

SECOND DRAFT PES DISCUSSION DOCUMENT ON

THE ENLARGEMENT OF THE EUROPEAN UNION

This second draft will be discussed at the meeting of the IGC working party on the Intergovernmental Conference and Enlargement to be held on November 7 and 8 in Brussels

This text does not bind the PES nor any of its member parties.

Brussels October 1996
PES RAPPORTEUR Jan Marinus WIER SMA

-second draft-

DISCUSSION PAPER ON THE ENLARGEMENT OF THE EU

PES Working Party IGC and Enlargement
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INTRODUCTION

1.1. This document must be considered as the start of a more comprehensive debate within the PES about the future enlargement of the EU. We have to use the debate to make clear what the enlargement project is about and to show what consequences it will have. This paper deals briefly with already existing policies but concentrates on the questions in the main policy areas. It does not dwell extensively upon the principle of enlargement because this seems to be an accepted political goal confirmed by the European Council on several occasions.

The PES supports enlargement. The EU is not an exclusive organisation. It is an instrument for all those European countries that are willing and able to accept the obligations of membership. Enlargement will increase the (economic) scope of the Union. It will foster democracy and stability in Central and Eastern Europe, the Baltic and Mediterranean regions.

The EU has an historic opportunity to take in countries that belonged to the Communist bloc thereby ending the unnatural division of Europe. The EU has a moral obligation to offer to the citizens of those countries the same benefits that it gives to its own people.

1.2. The PES wants enlargement to be a success. Therefore we want an intensive debate about ways to make it possible. The PES will have to come forward with answers to the basic political questions regarding enlargement. These go beyond just budgetary matters. The EU will have to be more precise about what is expected of the EU itself and of the accession countries. And it is important to already start involving applicant countries in the activities of the Union.

1.3. There still are many uncertainties surrounding enlargement. These touch upon the timetables, the political conditions, the financial arrangements etc. Nobody knows exactly what Europe will look like in 2005. We should engage in the process and be open to evolution. We will need to think in terms of scenarios to be able to deal with the many variables. Enlargement will be a dynamic process. In fact what we are discussing is the future shape of the European Union. Enlarging the Union is changing the Union. Our ambitions for the Union can not be isolated from the enlargement question.

Socialists and social democrats carry a special responsibility. Enlargement has already been accepted as a fact. We risk enlargement taking place without the conditions we consider

necessary, and which are elaborated in this paper, having been put into place. Without sufficient preparation enlargement might lead to a multi-speed Union that is intergovernmental in character and is no more than a free-trade area. That is not our Europe. If we do not make the necessary changes now, it may not be possible later.

1.4. We will invite our sister parties from the applicant countries to participate in our debates. Their views are as important as ours. We want to be informed about attitudes in the applicant countries. The PES observer parties from the applicant countries have been invited to participate in the PES IGC working group.

1.5. The European Parliament has already produced a first general document on enlargement (the Oostlander report). The Parliamentary Group of the PES attaches great importance to the issue. It is important to cooperate closely with our parliamentary group.

1.6. In addition to the internal discussion, the discussion with the citizens of the Union and of the applicant countries is of utmost importance. Enlargement will affect them all. At the moment neither enthusiasm for or knowledge about enlargement is very high in the Member States of the Union. Therefore, as soon as we have agreed upon a common strategy (and even before then) we should start a dialogue with our voters and explain our common social democratic strategy. Support by the people is a precondition for successful enlargement of the Union.

1.7. The citizens of the EU support the principles underlying enlargement. But they also have a right to know what the (practical) consequences of enlargement will be. Therefore we should try to base our strategy on facts and be clear and straightforward about the consequences. On the other hand we should be careful not to restrict our discussion to "how much money" and "what is in it for us". Social democratic values like solidarity (with those in less fortunate situations), stability (peace in Europe), welfare (for all citizens) and democracy (as the political system in which human rights are guaranteed) should continue to be of importance.

1.8. We should not neglect the problems that will arise from enlargement. We should however try to find solutions for these problems, instead of using them as an excuse to postpone enlargement for an unknown period of time!

BACKGROUND

2.1. At the Council meeting in Copenhagen (June 1993) the governments of the Member States officially declared that those countries in Central and Eastern Europe and the Baltic States with which the Union has Association Agreements could, in principle, become part of the Union if they wished to do so and if they fulfilled the necessary criteria. More than a year later, at the Essen Council (December 1994), a strategy for enlargement was adopted. The Member States agreed that changes be made in the field of EU policies concerning infrastructure, Trans European Networks, environment, foreign and security policy, justice and home affairs, culture, education, and regional co-operation to enable enlargement to take place as soon as possible.

