the former president of the European Commission did not choose between the deepening “or” enlargement of the Union, the best way to further deepen it would in his opinion be for an “*avant-garde*” to move ahead. Delors proposed that this pioneer group should be allowed to constitute a “*federation of nation-states*”, governed by a “*specific, more exacting and more explicit treaty*”, which he also describes as a “*Treaty within the*

Treaty". It would be necessary at the same time to "hone the economic and social pact which will be the Treaty of the Union of 27" because "Europe is undergoing a change of paradigm in the context of globalisation".²²

According to Jacques Delors, the "open avant-garde" model is the one which "for those who wish to and are able to adopt it ... best reconciles the fastest possible enlargement with the pursuit of European integration". In an article published by *Le Nouvel Observateur*, he outlined the shape that might be taken by relations between the Federation of nation-states and the European Union, or "Great Europe". The latter would need to "provide its members with an area of active peace, a framework for sustainable development and, lastly, an area of shared values lived out in the diversity of our cultures and our traditions".²³

*"In institutional terms, the avant-garde would take the form of a Federation of nation states with its two dimensions: federal, for clarifying powers and responsibilities; national, for ensuring the durability and cohesion of our societies and our nations. This would of course be an application of the healthy principle of subsidiarity. The link with the Great Union would be ensured through the existence of a joint Commission, responsible for coherence between the two entities and for compliance with EU regulations and the *acquis communautaire*. The avant-garde, however, would have its own Council of Ministers and its own Parliament."*

A "European Federation" and a "centre of gravity", according to Joschka Fischer The German Foreign Minister, Joschka Fischer, commenting in his personal capacity in the now famous speech he gave in Berlin in May 2000, stated: "the steps [going from enhanced cooperation] towards a constituent treaty (...) require a deliberate political act to reestablish Europe", synonymous with the "completion of its political integration" for an "avant garde" of European countries".²⁴ The risk of enlargement to encompass 27 or 30 Member States is that the absorption capacity of the EU with its outdated institutions and mechanisms will be overloaded, provoking serious crises. The time has come to reflect both on "the nature of this so-called finality of Europe and on how we can approach and eventually achieve this goal". Enlargement will render fundamental reform of the European institutions absolutely vital.

According to Joschka Fischer, the development of enhanced co-operation should enable countries so wishing to move ahead in common areas, such as “on the further development of Euro-11 to a politico-economic union, on environmental protection, the fight against crime, the development of common immigration and asylum policies and of course on the foreign and security policy”.²⁵ Later on, the development of a “‘centre of gravity’ would pave the way for the completion of political integration.” Such a group of states would conclude a new European framework treaty, the nucleus of a constitution of the Federation”. Finally, on the basis of this new basic treaty, “the Federation would develop its own institutions, establish a government which within the EU should speak with one voice on behalf of the members of the group on as many issues as possible, a strong parliament and a directly elected president”.

A constitutional process, according to Schröder and Amato

In an article published in the newspaper La Repubblica on 21 September 2000, Giuliano Amato and Gerhard Schröder voiced their expectations that Nice would be successful not only in making enhanced co-operation operational (in order to prevent the most dynamic countries from acting outside of the Treaties) but also in launching a constitutional process (Charter of Rights and allocation of powers) which should then lead into a wide ranging conference in 2004, itself preceded by a broad-based public debate. The proposals subsequently put forward by Italy and Germany in the context of the IGC²⁶ are the first to refer openly to the possibility that certain Member States may constitute an “avant-garde” which would assist in the integration process and be entirely open to subsequent participation from other Member States. While stressing the importance of enhanced cooperation under the common foreign and security policy, the document cited one possible application in the context of the EC Treaty, namely to foster rights linked to European citizenship by granting the right to vote in national elections. The idea that enhanced cooperation is a way of circumventing blockages due to unanimity was not shared by the Belgian delegation, in whose opinion “there does not seem to be any need to limit closer cooperation solely to

areas governed by the unanimity rule".²⁷ The European Parliament resolution ruled out such a possibility and in the light of enlargement advocated the use of transitional periods before finalising the tool of enhanced co-operation.²⁸

“Promotion of the Community method”, according to the Benelux countries

In a memorandum adopted in October 2000 on the Intergovernmental Conference and the future of the European Union, the Benelux countries put forward their point of view on enhanced co-operation and reform of the European Union. They likewise proposed a gradual approach based on the following two principles:²⁹ the implementation of new reforms within the context of the existing institutions, and support for the Community method as the principal vehicle of European integration. Meanwhile at Nice, picking up on the idea floated in September by the Belgian Prime Minister Guy Verhofstadt,³⁰ their timetable – broad guidelines for the political future of the European Union to be issued by the end of 2001 in the form of a declaration by the Heads of State and Government – was taken up by the European Union.

Enhanced co-operation in the Treaty of Nice

The Treaty of Nice modifies the provisions on enhanced co-operation which are also an option in the context of the common foreign and security policy.

Under all three pillars (EC Treaty; common foreign and security policy; police and judicial cooperation in criminal matters), the minimum number of Member States required to launch enhanced co operation is set at eight. It can however only be used “as a last resort”, i.e. where all other possibilities offered by the Treaties have been exhausted. It is open to all Member States from its inception and allows them to join in “at any time” thereafter.

The “veto” option has been abolished. Nevertheless, any Member State will be entitled to refer matters to the European Council. This right of referral does not alter the fact that the decision to authorise enhanced co-operation is taken by the Council acting

by a qualified majority. Under the second pillar, if recourse is made to this option, the final decision lies with the European Council, acting unanimously. It may relate to the implementation of a common action or a common position but not to any matters with military implications or in the field of defence.

Only members of the Council who represent Member States participating in the enhanced cooperation may take part in the adoption of these decisions. The acts and decisions adopted do not form part of the “*acquis communautaire*”, are binding only on the States participating in enhanced co-operation and are directly enforceable only in those Member States.

The European Parliament must be consulted in cases where the expenditure resulting from the implementation of enhanced cooperation, other than administrative costs entailed for the institutions, is to be borne by the EU budget. Under the EC Treaty, enhanced co-operation may not be initiated in fields subject to co-decision unless the European Parliament gives its assent. The Parliament is to be consulted in areas falling under the third pillar but merely informed in second pillar areas.

It is up to the Council and Commission, “invited to co-operate to this end”, to ensure the coherence of action undertaken in this framework, as well as the consistency of these actions with policies of the Union and the Community.

3. Will the Union be “reconstituted”?

Just as happened with the Amsterdam Treaty, the provisions negotiated at Nice will hardly have come into effect before a new treaty is negotiated in a manner which could however be radically different. According to the declaration on the future of the European Union, annexed to the Treaty of Nice, the Conference “*agrees that the conclusion of the IGC opens the door to enlargement of the Union*” and, now the way is open, it calls for “*that both a wider and deeper debate on the future of the European Union will begin*”, raising – among others – questions as to the delimitation of powers between the Union and its Member States, simplification of the Treaties, the role of national parliaments in the European architecture and the legal status of the Charter of Fundamental Rights.

The next steps have been outlined: on the basis of a report to be

drafted during the Swedish presidency, the Brussels/Laeken European Council (December 2001) will adopt a declaration heralding another revision of the Treaties in 2004. The content of this report will be important, in that it will set out the full agenda for the next Intergovernmental Conference and contain information on the method to be applied in preparing the next revision of the Treaties.

More specifically, it is the intention of the Swedish presidency, which followed on from France at the start of this year, that the Göteborg European Council should adopt a work programme, while leaving it up to the Belgian presidency, due to take over on 1 July 2001, to set the ball rolling. Interestingly, the Swedish government appears sceptical about the idea of creating a constitutional and federal framework to protect the European Union. The Swedish Prime Minister, Göran Persson, expressed his opposition to a federal trend in a recent article.³¹

Belgium's Prime Minister, Guy Verhofstadt, alluded to several items on Europe's future agenda in his speech on 21 September last year. In his opinion, incorporating the Charter of Fundamental Rights and rewriting the Treaties could represent the first step towards a fully-fledged EU constitution. As far as the method is concerned, the Belgian Prime Minister has already announced that he would not have misgivings about departing from the classic intergovernmental method.³²

The other way forward takes up where the work of the Convention which drafted the Charter of Fundamental Rights left off. The European Parliament has already come out in favour of this approach, as has the University Institute in Florence, asked by the European Commission to envisage the implications of separating the Treaties "without departing from the law as it stands", i.e. without altering the existing content of the Treaties.³³ According to the Finnish Prime Minister, Paavo Lipponen, speaking recently in Bruges, it is necessary to determine "*a method to be followed and goals to be attained in terms of governance and transparency in the follow-up to Nice*".³⁴ Taking his lead from those who advocate a model akin to the Convention, Mr Lipponen proposes that Europe's future agenda should be prepared at a general assembly bringing together the Member States' governments,

national parliaments and the candidate countries as well as the EU institutions. Contrary to the view of the European Parliament, which believes that the Convention should be responsible for drafting the future Constitution of the Union, the assembly proposed by Mr Lipponen could participate in drawing up the future Treaty. We can deduce from this that the Treaty would then be adopted by an Intergovernmental Conference, whose duration would be greatly reduced if its remit were merely to ratify the work already undertaken.

Furthermore, on 13 February 2001, speaking to the European Parliament in Strasbourg, the President of the European Commission raised certain issues connected with the Union's future, in terms of both content and method. Commenting that the "post-Nice" debate will be about "*where we want the European Union to go from here*", Mr Prodi acknowledged that the debate must be broadened beyond the four issues emerging at Nice. In terms of content, the Commission President stated that the Commission's input, in its forthcoming White Paper on Governance, will seek to propose "*ways of decentralising the administration of the Union and ways of ensuring that our common policies are applied at the appropriate level – as closely as possible to the citizen*"; it will not merely list "*the powers and responsibilities of the Union and its Member States*". In terms of method, Mr Prodi regards an "*ongoing dialogue*" between the European Council and the "*convention or conference, or body*" as the best means of clarifying matters in such a way that the institutional perspectives will finally emerge.

What is to become of Europe's treaties? Should they be consolidated into two texts, one containing a "basic treaty" and the other the "other provisions and those concerning specific policies" which could be amended by a simplified procedure – as suggested by the "Three Wise Men"³⁵ in their report and supported by the European Commission³⁶ – or should they be replaced by a constitution featuring the new Charter of Fundamental Rights as its preamble³⁷ or first chapter? Or alternatively, might the countries belonging to a "pioneer group" perhaps conclude a new "*constitutional treaty*" on the basis of enhanced co-operation, or else should they instead negotiate a "*Treaty within the Treaty*"? Otherwise, should the "Federation of nation-states" serve as a model for a "new European federalism" aim-

ing for a Federation of States and of peoples, as proposed by the European Socialists?³⁸

How should the candidate countries be involved in the process? Is the European Conference the most suitable forum to reflect the positions of present and future candidate countries in the work of the future “body” or “convention”?

All such solutions deserve thorough exploration during the debate on the ‘purpose’ of the European Union with 27 or more Member States. This debate encompasses a whole host of other questions, such as of course ones related to the legitimacy of its actions both internally and externally (how should the Community method be updated and how should the intergovernmental method best be used?), the crucial question as to its funding, but also that of governance of and within the European Union. This question in turn arises in conjunction with globalisation and the numerous other uncertainties which globalisation is already engendering for the European Union’s economic, social and political cohesion both now and in the future. This debate has also the merit to show that the stakes of enlargement largely go beyond the institutional dimension.

ANNEXE I : ARTICLES MOVING TO QUALIFIED MAJORITY VOTING (QMV) AND CONSULTATION OF THE EUROPEAN PARLIAMENT OR TO CO-DECISION

Article 13 § 2 TEC: the combat against discrimination: incentive measures (co-decision).

Article 18 § 2 TEC: citizenship, the right to move and reside within the Union (normal codecision; Suppression of unanimity as set out in the Treaty of Amsterdam). Does not cover the provisions on passports, residence permits or assimilated documents, nor the provisions concerning social protection or social security.

Article 67 TEC: Visas, asylum and other policies linked to the free movement of persons (Title VI of the TEC): various provisions move from unanimity to QMV or co-decision :

Article 62.2.a) TEC: checks on persons at external borders. When? Once an agreement has been reached on the scope of measures concerning the crossing of the external borders by persons of the EU Member States.

Article 62.3 TEC: conditions governing the free movement of third countries nationals (codecision). When? As from 1 May 2004.

Article 63.1.a) b) c) and d) TEC: measures relating to asylum (co-decision). When? Following the adoption of Community legislation defining the common rules and basic principles governing this issue.

Article 63.2.a) TEC: temporary protection (co-decision). When? Following the adoption of Community legislation defining the common rules and basic principles governing this issue.

Article 63.3.b) TEC: illegal immigration (by co-decision). When? From 1 May 2004.

Article 65.a) b) c) TEC: judicial co-operation in civil matters (co-decision), with the exception of aspects relating to family law.

Article 66 TEC: co-operation among administrations (QMV; consultation of EP). When? From 1 May 2004.

Article 137 TEC (partly re-formulated) TEC: social provisions: extension of co-decision to two fields, namely combating exclusion and the modernisation of social protection systems but only for the adoption of measures designed to encourage cooperation between Member States, which excludes any legal harmonisation, notably by means of directives. The Council may – on a proposal from the Commission and after consulting the European Parliament — unanimously decide the move to co-decision on matters relating to the protection of workers where their employment contract is terminated, the representation and collective defence of the interests of workers and employers, including co-determination, and the conditions of employment for third-country nationals legally residing in Community territory. Social security and the social protection of workers will remain subject to unanimity.

Article 144 TEC : establishment of a of Social Protection Committee (qualified majority; consultation of the EP).

Article 157 TEC: measures in support of action taken in the Member States in the industrial field (co-decision).

Article 159 TEC: specific actions as regards economic and social cohesion (co-decision).

Article 181bis (new) TEC: economic, financial and technical cooperation with third countries (qualified majority on a proposal from the Commission and after consulting the EP).

Article 190 § 5 TEC: regulations and general conditions governing the performance of Member of the European Parliament (laid down by the Parliament, qualified majority). Exception: taxation

of Members or former Members (unanimity).

Article 191 TEC (new paragraph): statute of European political parties (co-decision).

Article 279 TEC: Financial Regulations. When? From 1 January 2007. QMV, consultation of EP.

Appointments

Article 214 TEC: President of the Commission and list of other Members of the Commission (QMV, role of European Parliament unchanged: approval).

Article 247 § 3 TEC: Members of the Court of Auditors (QMV, consultation of European Parliament).

Enhanced co-operation

Article 11 TEC: procedure for establishing enhanced co-operation in the framework of the EC Treaty, QMV based on a Commission proposal, consultation of EP, assent if the area is subject to co-decision).

Article 40 A: procedure allowing for enhanced co-operation in the area of police and judicial co-operation in criminal matters, Title VI, QMV, Commission proposal or initiative of at least eight Member States, consultation of EP).

ANNEXE II: OTHER CHANGES INTRODUCED BY THE TREATY OF NICE CONCERNING THE EUROPEAN PARLIAMENT

ASSENT

Article 7 TEU: majority of four-fifths of the Member States, determination of the existence of a serious and persistent breach of fundamental rights by a Member State, right of proposal of the EP and assent (two-thirds majority of the votes cast, representing a majority of its Members).

Article 11 TEC: procedure for establishing enhanced co-operation in the framework of the EC Treaty, QMV based on a Commission proposal, consultation of EP, assent if the area is subject to co-decision).

Article 161 TEC: economic and social cohesion and the Structur-

al Funds (QMV, assent of EP and consultation of Economic and Social Committee and Committee of the Regions). When? From 1 January 2007 or after adoption of the 2007–2013 financial perspective.

INFORMATION

Article 27 c TUE : procedure for establishing enhanced co-operation in the framework the Common Foreign and Security Policy (request addressed to the Council, forwarded to the Commission and to the EP for information. Possibility recognized to circumvent the QMV for a Member State which would not agree, the decision returns then to the European Council for a unanimous decision).

Article 100 § 1 TEC: supply of products in severe economic circumstances (shortages) and § 2 in the event of natural disasters or exceptional occurrences (QMV, Commission proposal, information of European Parliament).

RIGHTS OF ACTION

Article 230 TEC: Like the other institutions, the EP can bring an action before the Court of Justice.

Article 300 par. 6 TEC: Like the other institutions, the EP has the possibility of obtaining the opinion of the Court of Justice on the compatibility of an agreement.

ANNEXES III: ARTICLES MOVING TO QUALIFIED MAJORITY VOTING (QMV) WITHOUT IMPLICATION FOR THE EUROPEAN PARLIAMENT

Treaty on European Union (TEU)

Article 23 TEU: special representatives: Common Foreign and Security Policy (CFSP).

Article 24 TEU (new wording): conclusion of international agreements if QMV is foreseen (Common Foreign and Security Policy: implementation of a joint action or common position) and in police and judicial co-operation. Unlike the arrangements under the Treaty of Amsterdam, these agreements are binding for the institutions and could transform the EU, which at present has a legal “mini-personality”, into a fully-fledged legal entity.

Enhanced co-operation

Article 27 e TEU: procedure allowing the participation in enhanced co-operation of the other Member States within the framework of Common Foreign and Security Policy.

Article 40 b TEU: procedure allowing the participation in enhanced co-operation of the other Member States in the area of police and judicial co-operation in criminal matters, opinion of the Commission with or without recommendation).

Treaty establishing the European Community (TEC)

Article 111 § 4 TEC: external representation of the EMU (participation at the G7, etc.). A declaration adds that procedures must be such as to enable all the Member States in the euro area to be fully involved in each stage of preparing the position of the Community in respect of EMU.

Article 123 § 4 TEC: measures for the rapid introduction of the euro (QMV).

Article 133 § 5 TEC: commercial policy: trade in services and the commercial aspects of intellectual property (Commission is strictly controlled by a Special Committee).

Rules of procedure

Article 223 TEC: Rules of Procedure of the Court of Justice.

Article 224 TEC: Rules of Procedure of the Court of First Instance.

Appointments

Article 207 TEC: Secretary-General and the Deputy Secretary-General of the Council.

Article 215 TEC: Replacement of a Member of the Commission in the event of death or resignation.

Article 259 TEC: List of members of the Economic and Social Committee.

Article 263 TEC: List of members of the Committee of the Regions.

ANNEXES IV: EP SEATS

Countries	Current situation (1999-2004)	Approved in Nice (2004-2009)
Germany	99	99
United Kingdom	87	72
France	87	72
Italy	87	72
Spain	64	50
Poland		50
Romania		33
Netherlands	31	25
Greece	25	22
Czech Republic		20
Belgium	25	22
Hungary		20
Portugal	25	22
Sweden	22	18
Bulgaria		17
Austria	21	17
Slovakia		13
Denmark	16	13
Finland	16	13
Ireland	15	12
Lithuania		12
Latvia		8
Slovenia		7
Estonia		6
Cyprus		6
Luxembourg	6	6
Malta		5
Total	626	732

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5. European Parliament Resolution A5-0018/2000 of 3 February 2000 on the convening of the Intergovernmental Conference.
6. European Parliament Resolution A5-0086/2000 containing its proposals for the IGC, 13 April 2000.
7. The institutional implications of enlargement, Jean-Luc Dehaene, Richard von Weizsäcker and David Simon, Report presented to the Commission on 18 October 1999.
8. Article 151 of the TEC par. 5.
9. Article 18 of the TEC par. 2.
10. Article 42 of the TEC, rules relating to the social security of migrant workers.
11. Article 47 of the TEC par.2.
12. In the area of environment, codecision is the rule with the exception of certain essential aspects (in particular, taxation and management of water resources) where unanimity and the simple consultation of the Parliament remain unchanged (article 175 TEC par. 2) in the treaty of Nice.
13. A motion of censure against the Commission must be carried both by two-

thirds of the votes cast and by the majority of MEPs (Article 201 of the TEC). The same applies to the Parliament's assent to the sanction mechanism envisaged in the case of breaches of human rights (Article 7 of the TEU). Amendments to the budget require a majority of Members; modifications to compulsory expenditure at first reading need an absolute majority of the votes cast; rejection of the budget requires that the Parliament act by a majority of its Members and that the result represents two thirds of the votes cast; a modification of the maximum rate of increase in compulsory expenditure necessitates a vote reflecting a majority of MEPs and three-fifths of the votes cast (Article 272 of the TEC, paras. 8 and 9).

14. Article 252 of the TEC.

15. Article 251 of the TEC.

16. Spain, Portugal, Greece and Ireland, which receive aid from the Structural Funds and the Cohesion Fund. The latter was created in 1992 in order to assist those countries whose GNP per capita is less than 90% of the EU average in the run-up to Economic and Monetary Union.

17. Report from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions: Second Report on Economic and Social Cohesion, COM (2001) 24 of 31 January 2001. An assessment of the requirements of the cohesion policy from the perspective of an enlarged Union reveals that, if enlargement were to take place tomorrow, at national level more than one third of the population would live in a country where the earnings (GDP) per inhabitant are less than 90% of the EU average (the present eligibility threshold for the Cohesion Fund), as opposed to one sixth in the existing Europe of Fifteen. At regional level the average earnings per inhabitant of 10% of the population living in the least prosperous regions of the Europe of 27 members would reach just 31% of the average for the Europe of 27. In the existing Europe of 15, the earnings per inhabitant of the 10% of the population situated at the bottom of the scale are equal to 61% of the average.

18. Françoise de La Serre and Helen Wallace, "Les coopérations renforcées: une fausse bonne idée?", Paris, Fondation Notre Europe, 1997, and Françoise de La Serre, "Une Europe ou plusieurs?", *Politique étrangère*, No. 1, 1999.

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20. Commission Communication on strengthening economic policy co-ordination within the euro area, COM (2001)82 of 7 February 2001.

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23. "Pour une avant-garde européenne", *Le Nouvel Observateur* No. 1890, 25-31 January 2001.
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25. Cf. note 14.
26. CONFER 4783 of 4 October 2000.
27. CONFER 4765 of 28 August 2000.
28. European Parliament resolution A5-0288/2000 on enhanced co-operation, 25 October 2000.
29. CONFER 4787 of 19 October 2000.
30. Speech given by the Belgian Prime Minister, Guy Verhofstadt, at the European Policy Centre: "A vision of Europe", 21 September 2000.
31. "The future of the EU – a Europe in transformation", published on 5 December 2000. French version:
http://www.regeringen.se/galactica/service=irnews/owner=sys/action=obj_show?c_obj_id=37085.
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36. Preparations for the Intergovernmental Conference - Commission contribution to the Presidency report to the Helsinki European Council, COM (1999) 592 of 10 November 1999, and "A basic Treaty for the European Union", COM (2000) 434 of 12 July 2000, where the Commission, refusing to comment on the options set out in the first study transmitted to it by the Florence European University Institute in May 2000, supports in general the aim of producing a reorganised treaty "without departing from the law as it stands". The report and the model fundamental treaty of the European Union have been published on the Commission's website:
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http://europa.eu.int/comm/igc2000/offdoc/drafttreaty_fr.pdf.
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SOURCE

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DEBATE QUESTIONS

1. Does the EU need a constitution? What are some of the major actors pushing the constitutional process?
2. What is the 'democratic deficit' debate about? Is a new constitution a good solution for the 'democratic deficit'?
3. What are some of the main issues surrounding the reform of the European Council and the Council of Ministers?
4. Will the new constitution challenge the current balance between national governments and EU institutions? How so?
5. Does the need for an EU constitution reflect a larger identity crisis of the Union?
6. Can a rotating presidency work in a Union of 27 countries?
7. What role did the Treaty of Nice play in the institutional reform of the EU in the context of enlargement?

Part 3
Economic Implications of
Enlargement

Does Enlargement Matter for the EU Economy?

Katinka Barysch

- The economies of the new member-states are too small to have much impact on the current EU.
- The EU as a whole has gained from enlargement and will continue to do so. But labour-intensive industries and border regions will have to cope with increased competition.
- Germany, Austria and other EU countries can only justify temporary restrictions on the free flow of workers if they use the breathing space provided to reform their labour markets.

The forthcoming enlargement round is the EU's biggest ever: ten new members – eight Central and Eastern European countries plus Malta and Cyprus – are set to join the Union in May 2004. In terms of economics, however, their accession will be of little consequence for most current EU members. First, economic integration between the EU and the East European countries has already progressed to a degree that makes further big gains – and losses – unlikely. Second, the economies of the new member-states are very small compared with the EU.

Nevertheless, many West Europeans are worried that the accession of fast-growing, low-cost economies could create enormous pressure in their countries. In particular, they fear that cheap Polish or Czech exports could price local products out of the market; that financial flows to the new member-states could divert much-needed investment capital from West European businesses; and that a massive influx of low-wage workers from the East could push unemployment in the EU even higher. These fears are largely groundless.

Trade integration is yesterday's news

In terms of economics, eastward enlargement is largely yesterday's news. All East European countries liberalised foreign trade during early economic reforms. As a result, trade with the EU took off even before the Europe Agreements opened the way for the gradual removal of trade barriers over the course of the 1990s. Since then, trade between the candidates and the EU has been growing at double-digit rates every year. By the end of the decade, the candidate countries were trading with the EU just as much as the EU members were trading with each other. On average, the would-be members are now sending two-thirds of their exports to the EU. These shares are unlikely to rise much further. Although there is scope for further integration with some EU countries, including France and the UK, future trade growth will largely depend on overall economic prospects in the enlarged EU.

This rapid trade expansion has helped to boost catch-up growth in most Central and Eastern European countries. But has it come at a cost for the EU? No. First, taken together, imports from the candidate countries amount to no more than 1 per cent of EU GDP. Second, to the extent that these imports have intensified competition for EU producers, they have pushed down prices and benefited European consumers. And third, while the EU has increasingly thrown open its market to East European goods, it has also exploited growing export opportunities in the accession countries. In fact, the EU sells much more to the accession countries than it buys in return. The result has been a large and rising trade surplus. According to estimates from the Osteuropainstitut, a German research institute, this trade surplus has created 114,000 jobs in the EU during the 1990s.

EU companies have not only sent their goods to the candidate countries, they have also bought existing businesses there and built new ones. The Osteuropainstitut calculates that German foreign direct investment (FDI) alone has created almost 450,000 jobs in the Eastern European countries. But this does not mean that the same number of jobs has been destroyed in Germany or elsewhere in the EU. Most FDI in East Europe has come in addition to, not instead of, investments in the existing EU. By investing abroad, EU companies

have mostly sought to access new and fast-growing markets rather than to cut costs at home.

Foreign investment keeps EU companies competitive

Around half of EU investment in the candidate countries has gone into services, such as banks, supermarkets and hotels. A much smaller share has been invested in factories that produce for exports in sectors such as cars, clothing and chemicals. This share, however, is growing. First, much service sector FDI came through the privatisation of banks and telecoms, which is now drawing to a close. Second, with accession around the corner, the East European economies are now starting to look more and more like those in the EU. They now have the same trade policies, competition rules and product standards. As business environments become more alike, differences in wage costs will become a more important factor in companies' decisions on where to produce. Wages are much lower in the Czech Republic, Hungary and Poland than in France or Germany. But this does not mean that West European companies will leave their home markets in droves, partly because productivity in the East is also much lower. The average West European worker produces two to three times more output in an hour of work than his East European colleague, although productivity in some export oriented sectors is now almost at western levels.

Western investment itself will help to boost productivity levels in East European industries. And West European companies will continue to invest in the new member-states, in particular in labour-intensive sectors, such as clothing or cars, as well as in skill-intensive ones, such as electronics. These are industries that are coming under growing competitive pressure from low-cost producers in Asia and elsewhere. By transferring some labour-intensive production to Eastern Europe, EU companies make sure they stay competitive on a global scale and continue to expand in their home market. FDI in the East can therefore help to preserve jobs in places such as Germany, France and the UK.

Poles and Czechs will prefer to stay at home

Once the Central and Eastern European countries are full members of the single European market, their citizens will have the right to settle and seek work in the other EU countries. But predictions that millions of East Europeans will head westwards in search of comfort and prosperity are unlikely to materialise. Wages are lower in the East, but so are prices, with the result that most East Europeans enjoy a reasonably good standard of living. Only very few will want to leave their homes, families and friends to look for new jobs in the West. High unemployment and slow growth in the EU, as well as cultural and linguistic barriers will also put off potential migrants.

Migration flows are fiendishly difficult to forecast. But many researchers think that between 100,000 and 400,000 East Europeans will head West each year once restrictions on labour movements are lifted. Assuming that it will take a decade or two until most of those who want to move have actually done so, they predict that maybe 2-3 million people from the new member-states will be living in the old EU countries by, say, 2020. That may sound a lot, but it only amounts to 0.5-0.8 per cent of the EU's current population (East Europeans are estimated to make up 0.2 per cent of the EU population already).

Some economists think that even these forecasts are too high. They point to the fact that East Europeans do not even like to move around within their own countries despite substantial regional differences in wages and unemployment rates. Moreover, it is highly skilled, well-paid workers who tend to relocate. This implies that East-West labour movements are more likely to take the form of a 'brain drain' than a deluge of unskilled labourers.

Nevertheless, some EU countries, notably Germany and Austria, are so worried about immigration that they insisted on the right to keep restrictions on the movement of workers for up to seven years after the accession date. These restrictions are understandable, but also short-sighted. Some two-thirds of all East European jobseekers coming to the EU-15 are expected to settle in Germany. With unemployment already at 4.6 million, the German government wants to gain time to prepare its labour market and social security system for any future influx. In the medium to long-term, however, Germany

will have to adopt a more welcoming attitude towards immigrants. With a low birth rate, a rapidly ageing population and a shrinking labour force, Germany may have to rely on foreign workers (and not only from Eastern Europe) to sustain its generous social standards and avert a looming pensions crisis.

Overall impact: small but positive

On the whole, the impact of enlargement on the current EU will be negligible, simply because the economies of the acceding countries are so small: taken together, they amount to no more than 5 per cent of the current EU (if measured at current exchange rates). The share is closer to 10 per cent if income data are adjusted for exchange rate misalignments. In economic terms, therefore, eastward enlargement is the equivalent of adding an economy the size of the Netherlands to an economic area with 380 million people and a GDP of €9 trillion. Small it may be, but most economists agree that the impact will be marginally positive for the EU. The European Commission, for example, estimates that EU enlargement (defined as a 10-year period of integration from 1995-2005) will push up EU GDP by a cumulative 0.5 per cent. Incidentally, the Commission assumes that half of the benefits would come from immigration, which – as explained above – will probably be delayed for some EU countries. Similarly, Germany's Friedrich- Ebert Stiftung forecasts an increase in EU GDP of 0.1 - 0.4 per cent over several years. However, if the more dynamic economic processes, such as increased competition and higher investment, are taken into account, the gain could exceed 1 per cent of EU GDP.

And who pays?

These gains are obviously positive from an economic perspective. But since most West Europeans will hardly notice this small and steady increase in their wealth, it will not help much in selling EU enlargement to the public. While the benefits are long-term and amorphous, the economic costs of enlargement are immediate and concentrated on a geographical and sectoral basis. Not only has the EU allowed some member-states to restrict immigration, it is also putting in place a number of 'safeguards', designed to protect West European indus-

tries and the functioning of the single market after enlargement. Although these safeguards are unlikely to disrupt trade on a large scale, their existence shows that the old member-states are seriously concerned about increasing competition from the East.

As explained above, Eastern Europe has been most competitive in labour-intensive sectors such as clothing or food production, but also in some capital-intensive ones, such as the production of basic metals and chemicals. In these industries, the EU has seen steady job losses throughout the 1990s. But it would be wrong to attribute these entirely to the EU enlargement process. As countries grow richer, they typically progress from labour- and resource-intensive manufacturing to capital- and knowledge-intensive production and services. For the richer EU countries, it makes no sense to cling to the production structures of the past. They should see EU enlargement as an opportunity for economic upgrading. Rather than protecting yesterday's jobs in smokestack industries, they should invest heavily in building up the kind of human-capital intensive industries that will guarantee stable economic growth in the long term.

Similarly, Germany, Austria and others can only justify transition periods for the free movement of workers if they use the intervening years to reform their rigid labour markets. From an economic point of view, the free movement of workers is unambiguously positive. But if labour markets are rigid and wages high and inflexible, such movements can lead to temporary spikes in unemployment and put a heavy burden on public budgets. The natural instinct of a country like Germany – which already suffers from high unemployment – is therefore to shield its workers from low-cost competition. But this is not the way forward. Germany's inability to deregulate its sclerotic labour market has already turned into a drag on the entire European economy. EU enlargement may well be the incentive that Germany needs to get serious about economic and labour-market reform.

Population and GDP of the new member-states

	Population, million	GDP €billion	GDP per head as % of EU average
Cyprus	0.7	13	80
Czech Republic	10.2	136	57
Estonia	1.4	13	42
Hungary	10.2	121	51
Latvia	2.4	18	33
Lithuania	3.5	31	37
Malta	0.4	5	55
Poland	38.6	356	40
Slovakia	5.4	60	48
Slovenia	2.0	32	69
EU-15	377	8,830	100

Note: data are from 2001. GDP data are calculated in purchasing power parity, i.e. adjusted for exchange rate misalignments. Source: Eurostat.

Does enlargement matter for...

- ...the EU budget? More than 80 per cent of the EU's €100bn annual budget is spent on either farm support or subsidies to countries and regions with income levels below the EU average. Since the accession countries are both poorer and more agricultural than the current EU, some observers have predicted that enlargement will bust the Brussels budget. This is unlikely. For enlargement the EU has earmarked just over €40bn for the period between accession in May 2004 and the end of 2006, when its current budget expires. From 2004, the new members will also pay their dues to the EU budget, which means that net payments are unlikely to exceed €10bn per year, the equivalent of 0.1 per cent of the enlarged Union's GDP.

The EU has not yet determined how much the new members will get during the next budget period (2007-13). But it has already decided that it will take until 2013 before East European farmers are entitled to the same subsidies as their West European counterparts. It has also capped regional aid to the new member-states at 4 per cent of their respective GDPs.

- ...the Lisbon reform process? Eastward enlargement will have a

mixed impact on the EU's declared goal of becoming the world's most competitive, knowledge-based economy by 2010. On the one hand, the East European economies are more flexible, and their politicians and populations are more accustomed to radical reform, than many current EU members. On the other hand, the relative backwardness of the new members will make it even more difficult for the EU to reach Lisbon targets, for example with regard to education, research and development, employment levels or small business development.

- ...the internal market? The EU has declared the completion of the single-market for goods, services, people and capital the cornerstone of the Lisbon process. The EU and the accession countries have removed traditional barriers to trade, such as tariffs and quotas. But national standards, for example for food safety or the provision of financial services, are still hampering market integration. The accession countries have already adopted most internal market legislation. They have also established standard-setting bodies, food inspectorates and other bureaucracies that are needed for the smooth functioning of the single market. The EU has accepted many Czech and Hungarian products as being fully in conformity with EU standards.

However, the EU only sets harmonised product standards in a limited number of sectors. Most intra-EU trade functions on the basis of 'mutual recognition', which means that a product considered safe in one country has to be accepted as such in all other EU member-states. Many people in the current EU ask whether Eastern Europe's inefficient bureaucracies can be relied upon to set and supervise health and safety standards. EU companies may exploit these doubts in an effort to protect their own markets. The European Commission – the EU's internal market watchdog – may be unable to cope with a flood of complaints about allegedly unsafe products coming from the East.

- ...the euro? The accession countries are keen to join the euro-zone as quickly as possible after EU entry. A country like Estonia, which has fixed its currency to the euro for more than a decade, could join as soon as it has completed the compulsory two years in the ERM II, the EU's revamped exchange rate mechanism. But for many others, relatively high inflation and large budget deficits will make it hard to meet the Maastricht criteria for eurozone entry. To rule out any destabilising impact on the euro, the European Central Bank will insist on a strict interpretation of the convergence

criteria before the new members can join the euro. The 2006/07 target date that many accession countries have set for euro entry may turn out to be optimistic.

NOTE

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The Economic Impact of Enlargement on the European Economy: Problems and Perspectives

Paul Brenton

Abstract

Much of the attention on the economic aspects of the forthcoming enlargement of the EU have concentrated upon the high-profile issues which are linked to the level of relative economic development in the acceding countries; the perceived threat of large-scale migration and the budgetary costs arising from implementation of EU agricultural and regional policies. This paper briefly discusses that these are not insurmountable problems and stresses that the main difficulties from the next enlargement may arise from the effective inclusion of the acceding countries into the Single Market, the microeconomic hub of the EU. We discuss that the process of regulatory harmonisation will become more difficult in an EU of 25 or more members, which entails greater emphasis on the principle of mutual recognition as the main tool for ensuring freedom of movement of goods and services. However, mutual recognition has its limits and is likely to be less effective the more diverse the countries involved.

Introduction

The European Union is on the eve of a new enterprise. After the launch of the Euro, it is now time for shifting the Union's border to the East. The challenge facing the Union with the start of the eastern enlargement, the first wave of which should be decided at the

end of 2002 and implemented during 2004-2006, cannot be underestimated. A region of about 100 million inhabitants will be integrated into the EU, but, given the existing income gap between the two halves of Europe, the Union's GDP will increase by only 5% after enlargement. Populations deeply rooted in European history will become again part of the continental polis, yet these same populations emerged from almost half a century of Soviet domination and planned economy only just over ten years ago. A complex net of similarities and differences make the eastern enlargement something quite different compared to previous episodes of EU expansion.

There are four key differences between this and previous enlargements that have an important bearing upon the way in which the economic impact of the next enlargement should be analysed:

The level of income in many of the applicant countries is considerably lower than that of existing members.

The applicants are in the process of transition from a centrally planned to a market economy. Much of the analysis of the impact of enlargement depends upon assessments (and assumptions) of the extent to which this process has been completed.

The volume of EU legislation that the new members are having to adopt is far more extensive than in previous enlargements primarily due to the creation and enhancement of the Single Market.

The extent of pre-accession integration is already substantial due to the provisions of the Europe Agreements which have not only led to the removal of tariffs and other border policies on industrial products but have provided for the adoption of a large number of EU regulations prior to enlargement. This entails that many of the benefits of enlargement are already being enjoyed (and that many of the economic costs arising from adjustment to the enlargement situation have already been borne).

The first point relates to the relative level of economic development in the applicant countries. The second point is a reflection of the particular historical circumstances of these countries. The second, third and fourth features are very much linked to the necessary conditions for successful integration into the EU and the steps that have been taken to meet those requirements. The Copenhagen crite-

ria stipulated by the European Council encapsulates the importance of the transition process by requiring that new members must have:

- A functioning market economy;
- The capacity to cope with competitive pressure and market forces within the EU;
- The ability to take on all the obligations of membership.

These requirements all relate to the issue of the transition to a market economy and are not related to the level of income in the applicant countries. The EU does not place any conditions on applicants concerning the level of economic development. However, the level of economic development lies at the heart of the high profile enlargement issues which have received most attention from policy makers and the media; migration, agriculture, the structural funds and budgetary issues. We will briefly review existing studies of these issues and analyse the extent, and the ways in which, these will cause problems in the enlarged EU. Careful analytical work shows that all of these issues are more than manageable in an enlarged EU and should not cause substantial economic problems to the Union as a whole. Difficulties arise because impacts are concentrated on particular members, creating political problems.

Our attention in this paper then turns to a more detailed consideration of the issue of the transition and enlargement. Given their different levels of income, do the applicant countries have economic and institutional structures which will allow them to effectively participate in the European Union and contribute to the policies and objectives of the Union? The criterion of a functioning market economy and the ability to withstand competition are amenable to relatively objective assessment, which indeed has been the aim of the Commission's regular opinions on the applicant countries. The third criteria, the ability to take on the obligations of membership, is however, more difficult to define and assess. This reflects in part that, although the pre-accession period has seen a tremendous effort by the applicant countries to adopt EU legislation, there are a number of key policies the nature of whose implementation will only become apparent after enlargement. Nevertheless, it is opportune now to consider

potential problems that may arise and the implications of these for the enlarged Union.

Here we focus on whether the accession of the Central and Eastern European countries will have an important impact on the coherence of the Single Market and whether it will undermine or contribute to the objective defined by the Lisbon council of making the EU the most competitive and cohesive place in the world to live and to do business. We concentrate especially on the difficulties that may arise with regard to product regulations and technical barriers to trade, a key element of the Single Market. Finally, having discussed the potential economic problems that may arise from the next enlargement over the next 10 years or so we then briefly discuss what comes next. Is there scope for further integration in Europe and an intensification of economic ties between perhaps 25 EU members and to what extent will enlargement constrain or facilitate any further deepening of integration in Europe?

Enlargement and the Level of Income in the Applicant Countries

The last two enlargements were, first, to the South, and then, to the North. The accession of Greece, Portugal and Spain in the 1980s brought relatively low-income partners in the Union, and this changed the economic geography and the budgetary structure of the EU. However, both the population dimension and the average income gap of the countries then involved in the southern enlargement were about half those relating to the current candidate countries. The Northern Enlargement of the 1990s actually raised the average per capita income of the EU, and the accession of Austria, Finland and Sweden brought a net positive contribution to the Union's budget.

This time the picture is completely different. The incoming members of the EU are, and will be for quite a few years, significantly poorer than the existing members. Their average wages are lower than in the incumbents; hence there could be an incentive for workers to move westward, and for capital to go eastward. Their core inflation rates will be higher due to structural transformation and their net contribution to the EU budget will be persistently negative. Of

course, all this will impact on a number of EU policies and institutions, in the fields of migration and border flows, financial and budgetary provisions, monetary policy and the working of the ECB and trade and investment flows. Here we consider the key microeconomic policies relating to agriculture, migration and structural funds expenditures and bring the analysis together to consider implications for the EU budget.

Migration

This is perhaps the most widely discussed of the perceived problems of enlargement but which in practice is likely to be of minor significance for the Union as a whole. Migration is seen to be an important problem because the very large income gap and the relative proximity of the applicant countries appear to convince many of the scope for substantial flows of workers from the east to the west of Europe. Nevertheless, the consensus from economic studies, which take a more considered view of the factors leading to migration, is that enlargement is unlikely to have a serious impact upon jobs and wages in the EU as a whole. CEC (2001) estimate that the cumulative net inflow of migrants from the east will amount to less than one per cent of the working population of the EU 15 in 2009, such flows cannot be expected to have a major impact on the EU as a whole. It is worth noting that as economic integration between the EU and the CEECs intensified during the 1990s the number of migrants from the east declined. According to the University of Kent, while 330,000 moved to the EU in 1990, by 1997 the total was less than 14,000.¹

Although the aggregate effects will be small, they will be concentrated on particular countries and regions, especially Germany and Austria. Thus, for example, in 1998 for the EU as a whole, (legal) immigrant workers from the CEECs accounted for 0.2% of total EU employment. However, around 80% of such migrants reside in Germany and Austria, accounting for 0.5% and 1.1% respectively of national labour forces, with even higher concentrations in particular regions (CEC (2001)). This is the problem that is faced by the EU, how to adjust to regionally concentrated problems to maintain general support for the enlargement. This is politically difficult but feasible

to solve and has so far been addressed in terms of transition periods during which the completely free movement of labour will remain suspended to allow the receiving regions time to adjust.

Agriculture, Structural Funds and the Budget

The other issue that has received much attention is the financing of the next enlargement. Agriculture raises its head as a prominent issue, not only because it is one of the main policies of the EU in budgetary terms, accounting for around 40% of EU expenditures, but also because in many of the applicant countries, reflecting low levels of income, agriculture remains a major sector, at least in terms of employment. Similarly, transfers under the structural funds will be an important element in promoting cohesion with the new member states but imply substantial transfers given the low levels of income in the East.

A major concern is whether the enlargement will place undue budgetary pressures on the existing members who will have to finance transfers to the East via the CAP and the structural funds. Numerous estimates exist of the cost of extending to the new member states these two EU policies. A number of recent studies converge on figures of around €10 billion annually for the cost of extending the CAP to the first wave of eight candidates from Central and Eastern Europe. The Berlin Council decided that the absorption capacity of the structural funds should be 4% of GDP for the Central and Eastern European members. Allowing for their contributions to the EU budget, the net transfers that the new member states can expect under the current rules would be about 3% of their GDP, which entails a transfer under the structural funds of below 10 billion Euro.

Therefore, following Gros (2001) a rough rule of thumb would be that enlargement could imply a net transfer to the East (from the current EU-15) of about €20 billion. This represents about 0.3% of the GDP of the EU-15, or less than one per cent of total public expenditure in the EU-15. Enlargement will thus not bankrupt any government. Nor will enlargement blow the ceiling on the EU budget, which has been set at 1.27% of GDP (equivalent to about €100 billion given a GDP of the EU-15 of around €8000 billion). As the

EU is currently spending only around €80 billion it would be possible to accommodate an increase of about €20 billion without breaching this ceiling. All in all it thus appears that enlargement should not put an unbearable strain on the EU budget. The problem will be who will pay for the enlargement. At present this has not been resolved and remains the real issue with regard to the budgetary cost of enlargement.

The main problem with regard to agriculture is that enlargement makes an ill-designed policy even more unsustainable in the light of global trade commitments and the desire to conclude a new trade round, following increasing demands from consumers for a change in the nature of agricultural production and the increasing emphasis on environmental sustainability and rural development. Enlargement has not created any of these issues but does add to them and increases the imperative to reform and redesign the CAP to effectively meet modern and achievable targets for the agricultural sector in conjunction with other European and global policy objectives.

To conclude, the next enlargement requires the inclusion of a large number of relatively low-income countries into the Union. Since the two key policies of the Union involve transfers which are either directly or indirectly linked to the level of income and economic development this entails a substantial increase in demands upon the EU budget. However, under plausible scenarios it does not appear that these demands will undermine the EU budget. The difficult issue is upon whom will the burden of funding enlargement fall. Similarly, with regard to migration, the impact for the EU as a whole is unlikely to cause substantial problems. However, the impact will be concentrated upon particular countries and regions. So, these income-related problems related to enlargement are not insurmountable. However, the pre-occupation with the financial costs of enlargement and the ill-perceived threat of mass-migration has led to other potential problems related to the next enlargement being overlooked. We now proceed to suggest that paramount among these is consideration of how the new members will affect the day to day operation of key elements of the Union, and in particular, the Single Market.

Enlargement and the Cohesion of the Single Market

Many of the direct economic benefits of EU membership, in terms of enhanced trade and investment relations, have already been reaped. This reflects that a range of barriers to trade and investment between the EU and applicant countries has already been removed in the context of the free trade (Europe) agreements that were signed in the early and mid-1990s. Formal trade barriers (tariffs and quantitative restrictions) in the EU to imports of industrial products from the CEECs have now been completely dismantled. A similar situation exists in all the applicant countries in Central and Eastern Europe. Agriculture, as always, is a notable exception, where trade restrictions will remain until the date of enlargement. As Brenton and Manzocchi (2002) argue to all intents and purposes the transition with regard to trade and investment is over in those countries that will shortly join the EU. If one examines the trade and foreign investment features of these countries in ignorance of history, then there is nothing that identifies them as being different from market economies.

With trade between the EU and the applicants largely free of formal trade barriers and adjustment to this policy environment already completed, the economic impact of the next enlargement of the EU revolves around participation in the Single Market of the EU. The key feature of the Single Market is its attention to non-border regulatory policies which, although not necessarily their primary intent, may act as a substantial impediment to trade. For trade in goods the principal issue, and the main remaining obstacles to trade, are technical barriers, which arise from the implementation of regulatory policies by governments, concerning for example, safety and health issues and from voluntary standards adopted by domestic industries. Similarly for services the key issues relate to differences in regulatory regimes across countries which constrain the ability of firms to effectively operate on a European-wide basis.

In this section we examine the possible impact of the accession of the Central and Eastern European Countries on the operation of the Single Market. Since the implementation of regulatory policies lie at the heart of the Single Market effective participation requires a cer-

tain level of suitable infrastructure and administrative and legal capacity to implement the range of regulatory instruments that are necessary to support markets for goods and services. In terms of the next enlargement and the effective operation of the Single Market, this is the key dimension of the transition that needs to be addressed. To what extent will the application of regulatory policies in the enlarged Union act to segment markets and constrain and compromise the level of economic integration that has been achieved between the current members?

The Single Market is the microeconomic core of the Union. If the enlargement were to seriously undermine or weaken the Single Market, then this would constitute a substantial, but unquantifiable, cost of enlargement. At the same time the EU is placing greater emphasis on enhancing the Single Market and increasing further the degree of integration in Europe. A completely integrated market is seen as essential in enhancing the competitiveness of the EU relative to the US. We now proceed to describe the key mechanisms by which the EU has sought to create a Single Market and then briefly examine why there is a belief that the Single Market programme can be more effectively implemented. In the next section we consider some of the broad implications of enlargement for the Single Market and then assess to what extent the objective of achieving perfectly integrated markets for goods, services and capital in Europe can actually be met.

The Single Market and Trade in Goods

The awareness that differences in national regulations and their application could be an important barrier to economic integration has been an important part of EU policy since the inception of the EEC in the 1950s with even greater emphasis having been given to this issue under the Single Market programme. The Treaty of Rome prohibited 'quantitative restrictions on imports and all measures having equivalent effect' (Art. 30 (28)), although, and this is very important, this was qualified to allow exemptions from this obligation for a range of public policy and security issues. We discuss these exemptions in a little more detail below. In practice one of the key areas of regulation that has affected trade between members states has been

rules governing the placing of products on the market, often for health and safety reasons, and the testing of products for conformity with those regulations. Barriers to trade can arise when countries regulate for the same risks but in different ways and when products must be tested for conformity with each differing set of national rules.

The basic EU approach to this issue of differences in national regulations is the principle of mutual recognition, which was developed on the basis of European Court of Justice case law, specifically, the *Cassis de Dijon* and *Dassonville* judgements. The mutual recognition approach is based on the idea that products manufactured and tested in accordance with a partner country's regulations can offer equivalent levels of protection to those provided by corresponding domestic rules and procedures. Thus, products produced in partner countries can be accepted without the need for further agreement with the presumption that they will not undermine basic regulatory objectives concerning health and safety and so on. Governments maintain substantial freedom to apply their own rules to domestically produced products but have to accept products produced to rules stipulated elsewhere. Hence, the application of the mutual recognition principle requires a degree of trust between different countries and regulatory authorities that another country's regulations can offer equivalent levels of protection and that such regulations are effectively implemented ensuring that products actually conform to the requirements of the regulations. The principle of mutual recognition is the hub of the Single Market since it provides for the free movement of goods (and services, as we shall discuss later) without the general necessity for regulatory harmonisation.

Despite the basic principles of non-discrimination and free circulation of goods, services people and capital the EU has always permitted what are deemed as legitimate restrictions on trade. Article 36 of the Treaty of Rome provides for restrictions on imports for reasons of 'public policy or public security' and protection of health as long as such restrictions are not a disguised restriction on trade. In such cases the onus is on the importing country to demonstrate that lack of equivalence of regulations is undermining public policies towards, for example, human health. In practice the European Court of Justice

has accepted lack of equivalence on many occasions and, significantly, has not required conclusive proof of a threat to human health or other public policies for the refusal to accept a product legally available elsewhere in the community, accepting in effect that the precautionary principle is sufficient (Holmes and Young (2001)).

A key element in the application of the principle of mutual recognition has been the development of mechanisms at the EU level for disciplining national regulations and interventions into product markets. There are three means by which the EU can affect national regulations (Pelkmans et al (2000)):

- Infringement procedures whereby the Commission acts to enforce Community law. These are important provisions whose existence can have important disciplinary effects and where case law can establish clear interpretations of relevant statutes. Nevertheless, such procedures are very time consuming and costly, have an impact only after the event and are ad hoc in nature. As such they are insufficient to prevent the creation of barriers to free movement of goods (Pelkmans et al (2000)).
- Notification procedures whereby member states are required to notify all draft technical regulations for scrutiny by the 94/34 Committee, whose objective is to prevent new regulatory barriers to trade. In practice all new national regulations of EU members states have to pass an EU test regarding their impact on the free movement of goods.
- Notification of derogation procedures that require member states to notify cases in which they wish to prevent the sale of goods lawfully produced or marketed in another Member State on the grounds of non-conformity and non-equivalence with domestic requirements. This seeks to ensure that any derogation from the principle of mutual recognition is transparent and subject to scrutiny.