2.2. The Essen Council asked the Commission to draft a White Paper which would set out the necessary criteria for the integration of these countries into the internal market before they became members of the Union. In the White Paper the PHARE programme (the main funding programme of the Union for Central and Eastern Europe) was mentioned as an important instrument to give technical assistance and infrastructure support to the future Member States on their road towards integration. The social democrats and democratic socialists of the EU, either in opposition or in government, supported these policies.

2.3. It is important to note that the Council also decided that negotiations with Cyprus and Malta will start six months after the conclusion of the IGC. The negotiations with the countries of Central and Eastern Europe and the Baltic States should start at the same time.

2.4. The European Commission has sent a questionnaire to all applicant countries. The Commission will use the answers to formulate an official opinion as to whether to start negotiations with each applicant country or not.

The applicant countries are: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia and (of course) Malta and Cyprus.

A COUNTRY BY COUNTRY APPROACH

3.1. The negotiations with all the applicant countries will start at the same time after the positive opinion of the European Commission and the go ahead of the Council. But there should be no negotiations en bloc. The differences between the applicant countries do not allow for that. The EU will have to develop a country by country approach based on general criteria that are essentially the same for every applicant.

3.2. It will become clear that some countries can become members of the European Union earlier than others. Through close contacts all countries will be supported in reaching the standards of membership of the Union. Formulating White Papers is useful in that sense, but not sufficient. We need a country-by-country assessment of weaknesses and strengths. On this basis, concrete accession programmes could be formulated and implemented. In each case the EU should specify its contribution to the accession programmes. This would require a stronger commitment but also more flexibility in its support programmes. The help from the Union should, in other words, be finetuned to the individual needs of the applicant countries. It is important that the PES develops files on each of the applicant countries with the necessary facts and figures but also with political evaluations.

DEMOCRACY

4.1. An important aspect of enlargement is human rights and democracy. Above all else the Union should be an area in which all its' citizens have the same rights. It should, therefore, be considered as an omission that there are no criteria in the White Paper regarding this important subject. Criteria for the internal market, no matter how important, should not be our only concern.

4.2. The PHARE programme should pay more attention (and money) to improve democracy and respect for human rights. A democratic society is the basis for everything else that has been mentioned. It will take time, knowledge and money to help the young democracies in Central and Eastern Europe build stable democracies, but this is a process which deserves our full support.

4.3. The EU should not allow any doubts about the fact that the new Member States should work towards stable democracies in which human rights are respected. This does not mean that we should isolate countries if they are not fulfilling criteria we have formulated. On the contrary, the EU should stay actively involved.

4.4. We support the suggestion being considered in the IGC that the Union should be able to suspend certain rights of any Member State that ceases to be democratic or persistently fails to respect human rights. Such a procedure would not be directed against the citizens of the state concerned, but would suspend rights enjoyed by the state as such.

THE SOCIAL ECONOMIC CONTEXT

5.1. What level of social and economic development is needed before applicant countries can enter the EU with its free internal market, without serious disruptions on both sides, is a fundamental question. However, it can not be answered only by reference to levels of GDP. New Members States should not be too far below the EU average of GDP, but it is difficult to draw an exact line. The GDP of many of the applicant countries is higher than the GDP of Portugal when it became a member, but the Union will have to deal with a larger number of less prosperous Member States joining at the same time. It is obvious though that the Union will have to stimulate economic growth in the applicant countries with financial support and better trade conditions. But that in itself does not guarantee that the economies of new Member States will be able to cope with the internal market and its regulations. How far will their transition to an open market economy go, or have to go? How large, for example, will be the state involvement in the economy at that moment? Will their companies be able to compete with EU companies? What will the balance between jobs lost to the EU, and jobs gained through the EU, be?

5.2. The applicant countries do not only have to deal with preparations for EU membership, they also have to compete in a globalised world economy. There is a risk that this could lead to them having to rely upon cheap labour and low standards which could result in an economic structure different from that of the EU.

5.3. Would present EU members accept the inclusion of that type of economy in the Community? Social Democrats would probably oppose it and demand certain social and environmental standards of the applicant countries. It is therefore important to develop a social policy in the framework of the enlargement debate. This would include the further development of the Social Chapter, the convergence of social policies, the development of scenarios in this area and so on. On the other hand we cannot demand from new Member States more than we ask existing members.

5.4. The same arguments apply when discussing environment policy. Most Central and Eastern European countries are far behind in relation to the legislation that already exists in most Member States of the Union. Nuclear safety is a specific area of concern.