Where it is clear that 'equivalence' between levels of regulatory protection embodied in national regulations cannot be assumed, the EU approach to removing technical barriers to trade is for the member states to reach agreement on a common set of legally binding

requirements. Subsequently, no further legal impediments can prevent market access of complying products anywhere in the EU market. EU legislation harmonising technical specifications has involved two distinct approaches, the 'old approach' and the 'new approach'.

The old approach mainly applies to products (chemicals, motor vehicles, pharmaceuticals and foodstuffs) by which the nature of the risk requires extensive product-by-product or even component-by-component legislation and was carried out by means of detailed directives. In the main achieving this type of harmonisation was slow for two reasons. First, the process of harmonisation became highly technical, with attention being given to very detailed product categories including components. This resulted in extensive and drawn-out consultations. Secondly, the adoption of old approach directives required unanimity in the Council, which meant that the issuing of directives was a slow process. The limitations of this approach as a broad tool for tackling technical barriers to trade become clearly apparent in the 1970s and early 1980s when new national regulations were proliferating at a much faster rate than the production of European directives harmonising regulations (Pelkmans (1987)).

These weaknesses have been addressed through the adoption of the 'new approach' whereby EU directives only indicate the 'essential requirements' that must be satisfied which leaves greater freedom to manufacturers as to how to satisfy those requirements, dispensing with the 'old' type of exhaustively detailed directives. The new approach directives also provide for more flexibility than the detailed harmonisation directives of the old approach by using the support of the established standardisation bodies, CEN, CENELEC and the national standard bodies. New approach directives are adopted by a qualified majority in the Council.

The Single Market and Trade in Services

Application of the principle of mutual recognition also lies at the heart of attempts to integrate the markets for services in the EU. For certain sectors, such as financial services, negotiated mutual recognition is a better description since integration is based upon a degree of regulatory approximation of national prudential requirements togeth-

er with mutual recognition of regulatory authority, normally referred to as home country control. The essence of the system is that the operations of a financial institution throughout the EU, whether provided across borders or through establishment overseas, is regulated by the government of the state in which it has its headquarters. In principle such a system should avoid financial institutions having to satisfy different regulatory requirements in each of the countries in which they operate.

However, as in the case of goods, exceptions are permitted to the general requirement of mutual recognition of services. For example, in the case of financial services the Second Banking Directive defines that 'Member States must ensure that there are no obstacles to carrying on activities receiving mutual recognition in the same manner as in the home member state, as long as the latter do not conflict with legal provisions protecting the general good in the host member state' (see CEC (1997)). The Second Banking Directive does not, however, provide a definition of the 'general good' or stipulate limits or conditions under which member states can impose 'general good' rules on community financial institutions. Hence in areas without explicit harmonisation at the EU level the definition of the general good varies between member states and is influenced by national traditions and national policy objectives. The Court of Justice, through its case law, has specified areas that can be considered to be in the public good. This open ended list currently comprises: protection of the recipient of services; protection of workers, including social protection; consumer protection; preservation of the good reputation of the national financial sector; prevention of fraud; social order; protection of intellectual property; cultural policy; preservation of national historical and artistic heritage; cohesion of the tax system; road safety; protection of creditors; protection of the proper administration of justice (CEC (1997)). National rules adopted in these areas can be enforced upon a community company based in another member state provided that the area has not been harmonised at the EU level, that such rules are applied in a non-discriminatory way, that there is an overriding requirement for them in the general interest, that they are relevant for attaining the objective for which they are imposed and

do not go beyond what is necessary to attain that objective.

It is important to note that financial services do not appear to be subject to the same notification requirements as goods, where, as noted above all, new technical regulations and derogations from free movement have to be notified to the Commission. There is no counterpart to the 98/34 committee for services. Thus, the disciplining effect of notification and EU level scrutiny of new regulations is absent for services. In addition, for financial services, companies are often wary of bringing a problem to the attention of the Commission for fear of undermining their relationship with the regulatory authorities of the country that is constraining trade. This entails that mutual recognition is likely to be less effective in removing barriers to trade in services in the EU.

The Single Market in Practice

How effectively is the Single Market working in the current EU of 15 member states? The European Council has identified the Single Market as being a key element in economic reform and in achieving the Lisbon objectives. In this context substantial problems remain. Again, it is useful to examine the goods and services sectors separately. For goods, the New Approach to harmonised standards at the European level has been undermined by the slow development and adoption of European standards implementing the agreed minimum standards under New Approach directives. CEC (2001) reports that CEN (one of the European Standards Organisations) takes around 8 years to draft and obtain consensus on a European standard. As a result between April 1998 and May 1999 the European standards bodies ratified only 40% of the mandated standards and nearly five times as many national standards were adopted (Holmes and Young (2001)).

The Commission also recognises that there are problems with the application of the principle of mutual recognition (CEC (2000)) and that these difficulties appear particularly in the new technology sectors and for complex products. Evidence from businesses suggests that many firms will still adapt their products to satisfy different technical specifications in other markets rather than seeking the application of

mutual recognition. This reflects, in part, uncertainty about the effectiveness of the available measures in enforcing mutual recognition and expectations about the time taken to change the actions of national administrations either through persuasion or through judicial process. Weak administration and uncertainty by national administrators leads to a very cautious application of the principle of mutual recognition. CEC (1999) reports an average length of procedure for cases of infringement of mutual recognition of 15.5 months for cases initiated between 1996 and 1998. During this period 228 cases were initiated. According to a survey of industry in 1998 some 80% of businesses reported that there were still obstacles preventing the full benefits of the Single Market from being exploited, with differences in standards and technical regulations being mentioned by 41% of respondents and problems with testing, certification and authorisation procedures being identified by 34% of the sample (CEC (1999)).

The general view seems to be that obstacles to cross-border trade in services in the EU are much more substantial than those to trade in goods. Traditional measures of integration, such as the share of intra-EU trade relative to GDP, provide little clear evidence of an increase in the intensity of cross-border trade and competition in services in recent years (CEC (2000)). Trade in financial services in Europe takes place primarily through physical establishment in another Member State. Mergers and take-overs, rather than cross-border supply, have tended to be the main vehicle for change in European financial markets.

EU financial markets are undergoing a period of substantial change following the introduction of the Euro, substantial technological change and regulatory initiatives. Whether these will combine to generate a genuine single market in financial services and a large European investment area remains a key issue. A number of important developments have taken place (Danthine et al (2000), CEC (2001)). A corporate Eurobond market has emerged of comparable size to that of the dollar market. European firms are increasingly turning to stock markets for funding via equity issues. EU companies newly admitted to European stock markets raised twice as much capital in 2000 than in 1999.

Some researchers detect a fundamental change in the nature of European investment portfolios with an increasing share of foreign equities (Danthine et al (2000)) whilst others find little evidence that country specific factors have declined in importance in defining European portfolios (Rouwenhorst (1998)). Heinemann (2002) notes that whilst the market for investment funds in the EU has been growing strongly, national markets remain dominated by domestic fund companies. Wojcik (2001) looks at the extent and nature of cross-border corporate ownership in Europe and concludes that the level of capital market integration in Europe remains low and that 'the contours of national borders on the map of the European capital markets are still very sharp'. These border effects reflect that the conditions of foreign ownership differ between countries with particular emphasis being placed on the role of corporate governance.

Enlargement and the Single Market in Europe

Thus, there remain substantial problems within the EU, where there is an extensive infrastructure, in completing the Single Market. Removing remaining constraints upon the free movement of goods, services, capital and labour have been put at the heart of the policy drive to achieve the Lisbon objectives of substantially raising productivity in the EU. Clearly, the efforts of the existing members to effectively implement the Single Market must increase in the context of enlargement since the accession of between 8 and 10 new members will substantially increase the pressures on the Single Market and stretch the abilities of the Commission to monitor and ensure compliance with harmonised directives and the principle of mutual recognition.

The Europe Agreements between the EU and each of the candidate countries in Central and Eastern Europe provide for the widespread approximation of relevant laws in the CEECs with EU internal market legislation. These provisions have become of particular importance given the subsequent drive towards membership of the EU and the requirement that the applicant countries adopt the legal and institutional framework of the EU, the *acquis*. Thus, the implementation of EU directives relating to technical regulations has

become an essential element of the accession process.

As part of this process the EU has accepted that the CEECs should be granted sectoral access to the Single Market prior to accession if the necessary changes to their domestic legislative systems have been made and implementation of regulations and the EU system of testing and conformity assessment is deemed to be satisfactory. Even when the relevant EU laws relating to technical regulations have been adopted in the CEECs, technical barriers will remain if duplication of conformity assessment procedures persists.

The process of achieving access to the Single Market prior to accession is governed by mutual recognition agreements called the Protocols on European Conformity Assessment (PECAs). Following the satisfactory alignment of laws, individual CEECs can negotiate sectoral access to the Single Market, subject to the technical competence of conformity assessment bodies being of a level equivalent to that in the EU and the acceptance by both parties of the results from notified conformity assessment bodies.

The European Commission has concluded agreements with Hungary and the Czech Republic both of which cover machinery, electrical safety, electromagnetic compatibility, gas appliances, hot water boilers and good manufacturing practice for medicinal products. The Hungarian agreement covers in addition good laboratory practice for medicinal products and medical devices whilst the agreement with the Czech Republic also includes personal protective equipment and equipment for use in potentially explosive atmospheres. Products from these sectors that satisfy conformity assessment by any notified body in the EU or the CEECs will have freedom of movement in the EU and the country concerned. The EU has also signed a framework agreement, which covers general principles, with Latvia and is negotiating PECAs with Estonia, Lithuania, Slovenia and Slovakia.

The PECAs have primarily been concerned with those sectors where technical regulations have been harmonised in the EU and have concentrated on New Approach sectors. Thus, the pre-accession commitments of the CEECs have involved the adoption of EU New Approach directives and the standards issued by CEN, CENELEC and ETSI. Little or no progress has been attempted on non-

harmonised sectors where the principle of mutual recognition operates in the EU (CEC (1998)). Hence, for certain products access to the Single Market will only be delivered, at the earliest, with accession. The basic principle underlying the operation of the Single Market, that of mutual recognition, will not be applied until after accession, and so there is no clear means of assessing now how effectively mutual recognition will operate after enlargement.

This discussion of the EU approach to technical regulations, which is an essential element in the working of the Single Market, raises a number of issues regarding the post enlargement situation and, in particular, the impact that enlargement will have on the Single Market. Most of the applicant countries have made enormous progress in adopting the relevant EU regulations regarding the placing of products on the market and in upgrading testing and conformity procedures to similar standards in the EU (precise details for four of the applicant countries are available in Brenton and Manzocchi (2002)). This is a key element of the preaccession process. However, as stressed by Pelkmans et al (2000) the durability of the Single Market turns on implementation and compliance with Single Market provisions and the effectiveness of remedies that can be applied in cases of non-compliance.

With regard to the enlargement, we first of all note that the harmonisation process will become more difficult and probably slower since discussions of minimum technical requirements will take place amongst 23 to 25 members rather than just 15 with a much greater variance in incomes, traditions and national policy objectives. Thus, whilst there may be greater emphasis on the need for new approach directives for a broader range of products and issues, the ability of the harmonisation procedure and then the standardisation process to effectively and quickly deliver the necessary standards is at best uncertain. We still do not have a precise idea of the extent to which the new approach is working to actually remove technical barriers and stimulate trade between existing member states. Evidence from surveys of businesses suggest that even in the current EU of 15 substantial barriers to cross-border trade remain due to the presence of national technical requirements and their application.

Standardisation remains a slow process and cumbersome process which together with the commitment to reduce the regulatory burden on businesses suggest that increasing emphasis will have to be placed upon application of mutual recognition. On the other hand, the enlargement of the Union to 25 members and the increase in diversity that this implies is likely to make general application of the principle of mutual recognition more difficult and more contested. Administrative capacity is a key element in the application of the principle of mutual recognition. Although it is important to note that mutual recognition is a principle and not something that can be directly legislated. CEC (2000) states that 'Member States must ensure that appropriate administrative and judicial means exist to enforce Single Market rules properly, including adequately staffed and trained market surveillance and enforcement authorities and that adequate means of redress and appropriate sanctions are available and sufficiently known to economic operators'.

Members require a system that can recognise that equivalent levels of protection are being offered by the regulatory systems of fellow members. How long it takes to establish such a system and the pre-conditions for its effective operation are unclear. What can be said is that the effective operation of the principle of mutual recognition requires a degree of trust between regulatory authorities and in the testing systems whose role is to ensure conformity with the relevant technical requirements. How long it takes to engender such trust is not clear. Thus, it is very difficult to objectively assess to what extent the applicant countries will be ready to effectively implement the principle of mutual recognition.

Enlargement and Deeper Integration in Europe

The EU is one of the most integrated groupings of countries in the world. From the outset, and recently enhanced by the completion of the Single Market, the EU has gone beyond the simple removal of commercial policy instruments that constrain trade at the border, such as tariffs and quotas, to address behind the border barriers to trade resulting from the application of regulatory policies, such as product regulations, environmental regulations, sanitary and phy-

tosanitary standards, state aids, the protection of intellectual property, and so on. Nevertheless, the EU is far from a perfectly integrated economic area. For both goods and services, and financial flows, trade between European countries is quantitatively small. Relative specification of minimum standards under the new approach act to undermine nationally disparate preferences by reducing the degree of permissible product differentiation and so suppress diversity.

Thus, although there are clearly additional gains to be had from the more effective implementation of the principle of mutual recognition in Europe, there are limits to the extent to which this process will increase economic integration. Similarly, Holmes and Young (2001) argue that a key feature of the EU's regulatory approach is that progress with market integration has been possible only by allowing members to pursue their own legitimate public policy objectives such that a significant degree of variation in rules between members is permitted. In other words the EU approach of mutual recognition allows national diversity to be accommodated, to a certain degree. They argue that the EU is reaching a 'logical limitation' in that market integration is only possible if some degree of national variation is permitted but such variation constrains integration. The further that integration progresses the more intractable will be the national variations that remain. Thus, on the one hand, mutual recognition will play a crucial role in an enlarged EU allowing the accession of diverse countries to the Single Market. On the other hand, by increasing diversity in the Union and raising the number of legitimate national public policy objectives, enlargement may constrain the future level of integration in the EU. The immediate priority for the EU after enlargement will be to ensure that there is not a retrenchment from the current level of integration.

Conclusions

Most discussions of the problems that will arise from the next enlargement focus on the high profile issues that are related to the level of income in the applicant countries; migration, agriculture and the budget. However, none of these issues appears to create insurmountable problems for the current 15 members as a group. The diffi-

culties arise because they are likely to be significant for some members and not others. Equally relevant is the extent to which enlargement will affect the ability of the EU to achieve its key objectives. Here we have briefly considered the impact of enlargement on the integrity of the Single Market and at least raised the issue of how enlargement will affect the key principle of the Single Market, that of mutual recognition. If enlargement makes the Single Market less effective through erosion of this basic principle then the achievement of the Lisbon strategy will be compromised.

In addition, mutual recognition has its limits, in terms of the level of integration that it can provide for, which in turn has implications for the future direction of the EU. On the one hand mutual recognition is a powerful tool for undermining barriers to trade in goods and services whilst avoiding the need for detailed harmonisation and extensive EU level intrusion into national policy-making. On the other hand, mutual recognition preserves a degree of national differentiation and allows national governments to implement specific policies to protect 'the national good'. It is unlikely that the EU could have achieved the level of integration that it has attained today without the use of the principle of mutual recognition as the main tool for undermining national segmentation in Europe.

Now EU policy-makers want to enhance the Single Market to achieve the bold objectives defined at Lisbon. Clearly, there is scope to make the Single Market work more effectively. This is particularly true for the service sectors, where enhanced integration will not only generate direct economic benefits but will also lead to gains in manufacturing and agricultural sectors where services are a vital input into modern processes. Nevertheless, there are limits to the extent that mutual recognition can integrate the markets of different countries. Whether efforts to increase the effectiveness of mutual recognition will be sufficient, particularly in the light of enlargement, to achieve the Lisbon objectives remains to be seen.

NOTE

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SOURCE

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FOOTNOTE

1 <http://news.bbc.co.uk/1/hi/world/europe/1912956.stm>

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EU: The Costs and Benefits of Enlargement and Accession – Some Policy Responses for Before and After

Renate Langewiesche

1. Why this enlargement is special

Compared to other countries that have undergone transformation, the central and eastern European countries (CEECs) which have applied for membership of the European Union (EU) are having to add one more dimension to the multiple and interdependent transformation process towards democratic systems, market-driven economies, administrative and juridical reform and, last but not least, the profound change from closed to open societies (in the Popperian sense). This additional dimension is, of course, the need to converge towards the Community *acquis communautaire* (meaning the whole body of political, legislative and institutional achievements), with its more than 25,000 legislative acts, and consequently to make the necessary adaptations in their economic, political, institutional, social and environmental policies (see also Aintila and Langewiesche, 1998; Langewiesche, 1999a; Tóth and Langewiesche, 2000).

The candidate CEECs come from a background and history that differs from that of all the previous accession countries – even Greece, Spain and Portugal – and, since the processes of change and adaptation are occurring in a relatively short time, seen from the perspective of more than forty years of command economy and unitarian

party political systems, reaching out towards the *acquis* has become a strenuous exercise. Therefore the eastern candidates – as well as the EU – are facing the challenge to find the right timing for accession/enlargement, one which will do justice both to the need of the CEECs (left out in the cold after 1945 and undergoing huge adaptation efforts since 1990) for integration, as well as to that of the EU *acquis* (the result of almost fifty years of the building of European unity) to be defended and further developed in the face of global challenges. Of course, the eastern candidates have never had the possibility to define the EU, a prerogative of those states which happened to be located on more fortunate territories in Europe.

Negotiations for membership with the first candidates officially started in March 1998 and, after two-and-a-half years, the ‘Luxembourg group’ (Poland, Hungary, Czech Republic, Estonia and Slovenia) has provisionally closed about half of the 31 chapters that make up the *acquis*, while the countries of the ‘Helsinki group’ (Latvia, Lithuania, Slovakia, Bulgaria and Romania) only started membership negotiations in February 2000. All of them have announced their wish to ask for transitional periods concerning parts of the *acquis* – predictably, those which are costly or sensitive to implement, such as environmental or health and safety requirements, or the free movement of capital – while a few, and this is certainly true of Poland, which has never seen itself as an eastern country but as the most eastern west European country, sometimes seem to be giving political considerations precedence over what might appear to be technicalities. There is a tension between fulfilling the ‘grand design’ of European unification and respecting the product of decades of sometimes very difficult policy-making based on muddling-through, compromise and just a few great leaps forward. Klaus Hänsch, former President of the European Parliament, argues that it is important to make the distinction between the unification of countries and their accession to an already existing, defined and constantly developing fabric (Hänsch, 1998: 18-19). The process is, therefore, in principle not an open one, even though each candidate will develop different paths at different speeds towards the goal of accession. There will be, it can be foreseen, at the end of the accession negotiations certain compromis-

es which will lead to time-limited transitional arrangements for parts of the *acquis*, but the *acquis* itself cannot be watered down as a result of the accessions. In fact, the candidates feel they are aiming at a moving target, since the *acquis* itself continues to develop.

On the other hand, approximation towards EU membership constitutes an asset for the candidates because:

1. The applicants have a sort of 'blueprint' and benchmarks to follow – democracy and capitalism by design or, in Offe's words: The only circumstance in which a market economy and a democracy can be simultaneously implanted and prosper is the one in which both are forced upon a society from the outside and guaranteed by international relations of dependency and supervision over a long period of time. (Offe, 1996)
2. The perspective of membership provides incentives for growing economic and institutional integration, for example through rising flows of foreign direct investment (FDI) and trade, as well as common institutions and programme operations, and, therefore, for faster development towards membership.
3. For the first time (because it is politically important to overcome the largest gaps between the two sides and to unite Europe), the applicant countries are supported by a gamut of assistance of a political, technical and financial nature that facilitates the enormous convergence effort.
4. After the breakup of the old Soviet system, the central and eastern European candidates are seeking the certainty of belonging to a Europe characterised by political, ethical and social value systems and participation in the internal market which, at least in the medium- and the long-run, will compel their income levels to converge to EU levels.

Of course, the current EU also benefits by broadening its sphere of influence, pursuing integration towards peaceful and prosperous relations and strengthening its role in a global context. The vast majority of researchers and politicians sees unification as a win-win situation where both sides will gain. Distributional effects will be relatively low, although some problem areas will have to be addressed and mitigated through the political process.

2. Costs and benefits, winners and losers

Studying the costs and benefits of enlargement and accession is difficult because they depend on at least three inter-dependent variables: modernisation and structural change; the enlargement process itself; and global developments (Inotai, 2001, forthcoming).

Considering these issues, the point of departure is the huge income gap between current and future eastern EU members. Economists generally agree that enlargement of the EU to countries that, in 1999, generated a per capita income of 10-15% of the EU average at current prices, or of 33-40% if calculated in purchasing power parities, will have a small welfare-generating effect on EU economies: it is estimated that, up to 2006, the net gains for the EU from the integration of the 'Luxembourg group' will be 0.1-0.2% of GDP; in some cases, this could rise to 0.4%, a value amounting to about one-tenth of the effects brought about by the creation of the internal market two years after its inception. On the other side, accession to the EU is estimated to result in net gains of 5-7% of GDP for the new entrants. However, two caveats have to be made:

- as a result of statistical problems and the impossibility of foreseeing developments exactly, it is extremely difficult to assess the overall net effects of eastern enlargement (see also Quaisser et al., 2000: pp. x-xviii); and
- any calculation must take account of the different development of the accession countries; there are huge structural, quantitative and qualitative differences between even those countries deemed to be among the first to accede.

As in the past, so in the future: European integration will bring about a process of income convergence. However, this process will take a long time because of the massive income gap. Before the Second World War, the per capita incomes of today's accession candidates were about 50-60% of the incomes of today's member states but, between then and 1990, this gap widened greatly (see above). In the short-run, neither transfer payments nor other forms of economic integration resulting from private enterprise (FDI and trade) can perform miracles. At the average for European market economies, we can see an annual rate of convergence of 2%, meaning that it will

take 30-35 years for the income gap between the current EU and the candidate countries to have halved (see also DIW, 2000; Brücker, 2001, forthcoming).

The overall ceiling for the EU budget for the period 2000-2006 will remain at 1.27% of GDP, so it is obvious that the current beneficiaries of the European Structural Funds will have to share some of their transfers with the new entrants. The cost of enlargement, seen from the point of view of southern member states and Ireland, which were able, over many years or even decades, to converge towards the EU average thanks to transfer payments and other forms of economic integration, will remain relatively modest. They will lose, according to the country and to the different methods of calculation, 0.3-0.8% of their GDP, but they will remain net receivers and will continue to obtain 1-4% of their GDP from transfers (Quaisser, et al., 2000: p. xviii).

At the same time, the 4% ceiling on GDP for transfers to new entrants will, at first, remain rather modest because of their still relatively low absolute levels of GDP. This is not to say that such transfers would have a negligible effect. In addition, absorption capacities were taken into account when this ceiling was set.

If we look at regions, sectors and segments of the labour market, the costs and benefits of integration will be distributed unequally and at different levels over time. However, as far as current EU members are concerned, the overall costs and benefits will be quite small since the accession countries are 'small' in the economic sense. Consequently, the following should also be taken into consideration (see also Brücker, 2001, forthcoming):

1. Concerning trade, the EU inter- and intra-industrial exports to the accession countries have a relatively high level of capital and technology intensity, while imports from the accession countries have a relatively high level of labour intensity, meaning that the levels of unit costs are still very different, so the central and eastern European candidates do not (yet) compete in the same market segments as EU producers. This means that:

- a. all producers gain from trade; and
- b. the losers in current EU countries are found in the low-

skilled categories of tradeable goods (as well as non-tradeable services of a low human resource content). Textiles, leather-wear, ceramics, and basic chemical and consumption-related production are cases in point. Overall, the positive and negative effects of integration are not deemed dramatic because of the low economic impact of this integration. Moreover, it is impossible to make a clear distinction between the effects of integration and those of globalisation and technological change. In the course of time, the distribution of labour between the EU and a number of future members will become differentiated. We can already see the changed pattern of economic and trade structure in Hungary, which now boasts that almost two-thirds of its exports to the EU come from technology and human capital intensive content (see Inotai, 2001, forthcoming).

2. For capital movements, contrary to what is very often feared in west Europe, namely that investment capital is emigrating towards CEECs, the movements we have seen so far are comparatively modest. They represent 0.15-0.2% of GDP in the EU. With these volumes, neither interest rates nor, therefore, wages and relative factor prices in the EU could be influenced. (From the perspective of CEECs, the volume of net capital imports amounts to an average of 3-4% of GDP and to 20% of total investment, which is clearly prompting economic growth – although, again, with huge differences between the countries.) We can see that only 15-20% of FDI has been clearly motivated by attraction to low wage areas, but this is a development that we have also seen before with other regions in Europe, and indeed worldwide. Two-thirds of FDI, however, targets the development and implantation of western companies in new markets. These coincide with labour intensity rates comparable to those in the EU and with high rates of exports. About 45% of all direct investment concerns the development of infrastructure, communication and financial intermediation. Thus, the bulk of FDI has not entailed major losses of employment in the west. Of course, the medium- and long-term future in this respect depends on the development of productivity and wage levels in

CEECs and on the continued creation of complementary economic relations between the two sides.

On the side of the accession countries, first of all there were losers from the collapse of the former command economies and the ensuing transformation recession up to the mid 1990s, with sharp drops in industrial production and the swelling of the unemployment figures. As a result of the impossibility of paying state subsidies in a situation of growing budget deficits, and of the need to face global competition and to start to adhere to EU competition policy, old industries and the people working in them have suffered the most, while the new implants arising from FDI could not absorb all the redundant labour.

Policy failures, too, have played their part in aggravating the situation. The example of Polish coal mining is a fine illustration. In 1988, output amounted to 193 million tons and in 1990 to 148 million tons, and over 400,000 people were employed in the sector. In the early 1990s, surplus output was estimated at approximately 80 million tons and surplus employment at about 250,000 workers. By 1997, employment had decreased by about 170,000 (while productivity increased by 53% and average daily output by 119%) but, on the other hand, the anticipated fall in output did not materialise and the financial situation of the mines deteriorated. According to the current government programme, another decrease of employment of 105,000 workers and a lowering of production capacity to approximately 112 million tons per year are foreseen by 2002. It must, however, be said that the social security system for this vocational group is rather generous, which puts a burden on the national budget. In this case, it cannot even be said that this is spent in support of regions with a high rate of unemployment.

Another sector is the iron and steel industry, where 144,000 people were employed in 1989. By 2002, restructuring will have produced 100,000 redundant workers. Consequently, in addition to the need for structural change, policy deficits have added to the difficult situation:

In particular, no major changes were made in the management of steel mills and surplus employment was not reduced by as much as expected. Privatisation was very limited in scope...

The agricultural sector is another which will suffer following accession (Quaisser, 2000: pp. 66ff). This sector has diminished in terms of production levels since 1989 in almost all the 10 CEE candidates, but in countries like Bulgaria and Romania it has grown, mostly due to the nature of land reforms and the need for subsistence farming as a means of survival in a very difficult transformation scenario (see also Langewiesche, 1999b). In Poland, more than 26% of the workforce is still found in agriculture, contributing just 5.7% to GDP (the 10 CEE candidates as a whole – 23.3% of the workforce and a 7.7% contribution to GDP; across the EU the comparison is 5% of the workforce and 1.6% of GDP). Behind these figures, there are huge productivity gaps, ranging from 10% in Poland to 85% in Slovenia (with an average of 15% across all the eastern candidates), if we take productivity in the EU as 100%.

Against this background it is clear that taking over the Community *acquis*, or the Common Agricultural Policy (CAP), will pose a huge challenge to a number of candidates: accession does not only mean opening the borders to better-equipped competitors (a process that has already been underway since the mid-1990s with the gradual liberalisation foreseen under the Association Agreements signed between the EU and the candidate countries), but it will have as a consequence the adoption of the CAP. In this case, millions of farmers and farmhands will see their jobs disappear as a result of their comparatively low productivity and of the lack of the resources with which to adopt the EU's strict phytosanitary regulations. At the same time, the adaptation of agricultural produce to EU price levels will price CEE farmers out of world markets, whereas direct subsidies for farmers' incomes paid out under the CAP would result in an undermining of the relative social peace in these countries because other categories of worker will not benefit from such payments.

In addition, the EU's current system of the subsidisation of prices under the CAP will, in any case, not be sustainable after CEE countries join, at which point potential production in the sector will have been raised by 50%. Therefore, as an intermediary measure, under the financial planning regime up to 2006, the CAP will not apply the present system of support to new members. It is clear that

this policy must be changed in the medium-term in order to guarantee equal treatment and also to comply with WTO rules. It can be imagined that, even between current member states, the establishment of compromises in this sensitive sector, involving substantial sums, will be another difficult venture – all the more so in the light of the financial implications resulting from the fight against the much-feared ‘mad-cow’ epidemic, entailing compensation that largely surpasses the annual pre-accession sums earmarked for all the 10 CEE applicants.

3. Growth potential and labour markets

Most CEE applicants left the deepest point of their recession in the mid-1990s. There were, and there will remain, huge differences between them and it is safe to say that those who have put into place rapid macroeconomic consolidation and microeconomic reform have been the most successful in attracting considerable amounts of FDI, as well as in conquering new markets and in developing new skills and human resources. There has also been an important change in the industrial structure, with a move towards the creation of small

Table 1 – CEE real GDP growth

	1997-1999	1999
Bulgaria	- 0.4	2.4
Czech Republic	- 1.2	- 0.2
Estonia	4.6	- 1.1
Hungary	4.6	4.5
Latvia	4.1	0.1
Lithuania	2.6	- 4.1
Poland	5.2	4.1
Romania	- 4.9	- 3.2
Slovak Republic	4.3	1.9
Slovenia	4.5	4.9

Source: IMF, 2000: p. 140 (q.v. also for other economic parameters)

and medium-sized enterprises. With three exceptions, inflation has been reined in, although the current account balance is, in most cases, still an object of concern.

For 2000, the European Commission has forecast an overall average real increase in GDP for the ten CEE applicants of 4.2% and continued high growth is expected for the next two years. Higher levels of growth than is anticipated for the EU is forecast in particular for Poland, Hungary and Slovenia, among the front-runners for the accession of CEECs to the EU, which means some real catching-up with the EU. However, in all CEE applicants, due to the enormous numbers of lay-offs during restructuring, the development of employment is not able to keep pace with economic growth. In 1999, across all of the ten CEE applicants, employment fell by 1.3%, representing a net loss of almost 570,000 jobs. However, for most of these, positive employment growth is expected from 2001 onwards.

Table 2 – Unemployment (as % of civilian labour force)

	1999	2000	2001	2002
Bulgaria	17.7	18.0	17.6	16.8
Czech Republic	9.5	9.1	8.9	8.8
Estonia	12.3	13.3	12.5	11.2
Hungary	6.8	6.5	6.2	5.3
Latvia	9.6	8.4	7.9	6.9
Lithuania	8.3	8.2	7.8	7.3
Poland	14.2	16.4	16.1	15.7
Romania	6.8	7.2	7.7	7.8
Slovak Republic	17.7	19.2	18.8	18.4
Slovenia	7.6	7.1	6.6	6.2
All 10 CEECs	11.2	12.1	12.0	11.6

Source: European Commission, 2000a.

Looking at CEE labour markets, however, we must take into account the different realities hidden behind the employment and unemployment figures. In the case of low-unemployment Hungary, for example, we find the lowest employment participation rate in the region, at 53% (in contrast, the EU figure stands at 62%, which is approximately also the average for the eastern applicants). High-unemployment Bulgaria, too, has a participation rate that is about 8% below the average. The comparison of labour market participation rates should also take account of the high levels of reported

employment in agriculture, much of which represents under-employment. This is particularly true of Romania and Poland.

The process of transformation in all CEE countries has caused a steep decline in participation rates, but most are likely to stabilise their rates at levels comparable to those in the EU (which has set itself the goal of raising the rate to 70% by 2010), and forecasts seem to be positive on this front. CEE labour markets have remained more open to women and young people than most labour markets in the EU, but there is clear evidence of a higher degree of long-term unemployment and social exclusion on the part of the less skilled. Female employment in 1999 stood at 46% of total employment, while youth employment has followed general employment developments, with the exception of Estonia and Poland, where it rose sharply (European Commission Employment Report, Chapter 4). This EU report concludes:

One important measure of success in mobilising human resources is the aggregate employment rate – the level of total employment as a proportion of the population aged 15-64. Increasing this rate is now a central objective of EU employment policies. (p. 70)

Indeed, in 2000 the EU has started to extend to applicant countries its Employment Strategy agenda, established at the Amsterdam Summit in 1997. That this challenge is a major one becomes obvious given the figures provided above. The problem in the future will not only be to reduce unemployment and raise participation rates, but also to match education and vocational training quality standards – not only in the EU, but also in the eastern applicants – because the division of labour between the two, as some more advanced CEECs demonstrate even today, will not always be based on quality and productivity gaps. FDI and the overall trend towards the development of knowledge-based societies will not stop at the current eastern border of the EU.

It must be said here that the Employment Strategy is not a part of the *acquis*, although member states do have to apply active employment policies with the European Commission adopting a co-ordinating role. Joint assessments with the applicants, followed by plans for active employment policies, are being developed. The social partners

within the EU and within each country have an active role in this process, which undergoes an annual scrutiny at the EU level (see *Transfer*, Vol. 5 No. 4, Winter 1999). This is one EU policy initiative which is of interest to trade unions on both sides, and it is a part of the social dimension of the European integration process.

Other aspects of the social dimension are situated in the *acquis* (for example, health and safety at work, labour law, the social dialogue and equal opportunities). The forms that the social dialogue and industrial relations can take in member and applicant countries are, of course, not prescribed by EU regulation but by the patterns each country has developed in the course of time – between path-dependency and adaptation to practices observed in the current EU. The rest of this article will, therefore, address the issue of the role that industrial relations and social partnership will have to play in the course of accession, as well as the challenges that lie ahead in the pre-accession phase – and most probably also beyond the date of accession.

4. The challenges of building social partnership in the run-up to accession

All serious studies show that there are still considerable shortcomings in the social structures of the states of central and eastern Europe. These must be addressed if integration into the EU is to take place without major problems and conflict. Otherwise, CEE states, once they have joined, will not be able fully to participate in important Community policies. There would also be the danger that the already weak social dimension (compared to internal market regulation) might be watered down instead of being strengthened, and that the necessary adaptation of labour market and structural reform policies will take place without a significant contribution from the social partners. This would be in flagrant contradiction of the course the EU has taken, especially since the Amsterdam decisions. In addition, there is clearly the danger that the results and overall coverage of collective bargaining will lose track of positive developments in the economy, which undermines not only the creation of local markets but also systems of social protection, and which could enhance the

(currently) still relatively low drift of parts of the CEE workforce towards labour markets in those western countries deemed to have absorption capacities.

The following points draw on part of the considerations of Weiss (2001, forthcoming) on the tasks ahead for converging labour law and social dialogue.

1. CEE candidates still have to complete the process of switching from a state-controlled to a market-based economy, and then have to develop systems of labour relations that not only function efficiently but are adapted to the particular socio-cultural environment of the country concerned. This will be a process between path-dependency and social engineering, which becomes necessary if industrial relations systems and their role are to be developed in the sense of playing their full part under membership conditions. The differences between the various states are huge, and it would be a mistake to lump all of them together in this respect. Nevertheless it is possible – to varying extents – to identify the points that they have in common. The only exception is Slovenia which, as far as trade union coverage and social dialogue are concerned, can be regarded as the exception (see also Kohl et al., 2000).

2. In the states of central and eastern Europe, the development of a system of labour and social legislation, and of an industrial relations aimed at social justice, has not kept pace with the process of developing democratic freedoms, which has been given priority. Democratic freedoms are, of course, also important for industrial relations: freedom of expression, freedom of conscience and religious freedom are all very important for working life too. But they are not enough in themselves – they only represent one side of the coin.

3. The uniform character of the labour movement typical of the countries of central and eastern Europe has been replaced by pluralist ideas following the breaking of the iron curtain. It is possible to observe a certain weakening of the ability of individual trade unions to represent the interests of the workforce as a result of rivalries between them, at least in a number of CEECs. In itself, plurality certainly does not necessarily weaken the trade union movement, as the examples of France and Italy demonstrate. However, if it leads to a

situation where unions are more concerned with competing with each other than with tackling their real opponents, then this inevitably reduces their effectiveness.

4. The creation of a private sector in the economy has gone hand in hand with an extensive erosion of the system of trade union representation in this area. The small and medium-sized enterprises that form the backbone of private industry in CEE states are structured in such a way that there is virtually no trade union representation – for them, unions simply do not exist. And, as there are no other representative organs, it can be said that industrial relations has been almost completely individualised. The rate of trade union coverage has dropped considerably in CEE countries, ranging from 43% in Slovenia to 35% in Poland, 30% in the Czech Republic and 22% in Hungary, with a coverage of collective agreements ranging from 90% in Slovenia to 45% in the Czech Republic, and to 30% in Poland and in Hungary (see Kohl, 2000: p. 32). Within the large number of small and medium-sized companies in the private sector, labour and social law plays no role whatsoever. It is made easy for companies to sign contracts on the basis of general civil law and thus to avoid the statutory labour and social provisions aimed at providing employees with a degree of protection. This leads, of course, to a constant process of the de-legitimisation of what we refer to as labour and social legislation.

5. Tripartite dialogue plays a most important role in the process of restructuring industrial relations in CEE states. However, two things have to be realised. Firstly, this social dialogue is still asymmetrical. In other words, the state still dominates relatively weak trade unions and even weaker employers associations. That is why it is possible to describe these discussion forums largely as serving only to legitimise state policy. Secondly, there are signs that these tripartite discussion forums tend to hinder rather than to facilitate the development of autonomous, bipartite negotiating structures – in other words, proper collective bargaining – between the social partners. Still, there is at present no alternative to this tripartite dialogue and, to that extent, one is confronted with an agonising dilemma. Dialogue is necessary in order to create acceptance for all the transformation work that has

to be carried out. But the problem is that, if one is not careful, this tripartite dialogue could prevent the creation of bipartite structures.

6. Structures for concluding collective agreements so far exist only in a rudimentary and relatively inefficient form. The main level for negotiation is the company or the plant and sectoral negotiations are definitely the exception. Furthermore, negotiating structures cannot be formed at this level until private sector employers see the need to combine together into organisations that represent their interests (see also Draus, 2000). Over recent years, the status of collective agreements has tended to decline rather than to improve.

7. A particularly sensitive point is that plant-level representation of the workforce does exist in CEE states, but that its legal status is extremely weak. In a situation where there is a lack of appropriate training available, the ability of the players involved to act effectively is limited. But even more important is that the concept of a division of labour between forms of institutionalised plant-level workforce representation and trade union representation is unknown. As trade union activity is also concentrated at the plant level, the interests of employees are not promoted but rather hindered as a result of the evident rivalries between both. There is an urgent need to develop a well-functioning overall system in which workforce interests can best be represented.

8. An impressive volume of labour legislation is currently being produced – not least in order to satisfy the requirements of adapting to the social *acquis*. This ties in with the legalistic approach that is still commonly found in central and eastern Europe, whereby a problem is regarded as having been solved if a law or regulation has been passed to deal with it. The gap between the normative level and day-to-day practice in implementation remains considerable, as recent studies have confirmed. There are many reasons for why implementation is so unsatisfactory, ranging from resentment of intervention on the basis of labour legislation to a lack of controls and the inefficiency of the existing system for resolving legal conflicts. However, accession to the EU does not only require the existence of the respective laws but also their implementation and, therefore, the creation of appropriate administrative and judicial

structures – as well as a certain ‘culture’ of industrial relations.

9. The Community *acquis* is, to a large extent, fragmentary when it comes to social policy initiatives. It does not cover precisely those areas that are in the most urgent need of restructuring. Gaps in EU legislation are not just due to a lack of EU powers in this area (which has been a problem for a long time) but, above all, to it having to deal, from the very outset, with extremely disparate systems of industrial relations in the member states. As a result of seeking to make sense of this heterogeneity and for sound functional reasons – that these should be retained at least in terms of the structures involved – it is not up to the EU to try to replace historical differences in industrial relations with a uniform system. However, the implementation of the *acquis* depends, to a large extent, on the effectiveness of industrial relations in the member states.

10. It is, therefore, hardly surprising that the EU has absolutely no regulatory powers related to the system of collective agreements which so urgently needs further development in CEE states. Paragraph 6 of Article 137 of the Amsterdam Treaty reveals that the EU has no say on such matters – they do not form part of the *acquis*. Other important areas – for completely different reasons – are also outside the EU’s regulatory powers and, therefore, have nothing to do with the *acquis*. Thus, for example, the EU cannot pass regulations about wages and salaries and, as a result, it cannot – at least via this route – help to improve the appallingly low earnings of the average employee in CEE states. Neither is the setting up, for example, of an efficient legal system for conflict-resolution within the powers of the EU. Other examples would be the interesting question of the right to strike or the issue of lock-outs. These are all matters that have nothing to do with the powers of the EU – and that is why the *acquis* is inadequate as a point of reference.

11. Even in those areas where the EU does have powers, it has either only made partial use of them – or else has only been able to do so. Thus there has been a proposal – but so far no directive – on minimum standards for information and consultation systems at national level. The Commission tabled this proposal some time ago, but it has made little progress until very recently. Even so, it still

remains to be seen exactly what will become of it. The same goes for systems of the participation of workforce representatives in the organs of the so-called European company. All that exists on the subject of collective representation of employee interests is the well-known Directive on European Works Councils, plus various others providing for the information and consultation of employees on certain issues – for example, the directive on collective redundancies and company transfers, or the framework directive on the protection of health and safety at work. These are potentially important, but it is not sufficient just for legal documents to be produced in the states of central and eastern Europe which provide for information and consultation in such areas – what is much more important (as the European Court of Justice has pointed out) is for workforce representatives actually to be made available as contact persons. It is, however, gratifying that the Directive on European Works Councils is already becoming a reality and that employees in CEE states are being involved in the representation structures of at least a number of transnational companies. This can trigger a learning process whose impact should not be underestimated and which could be much more important than the simple translation of the directive into national law under the accession requirements.

12. The *acquis* contains significant provisions concerning a number of major issues. In addition to the Directives on collective redundancies and company transfers, and the many directives on health and safety at work, the other main ones concern the equal treatment of men and women, protection in the case of employer insolvency, working time and the protection of particular groups (young people, pregnant women, parents, part-time workers and those on short-term contracts). The integration of these regulations into the legal systems of CEE states would represent an important step. But it would, in the short term, be asking too much for these provisions not just to be translated into national law but actually implemented as well. This applies, in particular, to the extremely expensive issue of safety at work, for which a number of CEE applicants have announced a request for transition periods. We will have to come to terms with this being a slow process and

that merely producing legal standards is not going to be sufficient.

13. The EU social model is not, however, merely the sum of the individual regulations that make up the *acquis*. The central point is the involvement of the social partners in generating European standards. Here, the inter-sectoral and the sectoral social dialogue are crucial. Both require not only well-structured trade unions and employer associations in the member states, but also well-functioning collective bargaining systems. Otherwise, there is simply no scope for the partners to become involved in these bodies. That is why it is in the interests of the social partners both at the European level and at the level of the present EU member states for every effort to be made to develop such structures within CEE states. Only then, incidentally, will it also be possible genuinely to participate in the process of the optimising of European employment policy that was launched with the employment chapter of the Amsterdam Treaty. And only then is it at all conceivable that a co-ordinated policy for collective bargaining within the EU might, one day, become a reality. This means that, until we have trade unions and, above all, employers associations operating at the sectoral level, this possibility will not exist.

14. The task of the trade unions as described above would be made considerably easier if it were possible to look beyond the *acquis* itself and articulate more clearly the importance of developing a European social policy. This could happen through the incorporation of basic social rights into the Treaty – in the form of statements to the effect that a system which provides information and consultation, freedom of association and collective agreements is important, that there is the possibility of going on strike, etc. All this should be included in the Treaty. In this context, of course, the Charter of Fundamental Rights, including social rights, must be incorporated into the Treaty. It is only as a constituent element of the Treaty that these basic social rights would provide the necessary signal of intent. And only then would it be possible for individuals to quote these legal provisions and insist on their being implemented, because the various players within the EU would be bound by them. That is a prospect that one can at least hope for, even though a sufficiently large minority of current member states is still holding back the Charter's incorporation in

the Treaty. With the incorporation of this Charter, it would at last be clear that this EU is not just an organisation for large-scale capital but rather a project in which the social dimension is every bit as important as the economic one. Of course, even in the Charter in its present form there are certain aspects – concerning, for example, freedom of association, the free negotiation of collective agreements and the right to strike – where there is the problem that the EU has absolutely no powers in this area. In other words, we are laying down a binding basic right across the EU, although we know that the EU can do absolutely nothing about enforcing it! According to the text of the Charter, it does not set out to extend the powers of the EU. This is why the ETUC and its affiliates in both member and applicant countries have been fighting for the EU to extend its scope to these areas and for a legally binding Charter which would include social rights.

4. Policy instruments at hand

Trade unions in both the EU and in central and eastern Europe, and also employers organisations – as was confirmed at a major joint conference in March 1999 – have a very important role to play in terms of the information and the mobilisation which must be carried out as regards their members concerning the enlargement and accession processes during both the negotiation phase and after these processes have taken place.

Heterogeneity is still one of the most important features within and between EU members. These heterogeneities will grow with enlargement, but integration is the only robust means to overcome the gaps, which have to be tackled through policy-making at the appropriate levels.

For the ETUC, it is a priority to implement targeted structural and employment policies. Employment systems in the accession countries will have to be adapted, but this will not be enough by itself. We need to make sure that there is a democratisation of the institutions and of the processes, while the role of the social dialogue is extremely important in this respect. We need to develop strong partnerships between the social partners and the public authorities. But we need

also to develop a strong partnership between the social partners themselves, and they will have to take up their responsibilities in the autonomous roles that they will necessarily be asked to play. Investment policies are of the utmost importance. We need growth policies at the macroeconomic level and we need social policies, namely those linked to social protection systems and the fight against poverty and social exclusion, as well as education and vocational training, etc. It is also clear that many of the problems with which we are confronted in the countries of the EU – high levels of unemployment, high levels of social exclusion, inequalities between women and men, lower wages in some EU countries compared to the most developed ones, significant sectors confronted with economic restructuring and also a considerable informal sector – are realities which will need to be addressed on both sides.

So, there is the need to concentrate on the question of the instruments that can help us manage all these challenges. The need for the involvement of CEECs in European works councils has been mentioned already, but it is important to argue here also for the following measures:

1. The first is the European Employment Strategy and the Luxembourg process. The Lisbon European Summit has agreed on a new objective: full employment. The European Employment Strategy is an important instrument in ensuring that we take up some of the most important of the challenges facing us, with a view to improving the operation of labour markets in both current and future members of the EU. The European Employment Strategy is not just about unemployment, it is also about employment. It is not just about passive policies, but it is mainly about the need to promote active policies concerning lifelong learning, the need to reform educational and vocational training systems, and the need to give each and every person the necessary instruments to ensure that they are able to adapt and to adjust to new conditions in the labour market. We are talking about the need to modernise work organisation and to find new ways of working inside companies; we are also addressing the issues of the promotion of equal opportunities between women and men, and the need to create new and more jobs. This is also a key element in the

countries of central and eastern Europe and, finally, it is also an important instrument with which to tackle the different problems at different levels, not just at the national but also at the regional and at the local levels. This is an important element in terms of accession and, particularly, in terms of the migratory pressures perceived at cross-border areas. So, one important task is the preparation of national action plans in the accession countries, as was mentioned above. These national action plans should, of course, be adapted to the needs of the different countries and should help the promotion of structural change in those countries.

2. Alongside the European Employment Strategy, there is the need to reform systems of social protection. One of the most important features of the European social model is solidarity, and social protection systems must both make sure that social rights exist and that they are utilised to promote the convergence of social situations. They must also ensure that they are aimed at avoiding the risks of social dumping and, again, it is essential that, as in the promotion of a national employment strategy, the social partners are truly involved also in the reform of social protection schemes.

3. A number of financial instruments exist in relation to pre-accession countries. We have PHARE and we have the pre-accession structural policies. These are very important instruments. What we know today is that they are mostly managed and controlled by public authorities. It is important that the social partners, on the one hand, become much more involved in the implementation of these pre-accession structural policies and, on the other, that they be allowed to use PHARE much more than has been the case in the past – in particular for the development of industrial relations and the social dialogue. Also, the technical assistance which is being given to public authorities in these countries should be expanded to encompass the social partners. This is essential. The social partners have a key role to play in this respect, particularly in making sure that both the financial pre-accession instruments and the structural assistance provided following accession are effectively utilised and that they take into account social and gender dimensions in all policy fields.

4. Another instrument within the range of trade unions is the par-

ticipation of the accession countries in the different EU programmes in the fields of employment, education, vocational training and Community initiatives. Such participation is a very important element in providing a boost to transnational co-operation, as well as in the exchange of information and experience and in the development of networks and partnerships. It is also important that these initiatives be extended to include the partnership of the accession countries in the instruments which are being prepared within the framework of the European Union in relation to the fight against social exclusion and against all forms of discrimination. Reference has already been made above to the Charter of Fundamental Rights.

5. Here, it must be remembered that there is the need to develop specific cross-border co-operation as well as specific cross-border policies. Cross-border areas are those where there are most likely to be tensions and migratory pressures. It is clear that the differences in living standards and income levels are contributing to this and it is clear also – the experience we have with current EU member states confirms this – that this gap will take many years to bridge. Consequently, there are a number of instruments which already exist in the EU that have to be placed also at the disposal of the accession countries. INTERREG, the new Community initiative, is one example. Cross-border PHARE is another. Projects under these programmes will have to be opened up to the social partners, who should also be fully involved in their implementation. Another important instrument is the EURES network. The ETUC has demanded for quite some time that the EURES network be enlarged to include the applicant countries and, at the same time, that it be able both to establish cross-border areas with the accession countries and to create employment observatories in order to analyse employment trends across border areas.

It is clear that this instrument will facilitate not just the growth of information regarding labour market situations and living and working conditions, but also in relation to the possible free movement of workers and people between the two sides. In this field, the ETUC has quite wide experience because it has a very important instrument: its inter regional trade union councils. There are, already, seven trade

union inter-regional councils covering the borders with accession countries. And practical experience is already being developed within the framework of these trade union councils. For instance, between Italy and Slovenia, a database on work contracts for different professions has already been established; while between Germany, Poland and the Czech Republic, the training of cross-border workers is being conducted on topics related to European works councils. So, there is the potential increasingly to utilise, and to do so more effectively, the trade union instruments which are already in existence.

6. Last, but not least, one of the main challenges facing the trade unions is to ensure that enlargement and accession rely on processes which boost economic and social development in current and future members. It is only then that it can rely on the predicted win-win situation of integration, which is no simple game of economic forces but which needs, as so often, strong flanking policies by all the relevant actors on both sides; at the level of the EU as well as at the country, regional and local levels. A policy of involvement and transparency, aimed at the well-being of people and the avoidance of the transfer of problems from one country, region or group to another, is also the only one that is likely to make enlargement and accession successful and popular.

NOTE

Renate Langewiesche was, at the time of publication, a researcher at the European Trade Union Institute.

FOOTNOTE

1. This is about half the level of the southern member states when these joined the EU.

SOURCE

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DEBATE QUESTIONS

1. How will the enlargement of the EU affect the European Monetary Union (EMU)? Will the new member states be able to join the Euro right after enlargement?
2. Can the EU afford such a large series of enlargements in 2004 and 2007? What are the implications for the EU budget?
3. Is migration a serious concern following enlargement? What are some of the steps that have already been taken to address this problem?
4. Will enlargement undermine the Single Market? What role does trade play in the current relations between the EU and Central and Eastern European Countries (CEECs)?
5. Will enlargement towards the CEECs contribute to further separation of the EU from the global economy?
6. How will differences in the level of income within the applicant countries as well as between the applicant countries and the current EU members affect the integration process?
7. What are some of the sectors that will suffer and some that will gain following enlargement?
8. What are some of the main challenges in building a social partnership in the run-up to accession as underlined by Renate Langewiesche? What are some of the policy instruments at hand to help address some of these challenges?
9. Is it reasonable to expect that accession to the EU will necessarily result in increased salaries within the CEECs?

Part 4

The Common Agricultural Policy (CAP) and Enlargement

Fact Sheet —Enlargement and Agriculture: A Fair and Tailor-made Package which Benefits Farmers in Accession Countries

MEMO/02/301

Brussels, 20 December 2002
The European Commission

On December 13 2002, Heads of State and Government from the EU and ten candidate countries reached agreement on a formula for enlarging the EU to encompass ten new member states as from 2004. Following the decision of the Copenhagen Summit, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia will join the EU on 1 May 2004. Regarding agriculture the following was agreed: the new member states will receive a rural development package which is specifically adapted to their requirements and has more favourable conditions than those applied to the present EU member states. The amount available for the ten candidate countries is fixed at €5.1 billion for 2004-2006. Direct aids for the new member states will be phased in over 10 years. They will thus receive 25% of the full EU rate in 2004, rising to 30% in 2005, and 35% in 2006. This level can be topped up by 30% up to 55% in 2004, 60% in 2005 and 65% in 2006.

Until 2006 the top-up payments can be co-financed up to 40% of the EU-level from the new Member States' rural development funds. However the share of EU rural development funds used for the top-up cannot exceed 20% (or 25% in 2004, 20% in 2005 and 15% in 2006). From 2007, the new member states may continue to top-up EU direct payments by up to 30% above the applicable phasing-in level in the relevant year, but financed entirely by national funds. The farmers from the new member states will have full and immediate access to Common Agricultural Policy (CAP) market measures such as export refunds and cereal, skimmed milk powder or butter intervention, which will contribute to stabilising their incomes. For details of the deal, see annex.

Franz Fischler, EU Commissioner for Agriculture, Rural Development and Fisheries commented: "With this result, the leaders of the candidate countries can return home with their heads held high. They have achieved a farm package which is perfectly saleable to their farm community. The deal is fair, far-sighted and tailor-made for the needs of the farm sectors of the ten new member states. EU membership will make the farm sector of each new member state better off. Producers and processors will have access to a huge, enlarged internal market of 500 million consumers. Farmers will receive higher prices for their produce and income stability from the CAP. Furthermore farmers and the rural sector will benefit from increased rural development support which will help them to restructure and modernise."

THE COPENHAGEN DECISIONS IN DETAIL

How much CAP money will the new member states receive?

The Summit agreement fully respects the financial framework for enlargement, as decided by the Heads of State and Government in Berlin. (For details see annex).

Agricultural expenditure (“commitments¹”) foreseen for ten new members:

	Mio €, 1999 prices		
	2004	2005	2006
Total direct payments	p.m.	1211	1464
Market expenditure	327	822	858
Rural development	1570	1715	1825
TOTAL	1897	3748	4147

An enhanced rural development policy to incite change

In order to tackle structural problems in the rural areas of the new member states, the Summit enhances rural development strategy, broadens it in scope and – in comparison to the funds available for the existing EU countries – beefs it up in financial terms. From Day 1 upon accession, a wide range of rural development measures will be co-financed at a maximum rate of 80% by the EU (see below and Annex I Budgetary cost of CAP measures). For 2004-2006 €5,1 billion are foreseen. The Summit agreement also states that spending on the Structural Funds in the new member states over the period 2004-06 is to be fixed at a rate of €21.9 billion for the three years (for details see annex). The special rural development instrument foreseen for the period 2004-2006 will facilitate the uptake of the rural development allocations.

Rural development measures eligible (max 80% EU financed)

- early retirement of farmers
- support for less favoured areas or areas with environmental restrictions
- agri-environmental programmes
- afforestation of agricultural land
- specific measures for semi-subsistence farms
- setting up of producer groups
- technical assistance
- special aid to meet EU standards

Additional rural development measures² will be financed from the Structural Funds (EAGGF Guidance sector).

A special measure to make semi-subsistence farms viable

In the candidate countries many "semi-subsistence farms" exist, which produce for own consumption, but market part of their production. To help to turn them into commercially viable units and to contribute additional income support while the farm is upgrading, a specific measure of maximum €1000 a year per semi-subsistence farm is offered.

A gradual increase of direct payment

Given that immediate introduction of 100% direct payments would serve to freeze existing structures and to hamper modernisation, the EU leaders agreed on gradual introduction of direct payments over a transition period of ten years. The starting level for 2004 is set at a rate equivalent to 25% of the present EU-System, rising to 30% in 2005 and 35% in 2006. In a second step after 2006, direct payments would be increased by percentage steps in such a way as to ensure that the new Member States in 2013 reach the CAP support level then applicable. This money can be topped up with rural development money or national funds (see below).

Phasing-in of direct payments, Budgetary outlay, (Mio. €, 1999 prices)

	<i>Percentage</i>	<i>Amount of Money</i>
2004	25%	1211
2005	30%	1464
2006	35%	1743
2007	40%	
2008	50%	
2009	60%	
2010	70%	
2011	80%	
2012	90%	
2013	100%	

The possibility to top up direct payments

The new member states are offered two options to complement direct aid paid to a farmer under any CAP scheme – subject to authorisation by the Commission:

1. By 30%, financed by the candidate countries rural development funds and national funds up to 55% in 2004, 60% in 2005 and 65% in 2006. From 2007 the new member states may continue to top-up EU direct payments by up to 30% above the applicable phasing-in level in the relevant year, but in this case the financing will be entirely from national funds,

or,

2. Up to the total level of direct support the farmer would have been entitled to receive, on a product by product basis, in the candidate country prior to accession (2003) under a like national scheme increased by 10% and with special provisions for Cyprus and Slovenia.

However, the total direct support the farmer could be granted after accession under the relevant EU scheme including all complementary national direct payments should in no case exceed the level of direct support he would be entitled to receive under that scheme in the existing EU.

Simplified implementation of direct payments

Under the simplified system, the new Member States will have the option to grant direct payments during a limited period in the form of a de-coupled area payment applied to the whole utilised agricultural area. On the basis of its total envelope of direct aids and its utilised agricultural area, an average area payment would be calculated for each country. All types of agricultural land that have been maintained in good agricultural condition are eligible for the payment. The approach is optional and transitional. The simplified scheme is available for three years, renewable twice by one year. Controls of payments will be effected by a simple physical control of land, through the Integrated Administration and Control System (IACS). At the end of the transitional period, the Commission will assess the preparedness of any new Member State to fully apply the standard

direct payment scheme before the end of the application of the simplified scheme. At the end of the five year period should a new Member State not be ready administratively to apply the normal EU system the percentage rate for the phasing-in of direct payments will be frozen and the simplified scheme will continue until the problems are solved.

Production quotas based on recent reference periods

The Council agreed on production quotas on the basis of the most recent historical reference periods for which data are available. In addition, specific problems, such as the Russian crisis or particular climatic conditions have been taken into account. For milk quotas the future switch from on-farm consumption to milk production for the market has also been taken into account. For this, a restructuring reserve for 2006, according to the size of on-farm consumption, has been established. Release of the reserve for the quota year 2006/2007 is to be decided by the Commission (see annex "fixed quotas").

More information about enlargement and agriculture is available on the Internet at:

http://europa.eu.int/comm/agriculture/index_en.htm

Annexes

1. Direct payments by candidate country
2. Market measures by candidate country
3. Rural development commitments by candidate country
4. Milk quotas by candidate country

1. Estimated expenditure, total direct payments by candidate country 2004-2006 (€m, 1999 prices)

	Czech Rep		Hungary		Lithuania		Slovakia		Cyprus		Total
	Estonia	Latvia	Poland	Slovenia	Malta						
2005	169	17	265	25	68	557	73	27	9	0.1	1,211
2006	204	22	316	31	84	675	88	33	11	0.3	1,464

2. Estimated expenditure, with indicative allocations, per new Member State for market support, Heading 1a accession 1 May 2005 (€m, 1999 prices)

	Czech Rep		Hungary		Lithuania		Slovakia		Cyprus		Total
	Estonia	Latvia	Poland	Slovenia	Malta						
2004	45.0	13.6	63.6	8.9	23.2	135.2	16.9	14.9	4.9	0.7	327
2005	109.0	33.4	151.9	21.6	56.1	349.8	48.1	38.3	11.8	1.71	822
2006	111.0	34.4	152.0	23.6	59.2	376.5	49.2	38.8	11.5	1.7	858

3. Rural development commitments by candidate country (€m, 1999 prices)

	Czech Rep		Hungary		Lithuania		Slovakia		Cyprus		Total
	Estonia	Latvia	Poland	Slovenia	Malta						
2004	147.9	41.0	164.2	89.4	133.4	781.2	108.2	76.7	20.3	7.3	1,570
2005	161.6	44.8	179.4	97.7	145.7	853.6	118.3	83.9	22.2	8.0	1,715
2006	172.0	47.7	190.8	103.9	155.1	908.2	125.8	89.2	23.9	8.5	1,825

4. Fixed milk quotas per new Member State for 2004-2006 (tonnes)

	Quota 2004	% Reserve of total production in 2000/1998	Reserve absolute (additional quota in 2004 for CY and MT)
CY	145,200 t	0%	(6000) t in 2004
CZ	2,682,143 t	2%	55,787 t
EE	624,483 t	3%	21,885 t
HU	1,947,280 t	2%	42,780 t
LV	695,395 t	3.5%	33,253 t
LT	1,646,939 t	3%	57,900 t
MT	48,698 t	-	(3000 t) in 2004
PL	8,964,017 t	3.5%	416,126 t
SK	1,013,316 t	2.5%	27,472 t
SI	560,424 t	2.5%	16,214 t
Total	18,327,897 t		671,417 t (680,417t with CY, MT)

NOTES

1. For 2004, no direct payments have been foreseen in the EU budget. They will be paid out by the member states in 2004, but will only be reimbursed from the EU budget in 2005.
2. Investment in agricultural holdings, aid for young farmers, training, other forestry measures, improvement of processing and marketing, adaptation and development of rural areas.

SOURCE

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Reaping What the EU Sows

Tomas Doucha

How justified are the farmers of Eastern Europe in arguing that EU proposals on agricultural subsidies are discriminatory?

PRAGUE, Czech Republic. Since the beginning of this year, agriculture has become one of the most visible aspects of the European Union's membership negotiations with the candidate countries from Central and Eastern Europe.

In January, the European Commission released a series of recommendations on how the EU's agricultural policies should be applied to the new members. The report recommended that farmers in the new member states receive fewer direct payments from the EU budget than the current 15 member states do.

Under the proposal, the new members would receive only 25 percent of the direct payments in their first year of membership, 30 percent in their second year, and 35 percent in their third year, finally reaching the level granted to the current members by the year 2012. The EC's arguments in favor of limiting the direct payments to the new members can be summarized in two key points:

a) The EC argues that the incomes of farmers in the candidate countries will be higher after entering the EU even if they do not receive any direct payments at all. Their incomes will go up because the prices of agricultural products in the EU will be substantially higher at the time of enlargement than prices in the candidate countries.

b) It also argues that if the EU started giving the candidate countries the full direct payments immediately after they joined the EU, labor costs could end up being two or three times as high as they are

now expected to be when the Eastern European countries join the union. This could have drastic social consequences. It would also stall the further restructuring of the agricultural sectors in the candidate countries.

The EC's proposals and arguments have been met with a significantly negative reaction in the agricultural circles of every candidate country, including the Czech Republic. Some farmers even suspect the EC of wanting to wipe out the agricultural sectors of the candidate countries.

Nevertheless, it would be beneficial to analyze the EC's arguments in a more objective light. Any analysis must take into account the conditions under which the agricultural sector in the EU operates, and on the basis of that, each candidate country should decide the extent to which its farmers are prepared for accession.

The EU's Common Agricultural Policy (CAP) has a strong influence on the agricultural sector of each EU member state. The influence of the CAP is evident in one simple statistic: Approximately 35 out of every 100 euros that a farmer in an EU country makes comes in the form of aid, which is financed by taxpayers and consumers.

For some time now, the EU has been trying to reform the CAP, which is aimed at supporting the social status of farmers and helping to preserve rural life. But it also leads to excessive agricultural production. The CAP has gradually developed into an administratively complex social safety net for farmers based on the distribution of aid and the imposition of limits on production. Operating above the safety net is an essentially free market based on unrestricted competition.

Thanks primarily to the initiative of EU Agriculture Commissioner Franz Fischler as well as under the influence of the spread of "mad cow" disease and the EU's preparations for negotiations with the World Trade Organization, ideas for reforming the CAP and creating a "European model" for agriculture are gradually taking shape within the EU. For the moment, individual member states (as well as candidate countries) and various interest groups in the EU have differing interpretations of what such a model should look like.

In general, however, the dominant idea is to put greater emphasis on the consumer, on the multi-functional nature of agriculture —

which can produce both private goods, such as food products, and public goods, such as environmental benefits — and on tighter links between agriculture and the development of rural areas.

The accession of new member-states to the EU could serve as a trigger for changing the CAP. The EC's arguments in favor of offering the candidate countries less support than current member states should be viewed within this context. At the moment, about 90 percent of the CAP money is spent on direct payments to support markets and commodities, while only 10 percent goes to support structural development in the agricultural sector. In comparison, the Czech Republic spends less than 70 percent of its agricultural aid funds on market and commodity support, while more than 30 percent is invested in development.

If the CAP is left unchanged when the country enters the EU, Czech farmers will find themselves in an environment that might, to a certain extent, work against current Czech agricultural policies, which are aimed at restructuring the sector. In fact, the CAP, with its emphasis on direct payments, would doubtlessly encourage those who would like to maintain the needlessly expansive character of the Czech agricultural sector. But, as far as key commodities are concerned, those expansionary tendencies do not reflect the climatic and natural conditions of the Czech Republic. Such policies could lead to less than effective use of the country's agricultural capacity.

Is The Czech Agricultural Sector Ready For The EU?

So are the EC proposals fair? The answer depends on the degree to which the candidate countries are ready for EU accession in the area of agriculture. How far and how deeply has the process of restructuring the Czech agricultural sector gone since the collapse of the communist regime in 1989?

We often hear from certain politicians (and some European economists) that the transformation of the Czech agricultural sector is finished, that the sector is now largely based on viable commercial farms of all legal forms, and that we are now in the phase of simply letting market forces add the finishing touches.

But Fischler argues that the main reforms have not been completed and that the process of restructuring must continue. In various speeches, he has indicated that the candidate countries need to further simplify their agricultural sectors: sub-divide, wherever necessary, any excessively large companies into smaller and more manageable units; substantially improve the organizational structure of the farmers' market; and extend the restructuring process to the entire food-production chain, including food-processing companies.

Fischler is right; there is no way one can say that the transformation of the ownership structure in the Czech agricultural sector has been completed. There are several reasons for that.

First, the phase involving the initial allocation of capital in the sector is not over. There are still some outstanding restitution claims on agricultural property and, above all, at least 500,000 hectares of state-owned agricultural land remain to be privatized.

Second, the agricultural sector is still burdened by a heavy debt load that goes back three generations and includes a substantial amount of debts related to the post-communist transition. It is widely expected that, before the country joins the EU, the state will attempt to ease the debt burden of companies in the sector or wipe them out all together, as it has with other debts in the past.

Third, foreign investment has started to flow into the Czech agricultural sector, but that is not necessarily just a positive development. On the one hand, foreign investment helps the development of the land market because it increases demand both for renting and buying land. On the other hand, Czech farmers cannot hope to compete against foreign investors, who have more capital behind them than any local company could have under current conditions.

Fourth, the average Czech agricultural company has to rent up to 92 percent of the land on which it operates, but there is no special law governing the relationship between land owners and users. Most rental agreements allow the land owner to cancel the deal with one year's notice. That makes it difficult for farmers to make long-term investment plans; it also makes it hard to use the land as collateral for getting loans or to make any necessary alterations in the use of the land.

Adapting To New Conditions

Likewise, it cannot be said that Czech companies have finished the process of adapting to the new economic conditions or that they have managed to raise their productivity to the optimal level. It is true that many Czech companies — including some large individual farms, some well-managed co-operatives, and some commercial firms — have managed to raise their productivity to the level of Europe's top agricultural firms. But a substantial number of below-average companies, which would have been forced out of the market under tougher economic and legal conditions, continue to survive.

It is safe to say that the productivity of the average Czech agricultural company does not match that of its counterpart in the EU. The average Czech company invests more land, animals, feed, fuel, and especially labor into each unit it produces. Although the two key factors — labor and land — are very cheap in the Czech Republic, that may not be true by the time the country becomes an EU member.

The reasons for the lower productivity of the Czech agricultural sector are partially based on the relative lack of financing for modernization and the spotty legal environment, including the poor enforcement of contracts and the inordinate amount of time it takes to change the ownership or zoning structure of a piece of land.

The problems can also be attributed to the management standards at agricultural companies in the Czech Republic. Managers at the large companies are generally burdened by an unusually extensive network of interest groups, which includes the owners of capital, labor, and land. Many joint stock companies in the country do not have a majority or strategic owner but rather a fragmented ownership structure, divided up among hundreds of shareholders. They also tend to lease land from dozens of different land owners. The management at many companies also find it difficult to cut labor costs by laying off employees who are also partial owners of the company.

But things are gradually changing. The proportion of such owner-employees in Czech agricultural companies has been declining steadily, gradually freeing up some decision-making room for the management. This, along with the relative flexibility of shareholders' capital, is creating the conditions for management

takeovers at an increasing number of agricultural companies.

While many agricultural firms in the Czech Republic are at this stage of development, it is still not clear who will, in the end, receive aid from the EU. Judging from the practice within the EU, it seems clear that land owners, investors, and suppliers will profit more from such aid than the farmers themselves. In the context of the Czech agricultural sector, it is probable that EU support would be unequally divided up within the agricultural companies themselves. But the EU's aim in distributing such support is to ensure a reasonable standard of living for the entire rural population of its member states.

In efforts aimed at creating a European model of agriculture, companies will have to be able to efficiently produce both private goods, such as basic foods, as well as public goods. The latter refers to the beneficial impact of farming on the environment and the quality of life in the countryside. The future structure of the Czech agricultural sector within the EU will depend to a certain extent the ability of domestic companies to efficiently produce both types of goods.

And what about Fischler's reference to the organizational structure of the sector? Czech farmers often complain about the increasing disparity between the prices at which they sell their produce and the prices that consumers pay for food products. But that seems to be an inevitable trend. In the Czech Republic, the prices of agricultural produce make up only 40 to 50 percent of the price that consumers pay in the grocery store; in Western countries the proportion is about half that size.

If farmers want to ensure a more just division of the added value in the chain of food production, they cannot just rely on state regulation but must start to organize themselves and place more emphasis on marketing. And this is another weakness of the Czech agricultural industry: not only are farmers in the Czech Republic economically and politically fragmented, but they do not even cooperate effectively on a commercial level.

While some sales organizations for farmers have been established in the country, they tend to be unstable due to a lack discipline among the farmers. In that sense, the farmers make easy prey for the more concentrated and focused suppliers, food-processors, and retail-

ers. On the whole, then, Fischler is right when he says that the Czech agricultural sector really needs further restructuring in order to be competitive within the EU. Czech farmers have the right pre-requisites to be competitive, but they have to learn to use them.

Are The EC Proposals Discriminatory?

The EC's proposals also deal with the agricultural production limits and quotas allotted to new members, which are used to determine the size of the direct payments. In fact, the production limits are likely, for many reasons, to be a substantially more significant factor than the level of the direct payments for the future of the agricultural sectors in the region.

The EC has based its quota proposals on developments in the Czech agricultural sector in the recent years. In that sense, they would have the effect of freezing into place the current production structure of the sector, which is not based on its real potential.

The EC's proposals for the Czech Republic favor production on arable land, which is of relatively low quality in 60 percent of the country. At the same time, the proposals are somewhat restrictive toward animal farming, which is supposed to serve as the basis for creating a multi-functional agricultural sector in the Czech Republic. The Czech Republic would be justified in trying to negotiate higher limits and quotas with the EC, especially in the case of cattle and sheep.

As for the proposed limits on direct payments, the EC has tried to argue that farmers in the candidate countries can supplement the direct payments with other forms of support that they will receive. Such support will be allotted for modernization, for adapting to the strict standards of the *acquis communautaire* in the areas of the environment, food quality, and animal welfare, and for diversifying the sector.

But there is a widespread fear among the candidate countries that such support will not be enough to replace the overall direct payments and that only well-prepared companies capable of ensuring co-financing will be in a position to receive the reduced payments. That, however, is precisely the point of the direct payments.

Moreover, studies conducted by the Research Institute of Agricultural Economics (VUZE) indicate that even lower levels of support from the EU would improve the finances of the average Czech agricultural company, especially those that produce commodities such as grains, oilseeds, and sugar beets, as well as dairy farms and cattle farms that use special grazing techniques. The EC proposals would likely be damaging for the country's non-specialized pig and poultry farms.

As far as prices are concerned, the only Czech agricultural prices that are likely to get substantially higher after the country joins the EU are those for milk products and cattle. Pork and poultry prices will probably go down. Moreover, Czech agricultural producers have a lot of room for cutting production costs.

Naturally, the perspective of the Czech agricultural sector is only one angle from which the issue can be viewed. There are still politically sensitive questions surrounding what kind of impact the EC's proposed treatment of new member states would have on the ability of Central and Eastern European farmers to compete with their counterparts in the West. Those questions will have to be resolved in the coming weeks and months.

But as far as the Czech agricultural sector is concerned, the EC's proposals are not really discriminatory. The proposals could improve the financial situation of the sector while at the same time creating enough pressure and stimulus for Czech companies to mobilize their internal reserves and to engage in further restructuring.

NOTE

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SOURCE

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EU Enlargement and Governance of the Common Agricultural Policy

Bernhard Brümmer and Ulrich Koester

The requirements for the implementation, administration and control of the application of the current CAP are much higher than they were 15 years ago. The governance problems caused in the present EU by today's higher regulation density are already severe. The new member countries are even less well equipped than the present ones to deal with these problems. What political consequences should be drawn?

The founders of the European Economic Community agreed from the outset to supra-nationalise the agricultural policies of the member countries. The reason was not because harmonisation was easy, just the opposite: each country had a specific set of agricultural policy instruments, determined not only by the needs and preferences of the country but also by history. The latter is worthwhile noting as policies show a strong path dependency. Decisions in the past pose a strong constraint on present policies.¹

It was clear from the very beginning of the Common Agricultural Policy (CAP) that integration of agricultural markets would not be possible via negative integration, i.e. abolishing tariffs and other trade obstacles; instead positive integration was needed, replacing national institutions and organisations by supra-national ones.

Despite these obvious difficulties, harmonisation towards a Common Agricultural Policy (CAP) was chosen because there was a strong belief at that time that the supra-nationalised agricultural policy could be the engine for further integration of other policies. However, expectations have not been met. The CAP revealed again and again the divergence of national interests, strengthening the path dependency of policies. Reforms, even if regarded as necessary by the majority of the members, could not be initiated as the losers of the policy change were not willing to give up without receiving compensation. The switch from payments linked to production to more decoupled instruments usually involves more complex administrative procedures in terms of implementation and control. Consequently, the evolution of the CAP has been characterised by an increase in the intensity of regulations even if external protection has significantly declined. The institutional design of the decision-making in the Council of Agricultural Ministers favoured this development in the case of the previous enlargements. The unanimity rule provided a vehicle for promoting hesitant countries' own interests by means of package deals or log-rolling. The trend towards a higher regulation density has one major drawback in that the requirements for implementation, administration, and control for the application of the current CAP are much higher than 15 years ago.

One does not need to be a prophet to foresee even more problems for the next enlargement of the EU. The increase in the number of countries, the divergence in the level of overall income, differences in the societal preferences, the different roles of agriculture in the economy, and the huge discrepancies in the farm structures will certainly enhance the divergence of interests in the goals of the CAP. Consequently, it will become more difficult to launch adequate reforms. This paper will not address this problem, as it seems quite obvious. Instead, the objective is to draw attention to the problem of governance. Not only the goals, but also the design and implementation of a policy are crucial to its success.

As it is, the CAP is designed at the EU level, but it is mainly governed at the country or even regional level. It might well be that some policy measures are well intended by the decision-making body

at the EU level but may be badly governed at the country level. The basic idea of our approach is that governance problems are generally principal/agent problems on the various levels of the policy process. The principal, i.e. the decision-maker at the EU level, sets the goals for the CAP, and decides on the measures to pursue these goals. However, in the case of asymmetric information, the principal also has to monitor and enforce policies.

In the case of the CAP it is useful to distinguish between a whole hierarchy of principal/agent problems. The principal who is the highest in the hierarchy, i.e. the Commission, has to delegate implementation, monitoring and enforcement of specific policies to the member states, i.e. these are agents in the relation to the Commission. However, the member countries are often badly equipped to deal directly with sectoral policies which quite often aim to affect the behaviour of farmers. Hence, the governments of member countries may have to use a hierarchical organisation to implement the policies. Federal states and counties may play a role in this process. At the bottom of the hierarchy is the farmer who is supposed to react to the policy. Each of the intermediaries can be considered as agent and as principal; as an agent with respect to the higher level of the hierarchy and as a principal with respect to the lower level of the hierarchy. Hence, each of these intermediaries has to meet obligations imposed from the principal. However, the agent may have a certain leeway or may even break the rules. The outcome of the process depends on the one hand on the incentives of the agent to break the rules and on the other hand on the seriousness of control and of the expected sanctions. Take for example the case of support received from the EAGGF (Agricultural Funds). Countries are supposed to control the projects financed with support from the EU. Starting in 1993 the EU has introduced an integrated administration and control system (IACS). The member countries are required to establish an integrated control system for administrative controls and field inspections. In addition, five per cent of area aid applications have to be checked on the spot.

It is obvious that the expected return of a project supported financially by Brussels is quite high. If the control reveals an irregularity,

the recipient would just have to reimburse the subsidy. The recipient only has to fear further sanctions (which can be circumvented) in the case of deliberate forgeries. Hence, the agent may have a (high) incentive to break the rules. The interest of the principal who is next in the hierarchy in monitoring and enforcing the rules depends among other things on the incentives given to him. What are the benefits and what are the costs of seriously controlling the projects? The benefits may depend on the form of the financing of the projects. If the money comes solely from Brussels, there is hardly an incentive for a region to repay money which it has received in the past. However, if the project is co-financed the principal may be more inclined to enforce the rules as resources may be freed for other purposes. Furthermore, incentives for the local principal may be further influenced in favour of controlling effectively, if the share for reimbursements from revealed irregularities is set higher than the initial co-financing share. However, the principal is not just the region, but also the civil servants. They may pursue their own personal interests. If they spend more money they are generally considered more important, the chances for promotion increasing with money spent and not with the amount of money returned to the EU. Hence, there is good reason to assume that there are no strong incentives to control and to enforce rules set from the supra-national principal. If there were strong sanctions, control might be accurate despite these adverse incentives. Generally, civil servants enjoy life-time employment in most countries and can only be dismissed if severe wrongdoing can be proven. Of course, most civil servants perform their duties as well as possible, guided by high moral standards. However, it cannot be denied that there are cases of proven wrongdoing and even of corruption. The European Court of Auditors reports regularly about many irregularities and even forgeries. There are some strong indications that these problems will become even more serious in an enlarged Union. In the following we intend to show that the governance problems in the present EU are already severe and that the new member countries are probably less well equipped than the present ones to govern complex policies like the CAP.

Governance Problems of the CAP

According to the framework presented above we postulate the following determinants which may cause governance problems:

- the intensity of regulation: the higher the intensity of regulation the more serious are governance problems;
- the incentives to break the rules: the higher the incentives to break the rules, the more serious are governance problems;
- the costs of controlling the activities of those who break the rules: the higher the costs of monitoring and control, the higher is the probability of contracts being breached;
- the likely costs of breaching or bending the rules: the higher the costs for breaching the rules, the smaller is the probability of the contracts being breached;
- the interests of the principal in monitoring and enforcing contracts: the higher the incentive of the principal, the stronger will be controls and sanctions;
- the probability of being caught if the rules have been broken;
- the penalty which has to be paid for breaking the rules;
- the importance of embedded institutions (morals, specific cultural beliefs, ethic attitudes, etc) for society, i.e. low morals require higher control costs and higher sanctions.

The Intensity of Regulation of the CAP

The intensity of regulation, defined as constraints imposed on economic agents by the CAP, has increased over time. At the outset the EU confined itself to intervening on product markets, mainly by foreign trade measures and partly by buying-in schemes on the domestic markets. The numerous producers were not directly constrained in their activities; the main exception was the sugar market, where a quota system had been instituted from the very beginning. However, significant changes have been introduced over the last two decades. The milk quota system which was introduced in 1984 constrained up to 40 per cent of agricultural production (milk and beef) in some member countries such as Germany. The so-called McSharry reform from 1992 led to a huge step towards more intensive regulation. New policy instruments were designed, such as set-aside programmes and

direct payments linked to the use of land. The implementation of these instruments demands detailed information on the numerous farms in the EU. Hence, it is said that the CAP created the necessity for the “transparent farm”. The move towards higher intensity of regulation is also visible in the Agenda 2000 decisions. It was decided to introduce direct payments on the beef market. The recent proposals concerning milk market reform exhibit this pattern as well.

Table 1 presents an overview of the intensity of regulation on selected agricultural product markets. The ranking is based on a qualitative measure and two quantitative measures. The qualitative measure takes into account how many and to what extent economic agents are constrained by specific policy measures. The measure “nominal protection coefficient” (the domestic price divided by the world market price) informs on the strength of foreign trade measures. The coefficient indicates whether foreign traders are more or less constrained by border measures. Hence, the higher the coefficients, the more binding are the constraints. However, this type of measure usually entails no specific restrictions for the domestic producer. Finally, the measure “nominal assistance coefficient” (domestic prices and product related domestic support per unit of output divided by the world market price) informs on the distortions caused by all types of governmental interference. Moreover, the comparison between the NPC and NAC reveals the importance of direct interventions on the domestic markets; in the EU, these interventions are mainly direct payments. Since these payments, as implemented in the EU, require more intensive regulation than foreign trade measures, the difference between the NAC and the NPC indicates the degree of regulation. The market regime with the lowest intensity of regulation is the egg market. There is no domestic market measures applied and the wedge between domestic and world prices is small. Hence, it is likely that irregularities and forgeries are minimal on this market. In contrast, the intensity of regulation is the highest on the beef market. The wedge between domestic and world market prices is fairly large. Hence, traders may be inclined to break the rules by giving a false declaration of the beef quality in order to pay a lower amount of import levies or to receive a higher export subsidy. In the

first case, the declaration may say that the quality of the meat is inferior to its actual worth; in the second case, the wrong declaration goes in the opposite direction. The governance problems are not limited to trade in beef. This market regime entails significant direct payments linked to the number of animals as is indicated by the large difference between the NAC and the NPC. Hence, there is an incentive for the producer to falsify information. Governance of this market regime demands detailed information at the farm level.

These high direct payments per animal and limitations of numbers of animals which are qualified for receiving premiums lead to temptation to report larger number of animals. As the amount of money received by individual farmers can be quite high, they may have an incentive to bribe the controller. The controller may have no strong incentive to administer the system accurately as the payments are paid completely by Brussels. In the case that irregularities are discovered, the fine is limited and, even more important, the complete fine goes back to Brussels. Hence, the incentives for strict local controls appear even weaker from the viewpoint of the member state. Although it is not possible to obtain an estimate of the expected value of forged premium applications, it can be assumed that the given control frequency is insufficient to deter all economic agents effectively from fraud.

Governance Problems in the New Member Countries

The analytical framework presented above has shown several shortcomings with regard to governance of the CAP in the current member states of the EU. To draw the immediate conclusion that these problems are going to be of equal importance in the CEEC accession countries would be unfair. However, a closer look reveals several good reasons for suspecting that governance issues will indeed turn out to be one of the keys in explaining the expected (mal-)functioning of the CAP after enlargement.

It is a generally accepted fact that irregularities, fraud, and forgeries are positively correlated with deficits in good governance. Governance, of course, is a multidimensional concept which is difficult to measure. Kaufmann et al.² suggest splitting up governance along six

dimensions and provide quantification for these indicators based on opinion polls and surveys among firms. For the case in hand, the first two clusters, which refer to the selection and contestability of the assignment of positions in the political process, are of minor interest. The other four clusters are more important for the problem of implementing and controlling such a complex policy as the CAP. "Government effectiveness" contains, among other things, the quality of the bureaucracy and its independence from pressure groups. "Regulatory quality" is more concerned with the policies itself, i.e. whether their design is market-oriented or interventionist. "Rule of law" indicates "the extent to which agents have confidence in and abide by the rules of society".³ Finally, "control of corruption" combines several corruption-related factors. The average results for the European Union (EU-15) and the accession countries (CEEC) are shown in Figure 1. A higher rating corresponds to a better valuation of the country in this criterion by the respondents.

In each of the dimensions of governance discussed here, the EU countries outperform the accession countries by far. A look at the country-specific results (Table 2) reveals that for each criterion, there is not a single CEEC country that is valued higher than the average of the EU. This situation is of course only a snapshot of the situation in 2000/01. One might argue that with EU accession approaching, governance will improve (there are a lot of activities supported by the EU, e.g. twinning, special training for bureaucrats, etc. to improve these deficits). However, the recent experience contradicts this assumption. A look at the three most important CEEC countries in terms of agricultural output, Poland, Hungary, and the Czech Republic, reveals no substantial improvement or even deterioration between the estimated indicator from 1997/98 to 2000/01 for most of the dimensions, with the exception of "rule of law" (see Table 3).

How are these deficits in good governance going to put an additional burden on the implementation of the CAP? The common market organisation for beef provides a good example. As explained above, this market organisation is characterised by strong regulation, at the border as well as on the individual farms. If traders perceive the government as little effective in controlling the correspondence of

declared and traded quality of meat, forged declarations will occur more frequently, as they allow them to obtain higher export refunds or lower import levies. Accordingly, farmers might tend to over-report the number of cattle they have. This is especially true if, in the case of a control that detects an irregularity, bribery is likely to be successful. The low scoring for “control of corruption” supports this point of view. In addition, if the general beliefs or other embedded institutions in these countries do not counteract the formal deficits in governance, the impact of too strong control requirements will be even more negative.

Evidence exists for the persistence of corruption in the accession countries. Table 4 lists the share of the gross firm revenues that is used for bribery. The average share is probably considerably higher than corresponding surveys estimated for the current member states. Not surprisingly, this indicator exhibits a negative rank correlation with each of the dimensions of governance introduced above, i.e. the lower the score for the governance indicator, the greater is the share of bribery payments.

The same authors also provide some evidence that the role of corruption increases when firms trade with the state. They find that the share of firms that pay kickbacks is substantially higher among the firms that are involved in trade with the state than in the full sample.⁴ A policy like the CAP, that increases the role of the state considerably, can be expected to worsen this situation further unless effective countermeasures are taken. However, as outlined above, the high intensity of regulation will likely even aggravate corruption problems since the required information involves such a level of detail that it will be very difficult to control.

Implementation of the CAP

Given the general background for governance outlined above, what can we expect with regard to the enforcement of the Common Agricultural Policy? The beef market example already indicated that problems are likely to worsen in comparison to the current member states, mainly due to the use of direct payments which are coupled to the individual farmer’s production. Without going into too much

detail, it is reasonable to assume that these problems are going to happen in analogous manner for other agricultural markets where the CAP relies on production coupled direct payments, mainly the “grandes cultures” crops. The payments are tied to the actual use of the land, eligibility for the payments is tied to mandatory set-aside, and certain crops are exempt from the payments. This implementation requires control of the data that the farmers reported in their application because of the detailed level of information required. Even though increasing use of geographical information systems or remote sensing techniques facilitates control and monitoring, direct on-farm will remain necessary, with all the implied enforcement problems. In 2002, the European Court of Auditors estimated (based on the IACS data) that more than a quarter of all applications for area payments could have been erroneous. About half of these flawed applications show deviations of a magnitude that cannot be explained by mistake. When comparing the role of the deviations as measured by the number of detected flawed applications, we find a strong negative correlation with the governance indicators, in particular with “rule of law”. This correlation persists when controlling for the total number of controls. Hence, we can expect that with lower governance ratings – note that the accession countries’ score is about 0.6 compared to a score of 1.3 for the current member states – the irregularities in the applications for direct aid are likely to increase, if this system is introduced in the new member countries.

The administrative challenge connected with the introduction of the EU’s system of direct payments has been recognised by the Commission. Therefore, a transition period has been proposed throughout which a simplified system for direct payments should be applied in the new member states. Basically, this system comprises that all payments for the different products with direct payments are subsumed into a single subsidy which is then paid at a unique country-wide rate per hectare of utilisable agricultural area (UAA), regardless of the actual use of the land. For example, in the cereal Common Market Organisation, the eligible area is multiplied with the country’s fixed reference yield which is subsequently multiplied with the appropriate share of the EU-wide payment rate per ton of eligible crop. This lat-

ter share is set at 25% for 2004 since direct payments will be phased in gradually. The simplified system would already implement some of the basic decoupling ideas presented in the recent communications under the headline midterm review.

These simplifications are in general positive. However, as currently discussed, they still suffer from one major drawback, namely that they are intended as temporary measures. The new member states are obliged to implement the EU Integrated Administration and Control System (IACS) which was invented in the context of the McSharry reform as the answer to the ever increasing administration problems initiated through CAP reform. IACS comprises database structures, administrative procedures, and control and monitoring schemes, and is intended to enable the successful administration and control of the CAP. The system was judged an apt instrument to pursue this goal by the European Court of Auditors.⁵ Can this system solve the above-mentioned governance problems with the CAP? Two issues give support to scepticism in this regard. First, the IACS has a limited scope: It does not explicitly address problems of fraud and forgery, although its data collections might be useful in detecting such criminal exploitation of the CAP. Second, it must be kept in mind that the administrative burden is to be carried by the member states while the rewards from detecting irregularities go back to Brussels. Hence, even if the IACS at the member state level detects irregular applications, it is by no means certain that the error will ever be reported to the European Commission.

According to the classification in Table 1, there are other types of Common Market Organisations with a high intensity of regulation which do not (yet) rely on direct payments, namely milk and sugar. Both rely heavily on the enforcement of quotas at the individual farm level. The CMO for milk and milk products assigns to the individual producer the right to deliver or to market directly a certain amount of milk at a standardised fat content, the so-called milk quota. Any milk produced above this quota is charged with a levy that renders production above the quota unattractive. Crucial factors for a successful enforcement of the quota system thus rely both on the control of the direct sales and deliveries of milk and on the enforcement of the

super levy on above-quota production. The experience with this system which has been in operation since 1984 has been mixed. The ECA has addressed the quota system several times.⁶ In each of the reports, the EU's financial watchdogs criticise the quota regime sharply, in particular the enforcement of the quotas in selected member states (Italy, Spain and Greece). As a matter of fact, these countries have not imposed the super levy on the individual producers. The Commission subtracts the corresponding sum from the annual reimbursements for the pre-financed budgetary outlays of the member states. However, as long as the individual producer is not held responsible for these payments, the quota system is effectively not binding in these countries.

The situation in the new member countries gives rise to the suspicion that similar problems are likely to arise. The official justification for ignoring quotas from the member states was generally that these countries are net importers of milk. Since the quota is intended to align domestic supply and demand, these countries claimed the right to increase milk production further above the initial quota assignment. This reasoning is clearly contrary to the spirit of economic integration but it seems to be successful in public discussions. The quota assignments for the new member states were decided at the Copenhagen Summit in 2002. Generally, the quota assignments were based on the domestic production in the mid-nineties. After the breakdown of livestock herds in the early transition period, the quota assignments will fix their current position as net importers of milk products. Hence, given technical progress and increasing productivity in the future, the seed of debate with regard to a "fair" quota has already been planted. It is not unlikely that the development of the milk quota regime in the new member states will exhibit parallels to the experience with the net milk importers in the current Union.

Another minor but nevertheless interesting observation during the Copenhagen summit underlines the above line of reasoning. As mentioned above, the quota system applies to both deliveries and to direct sales of milk. In Poland, direct sales of milk play a much more important role than in the current Union. It is estimated that about 40% of the milk produced is marketed through direct sales to con-

sumers. Control of direct sales is going to be a very difficult if not impossible issue in the new member states. Hence, this marketing channel might further undermine the efficacy of the quota. Obviously, the Polish negotiators seem to agree that the quota on direct sales will effectively be less binding in its operation than the quota for deliveries. The last EU offer in the negotiations on milk comprised simply an exchange of 150,000 tonnes of quota for direct sales to quota for deliveries, leaving the total quota unchanged. Since Poland finally agreed to this solution, this implies a higher valuation of the deliveries quota compared to direct sales quota. This confirms that the latter is indeed perceived as less binding.

Political Consequences

The public acceptance of the CAP will suffer if the politicians do not react to the coming governance problems created by the enlargement. The ECA will increasingly be forced to point to implementation problems and the resulting irregularity and fraud and, thus, the EU's image and that of supranational politics will be damaged. A political reaction to the expected changes in implementation possibilities is therefore urgently recommended. Macro-economically, the ideal political reaction would lead to a fundamental change in policy instruments. Policies which are unenforceable or hard to enforce should be replaced. Especially the agricultural environmental policies place high requirements on the public administration infrastructures of the member countries.⁷ The Court reported that compliance with certain measures, for example the reduced use of fertiliser, is impossible to control and that e.g. the maps used to review aid applications in Saxony were 75 years old and therefore inaccurate. The European Court of Auditors realised that such problems exist in all of the regions of the former German Democratic Republic (GDR) and – one may add – such problems will surface even more in the new member countries. If the use of “best farming practices” cannot be controlled in the agricultural production, then this criteria should also not be used to determine if compensatory payments should be made, as is currently the case.

It is highly questionable to base the future of the CAP on the sec-

ond pillar of the CAP (the promotion of a multi-functional agriculture as a part of the promotion of rural regions). According to this philosophy payments to the agricultural sector have to be linked to the production of environmental products or to environmental friendly agricultural production methods (cross compliance). It may well be that this policy direction is supported by a large segment of the population, but if such policies are not enforceable they will lead to increased moral hazard, to irregularities, fraud and corruption. Moreover, most of these measures can hardly be justified if the subsidiarity principle is applied for the allocation of national and supranational competence.

It has been argued above that irregularities, fraud and corruption are more likely if control measures and sanctions are weak. It is therefore necessary to consider a variation in the frequency of control dependent on a country's past performance in administrating the CAP. The revelations of the Commission and the ECA could be used as a basis for setting a country's frequency rate of controls. Furthermore, it appears necessary that the self-interests of the countries in the enforcement of the policies be increased through higher penalties for detected irregularities or fraud. Better incentives for the disclosure of irregularities should also be considered. It could be considered to grant countries a rebate for the money they have to return due to irregularities or fraud.

The case of the new member countries makes it clear that in the further reform of the CAP that – due to the increasing heterogeneity – the question of the enforcement of supranational policies has to be taken into account more than ever.

Table 1
Ranking of Selected Agricultural Product Markets According to Intensity of Regulation

Regulation intensity	Product	Characteristics	Nominal protection coefficient 2001 ¹	Nominal assistance coefficient 2001 ¹
Minimal	Eggs	Small amount of protection through tariffs and export refunds, no regulation of the internal market	1.06	1.09
	Poultry	Relatively high protection through tariffs and export refunds, no regulation of the internal market	1.84	1.86
	Pork	Protection through tariffs and export refunds, limited regulation of the internal market	1.22	1.25
	Oilseeds	No protection through tariffs and export refunds, relatively high regulation of the internal market through limited direct payments and partial limits on acreage	1.00	1.65
	Cereals	Limited protection through tariffs and export refunds, relatively high regulation of the internal market by limited direct payments	1.01 Wheat 1.13 Corn	1.77 Wheat 1.58 Corn
	Milk	High protection through tariffs and export refunds, high regulation intensity on the internal market, production quotas and direct payment starting in 2005 according to Agenda 2000 agreement	1.61	1.66
	Sugar beet	Very high protection through tariffs and export refunds, high intensity of regulation on the internal market by quotas	2.12	1.85
Maximal	Beef and veal	Very high protection through tariffs; high intensity of regulation; direct payments per animal, regulation of stocking rates, high differentiation of payments	6.45	10.56

¹ OECD: Agricultural Policies in OECD Countries, 2002.
 Source: Authors' compilation.

Table 2
Selected Indicators of Governance problems in the new member countries.

	Government effectiveness		Regulatory quality		Control of corruption		Rule of law	
	2000/01	1997/98	2000/01	1997/98	2000/01	1997/98	2000/01	1997/98
Luxembourg	1,855	1,674	1,487	0,947	1,784	1,671	1,86	1,621
Netherlands	1,835	2,030	1,5	1,141	2,093	2,026	1,667	1,584
Ireland	1,794	1,361	1,33	1,157	1,162	1,567	1,538	1,395
UK	1,773	1,966	1,321	1,206	1,865	1,707	1,606	1,689
Germany	1,672	1,409	1,076	0,889	1,377	1,62	1,572	1,483
Finland	1,669	1,635	1,418	1,14	2,247	2,085	1,834	1,736
Denmark	1,615	1,721	1,095	1,048	2,088	2,129	1,71	1,691
Spain	1,565	1,603	1,081	0,864	1,446	1,214	1,119	1,032
Austria	1,513	1,219	1,193	0,901	1,562	1,457	1,855	1,812
Sweden	1,509	1,573	1,078	0,853	2,213	2,085	1,697	1,623
Belgium	1,292	0,883	0,581	0,794	1,05	0,672	1,34	0,797
France	1,239	1,280	0,595	0,713	1,145	1,282	1,216	1,077
Portugal	0,910	1,151	0,813	0,889	1,212	1,218	0,942	1,083
Italy	0,676	0,773	0,591	0,591	0,633	0,802	0,722	0,861
Greece	0,648	0,560	0,71	0,605	0,728	0,825	0,624	0,496
Weighted average¹	1,32	1,33	0,91	0,84	1,3	1,36	1,26	1,21
Cyprus	0,911	1,041	0,833	1,237	1,811	0,928	0,964	0,928
Estonia	0,862	0,258	1,087	0,743	0,728	0,593	0,778	0,507
Malta	0,726	0,629	0,33	0,386	0,13	0,497	0,685	0,864
Slovenia	0,702	0,567	0,522	0,532	1,088	1,023	0,89	0,825
Hungary	0,601	0,606	0,875	0,854	0,653	0,614	0,761	0,706
Czech R.	0,581	0,595	0,536	0,57	0,306	0,384	0,639	0,543
Poland	0,269	0,674	0,413	0,565	0,433	0,492	0,551	0,538

¹ weights are the individual country's share in agricultural GDP of the EU respectively the applicant countries.
Source: Kaufmann, D., A. Kraay and P. Zoido-Lobaton: Governance Matters II: Updated Indicators for 2000/01. World Bank Policy Research Paper No. 2772,2002.

Table 3

Absolute Change of Governance Indicators from 1997/98 until 2000/01 in Czech Republic, Hungary, and Poland

	<i>Government effectiveness</i>	<i>Regulatory quality</i>	<i>Control of corruption</i>	<i>Rule of law</i>
Czech Republic	-0.014	-0.034	-0.078	0.096
Hungary	-0.005	0.021	0.039	0.055
Poland	-0.405	-0.152	-0.059	0.013
No. of deteriorations	3	2	2	0

Source: D. Kaufmann, A. Kraay, P. Zoido-Lobatón: Governance Matters II, Updated Indicators for 2000/01, World Bank Policy Research Working Paper No. 2772, 2002.

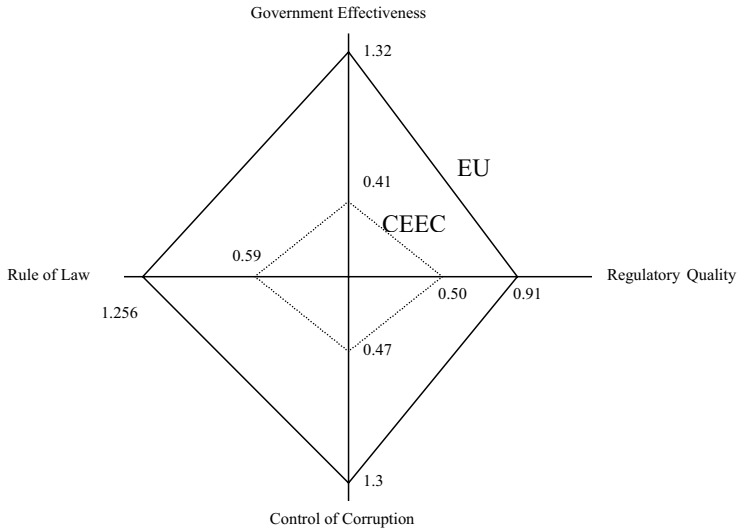
Table 4

Average Bribery Payments as Share of Gross Firm Revenues

<i>Country</i>	<i>Level of bribery</i>
Czech Republic	2.5
Estonia	1.6
Hungary	1.7
Latvia	1.4
Lithuania	2.8
Poland	1.6
Slovakia	2.5
Slovenia	1.4

Source: J.S. Hellman, G. Jones, D. Kaufmann: How Profitable Is Buying State Officials in *Transition Economies?*, in: *Transition*, Vol. 22, 2000, No. 2, p. 9.

Figure 1
Average Rating Results for Governance Indicators in the EU and in the CEEC, 2000/01.



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SOURCE

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FOOTNOTES

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DEBATE QUESTIONS

1. Will the rural development plan be more effective for CEECs rather than direct payments? What are some of the reasons why the EU favored offering the CEECs a rural development plan rather than direct payments?
2. To what extent is the CAP overall an effective agricultural policy? Is the CAP meant to address problems related to subsistence agriculture?
3. Should the CAP remain an EU policy or be transferred back to the national level?
4. What are some of the governance problems of the CAP as outlined by Brümmer and Koester? Can the EU Integrated Administration and Control System (IACS) be expected to solve the governance problems of the CAP?
5. Do you agree with Brümmer and Koester's argument that irregularities, fraud and corruption are more likely if control measures and sanctions are weak?
6. Should the goal of the CAP be redefined in the Central and Eastern European context? If yes, how so?
7. What are some of the major reforms of the CAP that are being put forward? What are some of the debates surrounding these reforms?

Part 5
Social Implications of
Enlargement

The Flood that Won't Happen

Andras Gal

EU governments are still sounding alarms about the prospects of a tide of work-hungry Easterners invading their labor markets once the current candidate countries join the EU. It may be politically expedient, but it doesn't have much basis in fact.

BUDAPEST, Hungary. Now that the Irish have given their nod to the Nice Treaty, Hungary and seven other Central and Eastern European states look certain to be invited to join the European Union in 2004. But while the waiting may be nearly over, there are plenty of politically explosive issues that will linger.