5.5. The White Paper only includes environmental policy areas that are product-related. For all other environmental policy areas only common minimum standards exist, which the future Member States should also fulfill. As this cannot be achieved tomorrow, a transition period will be needed. Even then there is no guarantee that the future Member States in Central and Eastern Europe will be strong enough to live up to the rules of the Union. In this context we endorse the PES document "A fair deal - for Employment, the Environment and Equality" of Svend AUKEN and Alan LARSSON (May 1995).

5.6. During the transition period the EU should support (for instance through the PHARE and TACIS programmes) Central and Eastern European countries and the Baltic States to help them reach minimum standards. In general substantial gains should be made in this field for Europe as a whole.

THE SECURITY OF EUROPE

6.1. An element closely related to enlargement is security. Perhaps the most far reaching consequence of the changes which started in 1989 was the end of the Warsaw Pact, which implied the end of the security structure that had existed for years in Central and Eastern Europe. Although there was relief that the "Cold War" was over, it was later realized that the security structure that had gone had been replaced by a power vacuum. In a power vacuum conflicts can easily develop and are difficult to stop.

6.2. Most of the governments of the Central and Eastern European countries have applied for membership of NATO. In principle we ought to respect this wish and should welcome them to take part in common security structures. Until now NATO, though supporting the principle, has been rather vague about when enlargement is going to take place (talks about enlargement will in any case not start before next year). A major factor in the postponement of a decision is Russia. NATO has opted for a parallel process of reforming and enlarging NATO while improving relations with Russia. Russia seems to want the latter first. We should stick to the relation between the three elements but be flexible on the timing. At the same time we should develop further the possibilities offered by the PFP.

6.3. Membership of the EU will give the applicant countries more political and economic security. Conflicts will become less likely. For these countries it will be important to know how the security policies of the EU will develop. What kind of EU security arrangement will they become part of? This will depend on the outcome of present discussions within the EU. One could argue that this debate is the more urgent given the future enlargement of the EU. Here one can refer to our separate discussion paper on CFSP.

6.4. It is, however, important to already offer applicant countries the possibility to participate in CFSP work.

6.5. It is also important to analyse eventual new (internal) security risks for an enlarged EU.

6.6 Given the existence of EU cooperation in the area of justice and home affairs and the ambition to develop this further, it is important to assess how new member states would fit into this. We should outline how to integrate newcomers, especially in the areas of police cooperation, migration and asylum policy. These are already sensitive areas with regard to relations with Central and Eastern Europe and the Baltic States. Further cooperation in the field of convergence of police and legal systems is needed.

THE INSTITUTIONS

6.1. We should take a close look at what effects enlargement will - or might - have on the institutions of the Union. Enlargement is an extra impulse for the EU to change its institutional organisation. If it does not, the future could be unworkable, with a Parliament grown out of proportion, a Commission with more than 25 members and a Council in which decisions - especially those taken by unanimity - will take even more time than they do at present. We have to work out how a Union of 25 Members can do the job that it is supposed to do. We need not only "more Union" but a "better Union."

6.2. However, a review of the foundations of the "European Home" is needed anyway. A review that will bridge the alarming gap between "Brussels" and the people of the Union. Socialists and Social Democrats agree that the EU should become more transparent, the number of different decision-making procedures should be reduced and, most importantly, the Union should become more democratic and more effective in areas that are important to its citizens.

6.3. A reformulation of the institutional structure is needed not only for structural reasons but also for policy reasons. The development of a European employment policy, a better coordinated European foreign and security policy or of EMU being completed by 1999, should all go hand in hand with a more efficient decision-making process and an end to the democratic deficit. We should evaluate the relevant PES documents in the light of enlargement.

6.4. This shows that institutional reform is required, irrespective of enlargement. Enlargement is a fact that should be used as an extra motivation for the Member States to agree on institutional changes, most of which are needed anyway. The IGC must, therefore, deal adequately with these changes, and do so within the envisaged time-scale to ensure that enlargement is not delayed. Attempts to hold up the IGC by those who would like to water down the Union into a mere free-trade area, hoping that the subsequent enlargement will dilute the Union and weaken its institutions, must be resisted by firmly insisting that the IGC makes the necessary changes to enable enlargement to be a success.

6.5. Nevertheless, we will have to discuss the relationship between the outcome of the IGC and the enlargement negotiations.