One of them – the question of labor movement after EU enlargement – gained an extra charge in August, when a Reuters report said up to 800,000 Hungarians might look for work in Western Europe after the country joins the European Union. Predictably, the story was swiftly picked up on the wires and ran in media from Estonia to Ireland. Western European fears, already deeply entrenched, now had more evidence to feed off, it seemed.

The figure, extrapolated from the findings of an opinion poll conducted by the Hungarian Social Research Center TARKI, is certainly dramatic. How many Hungarians would like to move to the West, it asked? Four percent answered "definitely," 6 percent said "probably." Add to that the awareness that Hungarian GDP per capita is around half the EU level based on purchasing power parity, and you have the makings of a good scare. These were figures large enough not just to

touch but also to play on the always raw nerves of labor ministers in Austria, Germany, and other European countries.

Western Europe has shown clearly that it is worried about migrant workers pouring into its labor markets. The chapter on labor mobility proved one of the prickliest in the applicants' as-yet-unfinished accession talks with the EU. Ultimately, Hungary had to accept the "2-3-2 system" championed by Germany and Austria (and backed by plenty of others). For at least two years after Hungary's accession (assumed to be in 2004), the EU's current member states can impose the rules they choose. After that, their rules will continue to apply for another three years, depending on the findings of a European Commission report on migration and EU labor market indicators. In exceptional circumstances, another two years can be tacked on.

In the meantime, the gap in wealth between Hungarians and Western Europeans will narrow (Hungary's 3 to 5 percent annual rate of growth in recent years may not be dramatic, but it is still better than the EU's), and governments can work on boosting employment at home and the employability of their own citizens.

Western European fears have therefore meant that they have gone against one of the fundamental principles of the European Union: the free movement of labor. Politically, this may have been necessary in order to assuage the fears of Western voters. In practice, though, it was probably superfluous.

Lies, Damn Lies, And Statistics

First, consider TARKI's findings. Perhaps its most notable finding was not the number of would-be Hungarian migrants, but rather that their number is shrinking. Since March 2001, the number of respondents who would "definitely" seek employment in the EU after Hungary's accession has fallen from 7 to 4 percent, and those who would "probably" move edged down from 7 to 6 percent. And, of the 10 percent considering a move, only a quarter were interested in a long-term change.

Translated into absolute numbers, that might still frighten many, but – as TARKI underlined – previous polls have tended to overestimate actual labor mobility.

Second, regulation is just one of the barriers to be cleared before entering a foreign market. Another is language. In Hungary's case this is a major obstacle. Hungarians may be fonder of the EU than their Central European neighbors (in a survey by the GfK polling agency in May, 66 percent supported accession – and, unusually, the number is rising) and have greater confidence in the EU, but that doesn't translate into fondness for its major languages. Just a quarter of Hungarians are able to communicate to some degree in one of the five major Western European languages: English, German, French, Italian, or Spanish. That figure, which comes from last October's Eurobarometer survey, places them 11th out of the 13 candidate countries.

Another is psychology. Certainly, ambitious or desperate Hungarians might soon shake the language handicap if wages stay low and opportunities remain limited. But even now, when employment abroad presumably looks financially more alluring than it will in the future, Germany's quotas for Hungarian guest workers are frequently unfilled. (Indeed, between the mid- and late-1990s, more EU citizens moved onto Hungary's labor market than went in the other direction, the Nuremburg-based Institute for Employment Research wrote in December 1999.)

In short, Hungarians tend to stay at home rather than scout for opportunities abroad, an assertion backed by Hungarian studies. Saying one is definitely or probably interested in working abroad is, it seems, a long way from making good on the idea.

And past experience provides a third reason for assuming projections of labor mobility will prove inaccurate. When, in the 1980s, the EU enlarged to take in the Mediterranean rim, Spain, Portugal, and Greece had a per capita GDP that was just 50 to 60 percent of the EU average. However, there was no significant increase in emigration. If anything, rapid growth meant that, in net terms, more Spaniards, Portuguese, and Greeks headed homeward.

So a large inflow, let alone a flood, of Hungarian workers seems highly unlikely. One day, from Aachen to Zwettl, we may hear a collective sigh of relief that the supposedly inevitable has not happened. But we shouldn't hold our breath. Faced with the problems of an

aging population and labor shortages in fields as wide apart as health and computer science, Western Europeans should perhaps already be sighing with relief at the prospect of a few well-educated, highly motivated workers turning up from Central Europe, rather than worrying. Instead, flying in the face of the evidence, anxiety about Easterners stealing jobs from the locals is likely to persist, putting pressure on politicians. When (presumably in 2006) EU governments can lower foreign-labor requirements and grant full EU rights to Hungarians, it's wisest to assume they won't.

NOTE

Andras Gal is TOL's correspondent in Hungary.

SOURCE

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The Free Movement of Workers in the Context of Enlargement (extract)

The European Commission

5. Policy Issues Arising in the Accession Process

5.1 *Background*

Predicting the flows of labour movement that will arise from the accession of the candidate countries and the application of the *acquis* on free movement is not straightforward. In assessing the economic impact of the free movement of workers, it is also important to take into account that not all candidate countries aspire to accede at the same moment, and that adjustments would thus be spread over time.

Although the overall impact of enlargement on the EU15 labour market should be limited, recent research suggests that in some member states or regions there will be sizeable increases in migration. Surveys bear out a marked preference for temporary stays abroad rather than for permanent migration. Some member states are likely to be more affected than others, mostly on account of geographical proximity to candidate countries. In particular, against a background of generally increased economic opportunity, border related labour movement such as commuting and the cross-border provision of services may grow significantly in both directions. As well as geographic differences, sectoral differences may be noteworthy. It is however difficult to assess with any certainty such potential sectoral differences. Many sectors in both the EU and in candidate countries will benefit from increased cross-border labour movements. Sectors where the

supply of certain specialist staff (such as the IT sector) on the national market cannot meet the demand may experience particular benefits. Industries with a high labour-intensity and low technology content could potentially be more exposed to competition, in particular in border regions, but the effects on labour movements are very difficult to predict.

Adjustment has in many instances already taken place as a result of the liberalisation of trade and investment based on the existing Europe Agreements. Progressive further adjustment is necessary, in order to release fully the benefits of enlargement in terms of overall economic development both in the existing and new member states, but without causing harmful disruption or social hardship.¹ Important factors such as considerable income differentials, relatively high unemployment rates in some candidate countries due to ongoing structural changes and geographical proximity to member states have to be taken into consideration.

Due account needs to be taken of the expectations of people in the candidate countries that they would be allowed to benefit from the right of freedom of movement, which for them represents one of the important benefits of enlargement. At the same time, it needs to be borne in mind that in parts of the EU15 there is considerably more anxiety regarding the above possible negative effects on labour markets and employment conditions, which may well affect overall public support for enlargement.

In view of these considerations and the degree of uncertainty regarding possible effects of free labour movement and that some persons, regions or sectors can be more vulnerable than others, it is appropriate to examine potential policy responses.

5.2 Options

The options that appear to be available within the accession negotiations can be broadly presented under five headings:

- Option 1: Full and immediate application of the *acquis*;
- Option 2: Safeguard clauses;
- Option 3: Flexible system of transitional arrangements;

- Option 4: Establishment of a fixed quota system;
- Option 5: General non-application of the *acquis* for a limited period of time.

The post-accession regime must not be more restrictive than what each member state applies to nationals of third countries, both generally and in the context of specific bilateral agreements. Following accession, no new restrictive measures could be introduced (standstill clause), and more favourable conditions than those offered currently under bilateral agreements should be steadily phased in. Irrespective of a potentially chosen transitional arrangement some workers should be excluded from restrictive measures, such as those already working or living in another member state before accession or in case of family reunification.² In addition such a negotiating option needs to:

- clarify its scope and duration;
- decide whether or not a review procedure should be foreseen;
- describe the decision-making procedure.

In any case, predictability, transparency and easy implementation of the negotiating solution should be kept in mind.

Any option other than full application of the *acquis* implies a transition period, in some form or another, and would therefore need to be justified in terms of promoting the gradual introduction of the *acquis*. In between full mobility from the date of accession and the status quo, there is a considerable range of possibilities. These can be flexible, to take account of differences between member states, candidate country, regions or sectors, and also of changes over time. There is also the possibility to distinguish between workers, families, students and others who wish to exercise their freedom to move.

Further important issues to be considered are commuters, as well as other forms of labour movement linked to the provision of services.

Commuters fall under the Community *acquis* on workers, and any restrictions could be handled in line with the general options detailed below. For the purposes of restrictions, commuters can be administratively distinguished from other workers on the basis of residence registration. It may be noted that such a distinction was made when the freedom of movement was first introduced in the Community in 1961. However, commuters were brought back into the system in

1964 and since then, as a group, they have never been singled out for differential treatment with regard to free movement.

As regards services, the most relevant cases are local services in the border regions such as crafts or personal services and certain labour-intensive services that can be provided farther away such as construction or road haulage. These are not governed by the Community *acquis* on workers' access to the labour markets in other member states but fall principally under the rules governing the free provision of services. Although in theory restrictions in this area follow the same logic as those concerning workers, their implementation would involve the use of different legal and administrative instruments, and indeed represent a major disruption of the principle of free provision of services and possibly the right of establishment. It should be noted that such restrictions have never been used in the past.

It should also be recalled that the basic principles for transitional arrangements laid down by the EU at the opening of the accession negotiations should duly be taken into account: they should be limited in time and scope, accompanied by a plan with clearly defined stages for the application of the *acquis*, not amend the rules or policies of the Union, disrupt their proper functioning, or lead to significant distortions of competition. Account must be taken of the interests of the EU, the applicant country and the other applicant states. Solutions can differ from one country to another; a transitional measure agreed for one candidate or agreed in previous accessions is not a precedent for other candidates.

Option 1: full and immediate application of the *acquis*

This means the application from accession onwards of the full rights, with their limitations, contained in the *acquis* on the free movement of persons. A summary description is provided in Annex 3 (p. 269).

This option has the advantage of safeguarding the geographic unity of the single market and of allowing the normal interplay of the four freedoms. It gives the fight against illegal labour better chances of success. It would require no negotiation with the candidate country, and is in line with the general negotiating principle of adopting the *acquis* by the date of accession.

On the other hand, this option does not provide any kind of guarantee against possible disruptions of labour markets due to increased inflows of migrant workers. It ignores the sensitivity of public opinion, in particular in certain sensitive regions, and specifically for vulnerable sectors in those regions. This may affect overall public support for enlargement at least in some member states. Finally, it does not correspond to the prudent approach followed by the Community in the past and at previous accessions where similar concerns were predominant.

Option 2: safeguard clauses

A safeguard clause allows the normal application of the *acquis*, but permits member states to impose effective restrictions when and where the labour market becomes disrupted.

- Safeguard based on an assessment of the labour market situation

Such a safeguard clause can be triggered on the basis of an assessment of the situation and depends on the precise formulation of the clause, e.g. when a “serious and persistent disruption of the labour market” has occurred, or threatens to occur. A procedure needs to be decided for triggering restrictions: this may include the requirement to obtain a Commission recommendation or authorisation, either before or after the restrictions are introduced. The safeguard clause may also define which type of restrictions could be invoked and for how long.

- Safeguard based on a fixed threshold

Another way of formulating a safeguard mechanism would be to define beforehand a threshold (in terms of the presence of migrant workers in the labour market) above which access to the labour market could be restricted. Such a safeguard clause provides for an objective criterion which can be operated by each member state or region autonomously, without recourse to a Community procedure. Such thresholds could be established for each member state and/or at the regional or sectoral level. It could be expressed as an absolute number

or as a percentage increase on a base number or on the actual number of the previous year. It requires close monitoring of the inflow into the labour market, which can probably best be achieved by maintaining a system of automatically granted work permits; when and where the safeguard is invoked, work permits would no longer be automatic.

Both types of safeguard clauses may be seen as an “insurance policy”, and as such could be particularly useful in the context of uncertainty on what and where the real risks are. If not invoked, it would reduce the administrative burden or restrictions, enforcement problems, mis-targeting, postponement of adjustment, etc. that can occur when access to the labour market is restricted. Bringing existing illegal workers into the legality would reduce unfair competition in the labour markets. Safeguards could be invoked by the member state of origin and the member state of destination of workers, and can affect their whole territory or only certain regions or sectors, thus introducing the possibility of differentiation and of taking take into account the different absorption capacity of each member state, region or sector.

Such an option needs to be negotiated in detail in order to avoid misinterpretations and potential conflicts. In particular, criteria for invoking safeguard clauses and/or levels of thresholds would need to be specified in the accession treaties for those Member States who wish to apply the system. Regardless of their detailed definition, safeguards require permanent monitoring of the labour market while being potentially less effective in coping with unexpected labour market problems. This is particularly true due to the time lag between the perception of problems on the labour market and the invocation of safeguard measures, if the latter requires evidence of the former. The safeguards option requires negotiation with the candidate countries; further bilateral problems could occur after accession. Finally, they may be less reassuring for the public in the EU.

Safeguard clauses are a familiar system as they have been used in previous accessions, as well as when freedom of movement was introduced in the original Community.³ However, no safeguard was ever invoked and we therefore have no experience how this would work in practice.

Option 3: flexible system of transitional arrangements

The objective of this option is the gradual introduction of free movement of workers within a limited period of time while at the same time providing sufficient guarantees for member states.

This option would require transitional arrangements for a limited period of time but does not exclude that member states fully liberalise their labour markets from the date of accession under national law. It could be achieved by a combination of transitional arrangements consisting of elements such as:

- the definition of a maximum period of time after which full freedom of movement should be granted to all new member states throughout the EU;
- review clauses providing for an automatic review after a certain period of time aimed at shortening this period and/or the right for new member states to request a review of the transitional arrangements applying to them;
- the possibility for member states to opt for full liberalisation, or to opt for other solutions.

In applying flexibility, care needs to be taken to avoid overcomplicated “à la carte” solutions that would be difficult to negotiate and hard to implement technically. Two possibilities of a manageable application of flexibility can be defined as follows:

- The application of the freedom of movement after a transitional period; automatic review after a pre-defined short period of time or on request of a new member state, combined with the guarantee for each member state that it can maintain the originally agreed time period for its territory.

This system, with the right for new members to request a review and with the guarantee clause, would be fixed as such in the accession treaties.

As long as full liberalisation does not apply member states would remain free to control immigration under national law. They would nonetheless respect a standstill, i.e. they could not introduce new restrictions, and they would be free to open their labour markets fur-

ther to workers from the new member states if they wish. Workers in those member states, whether they were already there before accession or are new arrivals, would need work permits, but they would benefit from equal treatment under Community law.

Review clauses could ensure that, either after a specific period of time or when one or more candidate countries request it, the Commission would examine the situation in the member states where there is no freedom of movement and the Council could decide to shorten the transitional period in respect of certain or all new member states.

If the transitional arrangement is shortened in time following a review, a safeguard clause may be available for member states in respect of their territory for the remaining period.

The introduction of the freedom of movement throughout the EU after a fixed transitional period, with a review after a pre-defined period.⁴

This system would be fixed as such in the accession treaties, with its review clause and with a standstill clause that would prevent the member states from introducing new restrictions.

As long as the free movement is not yet operational, access to the labour markets would be a matter for national law and if member states wish to open their labour markets to workers from the new member states they may do so at their discretion. New arrivals would need work permits, but they would benefit from equal treatment under Community law. Nationals of the candidate countries who were already working legally in the member states would also need work permits during the transitional period, but they would also be entitled to equal treatment. Both groups would have the right to have their work permits renewed and to change jobs at will. As in the case of the 1986 accessions, members of the family could install themselves immediately with the worker and could have access to the labour market if the worker had been legally working in the host member state before the date of the signing of the accession treaty. Those arriving later could get progressive rights of access to the labour market.

The situation would be re-examined after a pre-defined period on the basis of a Commission report on the situation regarding each of

the acceding states. Further to this re-examination the Council could shorten the transitional period or even lift it, taking into account the specific situation of each of the acceding countries.⁵

Both possibilities under this option build on the experience of the past, introducing free movement gradually, combined with a different degree of flexibility, thus allowing a phasing-in for new member states as soon as possible. They start from the definition of a limited time period after which full freedom of movement of workers will be granted throughout the EU.

One of the principal advantages of most examples under this option is their close link to the actual development on EU labour markets after enlargement while providing a sufficient safety net. Where the free movement is not yet operational, access to the labour market can be broadened in response to the real situation in member states or even regions. There might, however, be little incentive for member states to do so, and there would be no Community mechanism to promote it.

This option would not a priori require any new administrative burdens on member states and is easy to formulate and to implement, but it might require some more intensive monitoring of the labour market. It provides predictability and flexibility at the same time and would not prevent individual member states from deciding to open their labour markets further or even completely on an autonomous basis without forcing others to do the same. It would make an important contribution to ensure sufficient support for enlargement in the public opinion in member states.

On the other hand, this option is not the easiest one to negotiate with candidate countries. Furthermore, this option requires to clearly specify the review mechanism and the decision procedure in the accession treaties. Also, it may to a certain extent hinder the full functioning of the internal market.

It is also conceivable to combine options 2 and 3 in a mixed system, limited in time, allowing for each individual member state to opt for the application of the freedom of movement with a safeguard clause from the date of accession or for a transition period which is subject to review.⁶

Option 4: establishment of a fixed quota system

Quotas imply a deviation from the *acquis* by limiting access to the labour market to a fixed maximum number, be it a global EU quota or a national, regional or sectoral quota.

Quotas start from a principle of restriction. Pure quotas grant access on the basis of the “first come, first served” principle. Greater selectivity can be introduced to target certain occupations, sectors or regions by fixing separate quotas for each. Selectivity can also involve the use of other conditions for access such as a labour market needs test (access granted in case no EU worker can be found), diploma requirements, residence requirement, duration of employment contract, etc.

Member states apply various such restrictions to third country nationals, but not all member states have experience with quota-based access. A few member states already operate bilateral quota systems in relation to certain candidate countries. An overview of member states regimes is given in the annexed Table 5 (p. 276).

The principal advantage of quotas and restrictions is that they give a sense of security to the population and create predictability on both sides of the border. They are a familiar system for many countries. They can be modulated to take account of vulnerable sectors and/or regions, and to take into account needs in some sectors and regions for additional labour.

However, quotas are inflexible, and cause difficulties if they are not properly targeted to particular effects in vulnerable sectors and regions or do not adjust to changes over time, especially when small quotas are maintained. They may hinder the full functioning of the internal market. The use of effective restrictions also requires the maintenance of administrative controls, such as work permits, even if restrictions apply only to parts of the labour market. Restrictions pose the problem of enforcement, and a larger informal economy may result from them. Inflexible restrictions also have the effect of postponing the (potential) problem by capping access to the market at a maximum, which may not reflect actual needs.

These difficulties may be reduced by means of a phasing-out of selective restrictions to allow for gradual adjustment, within a

“timetable for gradual alignment”. However, it could be quite complex to negotiate, approve and implement such a new system in the context of the accession negotiations. It would create negotiating problems with candidate countries and seems difficult to implement.

Option 5: general non-application of the *acquis* for a limited period of time

For the sake of completeness, the status quo also needs to be considered. Rather than to define exceptions to the basic principle of free movement, one may opt for postponing the introduction of the *acquis* and keeping the status quo for a defined period of time. Some workers would be excluded from restrictive measures, such as those already working or living in another member state before accession or in case of family reunification.

This option is the most rigid one as it changes only marginally the status quo. It is by definition familiar for member states and easy to implement. It can be expected to fully reassure populations in present member states. However, it ignores the potential economic need to adjust the rules to the experienced challenges or needs after accession, and would hinder the full functioning of the internal market.

This option does not include any opening of present EU labour markets or predictability and would therefore be extremely difficult to negotiate with candidate countries.

5.3 Other policy responses

Flanking measures

A certain number of flanking measures could be considered, particularly at the national and regional level. Member states may therefore consider to provide assistance to border regions in both the present and new member states with a view to promoting local economic growth and development. In addition, one could consider actions specifically targeted at vulnerable groups of people in border regions, in order to help them cope with the necessary adjustment.

In addition to efforts at the regional and national level, member states can draw on the Structural Funds in general, and particularly on existing Community programmes such as Interreg. Furthermore,

the Commission will further examine the scope for possible action at the EU level in particular for EU border regions, as requested by the Nice European Council.

Communication and Information

In the context of the Communication Strategy for enlargement, the issue of labour markets and free movement is one of the central themes. More targeted efforts will be made to explain the advantages of enlargement in a proactive way, in particular for the border regions. It can be explained that excessive fear is unfounded and that the enlargement negotiation results should neither cause disruption and social hardship, nor unfair treatment. The Commission will develop its communication strategy, both in the member states and in the candidate countries, in such a way as to provide full information on the situation and prospects for employment and migration.

Annex 1: Factors Influencing Labour Movement

Migration research identifies a series of factors that appear to influence labour migration. They can promote or restrain migration, and depending on whether they emanate from the source or destination country they can be “pull” or “push” factors. They are often difficult to quantify and interact in complex ways, rendering any precise forecasting very difficult.

Income Gap

The wage gap is a key factor. Because a migrant lives in the country of employment, an assessment of the income gap needs to take into account the different and usually higher cost of living as well as additional costs associated with migration, such as housing, travel, etc. Also, (s)he compares the present job or job opportunities with the job (s)he may obtain in the other country. In another country, (s)he may not be employed at the same level, or may not find a job at all, or the spouse may have to give up a job. A certain minimum family income gap is normally required to trigger migration. The speed of approximation of wage levels is a key determinant in any labour migration forecast.

The legal migrant's willingness to accept a lower wage is of limited importance in the regulated EU labour market as labour law and agreements, and the social security system, protect the social "*acquis*" from downward adjustment to "imported" labour competition. There is anecdotal evidence, however, of considerable irregular labour movement across the border, e.g. in the construction sector.

Labour Market Situation

The supply of and demand for migrant labour are generally considered to be important factors. A high level of unemployment in the country of origin can push migration. However, importantly, a high level of unemployment in the country of destination can also have a strong effect, deterring work-seeking immigration.⁷

In the short run, the economic cycle causes shortages and surpluses in different parts of the labour market that cannot easily be absorbed by the local labour force, leading to "import" and "export" of labour. Even in the presence of high unemployment, there may be labour shortages in specific sectors that exert a pull effect on labour migrants with the right skills. In the absence of free movement, such pressures may show up in illegal work or into less restricted channels such as self-employment or the importation of services.

It is found that in many cases new migrants tend to compete with earlier migrants in the same sections of the labour market. The high skill level in the candidate countries raises the question whether their nationals could be pulled into skilled jobs (despite the greater sociolinguistic and regulatory obstacles). This poses a risk of brain drain for those countries. On the other hand, given perceived preferences for temporary work abroad, returnees bringing new skills back to their home countries can positively affect the development and modernisation of their home country economy.

Demand for services

The movement of persons for the provision of services, which includes also the posting of workers, follows a different logic than that of labour migration as it is not the worker who takes the initiative but a company seeking entry to a foreign market. It is provoked

by market demand for services rather than labour. The subcontracting of services to other businesses is driven by factors of cost (e.g. in construction) or skill (e.g. business services or IT sector) rather than, for instance, individuals perceiving a wealth gap.

Productivity

Distance is not a crucial factor for the traditional migrant. In the case of the candidate countries, most labour migration is thought to be non-permanent, for periods of a few months to several years, during which people maintain links with their home country.⁸ Geographical proximity could matter more for them, even in choosing between various EU countries of destination. Proximity also gives rise to specific modes of movement, such as commuting, which fall outside the strict concept of migration but are equally relevant economically.

Tradition and networks

Some candidate countries have an emigration tradition.⁹ Both surveys and recent data indicate that permanent emigration remains primarily directed overseas. Despite proximity, candidate country nationals still account for a small share of total emigration towards the EU during the last decade.¹⁰ The existing larger communities of foreigners in EU member states have mostly come about in connection with the existence of former colonies and/or of deliberate foreign recruitment schemes (from non-communist countries) in the post-war period. At the same time, temporary work-related migration from the candidate countries is directed mostly to EU countries; presumably, it substitutes to a certain extent for traditional emigration.

There is empirical evidence that family, or national or ethnic networks are an important factor, i.e. existing immigrants tend to attract more immigrants from the same origin. However, concentrations of candidate country nationals in EU member states that could lead to network effects exist only in a few cases (e.g. possibly concentrations of Polish nationals in parts of Germany). Networks appear to be self-regulating: not only do they attract immigrant labour to areas of opportunity, they may also signal labour market saturation or possible negative social and ethnic experiences, deterring further immigration.

Ethnic and political problems

Ethnic and political problems generate emigration, rather than short-term job-related migration. This factor would appear to be of lesser importance in the candidate countries, but could motivate specific ethnic groups such as the Roma.

Cultural and linguistic barriers

Socio-psychological and cultural factors play a major role in taking the decision to work abroad, especially for a longer period. The need to learn another language is typically a great obstacle for many people. Desire and deeds differ considerably, as most people can see opportunities but are too risk-averse to pursue them. The mobility of labour is rather limited, often already within the same country, where linguistic and cultural differences do not exist.¹¹ Identification with the sub-regional level and familiarity or identity with the small community act against labour mobility. On the other hand, given our common history, the cultural divide between the EU15 and the candidate countries is not deep, especially among countries with a common border. Also, geographical proximity and a high educational level have imply a more widespread knowledge of the major EU languages among candidate country migrants compared to migrants from more distant countries.

Expectations

Good economic expectations in the potential migrant's own country reduce the propensity to migrate.¹² Accession itself, or the prospect of it, may have an important influence on expectations. EU accession-induced growth prospects in Spain and Portugal are sometimes cited as one of the explanations for the low subsequent emigration.

FOREIGNERS IN THE EU LABOUR MARKET

1. Intra-EU Movement

All EU citizens enjoy the full application of the *acquis* on freedom of movement as described in Annex 3 (p. 269). The movement of persons in the EU is stimulated in order to promote effective economic

integration and to match better labour market needs with the supply of labour elsewhere.

In 1999, around 2.7m EU nationals (1.8% of the employed population) were living and working in another member state. There are considerable variations depending on the country of origin and destination: the highest share of workers abroad come from Ireland (13% of all employed Irish nationals), Portugal (8%) and Luxembourg (7%), whereas the biggest recipients of labour from other member states are Luxembourg (37% of the resident labour force), Belgium (6%) and Ireland (2.5%). The larger member states typically host considerably more other EU workers than they are sending out.¹³ Anecdotal evidence suggests that the number of EU citizens commuting to work in another member state has grown but there is little statistical information. Commuting is concentrated in certain regions, depending on population density, physical proximity and infrastructural connection of urban and industrial centres. One of the most highly integrated border regions is Luxembourg: commuting from France, Belgium and Germany into Luxembourg corresponds to around 30% of total employment there. However, this is exceptional in the EU; in border regions such as that between France and Belgium, or Austria and Germany/Italy, commuting can be estimated at a few percentages of the labour force.¹⁴

2. Present levels of labour movement from the candidate countries¹⁵

Nearly 300,000 persons from the candidate countries are legally employed in the EU, accounting for 0.2% of the EU workforce. This should be compared with a total of almost 5.3m non-EU foreign workers, in which candidate country nationals take up 6%. In Austria, which has the highest share of workers from candidate countries, they account for 1.2% of the workforce; in Germany, they account for 0.4%. Germany and Austria host 70% of the candidate country workers in the EU, but even in these two countries candidate country workers still account for only about 10% of all foreign workers from outside the EU.¹⁶

The almost 300,000 active persons include approximately 20,000

self-employed persons. Germany and Austria together host about half of them; they represent 0.2% and 0.5% of all self-employed workers in Germany and Austria, respectively.¹⁷ A more complete description of the present situation requires the inclusion of undocumented workers and migrants, a large category that has grown as a result of the combination of closed labour markets and unrestricted travel. One estimate puts them at 600,000.¹⁸ While they are generally low-cost and flexible alternatives to local labour, some appear to work in areas abandoned by local labour, such as personal services (care, household tasks). The cumulative number of legal immigrants, both working and non-active persons, from the candidate countries in the course of the 1990s was approx. 830,000. Candidate country migrants have clearly not represented the main source of overall third-country migration into the EU (they accounted for about 15% of newcomers during this period).

Number of migrants in the EU15 by 1999 (orders of magnitude)

	Labour force		Residents	
	Stock	Share of EU total	Stock	Share of EU total
Non-EU nationals (legal)	5,280,000 ¹⁹	3.1%	12,000,000	3.2%
Of whom: candidate country nationals	290,000	0.2%	830,000 ²⁰	0.2%
“Working tourists” from the candidate countries	600,000		—	

Source: Calculated from Eurostat (labour force data from 1999 Labour Force Survey; residence data from Eurostat population statistics); “working tourists” estimate from study by E. Morawska.

ANNEX 3: THE EU ACQUIS ON THE FREE MOVEMENT OF PERSONS²¹

1. Workers

Who is a worker?

For the purposes of the EU *acquis* a worker is defined as a person who, for a certain period of time, performs services for and under the direction of another person for which he receives a remuneration. The concept is limited to genuine and effective economic activity, thus excluding purely marginal or ancillary activities, although it is not a condition to earn one's full living from the income received in return for the work. In principle, only nationals of the member states fall under the *acquis* on free movement. Enlargement will thus not confer any rights of access to the EU labour market to nationals of third countries, even if they are already working in a candidate country. The only exception is when a third country national is a family member of an EU citizen: such a person is treated as an EU citizen.

What rights does an intra-EU migrant worker have?

The EC Treaty confers direct rights to EU citizens through its Art. 39 and 40 (and ECJ case law), as one of the four fundamental freedoms. It has three main aspects:

- Access to employment: an EU citizen has the right to look for and take up employed work in any other member state.
- Residence rights: the worker has the right to reside in the host country and to have his family join him. He may move freely within that country, and he also has the right to remain in that country after having been employed. An EU citizen is also entitled to reside in another member state in order to VHHN employment there; this right will normally only last six months unless the work seeker can show the host Member State that he is still looking for work and has genuine chances of being engaged. Nevertheless, the ECJ has ruled that the concerned member state's legislation should give job-seekers a reasonable period of time in order to apprise themselves of offers of employment corresponding to their occupational qualifications

and to take, where appropriate, the necessary steps in order to be engaged. Furthermore, this right of residence should be extended as long as the job-seeker provides evidence that he continues to look for a job and has genuine chances to be engaged.

- Equality of treatment: any discrimination based on nationality is forbidden, as regards working conditions and benefits related to employment. Given the existence of social legislation and binding collective wage agreements, the employment of workers from another member state cannot undermine the “social *acquis*”, since they may not be given less favourable working conditions, including wages. Equality of treatment also covers living conditions of the worker and the members of the family, including social and tax advantages, education, housing, civil law, etc.

What about frontier workers?

This category differs because the worker does not reside in the country of employment. Instead, he is a cross-border worker or commuter. The definition of cross-border workers may vary from one member state to the other as well as within the same member state according to the field at issue (tax law, residence and welfare rules). There is also a Community definition of this notion in the field of social security, which defines a frontier worker as an employed or self-employed person who works in a Member State but returns to his Member State of residence at least once a week.

The following general rules arise from the *acquis*. Cross-border workers are subject to the laws of the country of employment: they are entitled to the same benefits as nationals of the country of employment as regards access to jobs, working conditions and certain social benefits, and normally pay taxes in the country of employment.²² Because of obligatory equal treatment, the employment of frontier workers from another member state cannot undermine the “social *acquis*”.

What about social security and social assistance?

Once employed, EU law provides that every worker and his family enjoy the same social advantages as national workers, whether he is resident in that country or not. Job-seekers who were entitled to unemployment benefits in one member state may export these benefits to the host State for a period of three months, but job-seekers are not entitled to social welfare benefits in the member state where they are looking for a job. Thus the EU *acquis* should not give rise to migration for the purpose of obtaining social security and social assistance. As the ECJ has underlined on many occasions, there would be no real free movement of workers if there were no European co-ordination of social security schemes. The objective of Art. 42 EC is to avoid that people who use the right of free movement are penalised in the field of social security. The *acquis* does not aim at a harmonisation of the member states' social security schemes but merely to link these systems together in order to protect the migrant worker and his family members. Member states are free to organise their social security schemes as long as the basic principle of equality of treatment and nondiscrimination is respected.

2. Other cases of economic activities involving the movement of persons

A national of a member state who does not seek employment with an employer in a country of destination does not fall under the principles of free movement of workers. Other economic activities involving the movement of persons concern the establishment and cross-border provision of services of self-employed persons (as well as of one-man companies).²³ Another case concerns companies who send their staff (the so-called "posting of workers") to let them carry out a service in another country.

What is covered under the freedom of establishment?

The Treaty provisions on freedom of establishment (Art. 43 EC) are directly applicable, making inapplicable any other contrary national legislation and granting the individual rights which can be invoked before the national courts against the state concerned. They include

the right to work as a self-employed person in any EU country, either by establishing the main professional centre or by setting up a secondary fixed professional structure in that country.²⁴

The rule of equal treatment irrespective of nationality also implies equal treatment as regards the conditions of access to the profession: qualifications, membership of professional bodies, etc. The Treaty provisions have the effect of imposing obligations on national authorities and professional bodies to ensure freedom of establishment even in the absence of Community or national legislation providing for equivalence or recognition of qualifications.²⁵ Moreover, national rules may not be disproportionate.

What is covered under the freedom to provide services?

Art. 49 EC provides for the freedom to provide services.²⁶ This freedom always has a cross-border dimension and concerns activities of a temporary nature, in contrast to the case of establishment. In many cases, the cross-border provision of services will involve the movement of persons to the recipient country. It is important to note that such persons are “sent” abroad and do not seek access to the foreign labour market.

In the case of “posted workers”, the *acquis* ensures that a core of minimum working conditions are granted to the posted worker in line with those prevailing in the host country, with a view to ensuring a level playing field in the single market. This does not apply to other cases of cross-border provision of services, e.g. by a self-employed person.

Other channels of services provision are also covered by this *acquis*: when the recipient of the service crosses a border, when both cross the border into a third member state or when the service itself crosses a border. The recipient may invoke his right to receive the services abroad. These channels may not involve the movement of persons into the recipient’s country but they have comparable economic effect, namely the importation of services.

Table: Overview of cases of labour movement and their respective regulatory regimes

	Workplace = residence	Workplace ≠ residence
Worker in home country company	—	Posted worker
Worker in company of other country	Migrant worker	Frontier worker
Self-employed	Establishment	Cross-border provision of services
Company (services sector)	Establishment	Cross-border provision of services

Table 1: Estimates of potential migration into the EU15 from the candidate countries under conditions of free movement²⁷

	CC8 ²⁸ migrants		CC10 migrants	
	Stock	Flow/year over first 10 years	Stock	Flow/year over first 10 years
Brücker (DIW) and Boeri (2000) (only workers!)	860,000 (after 10 y.)	70,000 declining to 30,000	1.4 million (after 10 years)	120,000 declining to 50,000
Brücker (DIW) and Boeri (2000) (all migrants!)	1.8 million (after 10 y.)	200,000 declining to 85,000	2.9 million (after 10 years)	335,000 declining to 145,000
Sinn (ifo) et al. (2001) ²⁹	2.7 million (after 15 y.)	240,000 declining to 125,000	4.2 million (after 15 y.)	380,000 declining to 200,000
Walterskirchen (WIFO) and Dietz (1998) ³⁰ (exc. commuters)		160,000 declining to 110,000		
Bauer and Zimmermann (IZA) (1999) ³¹	2.5 million (after 15 y.)			280,000
Fassmann and Hintermann (1997) ³²	720,000 long-term migration			
Hille and Straubhaar (2000)				270,000 to 790,000
Salt et al. (1999) ³³	2.25 million (3% of Pop.) (after 15 y.)	140,000		

Table 2: Development of working-age population in Germany

	Current working-age population	Without migration Working-age population with zero migration	With migration Working-age population with 100,000 migrants per year starting 2000	Working-age population with 200,000 migrants per year starting 2000	Working-age population with 500,000 migrants per year starting 2000
2000	40.356m				
2010		38.525m	40.452m	42.069m	44.099m
2105		36.898m	39.522m	41.949m	44.986m
2020		34.512m	37.848m	40.806m	44.862m
2040		24.811m	29.886m	33.846m	41.481m

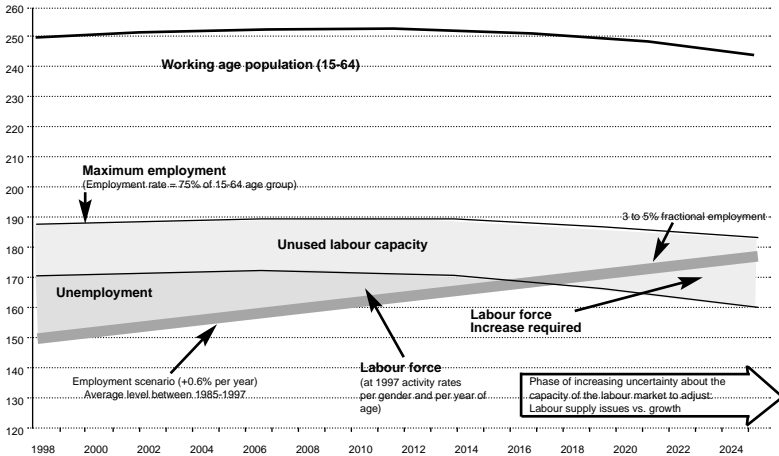
Note: number of migrants needed to keep constant the German working-age population (until 2050): approximately 320,000 per year on average

Source: Fuchs and Thon 1999 (Institut für Arbeitsmarkt-und Berufsforschung der Bundesanstalt für Arbeit)

Table 3: Estimates of potential commuting into certain member states from the candidate countries under conditions of free movement

Source	Region	Assumptions	Estimated size of commuting
Riedel and Untiedt (2000)	Germany vs. Poland and the Czech Republic	Similar pattern as commuting between eastern and western Länder inside Germany; commuting up to 150km distance	2-4% of the host labour force (higher in cities, lower in rural areas)
ÖROK (1999)	Austria vs. neighbouring candidate countries	3% of the population in candidate country border regions, reached 10 years after accession. Only those living within 90 minutes travelling distance would commute daily; others would be semi-resident.	5.3% of host labour force (from 3.3% in Oberösterreich to 7.8% in Vienna) 40% of these (60,000 people ³⁴) would be daily commuters.

Graph 1: Interaction between demographic trends, employment and growth in EU15 period 1998-2025



Source: Commission Communication "Towards a Europe for All Ages" (COM/1999) 221 final of 21 May 1999), based on Eurostat base line demographic scenario of 1995 and Labour Force Survey.

Table 4

BORDER-REGIONS IN THE EUROPEAN UNION AND THE CANDIDATE COUNTRIES									
	EU Member States				Candidate Countries				
	GDP/head EU15=100	UR	ER	% Agriculture Total employment	GDP/head EU15=100	UR	ER	% Agriculture Total employment	
DEUTSCHLAND (FORMER EAST GERMANY)	107.7	8.9	65.4	2.9	POLSKA	36.1	12.3	57.5	18.1
MECKLENBURG-VORPOMMERN	70.7	17.5	61.3	6.8	ZACHODNIOPOMORSKIE	35.2	14.9	53.8	11.4
BRANDENBURG (BERLIN)	70.6 102.2	16.0 13.7	63.0 60.7	5.4 0.8	ZACHODNIOPOMORSKIE	"	"	"	"
DRESDEN	74.1	N.A.	N.A.	N.A.	LUBUSKIE	32.9	15.3	51.9	7.1
					LUBUSKIE DOLNOSLASKIE	36.0	13.8	56.1	9.6
					CESKA REPUBLIKA	60.3	8.5	65.6	5.3
CHEMNITZ (BAYERN)	63.2 122.9	N.A. 5.0	N.A. 71.2	N.A. 4.1	SEVEROZYCHOD*	52.7	7.3	66.3	6.5
					SEVEROZAPAD	52.9	12.6	61.7	4.0
					SEVEROZAPAD	"	"	"	"
OBERFRANKEN	104.2	6.5	69.7	3.0	SEVEROZAPAD	"	"	"	"
OBERPFALZ	94.1	5.4	70.6	6.5	SEVEROZAPAD	"	"	"	"
NIEDERBAYERN	98.3	4.8	71.1	6.8	Jihozapad	57.4	6.4	67.6	7.8
					Jihozapad	"	"	"	"
ÖSTERREICH	111.7	4.0	68.8	6.2					
OBERÖSTERREICH	104.9	2.7	69.2	8.3	Jihozapad	"	"	"	"
NIEDERÖSTERREICH (WIEN)	91.4 162.8	3.1 5.9	69.1 69.6	10.1 0.8	Jihozapad	"	"	"	"
					Jihovýchod	53.4	8.8	65.4	8.2
					SLOVENSKA REPUBLIKA	48.6	16.4	60.8	8.1
BURGENLAND	68.8	3.3	67.9	6.3	ZAPADNE SLOVENSKO*	44.3	15.1	61.5	9.1
					BRATISLAVSKY KRAJ	99.4	5.9	71.9	3.4
					MAGYARORSZAG	49.0	6.9	55.4	7.0
KÁRNTEN	91.6	4.7	65.7	7.8	NYUGAT-DUNANTUL	54.1	4.4	63.0	6.5
					SLOVENIJA	68.8	7.3	62.5	10.8
STIEIERMARK	90.1	4.1	67.6	8.5	SLOVENIJA	"	"	"	"
ITALIA	101.1	11.7	53.4	5.4					
FRIULI-VENEZIA GIULIA	113.5	5.6	59.7	4.8	SLOVENIJA	"	"	"	"
ELLADA	86.0	11.7	56.9	17.8	BALGARIJA	22.3	17.0	54.1	24.4
ANATOLIKI MAKEDONIA, THRAKI	55.4	12.8	60.0	38.4	YUZHINA BALGARIJA	22.3	16.5	N.A.	25.4
KENTRIKI MAKEDONIA	67.6	11.7	55.5	19.1	YUZHINA BALGARIJA	"	"	"	"

Source: Cohesion Report

*There is a significantly smaller part of the region bordering the EU

(Note): GDP/head EU15=100 — Gross domestic product per inhabitant as percentage of the EU average in 1998

UR — Total unemployment rate in 1999

ER — Employment rate as percentage of the population aged 15-64 in 1999

% Agriculture Total employment — Share of employment in agriculture in total employment in 1999

Source: Based on European Commission (2001) (Second Cohesion Report)

Table 5: Present labour market access in the EU15

	Access of third country nationals to the labour market?	Special regime for candidate countries?	Access for self-employed? (Note: for candidate country nationals, access is granted under the Europe Agreements on the basis of national treatment, but without the mutual recognition of qualifications)	Are long-term residence permits issued?
Austria	Overall national quota for all nationalities, subdivided by Land. Each land may permit additional quotas for seasonal workers. Employer must ask for the work permit. Labour market need has to exist. Total number of permits: 126.889 (1999).	Bilateral agreement for border commuters and trainees with Hungary (1,200 and 600 in 2001); similar agreement with Czech Republic under preparation.	Work permit is not required, only residence permit needed	Yes, first for 1 year, then two extensions of two years possible. After that unlimited residence permit may be granted.
Belgium	Employer has to ask for work permit before foreigner enters the country. Labour market need has to exist. Only for nationals of countries with which bilateral work convention was signed. Total number of permits: 83.500 (1997).		Yes, under certain conditions, with prior agreement of Ministry.	Yes, after 5 years of legal and uninterrupted residence in Belgium.
Denmark	Very limited access. Work permit needs to be obtained prior to entering Denmark. Labour market need has to exist (i.e. no Danish /EU workers available). Third Country nationals holding a valid work permit issued by an EU state do not need Danish work permit. Total number of permits: 73.092 (1999).		Very rarely issued, only if there is an important Danish aspect of the activity.	In general, if a work permit is granted a residence permit will also be granted (residence permits have also to be obtained before entering Denmark).
Finland	Work permit needs to be obtained prior to entering Finland. Labour market need has to exist. Privileged regimes for qualified workforce.		Residence permit but no work permit required, applicant must prove sufficient funds and business plan.	Yes, usually for 1 year, after 2 years a permanent residence permit may be granted

France	<p>Visa, work contract and work permit required.</p>	<p>Possible in principle, but many professions prohibited to foreigners.</p>	<p>There are 1 and 10 year residence permits.</p>
Germany	<p>Residence permits (granted up to 5 years) and work authorisation needed. Work permit normally requires existence of need in labour market. People usually residing outside Germany in principle cannot get a work permit. There are very few exceptions to that rule, namely for: short-term cross-border occupation of employees of foreign enterprises; occupation where an international exchange is usual; professional education and training; high-level employees and highly qualified specialists in the framework of international cooperation between enterprises; seasonal occupations.</p> <p>Special regime exists for border regions (approx. 50km zone) granting local authorities the right to issue work permits to commuters outside national restrictions on the basis of a locally existing need in the labour market (also applies to Poland and Czech Republic).</p> <p>Total number of permits: 1,083,268 (2000).</p>	<p>Quota-based agreements on trainee workers with Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia. Agreements on "posted workers" (mostly employed in construction, e.g. for 2 years on a specific project) with Bulgaria, the Czech Republic, Hungary, Latvia, Poland, Romania, Slovakia, Slovenia. On condition that salary is comparable to German collective agreements.</p>	<p>No work authorisation needed, however lengthy procedures.</p>
Greece	<p>Work and residence permits (for 1 year) required. Number of work permits is decided each year (per country of origin, per profession and per region). Employer must ask for the work permit. Proportion of third country nationals to Greeks must not surpass 10% in companies with more than 5 employees. Total number of permits: 69,600 (in 1997, incl. EU citizens)</p>	<p>Agreements with candidate country: special provisions apply to key personnel and their family members Bilateral agreement with Bulgaria for seasonal work of max. 6 months/year (mainly in agriculture).</p>	<p>Yes, applicant must prove sufficient financial resources and that his activity will have added value for the Greek economy, etc.</p> <p>1 year residence permit is renewable each year for a total of 5 years</p>

Ireland	Work permit required. Employer must submit request. Work permit requires existence of need in labour market (i.e. no Irish/EU nationals available). Exception: posted workers. Work permits granted to foreigners in 1997: 2,600 (excluding Indian, Pakistan, US American and Canadian citizens).	Yes, but "business permission" required (applicant must prove additional value to the Irish economy, create employment, etc.- however, many exceptions).	Permission is normally only given for the duration of the stated purpose up to a maximum of 12 months. Third country national wanting to remain in Ireland needs a permission.
Italy	Each year the maximum number of third country nationals admitted to Italy is defined. (in 1999: 28.000 for salaried workers, 2.000 for self-employed workers) Special quota is reserved for workers from countries that have signed bilateral agreements with Italy. Employer must ask for the work permit. Several exemptions exist.	Permit for self-employed work reasons required. Adequate means etc. must be demonstrated by the applicant.	Can be obtained after five years. Foreigner must demonstrate sufficient income etc.
Luxembourg	Work permit has to be applied for by the employer. Bank guarantee must be paid.. Different schemes of work permits are awarded depending on place of birth, residence in Luxembourg and place of employment. Total number delivered to third country nationals: 6,800 (1997)	Bank guarantee must be paid, sufficient funds etc. must be proved. Clean criminal record.	Third country nationals who want to stay longer than three months have to ask for a foreigner identity card. Work permits are a precondition for a residence permit (12 months). Work permits exist for the duration of 1 year, 4 years and an unlimited period of time.
Netherlands	Work and residence permits have to be applied for simultaneously. Work permits requires existence of need in labour market (no Dutch/EU worker available). Duration of work permits: max. 3 years Total number delivered: 20,816 (1999).	Residence permit needed. Essential interests of the Netherlands have to be matched. Special regimes for restaurants, bars etc.	Residence permits for the purpose of paid employment or self-employed activities are only granted if there is a specific national interest. Duration: one year (can be extended). After 3 years "right to free movement" can be requested (no more work permit needed). After 5 years permanent residence permit is granted under certain conditions.

Portugal	Work permit (up to 1 or 2 years) needed; special regime for seasonal workers. Residence permit allows work without any need for a work permit (same rights as a Portuguese).		Yes, same conditions as for salaried workers. Duration: 2 years with a possibility of extension.	Yes, if the third country national has resided legally in Portugal for at least 10 years, etc.
Spain	Work permit has to be applied for by the employer. Quota system in place (set annually). Work permits are granted only in sectors where there is a shortage of labour. Quota was increased from 20.000 to 30.000 in 1999. An agreement with Morocco exists on seasonal workers. Total number of foreigner workers: 85,526 (1998).		Work permit needed, "convenience for the Spanish economy" has to be analysed.	Residence permits are renewable, after 6 years of permanent residence in Spain a permanent residence can be applied for.
Sweden	Different counties decide together with the national authorities on the issuance of temporary work permits (temporary residence permits are issued accordingly). Work permits are only issued in case of labour shortage. Number of permits delivered in 1997: 4,000. Total number of foreign workers: 220,000 (incl. EU origin).	Bilateral agreements on trainees with the Baltic States.	No work permit needed. Residence permit (initially for one year) required before entering Sweden. Existence of sufficient economic means must be proved.	After 2 years of residence in Sweden a permanent residence permit may be applied for.
UK	Work permits (normally for 3 or 4 years) must be requested by the employer before the worker enters the UK. Residence permits are issued accordingly. Usually only work permits for high-skill jobs are issued. Other permits require the existence of a labour market need. Number of permits delivered: 72,599 (1999).	"Au pair" aged between 17 and 27 from Malta, Cyprus, Czech Republic, Slovakia, Slovenia, Hungary admitted without need for work permit.	Business people must invest at least 200,000£ in their business and create jobs; business plan must be submitted.	After 4 years work permit holders can apply for permanent settlement.

Source: Based mostly on a study commissioned by the Justice and Home Affairs DG of the European Commission: *ECOTEC Research and Consulting, "Nationals for Paid Employment or Self-Employed Activity"* (unpublished). The information reflects the situation at end-March 2000.

FOOTNOTES

1. In the case of the accession of Spain and Portugal, the transitional arrangements were meant to “éviter de brutales détériorations des marchés de l’emploi qui seraient dues à des transferts importants de main-d’oeuvre à la suite de l’adhésion” (see report cited in footnote 31).
2. Such exemptions were applied in the case of the Spanish and Portuguese accession (see description in section 4.2).
3. The introduction of full free movement within the EEC in 1968 involved a safeguard clause allowing member states to request the Commission to suspend the free movement of workers partially if they undergo or foresee disturbances on their labour market which could seriously threaten the standard or living or level of employment in a given region or occupation (Reg. 1612/68). All previous Accession Treaties have contained a general safeguard clause to enable measures to be taken in case of serious economic difficulties, usually on the basis of a Commission authorisation. None has ever been invoked. In some instances, an additional Joint Declaration underlined the political commitment to take measures where needed.
4. This would in effect be similar to the transitional arrangement used in the case of the accession of Spain and Portugal.
5. Many of the same specifications regarding family members, progressive rights and reviews would apply also to the first example, namely in those parts of the EU where the free movement would not apply.
6. This would in practice lead to a situation that is comparable to the one which was to exist for Luxembourg following the expiry of the transitional arrangement in the case of Spain and Portugal in respect of all other member states.
7. At the moment, the unemployment rate in a number of candidate countries is comparable to the EU average.
8. A survey by the International Organisation for Migration (IOM) in 1998 revealed that—depending on the country of origin—only 7-26% of potential migrants is interested in permanent emigration, mostly overseas. 18-57% of them would choose to work a few years abroad, and 13-68% would prefer commuting, seasonal and casual work. Particularly the candidate countries located close to economic centres in the EU have a stronger preference for short-term work. Note that this survey covered all of Central, Eastern and South Eastern Europe, not only the candidate countries.
9. As major past emigration waves were often linked to periods of political turmoil or economic hardship, it is doubtful how much predictive value they have in the case of accession to the EU.
10. An interesting case is that of Austria, which opened its labour market around 1990 until migrant labour reached about 10%, but found that most new migrants came not from the candidate countries but from the traditional sender countries Turkey and Yugoslavia.
11. The case of German reunification is interesting in this respect. A survey

conducted in 1991 found that 36% of eastern Germans intended to move to western Germany. In the end, only 5% of those people actually moved within 2 years following the poll. In addition, 0.4% of those not intending to move eventually did move.

12. In a number of candidate countries, robust economic growth can be observed already today.
13. Data calculated from the 1999 Eurostat Labour Force Survey.
14. Data are from various official sources (e.g. social security) and were collected in the context of the Cross-Border Eures Partnerships. The data on commuting from France into Hainaut and West-Vlaanderen in Belgium yields a share of commuters of about 1.8% of the labour force of these two provinces, but the labour force actually within commuting distance would be smaller. An Austrian study (Walterskirchen and Dietz 1998) estimates that around 3% of the Austrian labour force in border regions commutes abroad.
15. Most of the figures below are based on the Eurostat Labour Force Survey. In some cases, the share of candidate country workers among non-EU workers could be somewhat underestimated due to classification problems. Also, when numbers are small (e.g. an estimated 2000 candidate country self-employed in the whole of Austria), the margin of error can be important.
16. The next largest host country in absolute numbers is France, with about 20,000 candidate country workers (0.1% of workforce and less than 3% of non-EU workers). The next largest in terms of share of the workforce is Greece, with approx. 0.3% of the workforce being of candidate country origin (about 15,000 people).
17. They represent only 5% and 20% of all non-EU self-employed persons in Germany and Austria, respectively, despite the opening offered under the Europe Agreements.
18. Estimate quoted in academic literature, based on the number of EU-candidate country border crossings (roughly 20 million per year), the estimated respective shares of people engaged in short-term work abroad ("working tourists") and cross-border trading ("trading tourists"), and the number of crossings they make per year. The 600,000 people are a stock figure, even if they travel back and forth. No estimates are available of the flow/year, i.e. the net annual increment.
19. Of these, approximately 370,000 are self-employed persons. Among these, approximately 20,000 are of candidate country origin.
20. Approximate numbers by origin and share of total from CC10:

Bulgaria:	55,000 (7%)	Czech Republic:	35,000 (4%)
Slovakia:	20,000 (2%)	Hungary:	77,000 (9%)
Poland:	435,000 (53%)	Romania:	155,000 (19%)
Estonia:	15,000 (2%)	Latvia:	7,500 (1%)
Lithuania:	8,000 (1%)	Slovenia:	20,000 (2%)
21. The description below does not claim to be complete or to provide a legal opinion.

22. This principle may be reversed through bilateral tax conventions.
23. This is relevant here insofar as a small firm may be established specifically with the aim of facilitating the movement of the person or family.
24. Member states can refuse this right only on grounds of public policy, public security or public safety and can restrict it on grounds of the general interest and provided the restrictions are proportionate.
25. The general system directives, which cover many professions, also provide that a person cannot be refused access to a regulated profession by the sole fact that he lacks the national qualification of that country, if this person is considered qualified for this profession in his EU country of origin. Other legal texts cover other diplomas and certificates, and a number of "sectoral" directives exist (lawyers, some health professions and architects).
26. The country of destination may consider not to grant this right on grounds of public policy, public order or public safety or may impose restrictions, but only where they are justified, proportionate and nondiscriminatory, and where there is no equivalent regulation in the country where the service provider is established.
27. Some figures are extrapolations, for the sake of comparability in terms of timespan and geographical coverage.
28. CC8 includes all candidate countries aspiring to accede in 2003: the Czech Republic, Hungary, Poland, Slovakia, Slovenia, Estonia, Latvia, Lithuania.
29. Excluding Bulgaria, Slovenia and Baltic States. For the sake of comparability, figures are extrapolated to the whole EU from research results for Germany, assuming the present distribution of migrants among the EU15 remains the same.
30. For the sake of comparability, figures are extrapolated to the whole EU from research results for Austria, assuming the present distribution of migrants among the EU15 remains the same.
31. Excluding Slovakia and Baltic States.
32. Excluding Slovenia and Baltic States.
33. Excluding Baltic States.
34. This is approximately the same number as that of Austrians commuting abroad (about 3% of the Austrian labour force in border regions).
35. Special arrangements exist with Turkey. Quota-based agreements also exist with Albania, Russia, Switzerland.
36. Agreements on "posted workers" also exist with Croatia, Macedonia, Turkey.
37. A seasonal workers agreement also exists with Albania. A special agreement exists with Egypt.

SOURCE

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DEBATE QUESTIONS

1. Should the EU be worried about migrant workers in the aftermath of enlargement? Is the '2-3-2' system a violation of one of the fundamental principles of the EU: the free movement of labor?
2. How will unemployment rates in both the current EU members as well as applicant countries affect the debate on migration? What are some of the major factors influencing the labor movement?
3. Which one of the five policy options for dealing with migration listed in the European Commission document do you agree with most? Why?

Gender Labour Relations and EU Enlargement

Rossitsa Rangelova

Introduction

This article considers the question how gender relations interact with labour relations and equal opportunity (EO) in the context of the enlargement of the European Union (EU). In the first section, a comparative and historical analysis considering western European countries and central and eastern European ones (CEECs) shows the interplay between economic and ideological factors in the construction of employment in the two different types of society. The second section illustrates the gender equality process in the 90s using three composite indices presented annually: the UNDP Human Development Index (HDI); the Gender Development Index (GDI); and the Gender Empowerment Measure (GEM). In the third section, aspects of the development of gender relations in transition CEECs are considered, in particular: the household-employment interface; women's exclusion from employment; employment segregation and the wage gap; and women's political representation and involvement. The last section outlines some prospects on how gender labour relations and EO can be improved in the context of the future enlargement of the EU, taking into consideration both the specifics and the advanced practices in the two integrating types of society. Finally, some concluding remarks are provided on EO and change policies.

1. The changed patterns of women's employment and EO: historical aspect

Any discussion of EO should obviously encompass both the historic

legacy and the current structural constraints and policy options.

One of the most dramatic changes in industrial societies after World War II, and especially from the beginning of the 1960s, has been the rapid feminisation of the labour force. Over half of adult women in most member countries of the OECD are now in the paid labour force. Their participation rate is, therefore, rapidly approaching that of men, which has been falling over the same period.

It is impossible to understand an increasingly feminised labour force in isolation from state employment and industrial policies as a whole, because the state itself makes no such clear distinction. The Keynesian policies developed by most governments in the post-war years proved to be beneficial to women. Firstly, they provided the macroeconomic framework for growth and, thus, for an increased demand for labour. Secondly, they included a set of social policies. Expanding educational facilities drew young women into higher education and gave many of them the training and skills that employers wanted. Furthermore, the expansion of the public sector at that time was a major source of job opportunities for women (Baker, 1988: 17-44).

On the supply side, concerning decisions on labour participation, there are several relevant trends: the increase in women's education; the decline in the birthrate; and the increase in women's relative wages.

1.1 Women in work and EO in European market economies

At the same time as women's participation rates began to rise, the economies of advanced industrialised countries were undergoing substantial structural change caused by the decline of agriculture and the rise of the industrial and service sector. The increasing importance of the service sector and of part-time work meant that there were growing numbers of jobs in sectors where women had traditionally been concentrated.

There is a close relationship between the growth of the service sector and female employment in all advanced industrialised countries during the 1970s and 1980s.

Scandinavian countries traditionally have the highest levels of

female participation, with the highest share of women's employment in community, social and personal services and the lowest share of these in agriculture. The latter structure is also true for Belgium and the Netherlands, which have the same type of distribution of the female labour force by economic sector although not so markedly expressed. In Germany, as well as to some extent in Switzerland and Italy, the share of women's employment in manufacturing is greater than in other western countries.

Italy is, in many ways, a special case. Firstly, female labour force participation is still lower than in most other advanced industrialised countries. Secondly, Italy has a large small-firm sector, many of which are in the informal economy, a major source of female employment. Thirdly, there is considerably less part-time work than in most other countries. The vitality of small firms and the informal sector is based upon the subordinate role of the Italian economy in the international division of labour. According to distribution by economic sector, Italian agriculture has a higher proportion of female workers than in most advanced industrialised countries. In a sense, one can regard Italy as a marginal case between western and southern European countries. The typical southern market economies of Spain, Portugal and Greece have a higher share of women's employment in agriculture and a lower share in the service sector comparative to western economies.

1.2 Women in work and EO in former centrally planned economies

Owing mainly to ideological and political reasons, women's employment was very high in the former centrally planned economies of central and eastern Europe. The given priority to a labour force function for women was due, firstly, to the public need to restore the national economies during the decades following WW II and, secondly, to a simplified understanding of equality between men and women.

Some major features of employment in CEECs were: an excessive reliance on the development of an industrial structure based upon large-scale plants as the main unit of employment, as well as over-

industrialisation and a comparative neglect of services. These all reflected on the distribution of the female labour force by economic sector. Contrary to advanced industrialised countries, ex-centrally planned economies had higher proportions of women's employment in manufacturing and agriculture and lower ones in the service sector. In this respect, they have a female labour force distribution closer to that of developing countries than to that of advanced industrialised ones. However, there are essential differences: firstly, women engaged in agriculture in ex-socialist countries as a whole were advanced in age and disproportionately located in particular regions; and secondly, women in these countries were, on average, higher educated than elsewhere across the world.

What were the positive aspects of this policy? The main principle was 'economic equality between men and women', i.e. in the first place women had legally guaranteed equal rights and opportunities to work. Women and men in employment received equal pay for equal work. On the other hand, the educational and skill levels of women increased and this brought qualitative changes in the female labour force. During the last 50 years, the number of women with high (secondary) and higher education increased nearly 26 times and, in 1992, about 47% of the total number of such specialists were women.

Even so, the high educational level of women, as a feature of Communist regimes, is regarded by Pollert (2001) as an unintended consequence of women's labour market disadvantage. The industrial hierarchy which privileged male-dominated heavy industry in comparison with light and consumer industries and services meant that a male industrial technician or administrator with only nine years of compulsory education earned almost as much as a women with a university degree. Female exclusion from senior posts in industry meant that the only route upwards was through higher qualifications and into the professions. Other processes also led to the feminisation of higher education. Gender choices (and stereotyping) within education continued, with girls preferring arts and humanities, and boys technical subjects and vocational education and training. Women's preference for academic, rather than technical and vocational, training meant they left the vocational route into heavy industry to boys,

subsequently entering academic secondary schools and universities in large numbers: women made up 40% of total students, faculties and researchers in universities. However, right across central and eastern European countries, only certain graduate professions were feminised. For example, to judge by the occupational distribution at the end of the 1980s of women in Bulgaria who had received higher education, the teaching profession was the highest, taking 27.4%; second was engineering and technical education – 26.8%; followed by economists – 19.2%; those engaged in medical care – 13.1%; etc. At that time, every second doctor in Bulgaria and every third engineer was a woman; as were 65% of dentists and 84% of pharmacists (Rangelova, 1989).

1.3 Comparative aspects

We can agree that gender segregation, both horizontal and vertical, has been very similar in capitalist and state command economies, with women concentrated in a limited range of sectors and occupations – in ‘light’ manufacturing, the services and the caring professions – while being over-represented at the bottom of occupational hierarchies. Ideologically, the household remains a female domain. The male-female pay ratio is also similar, with women earning between 70 and 80 per cent of male earnings. Women, consequently, have little power either in employment or in politics (Sundin and Rapp, 2001).

At the same time, there are differences between market and state-command countries. In the west, sectoral change, entailing a decline in manufacturing and a growth in service employment, has been accompanied by a major increase in female employment: in 1950, women comprised between 20 and 35 per cent of the labour force in OECD countries such as Canada, France, Germany, Sweden, the US and the UK. In 1982, this had risen to between 33 and 46 per cent (Jenson et al, 1988: 18). However, feminisation has also been accompanied by a growing segmentation of the labour force by occupation and by sector. For example, even in Sweden, with a major increase in female employment and which has established progressive measures to encourage women to move out of stereotypical jobs, occupational

segregation is among the highest in the advanced industrial world (Anker, 1998: 185). A further structural shift has been the segmentation of the workforce between full-time and part-time workers. Part-time work is overwhelmingly female, accounting for over 30% of women's jobs in Sweden, the UK and Canada in the late 1980s (Jenson et al, 1988: 21).

Structural shifts of this type were delayed in the command economies. Compared with post-war developments in the west, state-command countries concentrated on industrial growth, leaving the service sector (except for health and education) underdeveloped until after 1989. Sectors such as retail, hotels and catering have developed only recently (Employment Observatory, 1993: 23), with women being concentrated in light industry, public services and agriculture. Their integration into the workforce was fostered by a state policy which was driven by the imperatives of industrialisation and economic growth, and supported by the ideology of women's emancipation through paid employment. The high proportion of women in the labour force of Communist countries compared to those of western European ones is well-known. In most central and eastern European countries, women still comprise between 45 and 50 per cent of the labour force. Between 70 and 90 per cent of women of working age (15 to 55 years) were employed in Communist countries in 1989, similar to the Swedish level but much higher than the European average of 50% (UNICEF, 1999: 24). At the same time, part-time employment (other than in the informal sector) was almost unknown.

The impact on women of the 'double burden' of responsibility for the family and full-time employment has received widespread attention (Scott, 1976). Labour shortages prompted the introduction of policies to retain women in the labour force, including entitlements for women workers as mothers. However, state policy was always ambivalent about its treatment of women as both producers and reproducers. EO principles were propagated for ideological reasons, but they contained contradictions. There were measures to help women improve their skills and to gain access to male dominated occupations, but the 'worker-mother' model still permeated language and policy. An egalitarian 'socialist family' was encouraged in official

rhetoric, but women's 'natural' responsibilities for reproduction and the family were never questioned in public discourse. In other words, the legislation provided for equal responsibility between marriage partners; but it continued to define women in terms of their 'dual roles' and women bore the major responsibility for housework, child-care and shopping.

In comparison with the west, however, gender equality did make some advances: for example, women made inroads into gender-atypical occupational fields. Nevertheless, vertical segregation and a wide gender pay gap remained. As in the west, women remained at the lowest skill-levels, performing repetitive assembly work, or else at the bottom of managerial hierarchies.

Vocational training, especially in the favoured industry of machine building, still favoured boys and although enterprises were meant to take a quota of female apprentices, they were frequently unwilling to do so. The Population Crisis Committee in Washington DC carried out in 1988 a study entitled *Country Rankings of the Status of Women*, covering 99 countries representing 2.3 billion women (92% of the world's female population). The study is based on 20 indicators measuring women's well-being in five groups: health; marriage and children; education; employment; and social equality. The highest ranked country is Sweden, while the lowest is Bangladesh. The relatively advanced position of Bulgaria is impressive: in ninth place, after Sweden, Finland, the US, East Germany, Norway, Canada, Denmark and Australia, and ahead of Belgium, Czechoslovakia, Hungary, the USSR, France, West Germany, Austria, Poland, the Netherlands, the UK, etc. Deeper analysis proved that the advanced position of Bulgaria was mainly due to the strong engagement of women in education and employment, to the detriment of considerations relating to health, marriage and children, and, especially, to social equality, i.e. women's political representation and involvement.

2. Gender equality measured by composite indices

It is well-known that development is based not only on economic growth but also on the achievement of social goals, including gender

equality. This idea is implemented in the Human Development Report composite indices which have been presented since 1990 as a means of assessing different aspects of human development. The report is perhaps best known for its Human Development Index (HDI), which is based on three indicators:

- longevity, measured by life expectancy at birth;
- educational attainment, measured by a combination of adult literacy (which receives a two-thirds weighting) and the combined gross primary, secondary and tertiary enrolment ratio (one-third);
- the standard of living, measured by real GDP per capita.

The range of HDI values determined for 174 countries in 1999 varies between 0.932 (Canada) and 0.254 (Sierra Leone).

The consequence of the Beijing Conference has been that, since 1995, a Gender Development Index (GDI) has been introduced into the UNDP Human Development Report to measure the gaps between women and men: the greater the gender disparity in a country, the lower its GDI. In 1999, the GDI was calculated for 143 countries, producing a range of values from 0.928 (Canada) to 0.286 (Sierra Leone). Most of the top GDI countries are in the Nordic region, flowing from the adoption of gender equality and women's empowerment as conscious national policies.

The relative HDI and GDI positions are different for many countries, including European ones. For some, the GDI score is lower than the HDI one, revealing unequal progress in building women's capabilities compared with those of men; but for others, the GDI score is the higher, suggesting a more equitable distribution of human development between men and women. Countries in the latter group include industrialized nations, transition economies and developing countries, showing that greater gender equality does not necessarily depend on income level and that it can be achieved across a range of cultures (UNDP, 1999).

Another gender-sensitive index is the Gender Empowerment Measure (GEM), which uses variables reflecting women's:

- participation in political decision-making (as measured by their share of parliamentary seats)
- access to professional opportunities (measured by their share of administrative, managerial, professional and technical positions)
- earning power (measured by their access to jobs and wages).

Analysing GEM reports from the last five years reveal that there is still a long way to go in both rich and poor countries with regard to the sharing of political and economic opportunities. When the GEM is compared to the GDI, the values drop in almost all countries as the GEM focuses on women's opportunities rather than their capabilities (as measured by the GDI). In the 1999 report, a GEM was calculated for 102 countries, with values ranging between 0.810 (Norway) and 0.120 (Niger). The top three countries were all Nordic (Norway, Sweden and Denmark). In both industrial and developing countries alike, the drop from the HDI to the GEM is dramatic: only one country (Norway) has a value higher than 0.800 and only 33 countries have a GEM of more than 0.500. Some developing countries outperform much richer industrialised countries in their GEM ranking: for example, Costa Rica and Trinidad and Tobago are ahead of France and Italy. The GEM's message is that high income is not a prerequisite for creating opportunities for women.

For selected European countries, a comparison of the three indices – HDI, GDI and GEM – is provided by Table 1.

Table 1 – HDI, GDI and GEM for selected European countries, 1999

Country	HDI		GDI		GEM	
	Rank	Value	Rank	Value	Rank	Value
Italy	19	0.900	18	0.894	26	0.523
Spain	21	0.894	21	0.888	22	0.555
Czech Republic	36	0.833	34	0.830	27	0.521
Slovakia	42	0.813	39	0.811	34	0.509
Hungary	47	0.795	43	0.792	48	0.458
Estonia	54	0.733	49	0.772	46	0.468
Bulgaria	63	0.758	56	0.757	49	0.457

The annually presented indices contained in the Human Development Report provide an opportunity to compare countries' relative positions over time. As Table 2 indicates, HDI dropped in the 90s for most of the countries considered except Slovenia. GDI ranking was, nevertheless, still better than HDI, with an advantage over HDI of between 13 and 17 points. This suggests that, despite their limitations, state-command countries have delivered a legacy of relative gender equality.

Table 2 – HDI and GDI ranking of selected CEECs, 1990-1998

Country	HDI				GDI			HDI minus GDI	
	1990	1995	1998	1990-98	1995	1998	1995-98	1995	1998
Slovenia	34**	37	29	5	24	28	-4	13	1
Czech Rep.	27*	39	34	-7	25	33	-8	14	1
Slovakia	27*	42	40	-13	26	36	-10	16	4
Hungary	30	47	43	-13	34	38	-4	13	5
Poland	41	52	44	-3	35	40	-5	17	4

* Czechoslovakia ** Yugoslavia

Source: UNDP (various): Human Development Report, 1991, 1998 and 2000.

From 1995, HDI rankings across central and east European countries began to improve (although they still did not return to their 1990 levels). However, GDI rankings showed further deterioration. The severest drops in GDI scores were in Slovakia (-10) and the Czech Republic (-8), although the others also dropped by four or five points. By 1998, the HDI and GDI ranks in these countries had converged, conforming to the picture in 'high human development' industrialised countries. This suggests that, in the 90s, women in CEECs lost out both absolutely, in terms of the general economic decline, and relatively, in terms of gender equality.

These ranked indices are useful in indicating the relationship between general and gender 'human development' across different countries, but they do have some limitations. It is impossible to explain changes in the relative positions of the indices without looking at the reasons behind the improvements in those countries which have risen in the hierarchy, as well as at those for others who have dropped. Furthermore, the various factors contributing to a country's HDI, GDI or GEM might stagnate or even improve – but they might

improve more elsewhere. For example, female life expectancy rose in central and east European countries between 1995 and 1998 (Slovenia – from 77.6 to 78.3 years; Czech Republic – from 75.4 to 77.7; Slovakia – from 75.6 to 76.9; Hungary – from 73.8 to 75.1; and Poland – from 75.7 to 77.1), in spite of the decline in GDI, suggesting that other countries did better both here, on this specific measure, as well as on other criteria.

3. Gender labour relations in the transition countries

The household-employment interface

A short analysis of the family-employment interface can demonstrate how and why the position of women has deteriorated over the transition period in central and eastern Europe. Women's lives have changed because of the shift in state policy towards the family-employment relationship, from the state-command 'worker-mother' model to one which makes combining childcare with employment much more difficult. At the same time, the two-earner household is as essential as ever. For employed women, full-time work remains the norm and comprises a long working week. This is combined with cut-backs in social services and the withdrawal of the state from the provision of state benefits.

The de jure continuation of benefits such as extended maternity and sick child leave, without either legal or collective trade union instruments to enforce them, has become a pretext for discrimination. As UNICEF's Women in Transition report concludes:

Overall, it seems that governments are creating a generous framework for family-related leave, but that the actual terms are being negotiated at the individual level directly between employers and employees. (UNICEF, 1999: 54).

Legal rights for women encourage employers to discriminate against them on stereotypical pretexts as expensive and unreliable, and with low attachment to the labour market.

Low earnings and rising unemployment mean that commodities on the market are frequently out of the price range of ordinary people and it is often women who have to replace them, with non-commodi-

ty household labour and insecure, unprotected work in the informal sector.

Women's exclusion from employment

Both men and women have suffered from the recession but women have been disproportionately affected. Women still comprise between 44 and 50 per cent of the workforce in CEE transition countries, but their share of both the labour force (i.e. of employees and the unemployed) and of employment declined from 1985 right to the end of the 1990s. In most countries except Hungary, women's share of unemployment (and of long-term unemployment) is higher than their share of employment (Table 3).

Table 3 – Share of women in labour market indicators in selected CEECs, 1985 and 1997, %

	Women as % of labour force		Women as % of employment		Women as % of unemployment	Women as % of long-term unemployment
	1985	1997	1985	1997	1997	1997
Bulgaria	48.1	46.7	48.1	46.8	47.0	47.4
Czech Republic	42.6	44.1	46.2	43.2	57.0	53.9
Hungary	47.9	43.5	47.9	44.0	38.6	35.8
Poland	46.2	45.7	46.2	44.7	53.8	59.7
Slovakia	..	45.4	..	45.0	49.0	50.6
Slovenia	46.5	46.4	46.5	46.3	47.0	43.2

Source: United Nations Economic Commission for Europe (1999): *Economic Survey of Europe*, United Nations Economic Commission for Europe, New York and Geneva, No 1, p. 138.

The relative deterioration in female employment compared to male employment is revealed by the percentage changes in the size of the labour force and of employees in employment (Table 4). The clearest indication of job loss is the change in the size of employment, because this includes those who are not registered as unemployed or who have left the labour force. For example, in the Czech Republic the decline in female employment between 1985 and 1997 (11.8%) was almost 10 times the decline in male employment over the same period (1.2%). The decline in employment has hit women more than men, but this is not necessarily reflected in female unemployment

rates. In Hungary, women's employment declined by 40% from 1985 to 1997 (compared to a drop for men of 30%), although their unemployment rate was lower than that of men. Similar trends took place in Bulgaria, where the situation was much closer to equality between the genders.

Table 4 – Male and female labour force and employment change, 1985-1997, and unemployment 1997, 1998, %

	Labour force change (1985-1997)		Employment change (1985-1997)		Unemployment rate in 1997 and female rate minus male rate			Unemployment rate in 1998 and female rate minus male rate		
	M	F	M	F	M	F	F-M	M	F	F-M
Bulgaria	-11.2	-15.7	-23.0	-26.9	14.7	15.3	0.6	16.1	15.9	-0.2
Czech Republic	2.9	-5.5	-1.2	-11.8	4.0	6.7	2.7	5.0	8.2	3.2
Hungary	-22.5	-35.1	-29.8	-40.1	9.5	7.8	-1.7	8.1	6.9	-1.2
Poland	0.4	-1.6	-8.3	-13.4	8.7	12.0	3.3	9.5	12.6	3.1
Slovakia					10.8	12.5	1.7			
Slovenia	-9.2	-9.7	-15.6	-16.2	7.0	7.2	0.2			

Sources: United Nations Economic Commission for Europe (1999): *Economic Survey of Europe*, United Nations Economic Commission for Europe, New York and Geneva, No 1, p. 136-137; UNDP (2000): *Human Development Report*, p. 259.

A number of factors are responsible for women leaving the labour force and for female job loss. For example, labour force activity (the share of the working-age population participating in the labour force) has declined amongst young women partly because of higher enrolment rates in education¹ and partly because of difficulties with childcare. Women have lost jobs because of the large cuts in public sector services (which were, and continue to be, highly feminised) and because of sectoral change under which the decline in employment has been gender-specific. Between 1992 and 1997, agriculture declined faster than total employment in most countries but, within this, women's employment loss was greater than men's (Rangelova, 1999). In manufacturing industry, the pattern varied between countries.

Employment segregation and the wage gap

It appears that the emergence of the private sector may have accentuated the gender disadvantage in pay. It appears also that the public-private sector division is more significant in terms of pay than,

for example, occupational grade. Pay in the public sector remains well below that in the private, and fewer women than men have moved from the public to the private sector. There is evidence that this is partly due to gender discrimination amongst private sector employers, based on the perceived expense of statutory non-wage costs for women with family responsibilities (UNICEF, 1999: 31). An under-researched issue is the effect on women's employment of employers' demands for long hours and 'flexibility'. With the growth of previously under-developed services in CEECs, the pattern of gender distribution in this sector is beginning to converge with that of OECD member states, where the share of male employment in services averages 49% compared to 70% for women. The gender gap is about 20%, even though female 'crowding' in services is not yet as great in CEECs as it is in advanced industrialised countries (OECD, 2000: 91).

Some information on vertical gender-based segregation over the period of the transition can be gathered from the distribution of employment by occupational group. The spread of women across occupational groups in 1999 show a similar distribution between central and east European countries and western European ones such as Sweden and the UK (Appendix 1). The majority of women workers are spread across technical and associate professionals, service work and clerical and elementary occupations. According to data from Appendix 2 in general, between one-quarter and one-third of Group 1 employees (legislators, senior officials and managers) are women, whereas Group 4 (Clerks) is 75 to 90 per cent female and Groups 5 and 9 (shop workers and elementary occupations) are between one-half and two-thirds female. The figures for CEECs are not vastly different from those for Sweden (which has considerable gender segregation) and the UK (although the UK has a higher percentage of women in Group 1). There is also considerable national variation across CEECs in some sectors, such as agriculture, in which the Polish industry employs a far higher percentage of women than is the case in other countries, and in manufacturing (plant machine operators and assemblers), in which the Slovene industry employs more women than is found elsewhere. These differences are associated with

the relative importance of different sectors, as well as varying patterns in the restructuring process between countries.

Apart from Group 1, it is extremely difficult to draw inferences from within the occupational groups about women's status, skill and pay. However, the gender pay gap between men and women is remarkably similar across central and eastern Europe, and similar to that in the west. In 1997, women's average monthly earnings were between 78 and 81 per cent of men's. There has been a narrowing of the gender gap since state command times, but there appears also to have been some variation between different countries. Continuing fluctuations and the dating of research consequently make it difficult to anticipate future trends (Pollert, 2001).

Much of the wage differential is due to labour market segmentation. When the effects of occupation and employment sector are removed, the pay gap narrows, confirming the importance of occupational segregation. Nevertheless, the biggest part of the gender pay gap remains even after these structural variables are removed, which strongly suggests the existence of hidden or overt discrimination against women as a major cause of differences in pay – in spite of the formal legislation against it. Controlling for education and experience, analysis reveals that the gap remains the same, or even widens. Of course, segregation and discrimination are mutually conditioning, as further research on gender discrimination in CEECs shows. One study, based on data from the 1993 Social Stratification Survey, concluded that half of the gender wage gap was due to discrimination at the point of recruitment, leading to 'professional segregation', leaving women lower down the hierarchy than men with the same professional background. Interviews with managers in Hungary, the Czech Republic and Slovakia found that attitudes to women were not 'systematically hostile' – but that they were discriminative. Stereotypes were found which reproduced gender segregation (women are 'docile' but 'hard-working', men are more 'technically competent' and with 'supervisory skills'), while more than three-quarters of respondents held that their female workforce posed a problem as a result of family responsibilities (Pailhe, 2000).

Discrimination probably also accounts for why, in spite of rising

female enrolment, the apparent inability of education to help women enter the labour market as much as it does men.

Women's political representation and involvement

The numerically strong, but politically weak, nature of female involvement in social and political institutions during the time of state-command economies is well-known. The quota system ensured women filled between 23 and 30 per cent of parliamentary seats and guaranteed some representation in the Party and the unions. For different reasons, however, as the data shows in the case of Hungary, the quota system could not be applied (Table 5) and, in fact, women were excluded from real power. Low female representation contributed to low interest among women in their own emancipation.

Table 5 – Proportion of women in Hungary's Parliament, 1945-1990

Year	Percentage of women	Year	Percentage of women
1945	3.3	1967	19.8
1947	5.4	1971	23.9
1949	17.7	1975	28.7
1953	17.4	1980	30.1
1958	18.3	1985	20.7
1963	18.2	1990	7.3

Source: UN (1993): *Women in Decision-Making. Case study on Hungary*, United Nations Office at Vienna, Centre for Social Development and Humanitarian Affairs. UN: New York, p. 20.

The decline of female representation in politics since 1989 has been observed in central and eastern European countries (UNICEF, 1999: 94). Some analysts consider that the decline in women's political representation reflects a shift towards real democracy, but this view underestimates the significance of the absence of women at senior levels early on in the transition period.² The decline of positive discrimination ensuring women's representation returns policy in CEECs to an 'equal treatment' approach to EO. However, this flows against the tide in the west, where EO policies have increasingly recognised the need for positive action to remedy the deep structural gender inequalities. For example, social democratic parties in Scandinavian countries have, during the last two decades, introduced quotas to ensure that both sexes had at least 40% representation in elec-

tions. In western Europe, women's pressure has brought slow improvements in female political presence: between 1980 and 2000, the number of countries in which the participation of women in parliament exceeded 20% rose from six to ten (Lokar, 2000: 74). At the same time, women represented only 11% of the members of the European Parliament (when the EU had 12 members). Reaction against the legacy of past practice in central and eastern European countries (more anticipated than realised) may need to be revised if harmonisation with contemporary European practice is now sought.

At local levels, where political activity relates more closely to everyday life, women are better represented. Women in CEECs have also been very active in forming NGOs on gender equality issues and, predominantly, women's business organisations, and they have organised themselves in professional organisations and women's sections of political parties and trade unions (For Equal Rights and Opportunities of Women in Bulgaria, 1994; Rangelova, 1997).

4. EU enlargement and prospects for EO

The EU now faces the challenge of outlining an economic and social policy, including gender labour relations, for the next century. It has to decide how to advance EO among countries who are linking their futures together through the EU. Only by involving both sexes to the full can human resources be developed on fully democratic lines.

EO in the European Union

EO has been one of the EU's fundamentals right from the very beginning, with a heritage going back to the 1957 Treaty of Rome which established the Common Market. Article 119 of the Treaty made a commitment to equal treatment for men and women, introducing in particular the principle of equal pay for equal work. Europe has sought further to remedy this situation by implementing a number of discriminatory provisions. An equal pay directive was followed by other directives on equal treatment. Nowadays, all EU member states have national rules and programmes for EO.

In the recent past, as well as in modern European societies, the application of the principle of equality has run into numerous obsta-

cles which explains why women are low paid and which raises numerous questions: what is actually in the realm of labour?; who evaluates a job, and how?; why do men usually hold well-paid jobs and work in well-paid economic sectors, while women are employed in lower-paid sectors and jobs?; etc.

The prospect of EU enlargement was opened at the Copenhagen meeting of the European Council (1993), at which were set out the criteria for candidate countries to join the Union. They included adherence to a stable democracy and a functioning market economy. Actually, European integration was elaborated at the 1997 Amsterdam Council meeting, where convergence guidelines were established to include employment policy through National Action Plans (NAPs) within which EO was established as a fourth 'pillar' (see Appendix 3).

In 1995, the Fourth United Nations World Conference on the Status of Women was held in Beijing (China), where some particular recommendations were developed. Essentially, the five-point plan recommends that countries:

- adopt specific policies to overcome discrimination in the law
- expand roles and opportunities for women and men in all places
- ensure that more women participate at top decision-making levels in government and the private sector
- provide women with greater access to education, reproductive health care and financial credit
- improve efforts to provide basic social services.

Partly inspired by the Beijing Conference, the concept of 'mainstreaming' was introduced in 1996 in a Communication to the Council of Ministers. In general, this refers to integrating the concept of gender equality into all community programmes. Gender 'mainstreaming' was adopted as part of European-level employment policy in 1999 (Appendix 3) and alongside other guidelines towards achieving equality between men and women – tackling gender gaps in pay, reconciling work and family life, and facilitating re-integration into the labour market – and, as such, is part of the accession criteria for EU enlargement.

There are vast differences between EU member states regarding gender and EO, ranging from Sweden and Denmark, which have the most progressive policies and practices, to Greece with the least developed. Only a few countries (Sweden, Spain, Luxembourg, Belgium) plan more interventionist measures, such as offering incentives to companies to recruit where one gender is under-represented. In fact, there is still a gap between the rhetoric and the reality concerning any recognition of the importance of gender labour relations. Thus, the issue of gender in 'adaptability' and the EO pillar of the NAPs has been a neglected one, with a failure to register how increasing part-time work tends only to reinforce women's traditional role as family carers. Mainstreaming is being addressed by most countries only in terms of their beginning to gather statistical data on gender. Only Austria, Portugal and France are starting to refer to gender under other policy measures. The limitation of the market as a system which might support EO is illustrated also by employers' lack of interest in voluntary co-operation with EO policy (Pollert, 2001).

A good illustrative example of the actual under-estimation of gender as a labour issue at the highest levels of education is the statistics for women's participation in the European Commission's Fifth Framework Programme (FP5). A number of studies which have been carried out have shown that women are under-represented in nearly all areas. All of these have formed the conclusion that the gender dimension is inadequately addressed in FP5's work programmes and that gender-specific research, or research on women, is not generally included as a topic within the work programmes. The Environment study notes that, of the 2,125 proposal abstracts assessed, only one includes the word 'women', although the 'Human Potential' study found that 8% of the proposals that it assessed did have a primary research focus on gender (CORDIS focus, 17 December 2001: 7-8). Research has detected a concern that the potential male-dominated culture of the Commission services which are responsible for the implementation of the programme could impede awareness-raising on gender issues. The focus has now shifted, however, to problem-solving, with an emphasis on socioeconomic impacts and seeking the delivery of EO to both men and women. In this context, the studies

recommend a number of actions to improve the position of women in EU research, including a wider dissemination of a reinforced policy message, developing the Commission's capacity to put policy into practice and mainstreaming gender both in documentation and programme promotion and in the evaluation process. The studies also recommend the introduction of gender as a target of research in all work programmes and the establishment of a working group to 'gender proof' all draft work programmes.

CEECs and EO

It is not surprising that EO in central and eastern European countries has been low on the agenda, both because of the legacy discussed earlier and because of the pressing problems of economic and employment decline, and growing inequality and poverty.

Concerns with the quality of life tie in closely with the dimensions of the four European guidelines on EO. In terms of the state-command economies' erosion of state benefits, affordable childcare and 'worker-mother' policies, EO policies for reconciling work and family life do address the new tensions experienced by women. Comparing the state command model with practice in the Scandinavian countries, however, shows the advantage of the latter. On the other hand, the NAP guideline facilitating reintegration into the labour market is pertinent to women's disproportionate job loss, and is in tune with the 'active' labour market policies for employment promotion which are already in place. The gender pay gap may not immediately seem as great a problem as the general decline in real wages and may, initially, be experienced as the gap between the public and the private sectors.

There are, however, institutional barriers to achieving gender equality, although these may be more easily surmountable than other barriers in other parts of Europe. EO may remain low in the political and economic priorities of CEECs, but it is, at the same time, instrumental in the pursuit of another agenda – that of joining the EU. However, the impending conformity with the political requirements concerning EO policy creates the danger that legislation and practice could stagnate at the level of proclamation. Whatever, where nation-

al laws are inadequate on EO issues, international law can theoretically take precedence although, in the absence of enforcement agencies, the chances of this happening are weak.

Developments in EO monitoring institutions have taken place at different rates and in different ways across central and eastern Europe. Each country has an office at government or ministry level which is responsible for EO policy. Some ministries and central authorities are obliged to co-operate with women's NGOs in dealing with women's issues. The ministries of labour produce periodic reports to the ILO. However, according to recent research, it seems that EO monitoring units have not greatly affected other state institutions and non-state organisations (Pollert, 2001).

In all countries, revisions of the Labour Code have recently included gender equality, although the pace of change is uneven. There has been progress in the area of gender discrimination.

The difference between *de jure* and *de facto* EO is, of course, a major problem, which is not applicable only as regards CEECs. The climate of opinion is crucial. Where EU issues are undermined, or where discriminatory behaviour is common practice, the barriers to progress remain high. Nevertheless, progress has been made both in the legislation in CEECs and in the activities of women on the ground, both in NGOs and in trade unions.

Concluding remarks: EO and the politics of change

1. Advances for women in the former centrally planned economies have left a legacy of some progress towards women's labour and social involvement. Women were highly educated and entered some professions to a greater extent than they did in western countries. In the transition period, there has been a disproportionately high level of female job loss, as well as high female unemployment and an exit of women from the labour force. There is also evidence of new barriers for women, in terms of combining household and employment, i.e. in a major contradiction between *de jure* and *de facto* equality. The gender pay gap is converging with the still very high western differential of around 20%. On the other hand, even though women have become marginalised at national levels, there is substantial evidence of local

democratic involvement and self-organisation which demonstrates that women have not reacted passively to the denial of gender problems.

2. Evidence on the record in advancing EO issues within EU member states implies the significance of state policy in influencing gender relations. In general, it is in those countries which have in the past, and which still continue, to rely on state intervention in the labour market to promote EO (including target setting in the public sector and the offer of financial incentives for 'best practice' to companies), and in which there is 'social partnership'-based co-operation between trade unions and employers towards EO, that most progress has been made. These countries are Sweden, Denmark, Finland and, to a lesser extent, the Netherlands, Germany and Austria. At the other extreme are those countries in which EO policies tend to be found in training but not in employment itself, and in which the state intervenes to support the family without, however, challenging traditional gender roles (Ireland, southern Europe). From the state political point of view, we can conclude that, within Europe, the spectrum between social democracy and neo-liberalism seems to be a major determinant of EO progress.

3. In the case of CEECs, it is very likely that the various institutional and legal enforcement mechanisms will remain only an 'on paper' commitment, as a means of satisfying EU enlargement criteria. But not all the responsibility lies within the accession countries. The European Commission has to be serious in the substantive content of gender labour relations, including those of gender equality, with a view to these gaining prominence within enlargement policy.

4. An important action now is to improve the collection of gender de-segregated data in national censuses, especially at different levels of income and in different country locations. Providing policy-makers with the results of research into different social and gender processes may also improve the effectiveness of gender-sensitive policies, including in rural areas where women are still invisible.

5. Whatever can be said of traditionalism, anti-feminism and indifference to gender labour relations, there has been change over the past decade. The present fashionable idea of 'managing diversity' or 'valuing difference' should be further developed in the area of gender labour relations and EU enlargement.

Appendix 1

Gender distribution: Percentage of employed women in each Standard Occupational Group, 1999 (using International Standard Classification of Occupations, ISCO-88)

ISCO-88	Czech Republic	Slovakia	Hungary	Poland	Slovenia	Sweden	UK
1. Legislators, senior officials and managers	3.4	4.1	5.0	4.8	4.1	2.8	11.7
2. Professionals	12.7	13.9	14.8	13.9	14.1	16.8	9.9
3. Technicians and associate professionals	23.2	23.0	19.2	15.1	13.4	19.7	11.3
4. Clerks	13.8	12.6	13.9	12.9	17.1	16.1	25.1
5. Service workers and shop and market sales workers	18.4	19.5	19.0	15.1	16.8	30.1	27.8
6. Skilled agricultural and fishery workers	2.1	1.5	2.2	18.2	10.2	1.3	8.0
7. Crafts and related trade workers	7.5	8.4	9.6	8.0	1.5	1.5	2.1
8. Plant and machine operators and assemblers	7.2	5.9	6.1	2.3	15.8	4.3	3.7
9. Elementary occupations	11.5	11.0	9.8	9.7	6.8	7.2	–

Source: Calculated from ILO database, <http://laborsta.ilo.org>

Appendix 2

**Women as percentage of total employment and of
occupational groups, 1999 (using International Standard Classification of
Occupations, ISCO-88)**

ISCO-88	Czech Republic	Slovakia	Hungary	Poland (1998)	Slovenia	Sweden	UK
Total employment	43.5	45.4	44.8	44.8	46.0	48.0	44.8
1. Legislators, senior officials and managers	23.5	32.3	34.4	33.6	31.5	28.8	33.3
2. Professionals	53.0	60.7	58.1	62.3	60.4	50.7	40.6
3. Technicians and associate professionals	54.0	60.1	64.6	58.5	44.7	47.3	49.7
4. Clerks	80.4	77.8	92.6	74.7	70.7	72.0	74.6
5. Service workers and shop and market sales workers	66.7	68.9	55.4	66.9	65.5	78.4	66.9
6. Skilled agricultural and fishery workers	43.4	45.5	26.5	46.0	47.7	25.5	47.2
7. Crafts and related trade workers	15.7	18.5	19.3	18.7	6.1	6.4	8.1
8. Plant and machine operators and assemblers	24.6	19.0	24.6	11.9	36.5	18.5	18.3
9. Elementary occupations	61.6	49.8	55.5	54.0	68.3	66.5	–

Source: Calculated from ILO database, <http://laborsta.ilo.org>

Appendix 3

EU enlargement and EO in context: Key landmarks in the 90s

Policy and/or decision	Background	Main issues/details
1992 Maastricht Treaty	Single European Market	European-level economic and social cohesion policies
1993 Copenhagen European Council	Enlargement of EU to CEECs and accession criteria, to be regularly reviewed	Stable democracy, functioning market economy, ability to adhere to political, economic and monetary union (EC 1997)
1994 White Paper 'Growth, Competitiveness, Employment'	Origins of European employment policy. Aims: to address unemployment	Education, training, fiscal system. Flexibility in labour market. Women's issues only implied, via high rate of unemployment
1994 European Heads of State at European Council: Essen Summit	To enhance dynamism of labour market. Women mentioned in passing	Five priorities concerned with labour flexibility: the fifth one concerned with targeting those hardest hit by unemployment, including young people and women
1997 (June) European Council, Treaty of Amsterdam	Modernisation of convergence process leading to monetary union	Established for the first time European guidelines for employment, a process of national reporting and European-level review
1997 (November) European Summit on Employment, Luxembourg. 'Luxembourg process'	Develops employment from Amsterdam	Four-pillar structure (similar to Essen priorities) for 'National Action Plans' (NAPs): Employability Entrepreneurship Adaptability Equal opportunities (EO)
1997 (December) European Summit Luxembourg on Enlargement	Negotiations	Commission presents 'Agenda 2000 – For a Stronger and Wider Union', setting out perspectives on integration and enlargement
1998	Commencement of negotiations with the first group of CEECs	With Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia

1998 Review of NAPs by the European Commission	Group of experts on 'Gender and Employment'	The 4th pillar of NAPs criticised for including 'disability' within EO
1999 NAPs 'Gender and Employment' revised	Pillar IV (EO) now 'Equality between men and women'	Four particular guidelines (19-22): 19. Gender mainstreaming to be part of all 4 NAPs 20. Tackling gender gaps includes equal pay for equal work or work of equal value 21. Reconciling work and family life 22. Facilitating reintegration into the labour market.
1999 (December) European Helsinki Summit on Enlargement	Commencement of negotiations with the second group of CEECs	With Bulgaria, Latvia, Lithuania, Malta, Romania, Slovakia
2001 (December) European Laaken Summit on Enlargement	Further negotiations	Commission takes a decision for the integration by 2004 of 10 of the total of 12 candidates, i.e. the formula 10+2 (excluding Bulgaria and Romania)

Source: <http://europa.eu.int/comm/enlargement/intro/index.htm>

NOTE

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FOOTNOTES

1. For example, according to official data for Bulgaria, in the 1980/1981 academic year there were 96 students per 10 000 population while in the 1989/1990 academic year there were 148. During the transition period, their number has more than doubled again: in the 2000/2001 academic year there were 314 students per 10 000 population.
2. In this connection, the interesting case of the parliamentary elections in Bulgaria in 2001 should be mentioned. The newly-established political movement, based on a coalition of two political parties (and headed by the ex-king of Bulgaria), one of which was a women's party, won the elections with a high majority. In consequence, the proportion of women in Parliament rose from 9% in the previous administration to one third of the total number of MPs.

SOURCE

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DEBATE QUESTIONS

1. How is the female labor force distributed differently in the CEECs as opposed to the current EU members? What effect did planned economies have on the distribution of women in the workforce?
2. Should gender equality be considered a social goal? If so, does the EU do a good job at addressing and achieving it?
3. What does the concept of 'gender mainstreaming' refer to?
4. What are some of the substantive actions being taken to insure equal opportunities within the EU? Do they reflect a real commitment to equal opportunities?

The Entry of Transition Countries of Central Europe in the European Union: Some Social Protection Issues

Vladimír Rys

Abstract

After a brief survey of evidence showing that social security reform in each country of the region now follows its own path, the author reviews some general issues of social protection with special reference to transition countries. He then deals with several questions which preoccupy western observers in relation to EU enlargement: the emergence of a new model in addition to those already in place, the fear of social dumping and the interrogation regarding the possibility of keeping economic and social progress in equilibrium. On the way to a successful enlargement, the respective protection levels should not create a problem in view of the relatively high standards maintained in this field in the past. The problem is rather on the EU side which finds it difficult to define with some precision the positive content of the European social model and the common goals. In view of their historical experience, the CE countries should be invited from the start to participate in the formulation of new European social policies. *Czech Sociological Review*, 2000, Vol. 8 (No. 2: 131-138).

Introduction

The starting point of any meaningful discussion of this subject begins with the realisation that this particular enlargement of the European Union concerns a group of countries whose historical experience in the field of social protection differs fundamentally from that of the EU members, and therefore requires a particular approach to most topics normally raised in this context. Moreover, the developments in recent years seem to indicate that each country in this group follows its own path with regard to social security reform; this will of course further complicate matters in so far that no standard approach will be applicable to individual candidates. We have reviewed elsewhere the historical development of social security in Central Europe and its 'return to reality' [cf. Rys 1995] after the early adventures. However, the last point concerning the recent diversification of trends is important enough to merit a brief comment.

Latest Trends in Pensions and in Health Protection

To illustrate the variety of patterns of social reform prevailing in post-communist societies, it may be useful to concentrate our attention on two main branches of social security, i.e. pensions and health protection, in three candidate countries of Central Europe, namely the Czech Republic, Hungary and Poland. In reviewing the recent developments, which cannot be reproduced here in detail, we get the following overall picture of the situation.

Pensions

General development in the three candidate countries clearly indicates the presence of a trend towards a gradual reduction of the basic pension scheme, mostly supplemented by mandatory fully-funded private pension funds. We may even note a certain radicalisation of the pension reform the more we advance in time. This is due no doubt to the growing urgency of finding a solution to the pension problem and also to the emergence of what are considered to be new pension insurance techniques (cf. the use of the Swedish technique of 'notional individual accounts' in the most recent Polish reform).

Starting from a common basis under the communist regime, repre-

sented by state budget financing supported by a 40-50% tax on payrolls of all enterprises, new social insurance schemes gradually introduced employers' and employees' contributions, the former generally assuming a significantly higher part of the cost. In a drive for reducing their economic burden, all countries have abandoned the old principle of satisfaction of social needs in favour of a reinforcement of the insurance principle.

However, different approaches exist within this general trend. Regarding the mandatory nature of funded complementary schemes, the Hungarians and the Poles have followed the recommendation of the World Bank while the Czechs seem to be refusing it for the time being. Their main argument in favour of keeping the second pillar voluntary refers to the underdeveloped state of banking institutions and financial markets of the country. To put it bluntly, the Czechs would gladly accept something like the Swiss model if only they could have at their disposal a comparable level of banking and insurance industry. In this context, they point to the difficulties currently experienced in the implementation of complementary retirement schemes in Hungary, Poland and even in Sweden.

Regarding the total contribution rate, it remained unchanged in Hungary and Poland where the proportion of means diverted to the second pillar represents 25% and 20% respectively (and is considerably higher than the Swedish rate of 14%). The Czech government, which still prefers to keep the second pillar voluntary, is aware of the pressing need for increasing financial resources of the country's basic scheme. However, its proposal to have the contribution rate raised by 2.4% has already been rejected twice by Parliament. Clearly, they will have to look elsewhere for a source of finance.

It is too early to judge whether the cautious Czech approach or the Hungarian and Polish initiatives will provide a more appropriate answer to the pension problem. The performance of the second tier schemes will depend not only on economic and labour market developments, but also and perhaps above all, on the reactions of people to the new concept of security in old age. There is no doubt that these will be determined both by the attitudes common to the post-communist world and by the specific situation in each of the countries concerned.

Medical Care

The history of health care in the three countries under review provides yet another example of different ways of handling the same issue. Starting from a common platform, i.e. a national health service provided free of charge by the Communist State, each of them followed a specific path. Hungary was the first country to introduce medical care insurance with some precipitation, only to reform it several times in subsequent years. The Czech Republic started implementing its health insurance scheme as of January 1993 and still suffers from the effects of a period of uncontrolled privatisation of health establishments. From the beginning Poland adopted a cautious approach, considering it preferable to improve first the operations of the existing health services before privatising them. The long expected reform was implemented only in January 1999.

Further differences in the provision and finance of health care appear in examining the role of the state and the pattern of cost-sharing by insured persons. Many of the main issues in this field, such as cost containment, remuneration of the medical profession or the financial management of health care establishments will present similarities with the situation in other European countries. Nevertheless, it will be found on close examination that many important aspects of these problems are specific to Central Europe.

Due to the complexity of the transition process there are serious problems in the co-ordination of the whole sector. This can be well observed in the Czech case, which shows how the lack of a clear concept of the health reform, of a transparent decision-making mechanism, and of an appropriate division of responsibilities between the Ministry of Health and the General Health Insurance Fund may for a long time block any legislative advance.

More serious still is the in-built disequilibrium in the economics of health insurance reform, which stems from the very nature of the risk. The maintenance of health represents for every individual, and indeed for every society, such a high value that its economic aspect is easily considered secondary in relation to the objective. Consequently, the medical care standards achieved by the Western world are immediately adopted by the transition countries although, objective-

ly, they may not have the means to afford them. This explains why a patient in Central Europe may obtain under his health insurance a medicament free of charge which is available to his Western colleague on a cost-sharing basis; the problem is that while a single tablet may represent the cost of a cup of coffee in Paris, it will represent the cost of a dinner in Prague. This also explains the nearly permanent agitation of the medical profession demanding higher salaries and the difficulties of economic management of health care centres. For the solution to these problems a specific approach is required in the context of post-communist countries, which may point to the creation of an independent authority able to arbitrate between the conflicting views of different social actors.