FINANCING ENLARGEMENT

7.1. The Union is faced with serious financial dilemmas. In 1998 new financial perspectives will have to be negotiated. There is pressure from net contributors to lower costs. The budgets of most Member States are under pressure. The lesser developed countries want a continuation of the Structural and Cohesion Fund support they receive until they have reached similar levels of development as the richer EU members. There are extra costs such as the PHARE, TACIS and MEDA programmes and the reconstruction of Bosnia. Money will be needed to finance new employment initiatives.

7.2. Taking in new, and relatively poor members will not make things any easier. What enlargement will cost exactly depends on the one hand upon those EU policies and financial arrangements in place at the time of enlargement, and on the other hand, upon the level of socio-economic development of the new Member States. Both variables are unknown at this moment.

7.3. What we could do for example is extrapolate what enlargement with a certain country would cost given the present financing system and the present state of the economy of the country in question (if we agree upon what that is exactly). The costs of enlargement could then be calculated depending upon the variables used. This would be highly speculative though.

7.4. Since we cannot be precise at this moment it seems better to start with the intrinsic need to reform the way in which the Union is financed and prepare our audiences for the extra costs of enlargement. We will not be able to avoid some sacrifices, but the blow can be softened by transitional periods and through the fact that some extra resources will be generated within the 1.27% of GDP allowing for economic growth. That should be feasible if the Union undergoes an economic recovery.

7.5. We should seek to avoid only some countries or regions having to pay the bill for enlargement (those who receive most from the structural and agricultural funds and those who contribute the most to the EU budget). Cohesion within the Union should be maintained, especially after enlargement.

TO A NEW CAP

8.1. Enlargement will have enormous consequences for agriculture. Poland for instance, has an important agricultural sector. More than a quarter of those in employment work in it. But agriculture is also of importance in other Central and Eastern European countries and the Baltic States. The consequences of enlargement for agriculture in the Union and in the new Member States will depend on many factors.

8.2. If the same system of price support is introduced in the countries of Central and Eastern European, agricultural expenditure and production will rise enormously. This will be positive for income levels in the agricultural sector in Central and Eastern Europe, however costs for the Union will be high. For the present Member States of the Union competition will

increase.

8.3. It will be difficult to maintain the present system. Reform will be necessary. Moreover, there is an intrinsic need for restructuring our agricultural policy. We should change the situation whereby 47% of the EU budget is spent on agriculture, while social and environmental policies, research and development, infrastructure, our policy towards third countries and our own institutions receive only a small part of the budget. The reform should take account of enlargement but should also maintain the necessary solidarity within the Union as a whole. It is an important task to develop proposals in this area

FLEXIBLE ENLARGEMENT

9.1. As in almost any discussion about the future of the EU, but also in this context, we will have to discuss the acceptability of multi-speed arrangements and transition periods.

THE TIME TABLE

10.1. If the negotiations start six months after the end of the IGC, this means they will probably start in early 1998. They are likely to take at least two years (the fastest so far were those with Sweden, Finland and Austria, who were already in the EEA and these took just over a year. With Spain and Portugal it took six years). Even if preparatory work has already taken place it is hardly likely that the negotiations would take less than two years. This brings us to the year 2000. If you leave 2001 for national ratifications, the earliest possible date for accession is 2002.

October 1996

THE NEXT ENLARGEMENT:

A FACT FILE

The EU is committed to open accession negotiations in the near future - and probably by spring 1998 - with up to twelve applicant countries in Eastern and Southern Europe with a combined population of 107 million (EU 15: 370 million) and an average GDP per capita only 13% of the EU's.

This **Fact File** summarises some of the basic information on an enlargement process which poses unprecedented economic and political challenges, as well as opportunities, for the EU.

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I Who Wants to Join?

Fourteen countries in Central and Eastern Europe and the Mediterranean - listed in Table 1 - have applied for membership of the EU. Consideration of the Turkish and Swiss applications is currently suspended. Subject to a positive Commission Opinion, the EU aims to open negotiations with the other 12 within six months of the end of the IGC.