Some General Issues of Social Protection with Special Reference to Central Europe

As shown by the above survey, there are different approaches to social security reform depending on the risk and on the country concerned. Latest developments in Central Europe, as indeed those in the rest of the world, fail to provide us with any clear indication as to the possible superiority of one particular method of financing over another. In all cases, social protection expenditure represents a charge on the economy (this supportive function being a substantial part of its *raison d'être*) which has to be kept in balance with its countervalue. This includes the most vital benefit the economy derives from the existence of social protection, now referred to as social cohesion. It used to be known as social peace based on social justice; it would seem, however, that many people no longer understand the meaning of these terms. It could also be described as the absence of social upheavals which are, in the light of past experience, generally unfavourable to economic growth.

As to the level of social protection expenditure, i.e. the question of what represents a necessary, tolerable, or equilibrium-preserving charge on the economy, this is a matter of a political consensus of the population – indispensable under a democratic government. To use modern language: “There is simply no hard and fast rule applicable to all societies and all economies as to how much social protection

expenditure is financially and economically sustainable. The limits of sustainability can only be tested politically.” [Cichon and Hagemeyer 1996]

Rather than the financial method itself or any particular level of contributions, it is the social context in which the institution functions and the way it is perceived by the population that is of primary importance. One hundred dollars received from social assistance is not the same as one hundred dollars obtained through tax deductions or in the form of a social insurance benefit as of right. The post-communist society will always be highly sensitive to any attempt to reintroduce charity as a principle of social redistribution, even if this may appear to be economically effective. Experience has shown that, even in difficult economic conditions, people are more willing to pay social insurance contributions than taxes, as long as they have confidence in the system.

By definition, all social reforms have as their basic reference the situation in the past. The Central European societies are no exception to this rule, but their present situation is more complex because nobody ever dared to make a thorough evaluation of the communist welfare state. No government wished to complicate its life by analysing in detail the financial operations behind the system of social guarantees of the previous regime nor, for that matter, by declaring publicly a programme for the dismantlement of the communist welfare state. Some also preferred to avoid the risk of admitting the need for retaining some elements of the past system on account of their social efficiency. The general double-talk consisted of condemning loudly the paternalistic nature of the communist social protection system while doing everything possible so as to continue to make it work.

This situation has been highly confusing for the population, which has partly accepted the reduction in social benefits as a price to pay for personal freedom, some simply exchanging the old communist dogma for a new belief in the supreme power of the market. But there are also those who for some reason are unable to use the new freedom for the improvement of their personal situation and who, faced with the spectre of mass unemployment and deprived of any new vision of

the future of the society they live in, will continue to talk about and possibly also work for the return of the 'good old times'. It is in this context that the entry in the European Union should give these populations new perspectives and new hopes.

European Union and Social Protection in Central Europe Fifth European Social Model?

As we have seen, social protection structures in the post-communist countries of Central Europe are on the move. While the pressure of demographic, economic and social factors behind this process may be considered broadly comparable, national responses to it differ quite significantly. This means that there does not seem to be a fifth European social model (assuming we agree with the existence of the other four). Some common trends are noted in health care, but this does not add up to a special model. In the field of pensions, we are witnessing the application to Central Europe of a conventional approach to social protection in developing countries, advocated in the past few years by the World Bank. Apart from the error which consists in mixing the problems of developing and transition countries under the same heading, we may ask, in these times marked by the pursuit of sustainability, just how sustainable is this conceptual model?

A highly interesting paper was published recently [Orszag and Stiglitz 1999], coauthored by the Senior Vice-President and Chief Economist of the World Bank, suggesting that a privately managed defined-contribution system may not always be the best solution for a country and that the second pillar may well consider adopting a public defined-benefit plan. The statement is based on the recognition that a number of factors, including the quality of financial institutions in a country, may determine the outcome of any particular model.

Furthermore, the question of notional individual accounts, applied in Sweden and most recently in Poland, came under scrutiny in a recent issue of the *International Social Security Review* [Cichon 1999]. A leading ILO social security expert analyses the concept of notional defined-contribution schemes and comes to the conclusion

that while this is certainly an ingenious policy instrument for making the reduction of pension levels more acceptable, most of its potential financial and distributive effects could also be achieved by a classical defined-benefit scheme. This finding seems to underline the predominance of the political factor in all recent reforms while reinforcing the invitation to a cautious approach to models.

Social Dumping

Coming to the question of social dumping, this is yet another term which has been borrowed from the social protection vocabulary of developing countries, without fitting well into the analysis of the situation in transition societies. One can hardly suspect responsible governments of artificially keeping down the social protection levels of their populations in order to better sell their products; such behaviour would be close to political suicide. But we could no doubt identify a number of external advisors guilty of inciting social dumping when trying to sell their personal or institutional convictions regarding a hypothetical need for a general reduction of social expenditure in the countries concerned.

This could possibly be the case of a statement which is to be attributed to the authors of the most recent World Bank report regarding EU accession of the Czech Republic ["Czech..." 1999: 11]. "As the country prepares to enter the EU, it is incumbent that its social protection system is in line with the other EU countries. Considerable effort has already been made in that direction. Nonetheless, it is equally important that the Czech Republic not be burdened by some of the problems inherent in the social protection systems of a number of EU countries, since these problems would be magnified in the Czech Republic, which lacks the income cushion to support overly expensive social entitlements." The usefulness of general statements such as this is questionable; it is also out of touch with the political reality of the country. Consequently, it cannot but reinforce the position of those who do not really favour a well-balanced social and economic development.

The threats of social dumping which may come from the private sector can best be dealt with through appropriate government regu-

lations, making it plain to everybody that transition societies are governed by democratically elected representatives of the population and not by private commercial interests, no matter how global they may be.

Equilibrium between Economic and Social Progress

Any well conceived social protection system must be based on a comprehensive approach to social risks and provide for a full co-ordination of all social measures within the framework of a global concept of social policy. The formulation of social policy objectives, which has to rely on a political consensus, will always imply some degree of redistribution of available resources. Nobody will seriously question the primordial role of governments in this process.

The situation is different when it comes to co-ordinating and fixing objectives in the economic sector. During this exercise, many will start invoking the imperatives of free trade and decrying any government interference with the so-called market forces. The experience has shown that in the long run this position is untenable. The first condition for obtaining equilibrium in social and economic matters is hence the recognition of the duty of governments to regulate not only social but also economic processes. At present, ordinary people in transition countries often find it difficult to see what the real centres of political power in their globalised universe are. The EU authorities stand hence a good chance of finding a receptive audience for most of their social norms, if only they can avoid playing into the hands of those who readily proclaim that “nothing has changed, only the instructions from Moscow have been replaced by those from Brussels”.

With regard to the political consensus on which to base a national social policy, and ultimately any convergent moves at the European level, care should be taken to recognise the somewhat deficient nature of the underlying mechanism in transition countries: it is marked by a relatively low level of involvement of civil society in the formulation of social policy. This is due to the long history of perverse abuse of different organisations of civil society by the previous regime, from trade unions to associations for peace or friendship with

this or that country. The long-term effects of this collective memory, and in some cases also the influence of recent government policies, have not yet been fully overcome.

In order to arrive at a social and economic equilibrium based on a political consensus supported by civil society, the terms of the deal should be readily understood with respect to both sides of the balance. Admittedly, it is relatively easier to work out economic targets and indicators; the purpose and objectives of social policy are more difficult to define. The consensus which formed the basis of the European welfare state in the post-war years suffered greatly under the attacks of neo-liberal ideology. The populations in transition countries, confused by the use of new and misleading terminology, have no means of falling back on past experience and separating the wheat from the chaff. It would hence seem highly important to go back to the roots of this creation, to reinvent social insurance in its relationship with other social protection measures, and to restate the ideas of the welfare state in a language adapted to present circumstances. Without a new concept of the welfare state and a new vision of society, any attempt to reach the desired equilibrium will remain a shadow-boxing act.

Lastly, let there be no mistake about it, the search for a social and economic equilibrium is inseparable from the search for an equilibrium between personal freedom and collective constraints; a combination of both is necessary to guarantee the security of individual human existence in society. This has a direct implication for the political system we wish to have. To sacrifice those at the bottom of society for the sake of the better comfort and higher performance of its stronger members is not the sign of a will to build a truly democratic system. It is rather a sign of a regression to our obscurantist past.

What to Expect From Entry into the EU?

It goes without saying that the impact is likely to be different from one country to another, depending on the present state of development of its social protection system. In general, judging from the Commission's regular reports on progress towards accession, with the exception of work safety and social dialogue, this field does not give

rise to major preoccupations. After all, the social protection standards of the Communist welfare state were in many respects superior to those of Western Europe and not all of them have disappeared. The immediate consequences of the pre-entry requirements are therefore not likely to be very significant. The question which many people ask themselves is what impact will this step make on the future development of their schemes.

The simple citizen may experience in due time some negative influence regarding his present 'social comfort'. Comparative tables often present straightforward statistical figures while forgetting to add some highly important footnotes. Thus, for instance, it may not be generally known that income from pensions in most post-communist countries is not taxed. It is quite likely that this kind of arrangement will eventually be adapted to the majority standard within the Union. Similar instances will be found in the field of health care, especially in relation to disabled people. The populations of the countries concerned may not even be aware of a number of these 'residual advantages' which have become part of their everyday life.

But this type of adaptation process is not likely to become the essential issue. As we have already mentioned, what people in Central Europe expect most of the European Union is a new vision of the future, a new set of goals to work for. The first step towards this objective could be made by a renewed effort to give a positive definition to what is referred to as the European social model. It has been identified so far mainly as a concept indicative of what most people are against; time has perhaps come to try to give expression to what it stands for. This would imply the already suggested restatement of the principles of a modern welfare state, the identification of common values and the formulation of basic goals to be shared by all EU members. This could possibly be done along the lines which have been investigated recently by some research studies [Pieters and Nikless 1998].

How far could EU authorities go beyond the formulation of common goals is an open question. What the Central European countries can least afford is social experimentation with models which would not correspond to the realities of their societal environment. We

have argued elsewhere [Rys 1999a, b] that it is the political aspect of social reforms which dominates the scene and even the potential impact of demographic and economic factors forming part of this environment is subject to an evaluation by social actors involved in the decision-making process. It would hence seem meaningful to give these countries the possibility to choose their own means towards the achievement of common objectives and not to try to impose on them any institutional constraints. This should not exclude the use of some normative guidance on condition that it would provide enough room for adaptation.

To the extent that a European social model can only be a dynamic concept capable of further expansion, it would also seem reasonable to associate from the start the new members in its development. As we pointed out at the beginning, these countries have a unique historical experience and, in view of the long break with their own past, a capacity to look at social protection problems with new eyes. The communist approach to the treatment of some fundamental social issues such as mass unemployment was an unqualified failure; in this respect, the present situation can in no way be interpreted as a success of the capitalist approach. The old problem is still there in all its complexity and a new global vision of a democratic society of the year 2000 is needed to pursue the search for more stable conditions of social advancement and economic growth.

NOTE

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FOOTNOTE

1. The Polish scheme was supposed to be launched in January 1999 but the starting date had to be postponed by four months. The information technology required to track the individual funds of contributors ran into difficulties even in Sweden, where the launching of the system had to be postponed until mid-2000. In Hungary the original plan to raise the single employee contribution to private pension schemes from 6% to 8% by the year 2000 had to be abandoned by the new government.
2. This text is based on a paper presented at the Conference on Financing Social Protection in Europe, held in Helsinki on 22-23 November 1999.

SOURCE

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This text is based on a paper presented at the Conference on Financing Social Protection in Europe, held in Helsinki on 22-23 November 1999.

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DEBATE QUESTIONS

1. How are some of the social protection mechanisms such as pensions and medical care different among the CEECs as well as current EU members? Should the EU have a more unified social protection structure?
2. What are some of the residual benefits that the CEECs are still enjoying in their social protection mechanisms? How are these likely to change in the aftermath of enlargement?
3. Should the state continue to play an important role in managing social protection or should pensions and medical care be handled by private companies?
4. What are some of the positive and negative influences that enlargement is likely to have on the social protection systems of the CEECs? Are hopes that enlargement will result in higher pensions and stronger social protection systems justified?

Part 6
Source Readings

Summary of the Treaty of Nice

Memo/03/23

Brussels, 31 January 2003

The purpose of this memorandum is to provide a brief summary of the Treaty of Nice, which enters into force on 1 February 2003. A list of provisions which change over to qualified -majority voting is attached.

I. The Institutions

A) Changes within the institutions during the enlargement process

The Treaty restricts itself to setting out the principles and methods for changing the institutional system as the Union grows. The number of seats in the European Parliament for the new Member States, the number of votes allocated to them within the Council, and particularly the qualified majority threshold applicable in the future, will be legally determined in the accession treaties.

The changes brought by the Treaty of Nice to the composition of the Commission and the weighting of votes will be applicable from 1 November 2004 onwards and the new composition of the European Parliament will apply as from the elections in 2004. For the applicant countries joining before these dates, the accession treaties must therefore also establish the number of MEPs, commissioners, votes within the Council which will be allocated to them, and the qualified majority threshold, up until the entry into force of the new rules. These temporary provisions will be based on the principles which

have applied up until now in the accession negotiations, i.e. the extension of the current system, ensuring equal treatment with the Member States of equivalent size.

B) European Parliament

Composition

The IGC has introduced a new distribution of seats in the European Parliament looking ahead to a Union of 27 Member States, which will be applicable as from the next European elections in 2004. The maximum number of European Members of Parliament (currently set at 700) will rise to 732.

The number of seats allocated to the current Member States has been brought down by 91 (from the current 626 to 535). Only Germany and Luxembourg retain the same number of MEPs. However, this reduction will be applicable in full only for the assembly elected in 2009.

As the Union will undoubtedly not yet have 27 Member States in 2004, it has been decided for the 2004 European elections to increase on a pro rata basis the number of MEPs to be elected (in the current Member States and in the new Member States with which accession treaties will have been signed by 1 January 2004) to reach the total of 732 (although the number of MEPs to be elected in each Member State cannot be higher than the current number).

On the basis of Nice, the following table has been agreed for 25 Member States for inclusion in the accession Treaty.

See for source:

<http://www.eu2002.dk/ewebeditpro2/upload/OW.StaticContent/294/pakke2.pdf>

As the likelihood is that new Member States will enter the Union during the 2004–2009 term of office — and that as a result additional MEPs will be elected in these countries — it is anticipated that the maximum number of 732 seats in the European Parliament may be temporarily exceeded in order to accommodate MEPs from the countries which will have signed accession treaties after the 2004 European elections.

MEMBER STATES	SEATS
Germany	99
United Kingdom	78
France	78
Italy	78
Spain	54
Poland	54
Netherlands	27
Greece	24
Czech Republic	24
Belgium	24
Hungary	24
Portugal	24
Sweden	19
Austria	18
Slovakia	14
Denmark	14
Finland	14
Ireland	13
Lithuania	13
Latvia	9
Slovenia	7
Estonia	6
Cyprus	6
Luxembourg	6
Malta	5
TOTAL EU	732

Other changes

Article 191 of the EC Treaty has been supplemented by a legal base which allows the adoption via the codecision procedure of a statute of European level political parties and particularly of rules concerning their funding.

The regulations and general conditions governing the performance of the duties of members of the European Parliament will be approved by the Council by qualified majority, with the exception of

the provisions relating to taxation (Article 190 of the EC Treaty).

The European Parliament will henceforth be able, in the same way as the Council, the Commission and the Member States, to institute proceedings to have acts of the institutions to be declared void without having to demonstrate specific concern (Article 230 of the EC Treaty) and to seek a prior opinion from the Court of Justice on the compatibility of an international agreement with the Treaty (Article 300 (6) of the EC Treaty).

As will be described in greater detail hereafter, the responsibilities of the European Parliament have been extended by expanding the scope of the codecision (cf. LQIUD point II.A) and by the assent required to establish enhanced cooperation in an area covered by the codecision process (cf. LQIUD point II.B). The European Parliament will also be called upon to state its opinion when the Council intends to declare that a clear danger exists of a serious breach of fundamental rights occurring (cf. LQIUD point III.A).

C) The Council

Definition of qualified majority

The decision-making system by qualified majority will be changed as from 1 November 2004. In future, a qualified majority will be obtained if:

- the decision receives at least a specified number of votes (the qualified majority threshold) and
- the decision is approved by a majority of Member States.

The number of votes allocated to each Member State has been changed. While the number of votes has been increased for all Member States, the increase is higher for the most populated Member States. The five biggest Member States' population-wise will in the 15-strong European Union have 60% of votes compared with 55% at present.

The qualified majority threshold was at the centre of debates during the closing stages of the IGC. The final compromise is complex. This notwithstanding, the qualified majority threshold will be fixed in the successive accession treaties on the basis of principles deter-

mined by the Treaty of Nice, particularly by the declaration on the qualified majority threshold.

On this basis and for the accession Treaty in view of enlargement with ten new countries, the following table has been agreed. This system would enter into force in November 2004. A qualified majority vote requires a minimum of 232 votes.¹

See for source:

<http://www.eu2002.dk/ewebeditpro2/upload/OW.StaticContent/294/pakke2.pdf>

MEMBER STATES VOTES

Germany	29
United Kingdom	29
France	29
Italy	29
Spain	27
Poland	27
Netherlands	13
Greece	12
Czech Republic	12
Belgium	12
Hungary	12
Portugal	12
Sweden	10
Austria	10
Slovakia	7
Denmark	7
Finland	7
Ireland	7
Lithuania	7
Latvia	4
Slovenia	4
Estonia	4
Cyprus	4
Luxembourg	4
Malta	3
TOTAL EU	321

The Treaty also provides for the possibility for a member of the Council to request verification that the qualified majority represents at least 62% of the total population of the European Union. If this condition is not met, the decision will not be adopted. However, this condition applies only if verification is requested.

D) Commission

Composition

The IGC has decided to defer imposing a ceiling on the number of members of the Commission.

With effect from 1 November 2004, the Commission will comprise one national per Member State.² The biggest Member States thus lose at that time the opportunity of proposing a second member of the Commission, irrespective of how many Member States the European Union has at that date.

As from the first Commission which will be appointed once the Union reaches 27 Member States, there will be fewer Commissioners than there are Member States. The Commissioners will be selected by a system of rotation that will be fair to all countries.

In concrete terms, once the accession treaty for the twenty-seventh Member State has been signed, the Council will have to take a unanimous decision:

- on the exact number of Commissioners;
- on the arrangements for a fair system of rotation, bearing in mind that all Member States will be treated on an equal footing and that each Commission must satisfactorily reflect the different demographic and geographic characteristics of the Member States.

Appointments

The IGC has decided to change the procedure for nominating the Commission (Art. 214 of the EC Treaty).

Henceforth, the nomination of the President is a matter for the European Council acting by qualified majority. This appointment must be approved by the European Parliament.

Thereafter, the Council, acting by qualified majority and in agreement with the appointed president, will adopt the list of the other persons it intends to appoint as members of the Commission, drawn up in accordance with the proposals made by each Member State. The purpose of this is solely to ensure that the Council cannot designate as a member of the Commission a person not proposed by the government of the Member State of which he/she is a national. It has no effect on the procedure whereby the president appointed, before he gives his/her agreement to this list, undertakes political contacts with each government to ensure that the new Commission is composed in a harmonious and balanced manner.

Lastly, the president and the members of the Commission will be appointed by the Council acting by qualified majority after approval of the body of Commissioners by the European Parliament.

Increased powers for the president

The new wording of Article 217 of the EC Treaty increases the president's powers, who will decide as to the internal organisation of the Commission; will allocate portfolios to the Commissioners and if necessary reassign responsibilities during his term of office; will appoint, after the collective approval of the body, the vice-presidents, whose number is no longer established in the Treaty; may demand a commissioner's resignation, subject to the Commission's approval.

E) The Union's legal system

The IGC has made major reforms to the Union's legal system. These reforms are meant to tackle the case overload that confronts the Court of Justice currently. As a result, there are long delays in obtaining judgments, which is detrimental to the working of the EU and unsatisfactory for the parties concerned.

The main provisions concerning the Court of First Instance, and particularly its responsibilities, are henceforth to be found in the Treaty. In addition, the Treaty provides for the possibility to set up internal chambers to deal at first instance with certain proceedings.

The Treaty has introduced greater flexibility in order to prepare the legal system for the future, settling certain issues in the Court's

statute, which can henceforth be amended by the Council acting unanimously at the request of the Court or of the Commission. The approval of the rules of procedure of the Court of Justice and of the Court of First Instance will henceforth be by qualified majority.

Composition

While the Court of Justice will, as before, be composed of one judge from each Member State, steps have been taken to maintain the effectiveness of the jurisdiction and coherence of its jurisprudence. The “grand chamber”, comprising eleven judges (including the president of the Court and the presidents of the five-judge chambers), will generally deal with cases today handled by plenary session. The presidents of the five-judge chambers will be elected for a three-year term of office which will be renewable once.

The Court of First Instance will have at least one judge from each Member State (the number is determined in the statute, which currently makes provision for fifteen judges). As before, the number of judges in the Court of First Instance (stipulated up to now in the Decision establishing the CFI) can be changed.

Distribution of responsibilities between the Court of Justice and the Court of First Instance

The Treaty sets out the distribution of responsibilities between the Court of Justice and the Court of First Instance but it will be possible to make adjustments through the statute.

The Court of First Instance becomes the common law judge for all direct actions (particularly proceedings against a decision (Article 230 of the EC Treaty), action for failure to act (Article 232 of the EC Treaty), action for damages (Article 235 of the EC Treaty), with the exception of those which will be attributed to a specialised chamber and those the statute reserves for the Court itself.

The Court of Justice retains responsibility for other proceedings (particularly action for failure to fulfil obligations, Art. 226 of the EC Treaty), but the statute can entrust to the Court of First Instance categories of proceedings other than those listed in Art. 225 of the EC Treaty.

The idea is to maintain within the Court, as the jurisdictional

supreme body of the European Union, disputes concerning essential issues. The IGC has accordingly asked the Court and the Commission to review the distribution of responsibilities as soon as possible so that appropriate proposals can be examined as soon as the Treaty of Nice comes into force.

The Court of Justice, which is responsible for ensuring uniform application of EU law within the European Union, in principle retains competence for investigating questions referred for a preliminary ruling; however, pursuant to Art. 225 of the EC Treaty, the statute may entrust to the Court of First Instance the responsibility for preliminary rulings in certain specific matters.

Specialised Chambers

The Council can set up specialised chambers to examine at first instance certain categories of actions in specific matters (e.g. in the area of intellectual property). The IGC through a declaration asks that a draft decision be prepared to set up such chambers in order to settle disputes between the EU and its civil servants (Article 236 of the EC Treaty).

An appeal in cassation can be made before the Court of First Instance against a decision by the specialised chambers.

European patent

Lastly, the new Article 229a of the EC Treaty will allow the Council, acting unanimously, to attribute to the Court of Justice the responsibility for settling disputes related to intellectual property rights. This provision is aimed essentially at disputes between private parties in which the future European patent is involved. This Council decision will enter into force only after it has been adopted by the Member States (i.e. after ratification).

F) Court of Auditors

The Treaty henceforth stipulates explicitly that the Court of Auditors will consist of one national from each Member State. The Court of Auditors may establish internal chambers to adopt certain categories of reports or opinions.

G) European Central Bank and European Investment Bank

The Treaty of Nice does not change the composition of the Governing Council of the European Central Bank (comprising the members of the executive board and the governors of the national central banks) but allows for changes to the rules on decision-making (at present, decisions are generally adopted by simple majority of the members, each having one vote — Article 10 of the statute of the European Central Bank). This change requires a unanimous European Council decision which must then be ratified by the Member States. The IGC has stated that it expects the Governing Council to submit as quickly as possible a recommendation for amending the voting rules.

As far as the EIB is concerned, the Treaty of Nice allows for the possibility of altering the composition of the board of directors and the rules on decision-making by a unanimous Council decision.

H) Economic and Social Committee and Committee of the Regions

The IGC has not altered the number and distribution per Member State of the seats of the ESC and the COR. The Treaty henceforth stipulates that the number of members of these committees cannot exceed 350 (Art. 258 and 263 of the EC Treaty), but this ceiling is not reached with the seats envisaged for the new Member States.

The description of the members of the ESC has been changed and the Treaty states that the Committee is to consist of “representatives of the various economic and social components of organised civil society” (Article 257 of the EC Treaty). For the COR, the Treaty of Nice henceforth explicitly stipulates that the members must hold a regional or local electoral mandate or be politically accountable to an elected assembly.

II. The decision-making process

A) The extension of the qualified majority vote

The Treaty of Nice to some extent widens the scope of decision-making by qualified majority. A list of the 27 provisions which change over completely or partly from unanimity to qualified-majority voting is attached.

The most important provisions which do so as soon as the Treaty of Nice enters into force are:

- measures to facilitate freedom of movement for the citizens of the Union (Article 18 of the EC Treaty);
- judicial cooperation in civil matters (Article 65 of the EC Treaty);
- the conclusion of international agreements in the area of trade in services and the commercial aspects of intellectual property (Article 133 of the EC Treaty), with exceptions (see below);
- industrial policy (Article 157 of the EC Treaty);
- economic, financial and technical cooperation with third countries (Article 181a of the EC Treaty, new provision to adopt measures hitherto based on Article 388 of the EC Treaty);
- approval of the regulations and general conditions governing the performance of the duties of members of the European Parliament (Article 190 of the EC Treaty), with the exception of matters relating to the fiscal regime;
- the statute of the political parties at European level (Article 191 of the EC Treaty, new provision);
- the approval of the rules of procedure of the Court of Justice and the Court of First Instance (Articles 223 and 224 of the EC Treaty).

It should be noted that the appointment of members of certain institutions or bodies will henceforth be done by qualified majority (President and members of the Commission, of the Court of Auditors, of the Economic and Social Committee and of the Committee of the Regions; the High Representative/Secretary General and the Deputy Secretary General of the Council; the CFSP special envoys).

The changeover to qualified majority voting has been deferred until 2007 for the Structural Funds and the Cohesion Funds (Article 161 of the EC Treaty), and for the adoption of the financial regulations (Article 279 of the EC Treaty).

Lastly, for the provisions of Title IV of the EC Treaty (visas, asylum, immigration and other policies linked to the free movement of persons), the IGC has agreed on a partial and deferred switch to qualified majority voting by means of different instruments (amendment of Article 67 of the EC Treaty, protocol or political declaration) and subject to different conditions (either from 1 May 2004, or after the adoption of EU legislation setting out the common rules and essential principles).

The picture is somewhat mixed for the five areas the Commission had identified as key areas:

- taxation (Articles 93, 94 and 175 of the EC Treaty): maintenance of unanimity for all measures;
- social policy (Articles 42 and 137 of the EC Treaty): maintenance of the status quo. However, the Council, acting in unanimity, can make the codecision procedure applicable to those areas of social policy which are currently still subject to the rule of unanimity. This “bridge” cannot, however, be used for social security;
- cohesion policy (Article 161 of the EC Treaty): it has been decided to switch to qualified majority voting but this will not apply until after the adoption of the multi-annual financial perspectives applicable as from 1 January 2007;
- policy on asylum and immigration (Articles 62 and 63 of the EC Treaty): application of the qualified majority rule has been postponed (2004) and will not concern the central elements of these policies, e.g. the “sharing of the burden” (Article 63(2)(b) or the conditions for entry and residence of nationals from third countries (Article 63(3)a);
- common commercial policy (Article 133 of the EC Treaty): this henceforth includes the negotiation and conclusion of international agreements in the area of trade in services and the commercial aspects of intellectual property. These agreements are concluded by qualified majority, except when the agreement includes provisions for which unanimity is required for the adoption of internal rules or when the agreement concerns an area on which the EU has not yet exercised its responsibili-

ties. In addition, the agreements concerning the harmonisation of cultural and audiovisual services, education services, social services and health services continue to be the subject of responsibility shared with the Member States.

The Treaty of Nice has extended the scope of codecision. This procedure will be applicable for seven provisions which change over from unanimity to qualified majority voting (Articles 13, 62, 63, 65, 157, 159 and 191 of the EC Treaty; this concerns respectively incentive measures to combat discrimination; a number of issues related to Justice and Home Affairs such as border controls and measures concerning asylum, refugees and immigration policy; issues related to industrial policy; regulations governing political parties at European level; for Article 161 of the EC Treaty which concerns cohesion policy, the Treaty stipulates assent by the EP). Accordingly, most of the legislative measures which, after the Treaty of Nice, require a decision from the Council acting by qualified majority will be decided via the codecision procedure. The IGC has not, however, extended the codecision procedure to legislative measures which already come under the qualified majority rule (e.g. in agricultural policy or trade policy).

B) Enhanced cooperation

The IGC has comprehensively overhauled the provisions on enhanced cooperation, particularly by listing in a single provision the ten conditions necessary to establish enhanced cooperation. While the essential characteristics of this instrument are largely unchanged (such as the principles whereby enhanced cooperation can be undertaken only as a last resort and must be open to all Member States), substantial changes have nevertheless been agreed.

The minimum number of Member States required to establish enhanced cooperation is now set at eight, whereas the Treaty currently stipulates that the majority of Member States is needed. Thus the minimum number of States needed to establish enhanced cooperation will fall, with the successive enlargements, to under one-third of the members of the Union (as had been proposed by the Commission).

In the Treaty establishing the European Community (first pillar) the possibility of opposing enhanced cooperation (the “veto”) has been removed. It has been replaced by the possibility for a Member State to take the matter up with the European Council. In such an event, the Council may nevertheless act by qualified majority on any proposal for enhanced cooperation. Furthermore, when enhanced cooperation concerns an area which comes under the codecision process, the assent of the European Parliament is required.

The Treaty of Nice has introduced the possibility of establishing enhanced cooperation in the area of common foreign and security policy (second pillar), for the implementation of joint action or a common position. Enhanced cooperation of this kind cannot be used for issues which have military implications or which affect defence matters. The authorisation for enhanced cooperation is given by the Council after receiving the opinion of the Commission, particularly on the consistency of this enhanced cooperation with the Union’s policies. The Council will decide by qualified majority but each Member State may ask that the matter be referred to the European Council for the purposes of a unanimous decision (“emergency brake”).

For police and judicial cooperation in criminal matters (third pillar), the possibility of the “veto” has been removed in line with what is envisaged for enhanced cooperation for the first pillar.

III. Other changes

The Treaty of Nice brings other changes to the treaties. The most significant are:

A) Fundamental rights

Pursuant to Article 7 of the Treaty on European Union, the European Council can declare the existence of a serious and persistent breach of fundamental rights. If this occurs, the Council may suspend certain of the rights of the country concerned. The Treaty of Nice has supplemented this procedure with a preventive instrument. Upon a proposal of one-third of the Member States, the Parliament or the Commission, the

Council, acting by a four-fifths majority of its members and with the assent of the European Parliament, can declare that a clear danger exists of a Member State committing a serious breach of fundamental rights and address to that Member State appropriate recommendations. The Court of Justice will be competent (Article 46 of the Treaty on European Union) only for disputes concerning procedural provisions under Article 7, and not for the appreciation of the justification or the appropriateness of the decisions taken pursuant to this provision.

B) Security and defence

The Nice European Council adopted the Presidency's report on the European security and defence policy which *inter alia* provides for the development of the Union's military capacity, the creation of permanent political and military structures and the incorporation into the Union of the crisis management functions of the WEU.

While this is not a precondition for making the security and defence policy quickly operational on the basis of the current provisions of the Treaty, the Nice Treaty amends Article 17 of the Treaty on European Union by removing the provisions defining the relations between the Union and the WEU.

In addition, the political and security committee ("PSC", a new designation of the political committee in the Treaty) may be authorised by the Council, in order to manage a crisis and for the duration of that crisis, to itself take the appropriate decisions under the second pillar in order to ensure the political control and strategic leadership of the crisis management operation.

C) Judicial cooperation in criminal matters

The IGC has not added, as the Commission proposed, a provision which would have made it possible to create a European prosecutor to protect the financial interests of the EU. However, the Nice Treaty does supplement Article 31 of the Treaty on European Union with reference to and the description of the

tasks of “Eurojust”, a unit of seconded magistrates whose task it will be, within the framework of judicial cooperation in criminal matters, to contribute to proper coordination of the national authorities responsible for criminal proceedings.

D) Interinstitutional agreements

The IGC adopted a declaration attached to the Treaty of Nice on interinstitutional agreements. This declaration states that relations between the European institutions are governed by the duty to cooperate sincerely and that when necessary to facilitate the application of the provisions of the Treaty, the Parliament, the Council and the Commission can conclude interinstitutional agreements. These agreements can neither change nor supplement the provisions of the Treaty and can be concluded only with the agreement of these three institutions.

E) Social Protection Committee

Through a new Article 144 of the EC Treaty, the Treaty of Nice incorporates within the Treaty the Social Protection Committee which had been established by the Council pursuant to the conclusions of the Lisbon European Council.

F) Name of the Official Journal

The name of the Official Journal of the European Communities will be changed to “Official Journal of the European Union” (Article 254 of the EC Treaty).

G) Venue for European Council Meetings

The IGC adopted a declaration annexed to the Treaty of Nice stipulating that “as from 2002, one European Council meeting per presidency will be held in Brussels. When the Union comprises 18 members, all European Council meetings will be held in Brussels”. It should be noted that this declaration relates only to the formal European Council meetings, and the presidencies are free to organise the informal European Council meetings wherever they like (or even not to organise any), in

line with the informal Council meetings which can be organised in places other than those stipulated in the protocol on the seat of the institutions.

H) Financial Consequences of the expiry of the ECSC Treaty

The European Coal and Steel Community Treaty expired on 23 July 2002. At the request of the Council, the Commission in September 2000 put forward a draft decision on the transfer of ECSC funds to the European Community to be used for research in sectors related to the coal and steel industry. For reasons of legal certainty, it has been deemed preferable to settle this matter through a protocol annexed to the Treaty of Nice.

IV. Declaration on the future of the Union

In December 2000, the Intergovernmental Conference adopted a declaration concerning the future of the Union whereby it calls for a deeper and wider debate about the future of the European Union. This has eventually led to the Laeken declaration, adopted at the Laeken European Council in December 2001. Herein, the European Council has established a Convention on the Future of the Union, which is likely to finish its work in June 2003. A new IGC will be convened afterwards with a view to adopting a Constitution for the European Union. In the view of the Commission, the Treaty of Nice will be useful to manage the first stage of an enlarged Union; it has, however, not given a fully adequate answer to make a Union of 25 and more Member States work effectively and democratically.

List of provisions to which the qualified majority rule will apply

Qualified majority as from the entry into force of the Treaty of Nice

1. Article 23, paragraph 1, of the EC Treaty: appointment of special representatives
2. Article 24, paragraphs 2 and 3, of the EC Treaty: international agreement implementing joint action or a common position (but with a clause providing for appeal to the European Council)
3. Article 13 of the EC Treaty: countering discrimination

(applies only to incentive measures) (codecision)

4. Article 18 of the EC Treaty: facilitating freedom of movement for the citizens of the EU (but limitation of the field of application) (already the subject of codecision since the Amsterdam Treaty)

5. Article 65 of the EC Treaty: judicial cooperation in civil proceedings (with the exception of aspects relating to family law) (codecision)

6. Article 100 of the EC Treaty: financial assistance in the event of serious difficulties

7. Article 111, paragraph 4, of the EC Treaty: representation of the European Community at international level as regards issues of particular relevance to EMU

8. Article 123, paragraph 4, of the EC Treaty: measures necessary for the introduction of the Euro

9. Article 133 of the EC Treaty: for the negotiation and conclusion of international agreements on services and the commercial aspects of intellectual property (with exceptions)

10. Article 157, paragraph 3, of the EC Treaty: specific support measures in the industrial field

11. Article 159, indent 3, of the EC Treaty: specific actions outside the Structural Funds (codecision)

12. Article 181a (new) of the EC Treaty: economic, financial and technical cooperation with third countries (consultation)

13. Article 190 of the EC Treaty: regulations and general conditions governing the performance of the duties of members of the European Parliament (with the exception of aspects relating to taxation) (approval of the decision of the Parliament)

14. Article 191 of the EC Treaty: statute and financial regulations governing political parties at European level (codecision)

15. Article 207 of the EC Treaty: appointment of the HR/SG and Deputy-SG of the Council

16. Article 214 of the EC Treaty: appointment of the President and the members of the Commission

17. Article 223 of the EC Treaty: approval of the rules of procedure of the Court of Justice

18. Article 224 of the EC Treaty: approval of the rules of procedure of the Court of First Instance
19. Article 247 of the EC Treaty: appointment of the members of the Court of Auditors
20. Article 248 of the EC Treaty: approval of the internal rules of the Court of Auditors
21. Article 259 of the EC Treaty: appointment of the members of the Economic and Social Committee
22. Article 263 of the EC Treaty: appointment of the members of the Committee of the Regions.

Deferred quality majority:

23. Article 62, paragraph 2(a), of the EC Treaty: (checks at external borders): after agreement on the field of application of these measures (Conference declaration) (codecision)
24. Article 62, paragraph 3, of the EC Treaty: (movement of nationals of third countries in possession of a visa): in 2004 (Conference declaration) (codecision)
25. Article 63, paragraph 1, of the EC Treaty: (policy on asylum): after adoption of a Community framework (codecision)
26. Article 63, paragraph 2(a), of the EC Treaty: (persons under temporary protection): after adoption of a Community framework (codecision)
27. Article 63, paragraph 3(b), of the EC Treaty: (clandestine immigration): in 2004 (Conference declaration) (codecision)
28. Article 66 of the EC Treaty: (administrative cooperation in areas under Title IV): in 2004 (protocol) (consultation)
29. Article 161 of the EC Treaty: (cohesion): as from 2007 (assent)
30. Article 279, paragraph 1, of the EC Treaty: (financial regulations and rules on the responsibility of financial controllers, authorising officers and accounting officers): as from 2007 (consultation).

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FOOTNOTES

1. In between 1 May 2004 (date of enlargement) and 1 November 2004, a transitory system will apply based on the current one.
2. From 1 May 2004 onwards, a national for each new Member State will join the current Commission.

EU Budget for 2004: First Budget for the Enlarged Union

IP/03/606

Brussels, 30 April 2003

The Commission has adopted its proposal for the 2004 budget (preliminary draft budget). After 1 May 2004 the EU budget will contain appropriations for 25 Member States. Under the Commission's proposal the volume of expenditure for the enlarged Union will come to €100 billion. Commissioner Michael Schreyer stated: "2004 is an historical year for the EU budget. In addition to the expenditure for the current Member States, the budget contains appropriations for 10 new Member States. However, the EU's expenditure quota will drop to less than 1%. This shows that there is a firm foundation for the financing of enlargement. We have managed to reconcile ambitious expenditure programmes for the enlarged Union and budget discipline." The 2004 budget is also special in another respect — for the first time it has been drawn up under the new activity based structure. For the first time too, the date of enlargement falls not on a 1 January but on 1 May. The preliminary draft therefore contains estimates for the EU-15 and the EU-25. The budget for the EU-15 will take effect at the start of 2004 and the increase for enlargement will follow on the date of accession, 1 May.

The major priority for 2004 is enlargement. The budget proposal for enlargement contains substantial increases for the Structural Funds and internal policies in particular. As with agricultural expenditure, the preliminary draft remains within the limits of the financial

framework negotiated in Copenhagen and approved by Parliament on 9 April. In terms of expenditure (payment appropriations), the 2004 budget keeps far below the ceilings laid down.

The budget volume proposed by the Commission

At €100.6 billion the volume of expenditure (payment appropriations¹) proposed by the Commission for the enlarged Union in 2004 shows a moderate increase of only 3.3% over the 2003 budget, which covers only the current 15 Member States. This relatively small rise is due to the fact that the volume of expenditure for EU-15 is expected to drop by 2%. The expenditure estimated for the 10 new Member States in 2004 comes to €5 billion.

Estimated expenditure in the preliminary draft for 2004 amounts to 0.99% of the gross national income of EU-25. This shows that there will still be a considerable margin under the ceiling of 1.24% for the EU budget even after enlargement. Despite enlargement, the volume of expenditure in the 2004 preliminary draft is significantly lower than the relative size of even the 2003 budget (1.04% of the GNI of EU-15).

The preliminary draft is far lower — by €10.9 billion — than the ceiling agreed for 2004. Commitment appropriations — i.e. the maximum level for the Union's financial commitments in the 2004 financial year — come to €112.2 billion for the enlarged Union; of this total €11.8 billion is for the new Member States. For EU-15 there will be no more than a very modest increase of 0.7% to €100.3 billion in 2004. The total amount leaves a margin of €3.4 billion under the ceiling for 2004.

Agriculture

Total requirements for EU-15 come to €45.8 billion, of which €4.8 billion is projected for rural development (2.2% up on 2003). The estimate for the new Member States comes to €2 billion, of which €1.7 billion is for rural development. The amount for market expenditure in the new Member States is relatively low as direct aid will not have an impact until 2005.

The increases in the preliminary draft for EU-15 are due in partic-

ular to expenditure on arable crops, on the one hand because of the situation on the cereals market and on the other hand because 2003 is an exceptional year as payments had been brought forward to the previous year because of the floods.

A conversion rate of €1=USD 1.07 was assumed for 2004.

In 2004 the mid-term review of the common agricultural policy for feedingstuffs and the milk sector will start to have an effect on the budget but the greatest impact is not expected until 2005.

The Commission will present the latest estimates for agricultural expenditure in a letter of amendment in October 2003.

Structural measures

The Structural Funds are of considerable significance in the enlarged Union.

The volume of commitment appropriations for the Structural Funds shows an increase of 20.8% for the enlarged Union compared with the 2003 figure for fifteen Member States. €6.7 billion is planned for the new Member States in accordance with the decisions adopted at Copenhagen.

Expenditure (payment appropriations) on the Structural Funds comes to €30.68 billion for the enlarged Union, 7.5% less than in the 2003 budget. This significant drop is due to the fact that the closure of the pre-2000 programmes was financed in 2003. Expenditure on the ten new Member States in 2004 will largely consist of advances. Cohesion Fund expenditure for Spain, Portugal, Greece and Ireland in 2004 is projected at the same level as in 2003.

Internal policies

The estimates for internal policies in 2004 are influenced by all three political priorities: enlargement, stability and sustainable growth. Total commitment appropriations are put at €8.63 billion, with payment appropriations at €7.5 billion, an increase of 21%.

€938 million is planned for the inclusion of the new Member States in Community programmes which already exist. Most programmes had already been extended to the acceding countries in past years. The aid programme for application of the Schengen *acquis*,

which was adopted for the new Member States in Copenhagen, is completely new and provides €317 million.

€221 million is made available for the strengthening of administrative structures in the new Member States in areas such as justice and €138 million for reactor closures in Lithuania and Slovakia.

The preliminary draft for 2004 also contains exceptionally large increases for measures to achieve an area of security (including health and consumer protection, food safety, transport safety, the security of financial transactions and telecommunications) and an area of freedom and justice. A preparatory measure involving €15 million to improve Europe's scientific, technological and industrial capacities in the field of security should be mentioned in particular. This leads to increases of 248 % for justice and home affairs, 33% for transport and energy and 24% for health and consumer protection. Some of these increases were possible only after Parliament pushed through an increase in the financial ceiling as part of the adjustments for enlargement.

€4.8 billion in commitment appropriations is available for expenditure on research. This shows that support for the Lisbon objectives will continue to be given a high priority in the enlarged Union.

External aid

In 2004 the Commission will be able to make financial commitments of almost €5 billion for foreign policy measures, the same level as in 2003. However, the scope for external aid has been expanded as the financial support for Cyprus, Malta and Turkey is no longer financed from this heading. The amount available for the other operations is thus 4.5% higher than in 2003.

The additional financial elbowroom will be used to boost neighbourhood policy. Appropriations are 14% higher for the Mediterranean countries (with a total of €859 million for MEDA) and 6% higher for Eastern Europe and Central Asia. After the years of reconstruction in the Balkans the level of aid will stabilise at €610 million. The European Union will thus be able to continue to fulfil its political commitments in this region of Europe. The appropriations for Asia have also been considerably increased to continue support for

the reconstruction of Afghanistan (€184 million). Another priority connected with stability is cooperation with third countries in the field of migration, and humanitarian aid is to be increased by 11%. Assistance in the field of sustainable growth in 2004 will be concentrated on the environment and health programmes, which were already boosted in 2003.

The Commission proposes that the appropriations for the common foreign and security policy be increased to €51 million in commitment appropriations. The joint police mission in Bosnia plays a considerable role in this field.

The reform of the administration of programmes in the field of external policy will continue in 2004. More of the programmes will be implemented by Commission delegations.

The pre-accession strategy now embraces Romania, Bulgaria and Turkey. Assistance to all three countries will be increased considerably from 2004 onwards. The pre-accession aid for Romania and Bulgaria will be increased by 20%. €250 million in commitment appropriations are available for Turkey. The level of expenditure in this category will still be influenced by the pre-accession aid to the Member States which will join the EU on 1 May 2004 as the current programmes will still have to be completed. Extra appropriations are available for the closure of Kozloduy power station.

In accordance with the decisions adopted at Copenhagen, total payments of €1.4 billion will be provided for the new Member States in the 2004 budget. These will ensure that the new Member States will still be net recipients after accession.

Administrative expenditure

The estimated administrative expenditure of the institutions of the European Union (heading 5) comes to €6.11 billion, 14% higher than in 2003. This corresponds to an increase of 9.8% for the Commission, excluding pensions. The increase covers expenditure on the new Commissioners, additional posts for the publication of legislation in the nine new official languages and various items of administrative expenditure which will rise as a result of enlargement. Savings of €20 million will be made if the new Staff Regulations can take

POLICY AREA		BUDGET 2003	PDB 2004			2004/2003 INCREASE IN %	
			EU 15	Enlargement	EU 25	EU 15	EU 25
			(1)	(2)	(3)	(4)	(5) = (2) / (1)
<i>Commitment Appropriations</i>							
1	Economic and Financial Affairs	455,88	439,51	41,50	481,01	-3,6%	5,5%
2	Enterprise	293,67	280,85	20,20	301,05	-4,4%	2,5%
3	Competition	75,36	83,66	0,30	83,96	11,0%	11,4%
4	Employment and Social Affairs	9.829,41	9.921,76	914,06	10.835,82	0,9%	10,2%
5	Agriculture and Rural Development	48.406,82	49.095,72	2.477,25	51.572,96	1,4%	6,5%
6	Energy and Transport	1.029,36	1.113,27	258,39	1.371,66	8,2%	33,3%
7	Environment	301,87	309,75	24,10	333,85	2,6%	10,6%
8	Research	2.710,88	2.872,37	345,00	3.217,37	6,0%	18,7%
9	Information Society	1.003,01	1.075,51	115,78	1.191,29	7,2%	18,8%
10	Direct Research	269,18	276,83	28,80	305,63	2,8%	13,5%
11	Fisheries	925,21	899,03	73,04	972,07	-2,8%	5,1%
12	Internal Market	64,94	67,22	2,26	69,48	3,5%	7,0%
13	Regional Policy	21.883,39	21.479,97	5.306,34	26.786,31	-1,8%	22,4%
14	Taxation and Customs Union	94,18	98,28	9,40	107,68	4,4%	14,3%
15	Education and Culture	829,25	833,74	154,90	988,64	0,5%	19,2%
16	Press and Communication	146,60	164,87	7,00	171,87	12,5%	17,2%
17	Health and Consumer Protection	380,55	401,77	69,80	471,56	5,6%	23,9%
18	Justice and Home Affairs	146,37	162,85	346,54	509,39	11,3%	248,0%
19	External Relations	3.316,02	3.487,31	0,00	3.487,31	5,2%	5,2%
20	Trade	69,04	75,52	0,40	75,92	9,4%	10,0%
21	Development and Relation with ACP Countries	1.152,81	1.197,83	0,00	1.197,83	3,9%	3,9%
22	Enlargement	1.971,89	1.095,89	221,00	1.316,89	-44,4%	-33,2%
23	Humanitarian Aid	458,11	507,63	0,00	507,63	10,8%	10,8%
24	Fight against fraud	45,47	52,36	1,20	53,56	15,1%	17,8%
25	Commission's Policy Coordination and Legal Advice	186,38	195,98	0,00	195,98	5,2%	5,2%
26	Administration	613,59	685,97	7,34	693,31	11,8%	13,0%
27	Budget	65,67	68,04	1.409,55	1.477,58	3,6%	2150,2%
28	Audit	9,13	9,56	0,00	9,56	4,7%	4,7%
29	Statistics	117,90	122,18	5,70	127,88	3,6%	8,5%
30	Pensions	741,12	813,14	0,00	813,14	9,7%	9,7%
31	Reserves	222,05	221,00	0,00	221,00	-0,5%	-0,5%
TOTAL COMMISSION		97.815,09	98.109,37	11.839,85	109.949,21	0,3%	12,4%
OTHER INSTITUTIONS (*)		1.870,60	2.291,06	Non available	2.291,06	22,5%	22,5%
TOTAL APB 2004		99.685,69	100.400,43	11.839,85	112.240,27	0,7%	12,6%
Payment appropriations		97.502,94	95.586,88	5.088,92	100.675,80	-2,0%	3,3%
Appropriations for payments as % of GNI		1,04%	0,99%		0,99%		

(*) Provisional figures.

effect on 1.1.2004. The presumed entry into force of these Staff Regulations, which will mean savings for the Commission, outsourcing and the return to the Berlaymont building have played an important role in the determination of requirements.

With the introduction of activity-based budgeting, most administrative expenditure is now included in the relevant policy area and only specific expenditure such as publications or representation offices is now recorded separately.

As for human resources, the Commission is requesting 780 new posts for enlargement in 2004 in addition to the 500 temporary posts already approved in 2003. Some of these posts, 244 in all, will be needed by the language service, but most will be used for the additional operational duties resulting from enlargement. Staff for the priorities relating to stability and sustainable growth can be covered from the resources already obtained from redeployment.

Following steps:

Under the budgetary procedure, the Council's first reading will take place in July 2003, followed by Parliament's first reading in October. The objective is to adopt the budget for 15 Member States in December for the period up to 1 May 2004 as well as to reach agreement on the figures for the enlarged Union.

The following documents will be sent to the budgetary authority:

- Political presentation
- Detailed list of appropriations: the figures
- Indicative programme of expenditure 2004-2006
- Activity statements, description and explanations for expenditure on each of the activities

After they have been finalised, these documents will be found on the following website:

http://europa.eu.int/comm/budget/furtherinfo/index_en.htm#budget

FOOTNOTE

1. Appropriations which may be spent in the current budget year as a result of treaties or agreements. Some payments are to cover commitments entered into in the past.

Towards an Enlarged European Union

Key Indicators on Member States
and Candidate Countries

EUROPEAN COMMISSION

THEME 1

General Statistics

APRIL 2003

After the conclusion of the Accession Negotiations with 10 acceding countries at the Copenhagen European Council in December 2002, the most important enlargement in the history of the European Union has made a decisive step forward. Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia are expected to join the EU shortly and to bring the creative energy, the hopes and expectations of 75 million new citizens into a Union of then 25 Member States and 450 million citizens.

Eurostat and the statistical offices of the future Member States have been preparing for this historic event since 1990 and are now able to provide the public with comparable indicators in many areas of official statistics. This leaflet presents a selection of the most important key indicators for each of the 25 countries, as well as for the aggregates EU-15 and the 10 acceding countries.