Table 1 - The Applicants
1A - The Twelve
Malta Population: 365,600 (1993); area: 316 sq km; associated since 1.4. 1971; application for membership: 16.7.1990
Cyprus Population: 718,000 (1992); area: 9,251 sq km; associated since 1.6.1973, supplementary protocol: 1988; application for membership: 3.7.1990
Bulgaria Population: 8,96m (1992); area: 110,994 sq km; Europe agreement: 1.2.1995; application for membership: 16.12.1995
Czech Republic Population: 10,3m (1993); area: 78,900 sq km; Europe agreement: 1.2.1995; application for membership: 23.1.1996
Hungary Population: 10,5m (1994); area: 93,033 sq km; Europe agreement: 1.2.1994; application for membership: 1.4.1994
Poland Population: 38,5m (1993); area: 312,683 sq km; Europe agreement: 1.2.1994; application for membership: 8.4.1994
Romania Population: 22,76m (1992); area: 237,500 sq km; Europe agreement: 1.2.1995; application for membership: 22.6.1995
Slovakia Population: 5,3m (1993); area: 49,000 sq km; Europe agreement: 1.2.1995; application for membership: 27.6.1995
Slovenia Population: 2,01m (1993); area: 20,251 sq km; Europe agreement and application for membership: 10.6.1996
Estonia Population: 1,51m (1993); area: 45,100 sq km; Europe agreement: 12.6.1995; application for membership: 24.11.1995
Latvia Population: 2,64m (1992); area: 64,589 sq km; Europe agreement: 12.6.1995; application for membership: 27.10.1995
Lithuania Population: 3,75m (1993); area: 65,200 sq km; Europe agreement: 12.6.1995; application for membership: 8.12.1995

1B - Suspended Applications

Switzerland

Population: 6,99m (1993); area: 41,293 sq km; application for EU-membership: 26.5.1992. **Application suspended indefinitely**, following the Swiss voters' narrow rejection of EEA membership in a referendum in 1992.

Turkey

Population: 58,5m (1992); area: 779,452 sq km; associated since 1964; application for membership: 14.4.1987. A negative Commission Opinion was delivered in 1989, citing problems related to Turkey's low average income, human rights, and the presence of Turkish troops in Northern Cyprus. Customs union since 1995.

II The EU's Commitment to Enlarge

Article O of the Treaty states that any European State may apply to become a member of the Union.

The **Copenhagen European Council** in June 1993 committed the EU to further enlargement, confirming that Malta and Cyprus would be part of the next phase of enlargement and agreeing that the CEECs¹ should become members when they were able to assume the obligations of membership. The European Council further agreed that the Union's capacity to absorb new members was also an important consideration.

The **Essen European Council** in December 1994 established a **pre-accession strategy**: the essential element of the strategy is progressive preparation of the CEECs for integration into the internal market of the EU through the phased adoption of the Union's internal market aquis. This strategy will be supported by co-operation on:

- development of infrastructure
- TEN's
- intra-regional co-operation
- environment
- CFSP and judicial and home affairs
- culture, education and training.

Politically, the strategy would be implemented through a **structured relationship** - a multiannual framework for strengthened dialogue and consultations, with Heads of State and Government, Ministers responsible and JPCs, each meeting once or twice a year.

The **Cannes European Council** in June 1995 agreed that negotiations with Cyprus and Malta would open 6 months after the end of the IGC.

¹ CEECs = Central and Eastern European Countries which have Association Agreements (Article 238) with the European Union

The **Madrid European Council** in December 1995 expressed the hope that "the preliminary stage of negotiations with the CEECs will coincide with the start of negotiations for Malta and Cyprus".

The Council

- stressed that CEECs' pre-accession strategy must be intensified, to ensure their readiness for membership.
- asked the Commission to deliver its **Opinions** on the applications to the Council as soon as possible after the IGC.

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III The Parliament's Attitude So Far

The Parliament's earliest positions on eastward and southward enlargement were often marked by concern over a possible conflict between deepening and widening. In the 1992 HÄNSCH report on the structure and strategy for the European Union with regard to its enlargement and the creation of a Europe-wide order,² for instance, the Parliament stated that it:

"does not believe that it is possible or necessary for all the nations of Europe...to be gathered together at some future point into a union; points out further that decisions on enlargements of the Union also depend on future political, geopolitical and economic developments in Europe and on the internal development of the European Union".

Similar concerns were expressed in the Parliament's resolutions on the Edinburgh and Copenhagen European Council Summits which say that enlargement must be achieved "without the disruption of the EU's normal operation".³ The 1994 OOSTLANDER report on the strategy of the European Union to prepare for the accession of the countries of Central and Eastern Europe, with a view to the European Council in Essen, also stressed that enlargement to the East was conditional on a reform of the EU institutions at the IGC conference to ensure that "decisions can be shaped in a democratic way".⁴

After the Copenhagen Council the Parliament welcomed "the decision by the European Council (Copenhagen) to offer the prospect of accession to the European Union to those countries in

² (A3-0189/92, adopted 20/1/93)

³ (B3-0663/93, adopted 27/5/93, and B3-0947, adopted 24/6/93)

⁴ (A4-0081/94, adopted 30/11/94)

Central and Eastern Europe which have signed European Association Agreements".⁵

On a number of occasions, the Parliament advocated the idea of a differentiated enlargement to Central and Eastern Europe. The HÄNSCH report suggested the Community examine whether "forms of association can be created affording gradual, but increasingly close involvement in the Community, with a view to possible membership." The resolution on the conclusions of the Edinburgh European Council laid particular emphasis on the Commission's idea of a European Political Area, to involve the associated countries in political dialogue with the EU's security pillar. The 1993 resolution on European Political Cooperation and the Visegrad Group⁶ proposed differentiating enlargement according to the speed at which countries prepare themselves for membership.

In the BOURLANGES/MARTIN⁷ and DURY/MAIJ-WEGGEN⁸ reports on the 1996 IGC, the Parliament stressed the links between the IGC and enlargement. The former speaks of "the need to prepare the Union for future enlargement without slowing down the integration process or watering down the progress already achieved" (preamble B) and "institutional mechanisms designed for a Europe of 6 members which have not been properly adapted since, and which could not simply be transposed to a European Union with more than 20 members without a risk of paralysis and dilution of the European Union" (preamble C).

DURY/MAIJ-WEGGEN sees enlargement as "an extra-ordinary opportunity for political unification of Europe" and calls on the IGC to reform the Union to prepare for enlargement and deepen the integration process (preamble B) and regards enlargement as offering an additional strong argument for adapting the EU's institutions and functioning (preamble G).

In April 1996, the Parliament adopted its most detailed position to date on eastward enlargement, in the form of a resolution on the OOSTLANDER report, "Preparing for the accession of the CEECs to the Union".⁹ The resolution emphasises the historical importance of enlargement with regard to the peaceful and democratic development of the continent, and the gains that enlargement can be expected to bring for both old and new Member States, particularly in the areas of trade, economic growth, security and the environment. It states that no single Member State should be able to block an Association Agreement or Accession Treaty and that new Member States should not be able to veto subsequent accessions.

⁵ (B3-0947/93, adopted 24/6/93)

⁶ (B3-0456/93, adopted 2/4/93)

⁷ (A4-0102/95, adopted May 1995)

⁸ (A4-0068/96, adopted March 1996)

⁹ (A4-0101/96)

At the same time the Parliament emphasises the changes which must be achieved at the IGC to enable the EU to function effectively after enlargement; and the steps which are needed in order to take adequate account of the social, environmental and human rights dimensions of enlargement, and to ensure the readiness of the CEECs for membership (for example with regard to legislation, administration, education and the economy).

The resolution draws attention to the uncertainty surrounding the budgetary implications of enlargement and emphasises that no decision on accession can be taken until the full financial consequences are known. It calls on the Commission for regular indications on this, especially regarding the impact on the CAP and Structural Funds. Regarding agriculture, the resolution states that fundamental reforms will be needed both in the EU and the CEECs.

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IV EU-Applicant Relations

Both in political and economic relationships between the EU and the applicant countries, a lot of steps have already been taken towards closer integration. The key elements include:

Association agreements and trade

Association agreements with the CEECs (also known as **Europe Agreements**) and with Turkey, Malta and Cyprus make provision for eventual full membership of the EU, but do not guarantee it. Under the Treaty, association is with the European Community, not with the European Union - the CFSP, Justice and Home Affairs are not covered.

The objective of the Malta and Cyprus agreements, signed in 1970 and 1972 respectively, is elimination of trade barriers, leading to a customs union. The objectives of the much more recent agreements with the CEECs are:

- to create a climate of **confidence and stability** favouring reforms, enabling the CEECs to manage transition and allowing the development of **close political relations**
- to encourage a climate of **trade and investment** and to enforce a wider process of European integration
- to improve the transparency and coherence of Community **financial support**
- to promote a better two-way flow of **information and cultural cooperation**.

The CEEC Agreements govern in detail the relations between the EU and the CEECs in respect of freedom of movement of goods, persons and capital; rights of establishment; provision of services; competition policy; economic and cultural co-operation; and financial support. They create three institutions to oversee the implementation of the agreements:

- the **Association Council**, composed of Council, Commission and CEEC Government members, with overall powers to supervise, interpret the agreement and rule on any matters of dispute;
- the **Association Committee**, composed of senior officials representing the same three groups, to which the Association Council can delegate any powers, and which prepares the Association Council meetings;
- the **Association Parliamentary Committee**, drawn from the European Parliament and the CEEC national parliaments, which has the right to be informed regarding implementation of the Agreement, and to make recommendations to the Association Council.