The following symbols are used:

- p for provisional data
- e for estimate
- :

Basic indicators

	Land area, km ² 2002	Average population in 1000 2001	Unemployment rate in % 2002	Inflation rate in % 2002	GDP per capita in PPS 2001	Exports of goods & serv. in % of GDP 2001
Belgium	30 538	10 285	7.3	1.6	25 260	85
Czech Republic	78 866	10 283	7.3	1.4	13 700	71
Denmark	43 094	5 359	4.5	2.4	26 660	45
Germany	357 031	82 350	8.2	1.3	24 000	35
Estonia	45 227	1 364	9.1	3.6	9 240	91
Greece	131 957	10 582	10.3	3.9	15 020	23
Spain	505 124	40 266	11.4	3.6	19 510	30
France	549 087	59 191	8.7	1.9 ^p	23 870	28
Ireland	70 295	3 854 ^c	4.4	4.7	27 360	98
Italy	301 338	57 075	9.1	2.6 ^p	23 860	28
Cyprus	9 251	762 ^c	5.3	2.8	17 180 ^p	47 ^p
Latvia	64 589	2 355	12.9	2.0	7 750	45
Lithuania	65 300	3 478	13.1	0.4	8 960	50
Luxembourg	2 586	442	2.4	2.1	44 160 ^p	152
Hungary	93 030	10 188 ^c	5.6	5.2	12 250	61
Malta	316	393	7.5	2.2 ¹⁾	:	88
Netherlands	35 518	16 046	2.6	3.9 ^p	26 670	65
Austria	83 858	8 130	4.1	1.7	25 740	52
Poland	312 685	38 638	20.0	1.9	9 410	28
Portugal	91 916	10 299	5.0	3.7	16 059	31
Slovenia	20 273	1 992	6.0	7.5	16 210	60
Slovak Republic	49 035	5 397	19.4	3.3	11 200	73
Finland	338 150	5 188	9.1	2.0	24 170	40
Sweden	449 974	8 896	4.9	2.0	23 700	45
United Kingdom	244 101	60 004 ^c	5.1	1.3	23 530 ^p	27
EU-15	3 234 568	377 850	7.5	2.1^p	23 210	36
Acc. Countries	738 572	74 850	15.1	:	10 700²⁾	47
Bulgaria	110 910	7 910	18.6	5.8	5 710	56
Romania	238 391	22 408	8.0	22.5	5 560	34
Turkey	769 604	68 670	10.4	32.2 ¹⁾	5 230	34

¹⁾ Malta and Turkey are not harmonised, for Malta: Maltese Retail Price Index.

²⁾ without Malta

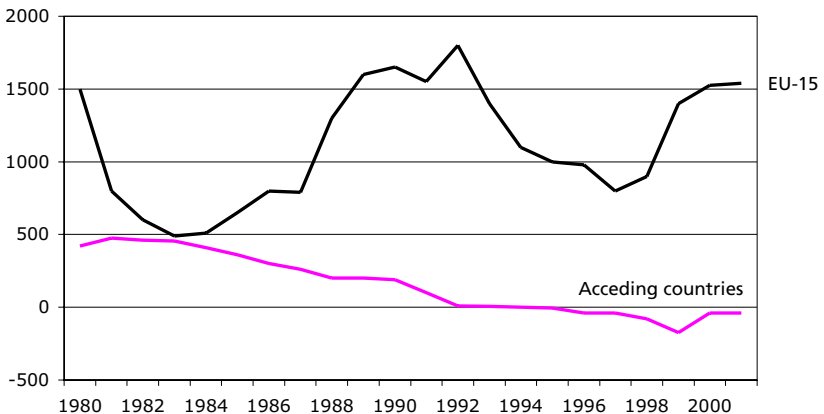
Demography, 2001

	Crude rate of natural increase per 1000 inhabitants	Crude rate of total increase	Total fertility rate	Infant mortality rate per 1000 live births	Life expectancy at birth, in years	
					Males	Females
Belgium	1.1	4.3	1.7 ^e	5.0 ^p	74.6 ⁽¹⁾	80.8 ⁽¹⁾
Czech Republic	-1.7	-0.3	1.1 ^e	4.0	72.1	78.5
Denmark	1.3	3.6	1.7	4.9	74.3	79.0
Germany	-1.1	2.2	1.3 ^e	4.5 ^e	74.7 ⁽²⁾	80.7 ⁽²⁾
Estonia	-4.3	-4.2	1.3	8.4 ⁽¹⁾	65.6 ⁽¹⁾	76.4 ⁽¹⁾
Greece	-0.1	3.2	1.3 ^e	5.9 ^e	75.4	80.7
Spain	1.4	7.1	1.3 ^e	3.9 ^e	75.6	82.9
France	4.2	5.2	1.9 ^e	4.6 ^e	75.5	83.0
Ireland	7.3	14.7	2.0 ^p	5.8 ^p	73.0	78.5
Italy	0.1	3.0	1.2 ^e	4.3 ^e	76.7	82.9
Cyprus	4.8	2.3	1.6 ^e	5.6 ⁽¹⁾	75.3 ⁽²⁾	80.4 ⁽²⁾
Latvia	-5.6	-7.8	1.2 ^p	11.0	64.5	75.6
Lithuania	-2.6	-3.3	1.3 ^e	8.6 ⁽¹⁾	67.5 ⁽¹⁾	77.7 ⁽¹⁾
Luxembourg	3.9	10.2	1.7 ^p	5.9	74.9 ⁽¹⁾	81.3 ⁽¹⁾
Hungary	-3.4	-2.5	1.3 ^p	8.1	67.2 ⁽¹⁾	75.7 ⁽¹⁾
Malta	2.4	8.2	1.5 ^e	4.4	75.1 ⁽¹⁾	79.3 ⁽¹⁾
Netherlands	3.9	7.4	1.7 ^p	5.4	75.7	80.6
Austria	0.1	2.2	1.3 ^e	4.8	75.4 ⁽¹⁾	81.2 ⁽¹⁾
Poland	0.1	-0.3	1.3	7.7	70.2	78.4
Portugal	0.7	7.1	1.4 ^e	5.0	73.5	80.3
Slovenia	-0.5	2.0	1.2 ^e	4.2	72.7	80.1
Slovak Republic	-0.2	-4.3	1.2 ^e	6.2	69.4	77.6
Finland	1.5	2.7	1.7	3.2	74.6	81.5
Sweden	-0.3	3.0	1.6	3.7	77.5	82.1
United Kingdom	1.1	3.7	1.6	5.5 ^p	75.7	80.4
EU-15	1.1	4.1^e	1.5^e	4.6^e	75.2^e	81.2^e
Acc. Countries	-1.0	-1.2^c	1.3^e	7.2^c	69.3^e	77.5^e
Bulgaria	-5.6	-4.8	1.2 ^p	14.4	68.5 ⁽¹⁾	75.1 ⁽¹⁾
Romania	-1.8	-2.0	1.2	18.4	67.7	78.8
Turkey	1.5	1.8	2.5	38.7	66.4	71.0

1) 2000 2) 1999

Total Increase of population

thousands



Share of Agriculture in GVA and growth of GDP

	Share of agriculture in GVA, %			Annual growth of GDP, %		
	1999	2000	2001	1999	2000	2001
Belgium	1.3	1.4	1.5	3.2	3.7	0.8
Czech Republic	4.2	4.3	4.2	0.5	3.3	3.3
Denmark	2.6	2.7	2.9	2.6	2.8	1.4
Germany	1.2	1.2	1.2	2.1	2.9	0.6
Estonia	6.7	6.1	5.8	-0.6	7.1	5.0
Greece	7.9	7.3	7.0	3.6	4.2	4.1
Spain	3.8	3.5	3.4	4.2	4.2	2.7
France	3.0	2.8	2.8	3.2	3.8	1.8
Ireland	4.0	3.8	3.5	11.1	10.0	5.7
Italy	3.0	2.8	2.7	1.6	2.9	1.8
Cyprus	4.2	3.8 ^p	4.0 ^p	4.8	5.2 ^p	4.1 ^p
Latvia	4.3	4.9	4.7	2.8	6.8	7.7
Lithuania	8.4	7.7	7.1	-3.9	3.8	6.0
Luxembourg	0.7	0.7	0.6	6.0	9.0	1.0
Hungary	4.9	4.3	4.3	4.2	5.2	3.7
Malta	2.5	2.3	2.4	4.1	6.1	-0.8
Netherlands	2.8	2.7	2.7	4.0	3.3	1.3
Austria	2.3	2.2	2.3	2.7	3.5	0.7
Poland	4.0	3.6	3.8	4.1	4.0	1.1
Portugal	3.7	3.5	3.6	3.8	3.7	1.6
Slovenia	3.6	3.3	3.1	5.2	4.6	3.0
Slovak Republic	4.7	4.5	4.6	1.3	2.2	3.3
Finland	3.5	3.7	3.4	3.4	5.5	0.7
Sweden	2.1	1.9	1.9	4.6	4.4	0.8
United Kingdom	1.2	1.0	0.9	2.4	3.1	2.0
EU-15	2.3	2.1	2.1	2.8	3.5	1.5
Acc. Countries	4.3	4.0	4.1	3.1	4.1	2.4
Bulgaria	16.2	13.8	13.7 ^p	2.3	5.4	4.0
Romania	14.7	12.2	14.6	-1.2	1.8	5.3
Turkey	14.5	13.6	11.3	-4.7	7.4	-7.5

Labour Market, 2001

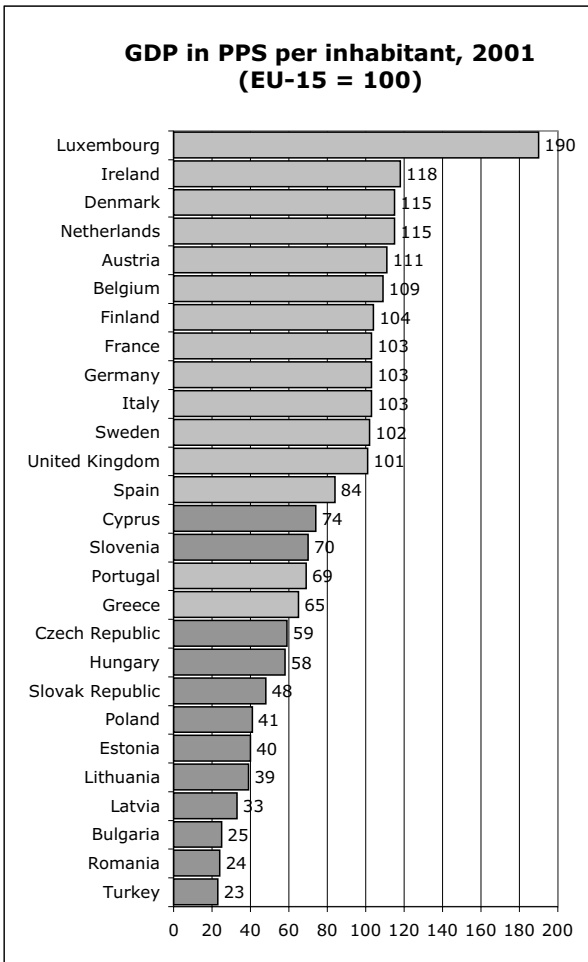
	Employment rate % 15-64 yrs.	Employment (2 quarter) in agriculture industry & services construction as % of total			Unemployment rate (%) of persons aged 15-24	Long term unemployment in % of active pop.
Belgium	59.9	1.4	25.5	73.1	17.5	3.2
Czech Republic	65.1	4.9	40.5	54.6	17.6	4.3
Denmark	76.2	3.5	25.4	71.1	8.4	0.9
Germany	65.4 ¹⁾	2.6	32.8	64.6	8.2	4.0 ¹⁾
Estonia	61.3	6.9	34.1	59.0	23.5	6.2
Greece	55.4	16.0	22.8	61.2	28.1	5.4
Spain	57.7	6.5	31.6	61.9	21.4	3.9
France	62.8	4.1	26.0	69.9	19.0	3.1
Ireland	65.7	7.0	29.1	63.9	6.7	1.3
Italy	54.9	5.2	31.7	63.1	28.1	5.8
Cyprus	65.9 ¹⁾	4.9	24.0	71.1	11.0	1.2 ¹⁾
Latvia	58.7	15.1	25.3	59.6	23.0	7.4
Lithuania	60.1 ¹⁾	16.5	27.2	56.3	30.2	8.1 ¹⁾
Luxembourg	62.7 ¹⁾	1.5	21.4	77.0	7.5	0.5 ¹⁾
Hungary	56.5	6.1	34.5	59.4	10.9	2.6
Malta	54.2	:	:	:	16.5	2.9
Netherlands	74.1	3.1	21.6	75.3	5.6	0.9
Austria	68.4	5.8	29.4	64.8	5.8	0.8
Poland	55.0	19.2	30.7	50.1	42.0	7.4 ¹⁾
Portugal	68.7	12.9	34.0	53.0	9.2	1.5
Slovenia	63.8	9.9	38.6	51.4	16.0	3.7
Slovak Republic	56.8	6.3	37.1	56.7	38.8	11.3
Finland	68.2	5.8	27.1	67.1	19.8	2.4
Sweden	74.1	2.6	23.7	73.6	10.9	1.0
United Kingdom	71.8	1.4	24.9	73.7	11.9	1.3
EU-15	64.1	4.2	28.7	67.1	14.6	3.1
Acc. Countries²⁾	56.7	13.3	33.1	53.6	31.3	7.6
Bulgaria	49.6	9.7 ³⁾	32.7 ³⁾	57.6 ³⁾	38.8	12.6
Romania	62.4	44.4	25.8	29.7	18.1	3.3
Turkey	50.6	37.0	23.3	39.6	16.7	2.4

Source: EU Labour Force Survey (LFS) 1) 2000 2) Acceding countries without MT 3) Due to the very high proportion of persons having agricultural activity in addition to another main occupation the Labour Force Survey does not provide a precise estimate of total employment in this sector.

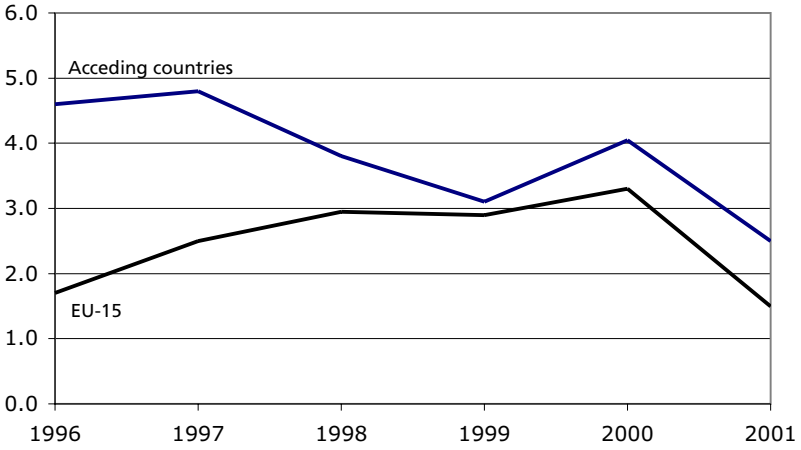
Living Standard

	Passenger cars per 100 inhabitants		Mobile telephones per 100 inhabitants		Internet users per 100 inhabitants	
	1999	2001	1999	2001	1999	2001
Belgium	45	46	31	75	12	28
Czech Republic	33	34	19	68	7	14
Denmark	35	35	49	74	28	45
Germany	52	53	29	68	18	37
Estonia	33	30	27	54	14	32
Greece	28	34	37	56 ¹⁾	7	13
Spain	43	45	38	74	7	18
France	46	48	35	63	9	27
Ireland	44	36	:	:	18	23
Italy	56	58	52	:	14	28
Cyprus	34	37	20	41	12	20
Latvia	22	25	11	26	4	7
Lithuania	29	32	9	28	3	7
Luxembourg	61	62	49	70 ¹⁾	18	34
Hungary	22	24	16	31 ¹⁾	6	15
Malta	47	50	6	61	8	25
Netherlands	40	41	43	:	19	33
Austria	49	50	52	76 ¹⁾	16	32
Poland	24	27	10	25	5	10
Portugal	33	50	46	78	10	35
Slovenia	43	44	33	76	13	30
Slovak Republic	23	24	12	40	11	17 ^c
Finland	40	41	65	81	32	43
Sweden	44	45	58	81	41	52
United Kingdom	41	44	40	75	21	40
EU-15	46	50	40	:	18	36
Acc. Countries	26	28	13	38	6	12
Bulgaria	23	26	4	20	3	7
Romania	13	14	5	20	3	5
Turkey	6	7	11	22 ¹⁾	2	4

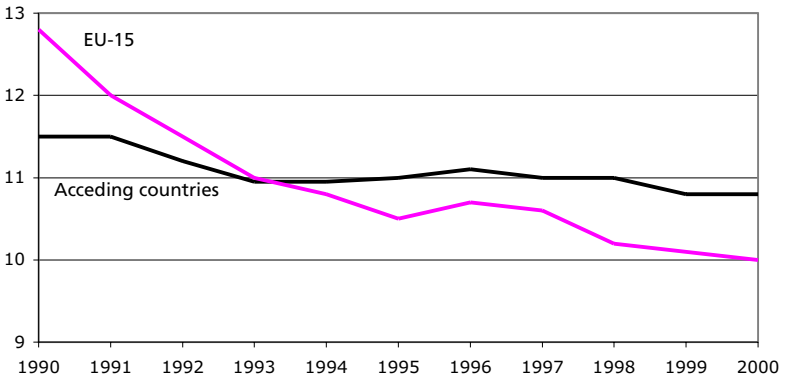
1) 2000



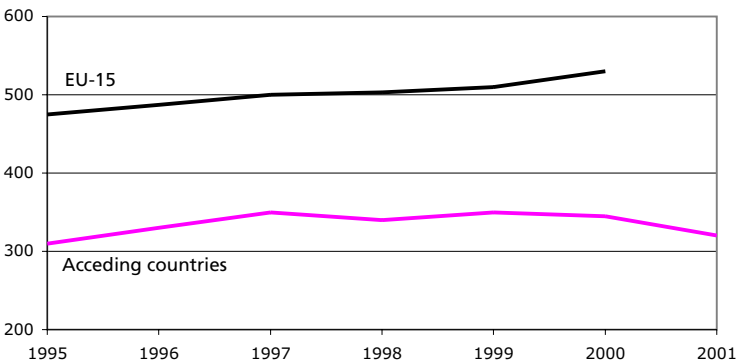
Annual Growth of Gross Domestic Product (GDP)
%



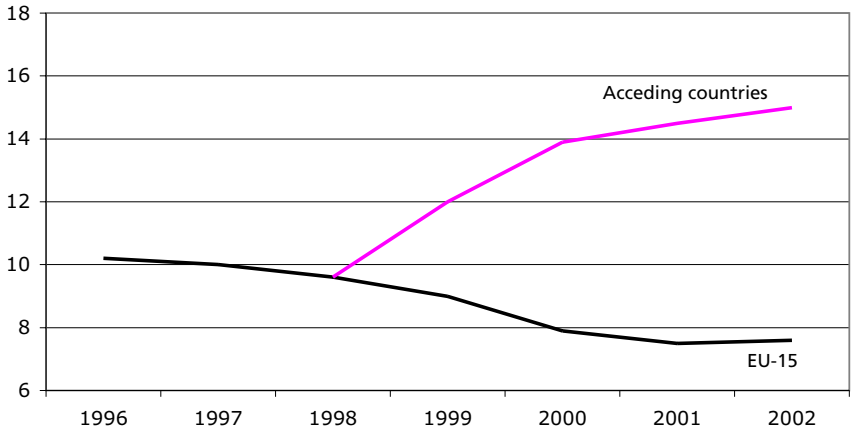
Emission of greenhouse gases per capita



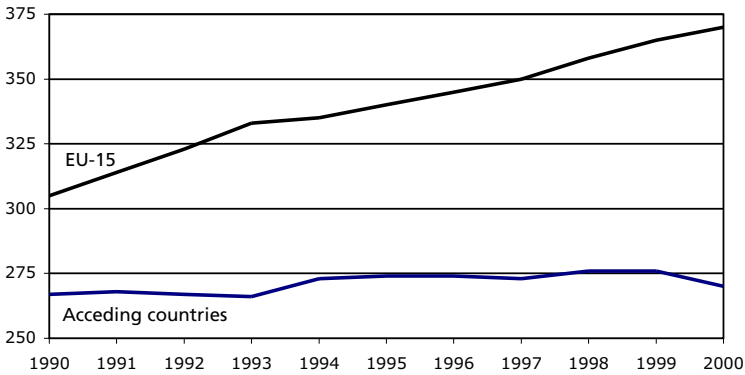
Municipal waste collected per capita



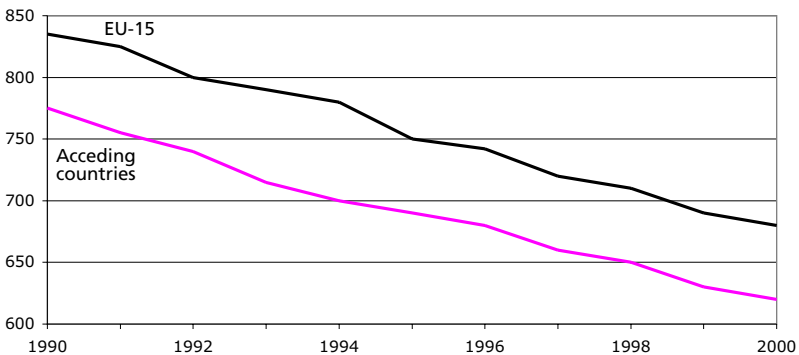
Unemployment rate in % (LPS)



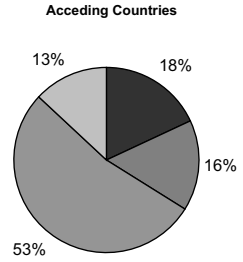
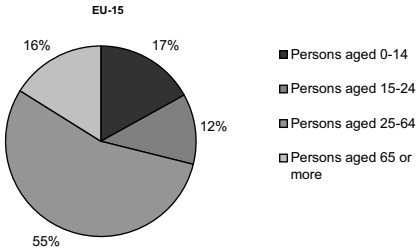
Physicians per 100 000 inhabitants



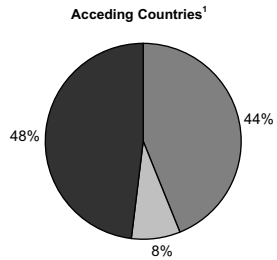
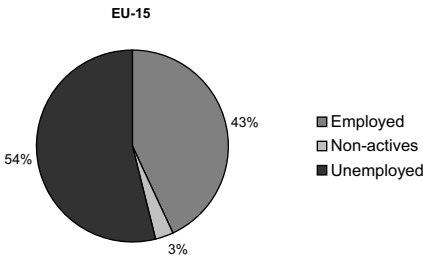
Hospital Beds per 100 000 inhabitants



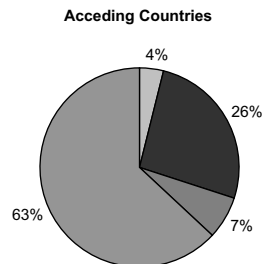
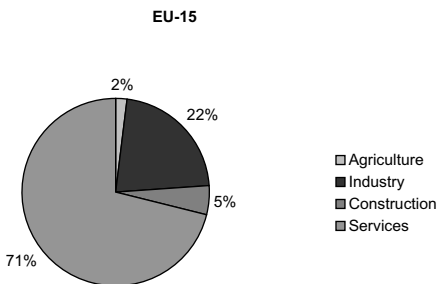
Structure of population, 1 Jan. 2001



**Structure of working age pop.,
2nd quarter 2001 (LFS)**



**Structure of Gross Value Added (GVA),
2001**



Definitions:

Inflation rate - average annual percentage change in Harmonised Index of Consumer Prices (HICP) - interim HICP for candidate countries.

PPS - PPS (Purchasing Power Standards) is the artificial common currency unit used in the European Union to express the volume of economic aggregates for the purpose of cross-country and regional comparisons. National currencies are converted to PPS by conversion rates called PPP (Purchasing Power Parities) which eliminate the differences in price levels between countries in the process of conversion.

Total fertility rate - the mean number of children that would be born alive to a woman during her lifetime, if she were to pass through her childbearing years conforming to the fertility rates by age of a given year.

Physicians - includes physicians with a medical practice and those without a medical practice (in industry, administrations, etc.). The terms 'doctor' and 'physician' are used synonymously.

Data on Member States and candidate countries are stored in the Eurostat Database New Cronos. Data cover Economy and Finance, Population and Social Conditions, Industry, Agriculture, Forestry and Fisheries, External Trade, Distributive Trade, Services and Transport, Energy and Environment. Eurostat offers on-line access to New Cronos to the National Statistical Institutes of all candidate countries, EU Member States and EFTA countries. Data are available to other users from Eurostat Data Shops, on paper, diskette and CD-ROM.

Key indicators and statistical papers (Statistics in focus) are available from the Eurostat website free of charge.

Eurostat has set up a network of Data Shops. Full details are available from:
<http://europa.eu.int/comm/eurostat>

The Data Shops can be visited or contacted at the following addresses:

Berlin: <http://www.eu-datashop.de/>

New York: <http://www.haver.com/>

Brussels, Luxembourg and Madrid: <http://www.datashop.org/>

Oslo: <http://www.ssb.no/biblioteket/datashop/>

Copenhagen: <http://dst.dk/bibliotek/>

Paris: datashop@insee.fr

Helsinki: <http://tilastokeskus.fi/tk/kk/datashop/>

Rome: dipdiff@istat.it

Stockholm: <http://www.scb.se/tjanster/datashop/datashop.asp/>

Lisbon: data.shop@ine.pt

Milan: mileuro@tin.it

Voorburg: datashop@cbs.nl

Newport (UK): eurostat.datashop@ons.gov.uk

Zürich: <http://www.statistik.zh.ch/>

In summer 2003, Eurostat will publish the 5th edition of the Statistical Yearbook on Candidate Countries. It will provide statistical data from 1997 to 2001 on all social and economic indicators of the 13 candidate countries in tables and graphs presenting the key features at a glance. The fifth edition will offer an improved completeness of time-series.

More information can be obtained from:

EUROSTAT Unit A5: Technical Co-operation with Candidate, Cards and Tacis countries, 5, rue A. Weicker L-2721 Luxembourg
Fax +352.4301.32139, E-mail: Andreas.Krueger@cec.eu.int

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19, rue Montoyer B-1000 Bruxelles

Tel. +32-2-5459010, Fax. + 32-2-5459011, E-mail: enlargement@cec.eu.int

<http://www.europa.eu.int/comm/enlargement/index.htm>

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Europe's Agenda 2000 Strengthening and Widening the European Union

Draft of Commission information brochure
for the general public
Priority Publications Programme 1999, X/D/5
Final version 31.8

Under the heading of « Agenda 2000 » the European Union reformed in 1999 a number of its important policies. The new EU actions aim to solve common European challenges in new and efficient ways, but the reforms are also part of the effort to prepare the European Union for enlargement with a number of new member countries. Practical preparations are well under way for this historic opportunity to heal the previous divisions of Europe, and the financial help from the EU to the applicant countries will be doubled. The European agricultural policy will in the future focus more on the environment, food quality and the vitality of rural life. The EU regional policy continues to be one of the main instruments of solidarity among Europeans, helping to create jobs and economic development in less well-off regions. The overall frames for spending from the EU budget have been settled until the year 2006.

Stronger foundations

The European Union (EU) is shaping up for a new millennium, steadily transforming itself, deepening its integration and broadening its responsibilities.

Some of these changes anticipate the political, economic and security challenges that are bound to emerge in the next couple of decades. Others are about preparing the Union for a dramatic increase in membership — involving up to 13 additional countries — in the early years of the new century.

Very important foundations for the future were laid in 1999:

- 1 January: the euro was born with the launch of Economic and Monetary Union;
- 24-25 March: Agenda 2000 reforms to modernise key policies and to prepare the Union for enlargement were agreed by European heads of state or government at the European Council in Berlin;
- 1 May: the Treaty of Amsterdam came into force, strengthening democratic controls and putting the EU to work in new areas such as job creation and protecting our societies against organised crime and illegal immigration;
- To complete a landmark year, the Union's forward momentum was boosted in June 1999 by the election for a five-year term of a new European Parliament, and in the autumn by the arrival in office of a new European Commission under the presidency of the former Italian Prime Minister, Romano Prodi.

Agenda 2000: a manifesto for change

Of the new directions for the Union that were set in 1999, none is more essential than the Agenda 2000 package of reforms. Based on proposals from the European Commission, and agreed upon at the EU summit in Berlin in March 1999, they responded to popular demands in Europe for:

- greater equality of opportunity and a better quality of life for people living in areas and regions in special need;
- passing on to the next generation a natural environment that is beginning to recover from the damage and degradation inflicted in the past;
- access to a wide range of high quality foodstuffs that are safe to eat and produced at competitive prices by a farming population guaranteed reasonable incomes;

- responsible and efficient management of the Union's finances so that expenditure is as disciplined as that of Member States.

At the same time, one of the greatest tasks for the EU is to heal the divisions of Europe and to extend the same peace and prosperity to the central and eastern European countries that present EU countries have. The Agenda 2000 reform process is also about reshaping the Union so that it can make a success of enlargement and at the same time deliver better economic prospects for Europe's citizens. The challenge for the EU is to negotiate enlargement with up to 13 countries who want to join, while at the same time vigorously preparing them for the moment of accession and being able to pay for these "pre-accession" preparations.

A three-part challenge

Emphasising the need to modernise and strengthen the Union, the Commission presented proposals that focused on three central challenges:

1. "to update the European Model of Agriculture"

Quite different from many of its competitors, the European model of agriculture is designed to fulfil several functions, including promoting economic and environmental development so as to preserve rural ways of life and countryside landscapes. Keeping farming economically healthy is crucial, and this requires updating a Common Agricultural Policy that was devised for a community of 6 Member States, not 15 as it is now, and certainly not for 28 as the EU may become.

2. "to narrow the gaps in wealth and economic prospects between regions "

The EU has been addressing the challenge of regional economic differences for well over 20 years. The problem is that the task will be even tougher after enlargement because per capita incomes in the applicant countries are only one-third of the Union's average.

The Commission said it was time the Union's structural funds concentrated aid more firmly on those areas and regions

whose local economies are clearly in need of revival.

3. "to honour priorities while enjoying only very modest increases in budget income until 2006"

The Commission outlined a very tight financial framework for the years 2000-2006. It tried to ensure that there would be enough money in the EU's budget to meet the costs of enlargement during this period, while also adopting the tight spending approach which the Member States has agreed upon for themselves in connection with the Economic and Monetary Union.

Decision time in Berlin

The reforms were first outlined in the documents with the title "Agenda 2000" published by the Commission in July 1997. After a thorough public debate all over Europe, reforms were finally agreed by the heads of state or government of the 15 EU countries at their meeting in Berlin in March 1999. An agreement was later reached with the European Parliament, and the decisions were put in the shape of detailed legislation, which were passed by all the EU institutions.

The following sections explain the main implications of the Agenda 2000 reforms.

A leaner, greener European model of agriculture: contented consumers, cleaner countryside, competitive farmers, stable spending

Once apparently stable and timeless, the countryside is now under constant pressure to change. So too must policies for the countryside, beginning with the EU's Common Agricultural Policy (CAP) itself.

The CAP was conceived in the 1950s and 1960s for a Europe which still had keen memories of food shortages and rural poverty; it was designed to eradicate these problems forever.

One of the main instruments used to this end has been for the EU to guarantee that farmers could get certain prices for their products. This has helped stabilise the market against uncontrollable factors like climate, and ensured that farmers receive a fair and regular income, as well as achieving increased production. At the turn of the century, the CAP has to move on and face new challenges.

Why the CAP needed to be reformed

The roots underlying the Commission's initiative for a radical reform of the agricultural policy lie both within the EU's borders and further afield. The major external factors include growing world demand for food, further moves towards a more liberal global trading environment, and the challenge of the European Union's eastward enlargement.

On the internal front, there are four broad factors. Firstly, there is the very real risk of a return to market imbalances in some sectors. Secondly, the Treaty of Amsterdam, which came into force on May 1 1999, makes it the responsibility of EU lawmakers to integrate environmental concerns into all legislation. Next, the CAP needs to rise to the challenge of greater consumer interest in food safety, quality and animal welfare. Lastly, the CAP must respond to the need for better administration: more decentralisation, greater transparency and simpler rules.

The road to reform

The Commission unveiled proposals for reforming the main sectors of the EU farm economy as well as for rural development in the spring of 1998. After the agreement on the Agenda 2000 package at the EU summit and consultation with the European Parliament, the formal texts were adopted by the Council of Ministers for agriculture in May 1999. While in some respects the policy as finally agreed is not as far-reaching as had originally been proposed, it remains the most radical and wide-ranging reform of the CAP in its history. The reformed CAP is a step towards supporting the broader rural economy rather than agricultural production, and ensures that farmers are rewarded not only for what they produce but also for their general contribution to society.

What was reformed?

The reform decisions covered the arable crops, beef, dairy, and wine sectors. The rules concerning olive oil and tobacco had already been reformed in 1998. Taken together, these sectors make up over half of EU agricultural production. The reform also includes new arrangements for rural development for the period 2000-2006.

Lower guaranteed prices

The guaranteed prices that farmers receive are cut by 20% in the beef sector and 15% in the arable crops and dairy sectors. The cuts will be introduced gradually with the objective of bringing Europe's farmers into closer touch with world market prices, thus helping improve the competitiveness of agricultural products on domestic and world markets with positive impacts on both internal demand and exports levels. Equally important, the changes will contribute to the progressive integration of the new Member States from Central and Eastern Europe.

A continued commitment to stable farm incomes

The EU maintains its commitment to helping ensure farmers earn a decent living. This is achieved by means of direct payments to farmers, which have been increased to help offset the lower guaranteed prices.

A new approach to the challenges facing rural economies

The new policy for rural development seeks to establish a coherent and sustainable framework for the future of Europe's rural areas. It complements the reforms of the markets by other actions that promote a competitive, multi-functional farming in the context of a comprehensive strategy for rural development.

Each Member State sets up its own programmes for rural development. They must correspond to the framework of objectives agreed at European level and receive a financial support from the EU. A programme can consist of many different measures: for example help for young farmers, training courses, measures to promote more environmentally-friendly farming methods, etc.

The guiding principles of the new policy are those of decentralisation of responsibilities — from EU to local level — and flexibility of programming based on a 'menu' of actions which can be implemented according to the countries' specific needs. As a coherent package of measures it has three main objectives:

- to create a stronger agricultural and forestry sector, the latter recognised for the first time as an integral part of the rural

development policy;

- to improve the competitiveness of rural areas;
- to maintain the environment and preserve Europe's rural heritage.

Actions to promote the environment are the only compulsory element of the new generation of rural development programmes. This represents a decisive step towards recognising the role agriculture plays in preserving and improving Europe's natural heritage.

A Community Initiative for the countryside

A key element in the EU strategy for rural development is to involve local people in finding local solutions to local problems. LEADER, one of the four Community Initiatives under the Structural Funds, builds on the successes of previous LEADER programmes in creating new jobs and developing a network to exchange ideas and know-how on rural development issues.

A greener CAP

The integration of environmental goals into the CAP and the development of the role farmers can play in managing natural resources and contributing to landscape conservation are increasingly important objectives for the CAP.

The so-called "agri-environmental measures" will support the sustainable development of rural areas and will respond to society's increasing demand for environmental services by encouraging farmers to use farming practices compatible with environmental protection and natural resources conservation.

As an additional measure which will help in the further 'greening' of the CAP, the compensatory allowances in support of farming in less favoured areas (LFAs) have been extended to areas where farming is restricted by the existence of specific environmental restrictions. Forestry, for its part, has been recognised as an integral part of rural development, serving an ecological, economic and social function.

EU Member States may also make direct payments to farmers conditional on the observance of environmental requirements. In other

words, Member States should define environmental measures to be applied by farmers, as well as proportionate penalties for environmental infringements. These could involve, where appropriate, the reduction or cancellation of direct payments.

Preparing the ground for enlargement

The EU has created a specific instrument to help the farm sectors and rural economies of the candidate countries prepare for membership, known as SAPARD. Under the scheme €529 million per year is set aside for structural and rural development programmes. Priorities include investing in farms, developing processing and marketing structures, improving veterinary and plant health controls, and encouraging economic diversification in rural areas.

Local decision-making

The way that direct payments to producers is managed has been reorganised to allow Member States to target specific national or regional priorities. Each EU country will be able to allocate resources freely, subject to certain EU criteria designed to prevent distortions of competition. For example, part of the direct payments for beef and dairy will take the form of a national financial envelope funded from the EU budget which Member States can distribute.

Flexibility and partnership continue to be key words in rural development programming, and in some initiatives, like the LEADER + programme, decisions on how to allocate funds are taken in the rural community itself.

Simplifying the rules

The CAP reform contains important elements of simplification in various sectors. In the wine sector, for instance, there is now one regulation where previously there were twenty-three. In rural development, again, there is now one regulation where before there were nine. The way each programme is run has also been decentralised and simplified.

Towards a European model of agriculture

The new reform will help to develop a genuinely multi-functional, sustainable and competitive agricultural sector, which will also help to secure the future of the more fragile rural regions. It recognises that agriculture has a key role to play in preserving the countryside and natural spaces and in the vitality of rural life. It also seeks to respond to consumer concerns on food safety, quality and animal welfare. Finally, the reform of the CAP aims to ensure that the rural environment is protected and improved for future generations.

A new look regional policy:

concentrated aid, focused funding, decentralised management

The European Union Structural Funds in the years 2000-2006 will continue to be one of the main instruments of solidarity among Europeans - helping to create jobs and economic development by investing in infrastructure and training in less well-off regions.

Concentration of financial support is the watchword of regional policy reform under Agenda 2000. In order to use the money from the Structural Funds as efficiently as possible, it was decided to concentrate their use by reducing the number of priority objectives from 7 to 3, and nearly 70% of total spending will be targeted on regions whose development is lagging behind ("objective 1").

There are four Structural Funds operating under a common set of rules which ensure that EU grants are given as part of long-term development programmes adopted by the local authorities:

- the European Regional Development Fund (ERDF);
- the European Social Fund (ESF);
- the Guidance section of the European Agricultural Guidance and Guarantee Fund (EAGGF);
- the Financial Instrument for Fisheries Guidance (FIFG)

Spending volumes agreed for 2000-2006 should allow the EU to maintain all of its current efforts in favour of economic and social cohesion. This means that Member States' current receipts from the Structural Funds will not be diminished as a result of enlargement, although they may be altered by changes in the policy itself.

The new Structural Funds 2000–2006

	Objective 1	Objective 2	Objective 3
What problem?	Regions lagging behind in development	Regions in structural crisis	Regions needing support for education, training and jobs (All regions except Objective 1)
EU funds available 2000–2006 (in billion €)	135.9	22.50	24.05
% of Structural Funds budget¹	69.7%	11.5%	12.3 %
Which funds?²	ERDF, ESF, EAGGF, FIFG	ERDF, ESF	ESF
% of population covered	22.2%	18%	(not relevant)

The new Structural Funds 2000–2006

¹ The remaining share is dedicated to Community Initiatives

² The EAGGF and FIFG funds also finance certain other types of actions outside objective 1 regions.

Objective 1: Concentrated help for regions which are lagging behind

“Lagging behind” means that regions qualify for special help if their per capita gross domestic product (i.e. the value of total economic output divided by population) is below 75% of the EU average.

There are such regions in 9 EU countries. These regions include the most remote areas of the EU: the French overseas departments, the Azores, Madeira and the Canary Islands — all below the 75% threshold. Objective 1 furthermore include the less populated parts of Finland and Sweden guaranteed special help in the treaties by which these countries joined the Union in 1996.

A special programme was designed under this objective to support the peace process in Northern Ireland. The PEACE programme was extended for 5 years and allocated €500 million of EU funding, €100 million of which will support projects in the Republic of Ireland.

Objective 2: Moving regions out of crisis and into growth and jobs

Crisis is often caused by the fall-out from economic change. Objective 2 regions need help to deal with problems caused by declining

activities. Typically these regions have high unemployment because many people used to work in a particular type of industry which is decreasing considerably. A maximum of 18% of the EU's population is covered by this objective, which should break down into 10% in industrial and service areas, 5% in rural areas, 2% in urban areas and 1% in areas dependent on the fishing industry.

Transitional support

Regions and areas eligible for funding under the 1994-99 arrangements which lose entitlement under the redesigned programme will receive gradually decreasing payments until the end of 2005.

Objective 3: education, training and employment: helping people to adapt and prepare for change

Funding will be available for all areas not covered by Objective 1. Objective 3 will provide a policy frame of reference for all EU measures to promote human resources, i.e. all kind of activities that make citizens more qualified for work. Moreover, it will contribute to the new European Employment Strategy and the respective National Action Plans for Employment, which each EU country has established as part of a joint effort to create employment.

Measures that could be given funding have been broadly defined and include:

- active labour market policies to combat unemployment;
- promoting equal opportunities for all in accessing the labour market;
- helping to improve peoples' employment prospects through lifelong education and training systems;
- measures to anticipate and help adjustment to economic and social change;
- positive action for women to improve their participation in the labour market.

Community Initiatives

These policies attempt to develop common solutions to common problems of regional development. Agenda 2000 reduces Community

Initiatives from 13 to four, covering the following themes:

- transnational, cross-border and inter-regional cooperation designed to stimulate a balanced development across the European territory (INTERREG);
- economic and social conversion of crisis-hit towns and cities (URBAN);
- rural development (LEADER);
- transnational cooperation to identify new means of fighting all forms of discrimination and inequality preventing men and women getting jobs (EQUAL).

These four initiatives are due to receive 5.35% of total Structural Funds during the 2000-2006 period.

Management of the programmes: decentralisation is the principle

Under the new arrangements, there will be a clearer division of responsibilities in the management of the Structural Funds and also a stronger application of the principle of “subsidiarity” — taking decisions as close as possible to the people affected.

Member States will take charge of the management of the programmes and their financing. This means they have to guarantee that EU funds are being efficiently used and controlled and they must also prevent, detect and correct any irregularities.

The Cohesion Fund: continued support

The Cohesion Fund will continue to assist Greece, Ireland, Portugal and Spain, as it has done since 1994 because their per capita Gross National Product (GNP) is less than 90% of the EU average. The purpose of the €18 billion allocated for the seven years is to help them to close the standard of living gap by supporting environmental and transport infrastructure projects. The Cohesion Fund works in addition to the four “Structural Funds”, under slightly different technical arrangements.

In the year 2003 the Commission will check whether all these states are still eligible to support from the Cohesion Fund. If a Member State climbs above the 90% average GNP ceiling and is no longer eligible, the total Fund will be reduced accordingly.

Financial framework 2000-2006:

funds available for reform and enlargement but spending on a tight rein

The agreement that has been reached on the seven-year framework for EU's budget reflects the determination of the Member States, the Commission and the European Parliament to ensure that:

- overall EU spending will be disciplined;
- enlargement can be achieved without raising the existing ceiling on the EU's revenues;
- spending on the main policies — agriculture and regional development — can be made more efficient and better controlled;
- Member States' contributions to the EU budget should be modified to give a better reflection of their ability to pay.

Priorities have been set

Total budget allocations are presented in the table. They show a picture of disciplined financial responsibility for the years 2000-2006:

- agricultural spending peaks in 2002 and then declines;
- structural funding declines by just over 8% but will be much more concentrated on regions genuinely in need;
- an assumption of an enlargement of EU to six new countries as early as 2002 has been made and funds are earmarked for this purpose;
- substantial funds will be available to finance pre-accession preparations in the candidate countries;
- throughout the period foreseen spending does not consume all available revenues — quite a large safety margin has been preserved within the revenue ceiling of 1.27% of gross national product.

Financing the budget

The EU's general budget is financed by revenues known as "own resources" which are drawn from customs duties, agricultural levies and some of the tax revenues collected by Member States. The limit on EU's resources is 1.27% of the combined Gross National Product

of the 15 Member States and was not changed by the 1999 reforms. However, the Heads of state or government brought in three budgetary reforms to achieve a better balance in Member States' contributions to EU's expenditures:

- they reduced the size of Member States' Value Added Tax payments to the budget;
- they increased the amount of border tariffs and levies Member States can hold back from the Union to cover collection costs and fighting fraud;
- they maintained, with some minor changes to avoid windfall benefits, the special compensation paid to the United Kingdom since 1984, while they reduced the burden of financing the British compensation which falls on Germany, the Netherlands, Austria and Sweden.

The Interinstitutional Agreement

In May 1999, the European Parliament, the Council and the Commission reached a new interinstitutional agreement which commits them to respect the spending ceilings. They also pledged to cooperate more effectively and apply discipline in the Union's budgetary procedures.

	2000	2001	2002	2003	2004	2005	2006
Agriculture	40 920	42 800	43 900	43 770	42 760	41 930	41 660
Structural Funds and Cohesion Fund	32 045	31 455	30 865	30 285	29 595	29 595	29 170
Internal policies	5 930	6 040	6 150	6 260	6 370	6 480	6 600
External action	4 550	4 560	4 570	4 580	4 590	4 600	4 610
Administration	4 560	4 600	4 700	4 800	4 900	5 000	5 100
Reserves	900	900	650	400	400	400	400
Pre-accession aid to applicant countries	3 120	3 120	3 120	3 120	3 120	3 120	3 120
Total appropriations for commitments	92 025	93 475	93 955	93 215	91 735	91 125	90 660
Appropriations for payments reserved for possible new Member States after accession	-	-	4 140	6 710	8 890	11 440	14 220
Total ceiling on appropriations for payments	89 600	91 110	98 360	101 590	100 800	101 600	103 840
Ceiling on appropriations for payments as % of GNP of the EU countries	1.13%	1.12%	1.18%	1.19%	1.15%	1.13%	1.13%

Financial perspectives: what the EU will spend 2000-2006

The "Financial perspectives" is a political agreement about the upper ceilings for EU's spending. Each year the annual EU budget is decided within these ceilings by the European Parliament and the Council of Ministers. The figures are million euro expressed in the 1999 price-level, appropriations for commitments. The EU budget operates with separate appropriations for the decision to spend a sum ("commitments") and the later transfer of the sum ("payment"). One euro (€) corresponds to app. Irish £ 0.79 or British £ 0.67.

Enlargement: the "historic priority" is on track

In their conclusions to the summit in Berlin in March 1999, the heads of state or government sought to reassure the candidate countries for membership of the Union that "Enlargement remains a historic priority for the European Union. The accession negotiations will continue each in accordance with its own rhythm and as rapidly as possible."

The EU's commitment is based on the conviction that enlargement is a historic opportunity for creating a stronger, wider, more stable Europe. This will be a great achievement for the 500 million citizens of what would be a 28-member European Union.

The benefits for existing Members will be a more influential European voice in world affairs, a broader, and therefore more effective, cooperation in dealing with challenges such as environmental pollution and organised crime and also opportunities for business to develop new markets and new economies of scale.

The attractions of membership for the applicants from central, eastern and southeastern Europe are democratic and social stability, as well as enhanced prosperity. For many of these countries, joining the Union is almost a homecoming, a return to European political and cultural traditions that were denied them for decades.

Negotiations well under way

Agenda 2000 recommended that accession negotiations should begin with Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia. Negotiations began in March 1998 and are focusing

specifically on the terms under which candidates adopt and enforce the entire body of EU rules and regulations, known as the “*acquis communautaire*”.

Negotiations with these six countries will not necessarily be concluded at the same time. They are conducted individually and the pace of each negotiation will depend on the degree of preparation by each candidate country and the complexity of the issues to be resolved. For this reason, how long each negotiation will last cannot be predicted in advance.

During the entire process, the EU is making every effort to negotiate fairly and objectively, treating all candidates equally.

The way to membership

The Commission's Agenda 2000 proposals from 1997 also included its “opinions” on the candidate countries' applications for membership. Each opinion evaluated a country's readiness for membership, as measured against the objective criteria for membership that the EU laid down already in 1993. Membership requires that a country has a stable democracy that guarantees the rule of law, human rights and protection of minorities, a functioning market economy and that it has a public administration that is able to apply and manage EU rules and regulations. The Commission's approach was forward-looking and assessed progress that could be expected from each candidate country.

The Commission recommended that accession negotiations start with the Czech Republic, Estonia, Hungary, Poland, Slovenia and Cyprus.

On the basis of the Commission's recommendations, the EU summit in Luxembourg in December 1997 launched a process for all countries wishing to join the EU. It encompasses the “European Conference”, a multilateral forum for discussing issues of common interest, and an inclusive accession process, which brings together all the ten central and eastern European candidates, Cyprus as well as Malta, which in 1998 reactivated its earlier application for membership. It is an inclusive process in the sense that all these countries are destined to join the EU on the basis of the same criteria, regardless of whether

or not they have already started negotiations. The accession process is driven by an enhanced pre-accession strategy, designed to prepare all candidate countries for membership.

Full accession negotiations with other candidate countries can begin as soon as their progress towards fulfilling the criteria is satisfactory.

Accession Partnerships — a key element of the accession process

In order for a new member to settle in comfortably, it has to prepare itself thoroughly. This requires more than simply adopting the EU's laws and regulations. Its public administration, its financial markets, its industrial and service economies must all be in a condition not just to survive but to prosper in the new framework.

Accession Partnerships help each candidate to get into shape. Each Partnership is an agreement between the EU and a candidate country, which is tailored for the country's particular needs and brings together in one framework all the various forms of EU financial and other support.

Doubling financial assistance

The Berlin summit more than doubled pre-accession assistance to the candidate countries of central and eastern Europe from the year 2000 onwards, making €3,120 million available every year between 2000 and 2006. These funds are channelled through the Phare Programme, which has been the EU aid programme for these countries since 1990, and two new pre-accession instruments (ISPA, the fund for financing investment in transport and the environment, and SAPARD, the fund for modernising agriculture and rural development).

When the first new Member States join the EU, pre-accession funds that had been allocated to them will be freed for use in the other candidates, so that the same total resources will help a smaller number of countries.

New skills and investments

In Agenda 2000, the European Commission proposed to focus the Phare Programme on preparing the candidate countries for EU mem-

bership by concentrating its support on two priorities that are crucial for the countries to function well within the EU: institution building and investment support.

Institution building means adapting and strengthening democratic institutions, public administration and organisations so that, once adopted, EU legislation or the national equivalent is properly implemented and enforced. This requires development of the necessary structures, human resources and management skills.

Candidate countries also have to make the considerable investment in adapting their enterprises and main infrastructure to respect EU norms and standards in areas such as environment, nuclear safety, transport safety, working conditions and marketing of food products and consumer information.

Twinning

Twinning was launched in May 1998 as a key initiative for helping candidate countries to meet the same standards as Member States in implementing and enforcing EU norms, rules and regulations.

As the word suggests, it involves bringing together administrations and semi-public organisations in a candidate country with a counterpart from an EU Member State to work on a specific project. Usually this will involve developing and implementing a project that ensures the transposition, enforcement and implementation of a specific part of the EU laws. The scheme is not designed to foster general cooperation but to deliver specific results agreed between the parties.

Initially, twinning has been focused on the four priority sectors that have been identified in the Accession Partnerships: agriculture, environment, finance and justice and home affairs. The latter means, for example, to improve the border controls in applicant countries and to combat drug-related and others forms of serious crime.

Other areas may be added to extend, gradually, the twinning process to cover the whole body of EU rules.

Access to EU programmes

All candidate countries from central Europe as well as Cyprus can already participate in the EU programmes that support cooperation

and exchanges across border among citizens and business. These include, for example, the Socrates and Leonardo programmes in the fields of education and vocational training, but can also concern EU programmes for culture, research, energy, the environment and small and medium-sized enterprises. Malta and Turkey are also likely to have this opportunity.

Participation in EU agencies is also in prospect, particularly in the Environment Agency and the Monitoring Centre for Drugs.