The association agreements also prepare the ground for integration into the **single market**, through:

- a programme for the dismantling of all quantitative and qualitative restrictions;
- a comprehensive process of "convergence and approximation" requiring the introduction or modification of legislation to align with EU law, as well as technical assistance.

There has been an unprecedented expansion of EU manufacturing trade with the CEECs since 1989, while the EU has become the single most important trading partner of several CEECs, including the Visegrad countries, Bulgaria and Romania, absorbing more than 50 % of their exports. On the EU side, tariff barriers and other obstacles to the exports of applicant countries have already been largely dismantled - with the exception of **agriculture, textiles and metals**, where further market-opening continues to divide opinion within the EU.

For both Malta and Cyprus, the EU has long been the biggest trading partner, taking 61% of Cyprus' exports and almost 80% of Malta's. Both countries have Financial Protocols with the EU, which provide for technical assistance and economic co-operation, and help both to prepare for the adoption of the *acquis communautaire*.

PHARE and TACIS programmes

PHARE was set up in 1989 by the Group of Seven but is administered by the Commission. Covering CEEC applicant states (plus Albania, but excluding the Baltic republics), it concentrates on:

- restructuring and privatization of state-owned enterprises;
- aid to the private sector, especially small and medium-sized enterprises (SMEs);
- the services sector;
- modernization of financial systems;
- welfare systems.

The PHARE programme currently provides 1 BECU per year. Commissioner WULF-MATHIES, addressing a Bundestag committee in June, indicated that this might be raised sevenfold, to make a total of 50 BECU available in the years 2000 to 2006.

On the initiative of the European Parliament (through amendments to the 1992 Budget), the Commission in 1992 launched the **PHARE Democracy Programme** whose aim, supported by an initial 5 MECU budget, was to contribute to the development of pluralist democratic procedures and practices and the rule of law in the CEECs. The Programme supports training programmes and the strengthening of civil society through aid to local associations and institutions.

The Baltic states are covered by the TACIS programme, which dates from a decision by the Rome European Council in December 1990. Its main objective is to help the so-called Newly Independent States make their transition to a market economy and a democratic society. Priority sectors are training, energy, transport, industrial and commercial enterprises, food production and distribution.

The Pre-Accession Strategy

The Essen European Council in December 1994 set out a detailed pre-accession strategy,¹⁰ designed to strengthen the preparations being made by the EU and the CEEC applicant states. The main elements of the strategy are:

- improvements in EU treatment of CEEC exports;
- the production of the White Paper on Integration into the Internal Market,¹¹ designed to identify legislative changes needed in the CEECs and to propose means of EU support and co-operation;
- assistance with adaptation to EU competition policy, including the production of an inventory of state aids in each applicant country (to be the subject of an annual Commission report) and help with training programmes;
- a commitment to examine the impact on CEEC agriculture of subsidised EU exports, and to carry out a study of alternative strategies for the development of relations in agriculture;¹²
- measures to encourage foreign investment in the CEECs.

The Essen European Council also created the political framework of **structured dialogue** to implement the strategy. This is a multilateral framework for dialogue on all three pillars of EU affairs, to complement the bilateral Association Council meetings already provided for in the Europe Agreements. Concretely, the **dialogue** involves: annual multilateral meetings at the level of Heads of State or Government, in the margins of the European Council; six-monthly meetings

¹⁰ See Annex IV to Essen Presidency Conclusions

¹¹ (COM(93)163)

¹² subsequently presented to Madrid European Council (CSE(95)607)

of Foreign Ministers, and of Justice and/or Home Affairs Ministers; annual meetings of Ministers with responsibilities for **transport, telecommunications, research, environment, culture, education, finance, economics, agriculture** and other aspects of **internal market** development. Generally, all these are scheduled in association with the corresponding Council meeting.

In June 1995, the EU-Cyprus and EU-Malta Association Councils both adopted Common Resolutions establishing a **structured dialogue** with each of those countries comparable to that already established for the CEECs.

Parliament's Relations with the Candidate Countries

Joint Parliamentary Committees are the main channel for direct contacts between the **EP** and the candidate countries.¹³ Using its power of assent, Parliament was able to insist that the Association Agreements with the CEECs contain identical provisions for the establishment of JPCs, making them one of the three principal organs through which the agreements are applied. The Maltese and Cypriot JPCs in practice work on similar lines..

Formally, the main task of the JPCs is to examine the functioning of the Association Agreements, and developments in the EU and the associated countries. They are also seen as a potential forum for multilateral dialogue, allowing horizontal political co-ordination between the EP and the Parliaments of the associated countries.