Conclusions

The EU confounded its critics and doubters by putting into place all of the key elements of Agenda 2000 by mid-1999. There were many who said that the issues were too complicated, the decision-making procedures too long-winded and the conflicts of interest too great for the Union to meet such a deadline.

The successful launch testifies to the determination of all the institutions - the Council, the Parliament and the Commission - to equip the Union with the policies and the political will to meet the needs of its citizens. In the next few years, their numbers will be greatly expanded by the addition of new Member States whose arrival will bring new problems and new opportunities.

Agenda 2000 anticipates many of these problems. As it moves into another millennium, Europe must now grasp the new opportunities opening up for its future growth and development.

FURTHER READING

« Europa » on the internet : europa.eu.int/comm/agenda2000.

This is the site within the EU institutions' « Europa » server on the internet, which guides you to detailed information related to the Agenda 2000 reforms. European Commission: Agenda 2000. Volume 1: *For a stronger and wider EU*. Volume 2: *The challenge of enlargement*. Luxembourg: Office for Official Publications of the European Communities, 1997. cat. no. CB-CO-97-379-EN-C and CB-CO-97-380-EN-C,. Also published as *Bulletin of the European Union, Supplement 1997/05*, cat. n° CM-NF-97-005-EN-C. The full text of this original document from 1997 is also available on internet via the above-mentioned address.

The European Commission has published various free information publications about subjects dealt with in this brochure; see the catalogue on internet at europa.eu.int/comm/dg10/publications.

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Part 7
Glossary

Glossary

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EU Glossary of Important Terms available online:

<http://www.europa.eu.int/scadplus/leg/en/cig/g4000.htm>

Accession criteria (Copenhagen criteria)

In June 1993, the Copenhagen European Council recognised the right of the countries of central and eastern Europe to join the European Union when they have fulfilled three criteria:

- political: stable institutions guaranteeing democracy, the rule of law, human rights and respect for minorities;
- economic: a functioning market economy;
- incorporation of the Community *acquis*: adherence to the various political, economic and monetary aims of the European Union.

These accession criteria were confirmed in December 1995 by the Madrid European Council, which also stressed the importance of adapting the applicant countries' administrative structures to create the conditions for a gradual, harmonious integration. However, the Union reserves the right to decide when it will be ready to accept new members.

Accession negotiations

The applications of 10 Central and Eastern European countries were given a favourable reception at the Luxembourg European Council (December 1997). The official accession negotiations then proceeded in two phases. On 30 March 1998, negotiations began with six "first wave" countries (Cyprus, the Czech Republic, Estonia, Hungary, Poland, and Slovenia). The "second wave" candidate countries (Bulgaria, Latvia, Lithuania, Malta, Romania and Slovakia) began negotiations in February 2000, when it was felt that their reforms had made rapid enough progress.

Before negotiations opened, an evaluation of each applicant country's legislation was carried out to set up a work programme and define negotiating positions.

The accession negotiations examine the applicants' capacity to fulfil the requirements of a Member State and to apply the body of Community laws (the "*acquis*") at the time of their accession, in particular the measures required to extend the single market, which will have to be implemented immediately. The negotiations also look at the issue of the pre-accession aid the European Union may provide in order to help with the incorporation of the *acquis*. The negotiations can be concluded even if the *acquis* has not been fully transposed, as transitional arrangements can be applied after accession.

The negotiations proper take the form of bilateral Intergovernmental Conferences (European Union/applicant country), bringing the ministers together every six months and the ambassadors every month. The common negotiating positions have been defined by the Commission for each of the chapters relating to matters of Community competence and approved unanimously by the Council. The results of the negotiations are incorporated in a draft accession treaty. This must be approved by the Union and ratified by the Member States and the applicant countries.

At the Copenhagen European Council (12 and 13 December 2002), the Commission concluded the negotiations with 10 applicant countries: the Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia, thus enabling them to join the Union on 1 May 2004. As far as Bulgaria and Romania are concerned, the goal is to conclude negotiations in time for them to join in 2007. The possibility of opening negotiations with Turkey will be examined in December 2004.

Agenda 2000

Agenda 2000 is an action programme adopted by the Commission on 15 July 1997 as an official response to requests by the Madrid European Council in December 1995 that it present a general document on enlargement and the reform of the common policies and a communication on the Union's future financial framework after 31

December 1999. Agenda 2000 tackles all the questions facing the Union at the beginning of the 21st century. Attached to it are the Commission's opinions on the countries that have applied for Union membership.

Agenda 2000 is in three parts:

- the first addresses the question of the European Union's internal operation, particularly the reform of the common agricultural policy and of the policy of economic and social cohesion. It also contains recommendations on how to face the challenge of enlargement in the best possible conditions and proposes putting in place a new financial framework for the period 2000-06;
- the second proposes a reinforced pre-accession strategy, incorporating two new elements: the partnership for accession and extended participation of the applicant countries in Community programmes and the mechanisms for applying the Community *acquis*;
- the third consists of a study on the impact of the effects of enlargement on European Union policies.

These priorities were fleshed out in some twenty legislative proposals put forward by the European Commission in 1998. The Berlin European Council reached an overall political agreement on the legislative package in 1999 with the result that the measures were adopted the same year. They cover four closely linked areas for the period 2000 to 2006:

- reform of the common agricultural policy,
- reform of the structural policy,
- pre-accession instruments,
- financial framework.

Applicant countries

Europe's economic and political stability is a magnet for many European countries, which have the right to apply to become members of the European Union (Article 49).

The countries that have applied are:

- Turkey: application received on 14 April 1987;

- Cyprus: 3 July 1990;
- Malta: 16 July 1990;
- Hungary: 31 March 1994;
- Poland: 5 April 1994;
- Romania: 22 June 1995;
- Slovakia: 27 June 1995;
- Latvia: 13 October 1995;
- Estonia: 24 November 1995;
- Lithuania: 8 December 1995;
- Bulgaria: 14 December 1995;
- Czech Republic: 17 January 1996;
- Slovenia: 10 June 1996.

At the Copenhagen European Council (12 and 13 December 2002), the Commission concluded negotiations with 10 applicant countries - Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia - thus enabling them to join the Union on 1 May 2004. As far as Bulgaria and Romania are concerned, the goal is to enable them to join by 2007. It may be possible to open negotiations with Turkey in December 2004 if it has fulfilled the Copenhagen criteria.

For the record, Switzerland, Liechtenstein and Norway have also all applied for membership of the European Union at various times. However, Norway twice rejected accession following referenda in 1972 and 1994, while the applications by Switzerland and Liechtenstein were shelved after Switzerland decided by a referendum in 1992 not to join the European Economic Area.

Codecision procedure

The codecision procedure (Article 251 of the EC Treaty, formerly Article 189b) was introduced by the Treaty of Maastricht. It gives the European Parliament the power to adopt instruments jointly with the Council. The procedure comprises one, two or three readings. It has the effect of increasing contacts between the Parliament and the Council, the co-legislators, and with the European Commission. In practice, it has strengthened the Parliament's legislative powers in the following fields: the free movement of workers, right of establish-

ment, services, the internal market, education (incentive measures), health (incentive measures), consumer policy, trans-European networks (guidelines), environment (general action programme), culture (incentive measures) and research (framework programme).

The Treaty of Amsterdam has simplified the codecision procedure, making it quicker and more effective and strengthening the role of the Parliament. In addition it has been extended to new areas such as social exclusion, public health and the fight against fraud affecting the European Community's financial interests.

Increasing the democratic nature of Community action requires the Parliament to participate in exercising legislative power. Thus, any legislative instrument adopted by qualified majority is likely to fall within the scope of the codecision procedure. In most cases, therefore, codecision in the Parliament goes hand in hand with qualified majority voting in the Council. For some provisions of the Treaty, however, codecision and unanimity still coexist.

The Treaty of Nice partially puts an end to this situation. The Intergovernmental Conference (IGC) launched in February 2000 called for an extension of the scope of codecision, in parallel with and as a supplement to the extension of qualified majority voting in the Council. Seven provisions for which the IGC planned to apply qualified majority voting are thus also subject to codecision. They are: incentives to combat discrimination, judicial cooperation in civil matters, specific industrial support measures, economic and social cohesion actions (outside the Structural Funds), the statute for European political parties and measures relating to visas, asylum and immigration. On the other hand, the IGC did not extend the codecision procedure to legislative measures already subject to qualified majority voting (such as agricultural or commercial policy). There is therefore no definitive link yet between qualified majority voting and the codecision procedure for all legislative decisions.

Comitology

Under the Treaty establishing the European Community, it is for the Commission to implement legislation at Community level (Article 202 of the EC Treaty, ex-Article 145). In practice, each legislative

instrument specifies the scope of the implementing powers granted to the Commission and how the Commission is to use them. Frequently, the instrument will also make provision for the Commission to be assisted by a committee in accordance with a procedure known as "comitology".

The committees which are forums for discussion, consist of representatives from Member States and are chaired by the Commission. They enable the Commission to establish a dialogue with national administrations before adopting implementing measures. The Commission ensures that they reflect as far as possible the situation in each country in question.

Procedures which govern relations between the Commission and the committees are based on models set out in a Council Decision ("comitology" Decision). The first "comitology" Decision dates back to 13 July 1987. In order to take into account the changes in the Treaty - and, in particular, Parliament's new position under the codecision procedure - but also to reply to criticisms that the Community system is too complex and too opaque, the 1987 Decision has been replaced by the Council Decision of 28 June 1999.

The new Decision ensures that Parliament can keep an eye on the implementation of legislative instruments adopted under the codecision procedure. In cases where legislation comes under this procedure, Parliament can express its disapproval of measures proposed by the Commission or, where appropriate, by the Council, which, in Parliament's opinion, go beyond the implementing powers provided for in the legislation.

The Decision clarifies the criteria to be applied to the choice of committee and simplifies the operational procedures. Committees base their opinions on the draft implementing measures prepared by the Commission. The committees can be divided into the following categories:

- advisory committees: they give their opinions to the Commission which must take the utmost account of them. This straightforward procedure is generally used when the matters under discussion are not very sensitive politically.
- management committees: where the measures adopted by the

Commission are not consistent with the committee's opinion (delivered by qualified majority), the Commission must communicate them to the Council which, acting by a qualified majority, can take a different decision. This procedure is used in particular for measures relating to the management of the common agricultural policy, fisheries, and the main Community programmes.

- regulatory committees: the Commission can only adopt implementing measures if it obtains the approval by qualified majority of the Member States meeting within the committee. In the absence of such support, the proposed measure is referred back to the Council which takes a decision by qualified majority. However, if the Council does not take a decision, the Commission finally adopts the implementing measure provided that the Council does not object by a qualified majority. This procedure is used for measures relating to protection of the health or safety of persons, animals and plants and measures amending non-essential provisions of the basic legislative instruments.

It also provides the criteria which, depending on the matter under discussion, will guide the legislative authority in its choice of committee procedure for the item of legislation; this is meant to facilitate the adoption of the legislation under the codecision procedure.

Lastly, several innovations in the new "comitology" Decision enhance the transparency of the committee system to the benefit of Parliament and the general public: committee documents will be more readily accessible to the citizen (the arrangements are the same as those applying to Commission documents). Committee documents will also be registered in a public register which will be available from 2001 onwards. The ultimate aim is, with the computerisation of decision-making procedures, to publish the full texts of non-confidential documents transmitted to Parliament on the Internet. From 2000 onwards, the Commission will publish an annual report giving a summary of committee activities during the previous year.

Committee of the Regions (CoR)

Created by the Maastricht Treaty in 1992, the Committee of the

Regions consists of 222 representatives of local and regional authorities appointed by the Council for four years on the basis of unanimous proposals from the Member States. It is consulted by the Council, Parliament and the Commission in areas affecting local and regional interests, such as education, youth, culture, health and social and economic cohesion.

It may also issue opinions on its own initiative.

Following the entry into force of the Treaty of Amsterdam (May 1999), the Committee has to be consulted on an even wider range of fields - the environment, the Social Fund, vocational training, cross-border cooperation and transport.

The Treaty of Nice (adopted in December 2000) did not change either the number or the distribution of seats by Member State in the CoR. With a view to enlargement, the Treaty stipulates that, in future, the number of its members may not exceed 350. As regards eligibility for membership, the Treaty provides explicitly that members must hold a regional or local authority electoral mandate or be politically accountable to an elected assembly.

Common agricultural policy (CAP)

The common agricultural policy is a matter reserved exclusively for the Community. Under Article 33 of the EC Treaty (former Article 39), its aims are to ensure reasonable prices for Europe's consumers and fair incomes for farmers, in particular by establishing common agricultural market organisations and by applying the principles of single prices, financial solidarity and Community preference.

The CAP is one of the most important Union policies (agricultural expenditure accounts for some 45% of the Community budget). Policy is decided by qualified majority vote in the Council after consultation of the European Parliament.

At the outset the CAP enabled the Community to become self-sufficient in a very short time. However, it came to be increasingly costly because European prices were too high by comparison with world market prices. A series of reforms in 1992 corrected the situation by cutting guaranteed farm prices, with compensatory premiums for inputs, and by introducing a series of "flanking measures".

With a view to enlargement a new reform package was adopted in 1999 for the period 2000-2006. Under the approach proposed by the Commission in Agenda 2000 in July 1997, it reinforces the changes made in 1992 and puts the emphasis on food safety, environmental objectives and sustainable agriculture. Moreover, it endeavours to increase the competitiveness of Community agricultural products, simplify agricultural legislation and how it is implemented and strengthen the Union's position at the World Trade Organisation negotiations (Millennium Round), and lastly stabilise agriculture expenditure.

In this spirit, changes have already been made in the common organisation of the market in wine, arable crops, beef and veal and milk. The proposed reduction in intervention prices has been offset by an increase in aid to farmers and accompanied by a genuine integrated rural development policy.

Community *acquis*

The Community *acquis* is the body of common rights and obligations which bind all the Member States together within the European Union. It is constantly evolving and comprises:

- the content, principles and political objectives of the Treaties;
- the legislation adopted in application of the treaties and the case law of the Court of Justice;
- the declarations and resolutions adopted by the Union;
- measures relating to the common foreign and security policy;
- measures relating to justice and home affairs;
- international agreements concluded by the Community and those concluded by the Member States between themselves in the field of the Union's activities.

Thus the Community *acquis* comprises not only Community law in the strict sense, but also all acts adopted under the second and third pillars of the European Union and the common objectives laid down in the Treaties. The Union has committed itself to maintaining the Community *acquis* in its entirety and developing it further.

Applicant countries have to accept the Community *acquis* before

they can join the Union. Derogations from the *acquis* are granted only in exceptional circumstances and are limited in scope.

In preparation for the next enlargement, the applicant countries now need to transpose the *acquis* into their national legislation and will have to implement it from the moment of their accession.

Consultation procedure

The consultation procedure enables the European Parliament to give its opinion on a proposal from the Commission. In the cases laid down by the Treaty, the Council must consult the European Parliament before voting on the Commission proposal and take its views into account. However, it is not bound by the Parliament's position but only by the obligation to consult it. The Parliament should be consulted again if the Council deviates too far from the initial proposal. The powers of the Parliament are fairly limited under this procedure, in so far as it can only hope that the Commission takes its amendments into account in an amended proposal.

Apart from the cases laid down by the Treaties, the Council has also undertaken to consult the Parliament on most important questions. This consultation is optional. In addition, this consultation procedure is used for the adoption of non-mandatory instruments, especially recommendations and opinions issued by the Council and the Commission.

The European Convention established by the Laeken declaration of December 2001 has the task of drawing up proposals aimed at simplifying the procedures for adopting various Community acts and is therefore examining the future of consultation.

Convergence criteria

To ensure that the sustainable convergence required for the achievement of economic and monetary union (EMU) comes about, the Treaty sets five convergence criteria which must be met by each Member State before it can take part in the third stage of EMU. The Commission and the European Central Bank (ECB) draw up reports to check whether the criteria are being met. The criteria are:

- the ratio of government deficit to gross domestic product

must not exceed 3%;

- the ratio of government debt to gross domestic product must not exceed 60%;
- there must be a sustainable degree of price stability and an average inflation rate, observed over a period of one year before the examination, which does not exceed by more than one and a half percentage points that of the three best performing Member States in terms of price stability;
- there must be a long-term nominal interest rate which does not exceed by more than two percentage points that of the three best performing Member States in terms of price stability;
- the normal fluctuation margins provided for by the exchange-rate mechanism on the European Monetary system must have been respected without severe tensions for at least the last two years before the examination.

The convergence criteria, then, are meant to ensure that economic development within EMU is balanced and does not give rise to any tensions between the Member States. It must also be remembered that the criteria relating to government deficit and government debt must continue to be met after the start of the third stage of EMU (1 January 1999). A stability pact with this end in view was adopted at the Amsterdam European Council in June 1997.

Cooperation procedure

The cooperation procedure (Article 252 of the EC Treaty, formerly Article 189c) was introduced by the Single European Act. It gave the European Parliament greater influence in the legislative process by allowing it two "readings". Initially, the scope of this procedure was considerably extended by the Treaty of Maastricht; the Treaty of Amsterdam then reversed the trend by encouraging the codecision procedure (Article 251 of the EC Treaty). The cooperation procedure will therefore now apply exclusively to the field of economic and monetary union (Articles 99(5) and 106(2) of the EC Treaty).

The cooperation procedure is always initiated by a proposal from the Commission forwarded to the Council and the European Parliament. In the context of a first reading, Parliament issues an opinion

on the Commission proposal. The Council, acting by a qualified majority, then draws up a common position, which is forwarded to Parliament together with all the necessary information and the reasons which led the Council to adopt this common position.

Parliament examines this common position at second reading, and within three months may adopt, amend or reject the common position. In the latter two cases, it must do so by an absolute majority of its members. If it rejects the proposal, unanimity is required for the Council to act on a second reading.

The Commission then re-examines, within one month, the proposal upon which the Council based its common position and forwards its proposal to the Council; at its discretion it can include or exclude the amendments proposed by Parliament.

Within three months, the Council may adopt the re-examined proposal by qualified majority, amend it unanimously or adopt the amendments not taken into consideration by the Commission, also unanimously.

In the cooperation procedure, the Council may still exercise a veto by refusing to express its opinion on the amendments proposed by the European Parliament or on the amended proposal from the Commission, thereby blocking the legislative procedure.

The European Convention established by the Laeken declaration of December 2001 has the task of drawing up proposals aimed at simplifying the procedures for adopting various Community acts and is therefore examining the future of cooperation.

Council of the European Union

The Council of the European Union (Council, sometimes referred to as the Council of Ministers) is the Union's main decision-making institution. It consists of the ministers of the fifteen Member States responsible for the area of activity on the agenda: foreign affairs, agriculture, industry, transport or whatever. Despite the existence of these different configurations depending on the area of activity, the Council is nonetheless a single institution.

Each Member State in turn holds the chair for six months. Decisions are prepared by the Committee of Permanent Representatives

of the Member States (Coreper), assisted by working parties of national government officials. The Council is assisted by its General Secretariat. Council decisions under the first pillar are adopted on the basis of Commission proposals.

Following entry into force of the Treaty of Amsterdam in May 1999, the Secretary-General also acts as High Representative for the Common Foreign and Security Policy. He is assisted by a Deputy Secretary-General, appointed by unanimous decision of the Council and responsible for running the Council's General Secretariat.

Given the prospect of enlargement, the Treaty of Nice extended the scope of decisions adopted by qualified majority to other areas and to certain other aspects of policies already subject in part to qualified majority voting, such as the common commercial policy.

Court of First Instance of the European Communities (CFI)

The CFI was set up in 1989 to strengthen the protection of individuals' interests by introducing a second tier of judicial authority, allowing the Court of Justice of the European Union to concentrate on its basic task of ensuring the uniform interpretation and application of Community law.

The CFI is currently made up of fifteen judges appointed by common accord of the Governments of the Member States to hold office for a renewable term of six years. It should be noted that in response to a request submitted by the Court of Justice, outside the framework of the Intergovernmental Conference, the Permanent Representatives' Committee agreed to increase the number of judges for the CFI to twenty-one. The arrangements regarding the system of rotation for appointments has still to be decided.

The Treaty of Nice introduced greater flexibility for adapting the CFI's statute, which can henceforth be amended by the Council acting unanimously at the request of the Court or of the Commission. The approval of the rules of procedure of the Court of Justice and of the Court of First Instance will in future be by qualified majority.

To ease the workload of the Court of Justice, the Treaty of Nice also aimed to improve the distribution of responsibilities between the Court and the CFI, making the CFI the ordinary court for all direct

actions (appeals against a decision, failure to act, damages, etc.), with the exception of those assigned to a judicial panel and those reserved for the Court of Justice. The new Treaty also provides for the creation, based on a right of initiative shared between the Court of Justice and the Commission, of judicial panels to examine at first instance certain types of actions in specific matters to relieve the burden on the CFI. Finally, the Nice Treaty provides for the possibility of conferring on the Court of First Instance the right to deliver preliminary rulings in certain specific areas.

Court of Justice of the European Union

The Court of Justice of the European Union is composed of as many judges as there are Member States. At present it has fifteen judges assisted by eight advocates-general appointed for six years by agreement among the Member States.

It may sit in chambers, or in plenary session for cases that are particularly important or complex and at the request of a Member State.

It has two principal functions:

- to check whether instruments of the European institutions and of governments are compatible with the Treaties;
- to pronounce, at the request of a national court, on the interpretation or the validity of provisions contained in Community law.

The Court is assisted by the Court of First Instance of the European Communities (CFI), which was set up in 1989.

The Treaty of Nice put in place a major reform of the Union's court system. As far as the Court of Justice is concerned, the most important points are the following:

- greater flexibility to adapt the statute of the Court of Justice, which can now be amended by the Council, acting unanimously at the request of the Court or the Commission;
- approval of the Court's Rules of Procedure by the Council is now done by qualified majority;
- a new Article 229a of the EC Treaty enables the Court to be awarded jurisdiction in disputes relating to Community industrial property rights, by unanimous decision by the Council and

after ratification by the national parliaments;

- a better division of powers between the CFI and the Court, relieving the latter of some of its workload.

Democratic deficit

The democratic deficit is a concept invoked principally in the argument that the European Union suffers from a lack of democracy and seems inaccessible to the ordinary citizen because its method of operating is so complex. The view is that the Community institutional set-up is dominated by an institution combining legislative and government powers (the Council) and an institution that lacks democratic legitimacy (the Commission - even though its Members are appointed by the Member States and are collectively accountable to Parliament).

As European integration has progressed, the question of democratic legitimacy has become increasingly sensitive. The Maastricht, Amsterdam and Nice Treaties have triggered the inclusion of the principle of democratic legitimacy within the institutional system by reinforcing the powers of Parliament with regard to the appointment and control of the Commission and successively extending the scope of the codecision procedure.

In the meantime, two wider initiatives designed to bring Europe closer to its citizens have been launched.

Following the Nice European Council (7-10 December 2000), a broad public debate on the future of the Union has been started, in which citizens can take part, and a European Convention, convened by the Laeken European Council, has been asked to examine, among other things, the various aspects of democratic legitimacy.

Economic and Monetary Union

Economic and monetary union (EMU) is the name given to the process of harmonising the economic and monetary policies of the Member States of the Union with a view to the introduction of a single currency, the euro. It was the subject of one of the two Intergovernmental Conferences (IGCs) which concluded their deliberations in Maastricht in December 1991.

The Treaty provides that EMU is to be achieved in three stages:

- First stage (1 July 1990 to 31 December 1993): free movement of capital between Member States, closer coordination of economic policies and closer cooperation between central banks;
- Second stage (1 January 1994 to 31 December 1998): convergence of the economic and monetary policies of the Member States (to ensure stability of prices and sound public finances) and the creation of the European Monetary Institute (EMI) and, in 1998, of the European Central Bank (ECB);
- Third stage (from 1 January 1999): irrevocable fixing of exchange rates and introduction of the single currency on the foreign-exchange markets and for electronic payments, followed by the introduction of euro notes and coins from 1 January 2002.

The third stage of EMU was launched in eleven Member States, which were joined two years later by Greece. Three Member States have not adopted the single currency: the United Kingdom and Denmark, both of which benefit from an opt-out clause, and Sweden, which does not at present meet all of the criteria regarding the independence of its central bank.

On 1 January 2002 euro notes and coins were introduced in the Member States, gradually replacing the national currencies ("legacy" currencies). On 28 February 2002 the transitional stage of dual circulation of the legacy currencies and the euro came to an end. The euro is now the sole currency for more than 300 million Europeans. The challenges facing the long-term success of EMU are continued budgetary consolidation and closer coordination of Member States' economic policies.

European Central Bank (ECB)

The European Central Bank was inaugurated on 30 June 1998. On 1 January 1999 it took over responsibility for implementing European monetary policy as defined by the European System of Central Banks (ESCB). As to the practicalities, the ECB's decision-making bodies (the Governing Council and the Executive Board) run the European System of Central Banks, whose tasks are to manage the volume of money in circulation, conduct foreign-exchange operations, hold and

manage the Member States' official foreign-exchange reserves, and promote the smooth operation of payment systems. The ECB took over from the European Monetary Institute (EMI).

The Treaty of Nice, adopted in December 2000, did not change the composition of the ECB Governing Council (comprising the members of the Executive Board and the governors of the national central banks) but allows for changes to the rules on decision-making (decisions are generally adopted by simple majority of the members, each having one vote). Any such change requires a unanimous European Council decision that must be ratified by the Member States.

European Commission

The European Commission is a body with powers of initiative, implementation, management and control. It is the guardian of the Treaties and the embodiment of the interests of the Community. It is composed of twenty independent members (two each from France, Germany, Italy, Spain and the United Kingdom and one each from all the other countries), including a President and two Vice-Presidents. It is appointed for a five-year term by the Council, acting by qualified majority in agreement with the Member States. It is subject to a vote of appointment by the European Parliament, to which it is answerable. The Commissioners are assisted by an administration made up of directorates-general and specialised departments whose staff are divided mainly between Brussels and Luxembourg.

The new Commission, which took office on 23 January 2000 for a five-year term, has launched wide-ranging reforms in the institution with a view to modernising its working methods and procedures and ensuring a truly collegiate decision-making process, while delegating more in specific areas (e.g. regional policy, common agricultural policy, internal market). The importance attached by the Commission to reform is reflected in the White Paper adopted on 1 March 2000. This reform has three main strands:

- setting of priorities and allocation of resources;
- overhaul of human resources policy;
- improvement in financial management, effectiveness and empowerment.

European Convention

At the Nice European Council in December 2000, a declaration on the future of the Union, the Nice Declaration, was adopted. The aim of this Declaration was to pursue institutional reform beyond the results of the 2000 Intergovernmental Conference (IGC 2000). It set out three steps for this reform: the launch of a debate on the future of the European Union, a Convention on institutional reform, the implementation of which was agreed by the Laeken European Council in December 2001, and finally the convening of an IGC in 2004.

According to the Laeken Declaration, which created it, the aim of this Convention is to examine four key questions on the future of the Union: the division of powers, the simplification of the treaties, the role of the national parliaments and the status of the Charter of Fundamental Rights.

The inaugural meeting of the Convention was held on 28 February 2002, and, according to the Laeken Declaration, its work will finish in March 2003.

Three phases are envisaged: a listening phase, a deliberating phase and a proposing phase. At the end of the last phase, a single constitutional text will be drafted. It may include various options, stating the support which each has received, or recommendations if a consensus has been reached. This document will serve as the starting point for the IGC negotiations conducted by the Heads of State and Government, who are ultimately responsible for any decision on amendments to the treaties. The plan is for this constitutional draft to be presented at the latest in June 2003 at the Thessaloniki European Council.

The Convention is an innovation in as far as previous IGCs have never been preceded by a phase of debate open to all stakeholders. In addition to the members of the Convention, civil society organisations can also contribute to the debate via an interactive forum, the Forum on the Future of the Union.

European Council

The European Council is the term used to describe the regular meetings of the Heads of State or Government of the European Union

Member States. It was set up by the communiqué issued at the close of the December 1974 Paris Summit and first met in 1975 (in Dublin, on 10 and 11 March). Before that time, from 1961 to 1974, the practice had been to hold European summit conferences. Its existence was given legal recognition by the Single European Act, while official status was conferred on it by the Treaty on European Union. It meets at least twice a year and the President of the European Commission attends as a full member. Its objectives are to give the European Union the impetus it needs in order to develop further and to define general policy guidelines.

European Court of Auditors

The European Court of Auditors, based in Luxembourg, is composed of fifteen members appointed for six years by unanimous decision of the Council of the European Union after consulting the European Parliament. It checks European Union revenue and expenditure for legality and regularity and ensures that financial management is sound. It was set up in 1977 and raised to full institution status by the 1992 Treaty on European Union.

Under the Treaty of Amsterdam (adopted in June 1997), the Court of Auditors also has the power to report any irregularities to the European Parliament and the Council, and its audit responsibilities have been extended to Community funds managed by outside bodies and by the European Investment Bank.

The Treaty of Nice (adopted in December 2000) specifies in detail the composition of the Court of Auditors, which must include a national from each Member State. Also under the Treaty of Nice, the Court of Auditors is able to establish internal chambers to adopt certain categories of report or opinion.

European Economic and Social Committee (EESC)

The European Economic and Social Committee was set up by the Treaty establishing the European Economic Community in 1957 to represent the interests of the various economic and social groups. It consists of 222 members falling into three categories: employers, workers and representatives of particular types of activity (such as

farmers, craftsmen, small businesses and industry, the professions, consumer representatives, scientists and teachers, cooperatives, families, environmental movements). Members are appointed by unanimous Council decision for four years and this term may be renewed.

The EESC is consulted before a great many instruments concerning the internal market, education, consumer protection, environment, regional development and social affairs are adopted. It may also issue opinions on its own initiative. Since the entry into force of the Treaty of Amsterdam (May 1999), the EESC has to be consulted on an even wider range of issues (the new employment policy, the new social affairs legislation, public health and equal opportunities) and it may also be consulted by the European Parliament.

The Treaty of Nice, adopted in December 2000, did not change the number and distribution by Member State of seats on the Committee. However, eligibility for membership was clarified: the EESC is to consist of "representatives of the various economic and social components of organised civil society" (Article 257 of the EC Treaty).

European Investment Bank (EIB)

Set up by the Treaty of Rome, the European Investment Bank is the Community's financial institution. Its task is to contribute to the balanced development of the Community by way of economic integration and social cohesion.

The EIB's shareholders are the Member States of the European Union. The bank is administered by the Board of Governors, which comprises the fifteen finance ministers. It has legal personality and is financially independent. It provides long-term financing for practical projects the economic, technical, environmental and financial viability of which is guaranteed. It grants loans essentially from resources borrowed on capital markets, to which is added shareholders' equity. Between 1994 and 1999 the transport, telecommunications, energy, water, education and training sectors were the main beneficiaries.

In March 2000 the conclusions of the Lisbon European Council called for a strengthening of support for small and medium-sized enterprises (SMEs). The "EIB Group", which comprises the EIB and the European Investment Fund (EIF), was thus created with a view to

boosting European competitiveness. Via the Innovation 2000 initiative, it fosters entrepreneurship, innovation and the optimal utilisation of human resources by granting medium-term loans and bank guarantees and by financing venture capital activities.

Outside the European Union the EIB supports the pre-accession strategies of the Central and Eastern European countries and manages the financial dimension of the agreements concluded under European development aid and cooperation policies.

European Parliament

The European Parliament is the assembly of the representatives of the 370 million Union citizens. Since 1979 they have been elected by direct universal suffrage and today total 626, distributed between Member States by reference to their population. The European Parliament's main functions are as follows:

- it considers the Commission's proposals and is associated with the Council in the legislative process, in some cases as co-legislator, by means of various procedures (codecision procedure, cooperation procedure, assent, advisory opinion etc.);
- it has the power of control over the Union's activities through its confirmation of the appointment of the Commission (and the right to censure it) and through the written and oral questions it can put to the Commission and the Council;
- it shares budgetary powers with the Council in voting on the annual budget, rendering it enforceable through the President of Parliament's signature, and overseeing its implementation.

It also appoints an Ombudsman empowered to receive complaints from Union citizens concerning maladministration in the activities of the Community institutions or bodies. Finally, it can set up temporary committees of inquiry, whose powers are not confined to examining the actions of the Community institutions but may also relate to actions by Member States in implementing Community policies.

The Treaty of Amsterdam simplified the various legislative procedures by virtually doing away with the cooperation procedure (it still applies in a few cases coming under the Title on economic and monetary union) and considerably extending the codecision procedure.

The Treaty of Nice, which entered into force on 1 February 2003, also enhanced Parliament's role as co-legislator by extending the co-decision procedure and granted Parliament a right to bring actions before the Court of Justice of the European Union, under the same conditions as the other institutions.

Looking ahead to the enlargement of the Union, the Treaty of Nice has also limited the number of MEPs to a maximum of 732, with effect from the next elections in June 2004 (the current limit, set by the Amsterdam Treaty, is 700). It also reallocated seats between Member States (which lose 91 seats) and candidate countries, reaching a compromise between the actual demographic situation and equality between Member States by respecting the principle of "appropriate representation of the peoples".

Intergovernmental Conference (IGC)

This term is used to describe negotiations between the Member States' governments with a view to amending the Treaties. Intergovernmental conferences play a major part in European integration, since institutional changes must always be the outcome of such negotiations.

These conferences are convened, at the initiative of a Member State or the Commission, by the Council of Ministers acting by a simple majority (after consulting the European Parliament and, if appropriate, the Commission).

The preparatory work is entrusted to a group consisting of a representative of each of the Member States' governments and, as a matter of custom, a representative of the Commission. The European Parliament is closely involved throughout by means of observers and discussions with the President of the Parliament. This group regularly reports to the General Affairs Council. The final decisions are taken by the heads of state and government at a European Council.

The most important IGCs in recent years have resulted in the following treaties:

- The Single European Act (1986): this introduced the changes needed to complete the internal market on 1 January 1993.

- The Treaty of Maastricht (1992): the Treaty on European Union was negotiated at two separate IGCs, one on economic and monetary union (EMU) and the other on political union, instituting the common foreign and security policy (CFSP) and cooperation on justice and home affairs (JHA).
- The Treaty of Amsterdam (1997): this is the result of the IGC launched at the Turin European Council in March 1996. The task of the Conference was to revise those provisions of the Maastricht Treaty which gave rise to problems of implementation and to prepare for future enlargement.

Since the Treaty of Amsterdam did not introduce all the institutional reforms needed to ensure that the institutions would function efficiently after enlargement, the Cologne European Council (3-4 June 1999) decided that a new IGC should convene in 2000 to address the issues not resolved in the Treaty of Amsterdam.

These were:

- the size and composition of the Commission;
- the weighting of votes in the Council;
- the possible extension of qualified majority voting in the Council.

The Santa Maria de Feira European Council in June 2000 extended the remit of the IGC to include "closer cooperation".

The new IGC was launched on 15 February 2000 after formal consultation of the Commission and the European Parliament.

It was concluded at the Nice European Council (7-10 December 2000) and gave rise to the treaty of the same name signed on 26 February 2001.

A declaration on the future of the Union annexed to the Treaty of Nice refers to a new IGC, to be held in 2004 following a broad public debate and preparation by a Convention on institutional reform. The Convention was established by the Laeken European Council in December 2001 and is to report on its work in June 2003, as a starting point for the IGC negotiations.

Laeken Declaration

One year after the Treaty of Nice and the Nice Declaration, which

calls for institutional reform to be pursued beyond the 2000 Intergovernmental Conference (IGC 2000), the European Council, meeting in Laeken, adopted a Declaration on the Future of the European Union, or Laeken Declaration, on 15 December 2001, committing the Union to becoming more democratic, transparent and effective.

This Declaration poses 60 targeted questions on the future of the Union, around four main themes: the division and definition of powers, the simplification of the treaties, the institutional set-up and moving towards a Constitution for European citizens. It convened a Convention, gathering together the main stakeholders, in order to examine the fundamental questions raised by the future development of the Union so as to prepare in as broad and transparent a way as possible for the next IGC.

Luxembourg compromise

The Luxembourg compromise, reached in January 1966, brought to an end the so-called "empty chair" crisis, France having refused to take its seat in the Council since July 1965. The compromise was an acknowledgement of the disagreement existing between those who, when a major national interest was at stake, wanted the members of the Council to do their best within a reasonable space of time to find solutions which all sides could adopt without encroaching on their mutual interests, and France, which was in favour of keeping discussions going until unanimous agreement was reached. Subsequently other Member States were to side with the French point of view.

The compromise has not prevented the Council from taking decisions in accordance with the EC Treaty, which provides in many cases for voting by qualified majority. Nor has it hindered the members of the Council from making further efforts to bring points of view closer together before the Council takes a decision.

Monetary policy

Monetary policy is covered by Articles 105 to 111 (former Articles 105 to 109) of the EC Treaty. It is fundamental to economic and monetary union (EMU). Decision-making procedures vary according to the topics in hand:

- for the issue of coins by the Member States (Art. 106(2)), the cooperation procedure applies, after consultation of the European Central Bank (ECB);
- for the formulation of exchange-rate policy guidelines (Art. 111(2)), the Council decides by a qualified majority on a recommendation from the ECB or from the Commission after consulting the ECB;
- for the implementing measures referred to in the Statute of the European System of Central Banks (ESCB) (Art. 107(6)) and the limits and conditions under which the ECB is entitled to impose fines (Art. 109(3)), the Council decides by a qualified majority on a recommendation from the ECB and after consulting the European Parliament and the Commission;
- for technical adjustments to the Statute of the ESCB (Art. 107(5)), the Council decides by a qualified majority on a recommendation from the ECB and after consulting the Commission and obtaining the assent of the European Parliament;
- for the exchange rate of the Euro against non-Community currencies (Art. 111(1)), the Council decides unanimously on a recommendation from the ECB or the Commission, after consulting the European Parliament.

The institutional provisions (Articles 112-115) and transitional provisions (Articles 116-124) of Title VII of the EC Treaty (economic and monetary policy - former Title VI) have their own special decision-making procedures which are separate from those identified here.

Ombudsman

The European Ombudsman is appointed by the European Parliament after each election for the duration of Parliament's term of office. He is empowered to receive complaints from any citizen of the Union or any natural or legal person residing in a Member State concerning instances of maladministration in the activities of the Community institutions or bodies (with the exception of the Court of Justice and the Court of First Instance).

Where the Ombudsman establishes an instance of maladministra-

tion he refers the matter to the institution concerned, conducts an investigation, seeks a solution to redress the problem and, if necessary, submits draft recommendations to which the institution is required to reply in the form of a detailed report within three months.

He submits a report to the European Parliament at the end of each annual session.

Programme of Community aid to the countries of Central and Eastern Europe (Phare)

The Phare programme was launched in 1989 following the collapse of the communist regimes in Central and Eastern Europe. It was intended to help these countries rebuild their economies. Originally, it concerned only Poland and Hungary but it has gradually been extended to cover ten Central and Eastern European countries today (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia).

At the same time, Phare is the main financial instrument for the pre-accession strategy for the ten Central and Eastern European Countries (CEECs) which have applied for membership of the European Union. Since 1994, Phare's tasks have been adapted to the priorities and needs of each CEEC.

The revamped Phare programme with a budget of over EUR 10 billion for the period 2000-2006 now has two specific priorities, namely:

- institution building;
- investment financing.

Following the proposals put forward by the Commission in its Agenda 2000 communication in July 1997, new forms of pre-accession aid have been added to that already provided by Phare. These are:

- structural measures to bring the level of environmental protection and of transport infrastructure development in the applicant countries closer to that of the European Union (ISPA);
- aid to agriculture (SAPARD). Phare's budget for 2002 was EUR 1.664 billion.

Qualified majority

A qualified majority is the number of votes required in the Council for a decision to be adopted when issues are being debated on the basis of Article 205(2) of the EC Treaty (former Article 148(2)). Until 1 November 2004, the date of the entry into force of the provisions in the Nice Treaty on Council decision-making, the threshold for the qualified majority is set at 62 votes out of 87 (71%), and Member States' votes are weighted on the basis of their population and corrected in favour of less-populated countries as follows: France, Germany, Italy and United Kingdom 10 votes each; Spain 8 votes; Belgium, Greece, the Netherlands and Portugal 5 votes each; Austria and Sweden 4 votes each; Denmark, Ireland and Finland 3 votes each; Luxembourg 2 votes.

Following the 2000 IGC and the Nice Treaty, the number of votes allocated to each Member State has been reweighted, in particular for those States with larger populations, so that the legitimacy of the Council's decisions can be safeguarded in terms of their demographic representativeness.

The Nice Treaty also amended the qualified majority decision-making system. A qualified majority is deemed to have been reached when two conditions are fulfilled: the decision receives a set number of votes (which will change as new countries join) and is agreed by a majority of Member States. Moreover, a Member State may request that it be verified that the qualified majority represents at least 62% of the total population of the Union. If this is not the case, the decision is not adopted.

As the various institutional reforms have taken effect, qualified majority voting has replaced unanimous voting, which is less effective for developing an operational Community policy (veto risk).

The results of the last IGC are in line with this, as 27 new provisions are passing in whole or in part from unanimity to a qualified majority, including areas such as judicial cooperation in civil matters, commercial contracts on services or intellectual property, cohesion policy (from 2007 onwards), industrial policy, measures to facilitate the free movement of citizens, economic, financial and technical cooperation with third countries, and the appointment of members of

certain institutions. The move to qualified majority voting was not accepted for social and tax policy.

Moreover, most of the legislative measures that, under the Nice Treaty, require a qualified majority will be decided by the codecision procedure. However, the IGC did not extend the codecision procedure to legislative measures that already today come under the qualified majority system (such as agriculture or commercial policy). The link between a qualified majority and the codecision procedure does therefore not necessarily exist for all legislative decisions.

Schengen (Agreement and Convention)

By the Agreement signed at Schengen on 14 June 1985, Belgium, France, Germany, Luxembourg and the Netherlands agreed that they would gradually remove their common frontier controls and introduce freedom of movement for all individuals who were nationals of the signatory Member States, other Member States or third countries.

The Schengen Convention was signed by the same five States on 19 June 1990 but did not enter into force until 1995. It lays down the arrangements and guarantees for implementing freedom of movement.

The Agreement and the Convention, the rules adopted on that basis and the related agreements together form the "Schengen *acquis*".

A protocol to the Treaty of Amsterdam governs the incorporation of the Schengen *acquis* into the Treaties. In order to provide a legal basis, incorporation entailed dividing the Schengen *acquis* under the first pillar (new Title IV - Visas, asylum, immigration and other policies related to the free movement of persons) of the Treaty establishing the European Communities or the third pillar (Title VI - Provisions on police and judicial cooperation in criminal matters) of the Treaty on European Union. The legal incorporation of Schengen into the Union was accompanied by integration of the institutions. The Council took over the Schengen Executive Committee and the Council's General Secretariat took over the Schengen Secretariat.

The protocol annexed to the Treaty of Amsterdam states that the Schengen *acquis* and the rules adopted by the institutions on the

basis of that *acquis* must be adopted in their entirety by all applicant countries.

Schengen has gradually expanded: Italy signed up in 1990, Spain and Portugal in 1991, Greece in 1992, Austria in 1995 and Denmark, Finland and Sweden in 1996. Iceland and Norway are also parties to the Convention.

Ireland and the United Kingdom are not parties to the agreements, but, under the protocol to the Treaty of Amsterdam, they may take part in some or all of the provisions of this *acquis* if the 13 Member States which are parties to the agreements and the representative of the government of the country concerned vote unanimously in favour within the Council. In March 1999 the United Kingdom therefore asked to take part in certain fields of Schengen-based cooperation, including police and judicial cooperation in criminal matters, the fight against drugs and the Schengen Information System (SIS). The Council adopted the decision approving the request in May 2000. In June 2000 and November 2001 Ireland asked to take part in certain fields of Schengen activity, including all the provisions on the implementation and working of the SIS. The Council adopted the decision approving Ireland's request in February 2002.

Moreover, although already a signatory to the Schengen Convention, Denmark may choose in the context of the European Union whether to apply any new decision taken on the basis of the Schengen *acquis*.

Stability and Growth Pact

The Stability and Growth Pact has to be seen against the background of the third stage of economic and monetary union, which began on 1 January 1999. Its aim is to ensure that the Member States continue their budgetary discipline efforts once the single currency has been introduced.

In practical terms the Pact comprises a European Council resolution (adopted at Amsterdam on 17 June 1997) and two Council Regulations of 7 July 1997 laying detailed technical arrangements (one on the surveillance of budgetary positions and coordination of economic policies and the other on implementing the excessive deficit procedure).

In the medium term the Member States have undertaken to pursue the objective of a balanced or nearly balanced budget and to present the Council and the Commission with a stability programme by 1 March 1999 (the programme will then be updated annually). Along the same lines, States not taking part in the third stage of EMU are required to submit a convergence programme.

The Stability and Growth Pact opens the way for the Council to penalise any participating Member State which fails to take appropriate measures to end an excessive deficit. Initially, the penalty would take the form of a non-interest-bearing deposit with the Community, but it could be converted into a fine if the excessive deficit is not corrected within two years.

Structural Funds and Cohesion Fund

The Structural Funds and the Cohesion Fund are part of the Community's structural policy, which is intended to narrow the gaps in development among the regions and Member States of the European Union. The Funds participate fully, therefore, in pursuing the goal of economic and social cohesion.

The budget allocated to the Community's regional policy for the period 2000-06 is EUR 213 billion, comprising EUR 195 billion for the Structural Funds and EUR 18 billion for the Cohesion Fund. It represents 35% of the Community budget, and is therefore the second-largest budget item.

There are four Structural Funds:

- The European Regional Development Fund (ERDF), set up in 1975, is the largest of these. It provides support for the creation of infrastructure, productive job-creating investment, mainly for businesses, and local development projects.
- The European Social Fund (ESF), set up in 1958, contributes to the integration into working life of the unemployed and disadvantaged sections of the population, mainly by funding training measures.
- The European Agricultural Guidance and Guarantee Fund (EAGGF), also set up in 1958 as a financing tool for the common agricultural policy, has two sections: a "Guidance" section

providing support for rural development and aid for farmers established in areas lagging behind in their development and a "Guarantee" section financing common market organisations along with rural development measures in other parts of the Community;

- The Financial Instrument for Fisheries Guidance (FIFG) was created in 1993. It seeks to adjust and modernise equipment and material in the sector and to diversify the economies of areas dependent on fishing.

In order to improve the effectiveness of Community action during the period 2000-06, the Commission communication "Agenda 2000" proposed an extensive reform of the structural policy whose financial implications were established at the Berlin Council meeting in 1999. This reform increased the concentration of assistance and simplified the procedures for its allocation and management by reducing the number of priority objectives to three:

- Objective 1 contributes to the development and structural adjustment of the regions whose development is lagging behind and which have a per capita GNP of less than 75% of the Community average;
- Objective 2 supports the economic and social conversion of areas with structural difficulties such as those undergoing economic change, declining rural areas and areas dependent on fishing, problem urban areas, and geographical areas with serious natural or demographic handicaps;
- Objective 3 supports the adjustment and modernisation of policies and systems of education, training and employment for regions outside the regions eligible for Objective 1.

In the same period, there are also four Community initiatives designed to try out new forms of development to deal with specific difficulties. They will receive 5.35% of the allocation for the Structural Funds:

- Interreg III has the goal of stimulating cross-border, transnational and inter-regional cooperation;
- Leader + seeks to promote the socio-economic development of rural areas;

- Equal provides for the development of new practices to fight against discrimination and inequalities of every kind in access to the labour market;
- Urban II encourages economic and social regeneration of depressed cities and suburbs.

A Cohesion Fund was set up in 1993 to further strengthen the structural policy. It is intended for countries with a per capita GNP of less than 90% of the Community average, that is to say, Greece, Spain, Ireland and Portugal. The purpose of the Cohesion Fund is to grant financing to environment and transport infrastructure projects.

Subsidiarity

The subsidiarity principle is intended to ensure that decisions are taken as closely as possible to the citizen and that constant checks are made as to whether action at Community level is justified in the light of the possibilities available at national, regional or local level. Specifically, it is the principle whereby the Union does not take action (except in the areas which fall within its exclusive competence) unless it is more effective than action taken at national, regional or local level. It is closely bound up with the principles of proportionality and necessity, which require that any action by the Union should not go beyond what is necessary to achieve the objectives of the Treaty.

The Edinburgh European Council of December 1992 defined the basic principles underlying subsidiarity and laid down guidelines for interpreting Article 5 (former Article 3b), which enshrines subsidiarity in the EU Treaty. Its conclusions were set out in a declaration that still serves as the cornerstone of the subsidiarity principle.

The Treaty of Amsterdam has taken up the overall approach that follows from this declaration in a Protocol on the application of the principles of subsidiarity and proportionality annexed to the EC Treaty. Two of the things this Protocol introduces are the systematic analysis of the impact of legislative proposals on the principle of subsidiarity and the use, where possible, of less binding Community measures.

Each year the European Commission produces a report ("Better law-

making") for the European Council and the European Parliament, which is devoted mainly to the application of the subsidiarity principle.

The Convention on institutional reform established by the Laeken Declaration in December 2001 is preparing, through its Working Group on "Subsidiarity", proposals with a view to taking more account of this principle without detracting from the aim of legislative simplification. It is suggesting the setting up of a political monitoring system (via an early warning system for national parliaments allowing them to deliver a reasoned opinion on a Commission proposal) or a judicial control system (creation of a subsidiarity chamber within the Court of Justice in order to strengthen ex post monitoring). The possibility of abolishing the Protocol on subsidiarity and replacing it by a number of articles in the new treaty has also been raised.

Suspension clause

The suspension clause was written into the EU Treaty (Article 7) by the Treaty of Amsterdam. Under this clause, some of a Member State's rights (e.g. its voting rights in the Council) may be suspended if it seriously and persistently breaches the principles on which the Union is founded (liberty, democracy, respect for human rights and fundamental freedoms, and the rule of law). But its obligations would still be binding.

The Treaty of Nice added a preventive mechanism to this procedure. On a proposal by one-third of the Member States, by the Commission or by the European Parliament, the Council, acting by a majority of four-fifths of its members after obtaining the assent of the European Parliament, may determine that there is a clear risk of a serious breach of these fundamental principles by a Member State, and address appropriate recommendations to it.

Treaty of Amsterdam

The Treaty of Amsterdam is the result of the Intergovernmental Conference launched at the Turin European Council on 29 March 1996. It was adopted at the Amsterdam European Council on 16 and 17 June 1997 and signed on 2 October 1997 by the Foreign Ministers

of the fifteen Member States. It entered into force on 1 May 1999 (the first day of the second month following ratification by the last Member State) after ratification by all the Member States in accordance with their respective constitutional requirements.

From the legal point of view, the Treaty amends certain provisions of the EU Treaty, the Treaties establishing the European Communities and certain related acts. It does not replace the other Treaties; rather, it stands alongside them.

Treaty of Nice

Adopted in December 2000, at the conclusion of the Nice European Council, and signed on 26 February 2001, the Treaty of Nice concluded the Intergovernmental Conference (IGC) that began in February 2000, the objective of which was to gear the working of the European institutions to the arrival of new Member States.

It opened the way to the institutional reform needed for the forthcoming EU enlargement with the accession of candidate countries from eastern and southern Europe.

The main changes it brings relate to limiting the size and composition of the Commission, extending qualified majority voting, a new weighting of votes within the Council and making the strengthened cooperation arrangements more flexible. In addition to discussions on these four key issues, other institutional questions were tackled: simplification of the treaties, the definition of powers, the integration of the Charter of Fundamental Rights and the role of the national parliaments. The Declaration on the Future of the Union, annexed to the Treaty, set out the next steps to be taken to deepen the institutional reforms and to make sure that the Treaty of Nice is just one stage in this process.

The Treaty of Nice has been ratified by all the Member States, in accordance with their respective constitutional rules, and came into force on 1 February 2003.