Following the Essen decision on "structured dialogue" (see above), the **President of the European Parliament** has initiated regular contacts with the Presidents of the CEEC Parliaments. Since April 1995, three meetings have been organised, aimed at creating a strong interparliamentary strand to the structured dialogue.

Parliament's **standing committees** have already played an important role in the early stages of the enlargement discussion, notably through the OOSTLANDER report on integration of the CEECs into the internal market. The broader lines of EU policy on enlargement have generally been handled by the **Committee on Foreign Affairs, Security and Defence Policy** and the **Committee on External Economic Relations**. The example of the OOSTLANDER report, on which 15 committees gave opinions, demonstrates, however, how wide-ranging are the implications of enlargement for the Parliament's work. Some Members have argued that as progress towards enlargement continues, Parliament should review the committee structure to ensure the issue is efficiently handled.

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With the exception of Slovenia, whose JPC at time of writing has not yet been established, following the recent signing of their Association agreement.

V The Criteria: Who can Join the Club ?

The European Council laid down at its meeting in Copenhagen in June 1993 that candidates for membership in the next enlargement must meet the following conditions:

- stability of institutions guaranteeing the rule of law, human rights and respect for and protection of minorities
- a functioning market economy
- capacity to cope with competitive pressures and market forces within the EU; and
- ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

In addition to these "Copenhagen conditions", the Commission may be expected (as in past enlargements), on the basis of Articles F and G of the Treaty, to apply two further conditions of membership:

- European identity
- a system of government based on the principles of democracy.

The IGC is considering proposals that would strengthen the obligation on Member States to be democratic and to respect human rights and which would enable the Union to suspend certain rights of membership should a Member State fail to respect these obligations.

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VI The Process: the Roles of Commission and Parliament in Preparing Enlargement

The Commission

The Commission must evaluate the degree to which each candidate country meets the conditions and is ready for membership. It is expected to report on this process, in the form of an **Opinion** on each candidate, very soon after the end of the Intergovernmental Conference - and probably in autumn 1997.

The **White Paper on preparing the CEECs for integration into the internal market** (COM(95)163)¹⁴ has provided a general orientation for the Commission's evaluation of the CEECs, at least as far as the **internal market** is concerned, but no further White Papers are envisaged prior to the presentation of the **Opinions**, and hence no further formal opportunity for

¹⁴

to which the OOSTLANDER report was the EP's response

a European Parliament input into the Commission's interpretation of the **conditions of membership**, or its evaluation of economic and political conditions in the candidate countries.

The lead role in the Commission's deliberations falls to **Commissioner VAN DEN BROEK** and **DG 1A** of the Commission. At the end of April, they handed a detailed, 165-page questionnaire to each of the Central and Eastern European applicants, asking for information on the countries' performance in 23 areas of policy. (Copies of the questionnaire are available to MEP's, on request to DG 1A). Replies must be returned by the end of July.

The Commission was also asked by the Madrid European Council to continue its consideration of **the effects of enlargement on EU policies**. At Madrid, the European Council already received a general report from the Commission on this subject, and another on **Alternative Strategies in agricultural relations with a view to enlargement** (CSE(95)97). The EP is preparing its response on the latter in the form of the REHDER report for the Agriculture Committee.

The Commission will continue this consideration, with two reports to the European Council in Dublin in December 1996, on:

- agricultural policies
- structural funds.

Immediately after the IGC, and perhaps together with the **Opinions** on membership, the Commission will produce two further major reports:

- a composite paper on enlargement
- a Communication on the future financial framework of the Union as from 31 December 1999, having regard to the prospect of enlargement.

These are likely to be the key documents in defining the Commission's analysis and strategy in respect of the budgetary and other 'domestic' implications of enlargement.

If the IGC is completed by autumn 1997, it is expected that the **Opinions**, together with these reports, will be considered by the European Council in Luxembourg in December 1997, which would then take the formal decision to open a **Conference on Enlargement**. At this conference, which is likely to open by Spring 1998, formal membership negotiations will start with at least some of the candidate countries.

Possible dates for accession are at present a matter for speculation - and in due course can be expected to be a matter of conflict and controversy. Some applicants have expressed the desire to accede by 2000; recent Franco-German discussions have envisaged 2002 for the accession of the first new members, with others later. Some Member States take the view that the first phase of enlargement will not be before 2005.

The Parliament

Through the activities of its Joint Parliamentary Committees, interparliamentary delegations, ad hoc delegations and standing committees, the European Parliament is deeply engaged in activities related to the preparations both of the applicant countries and the EU itself for enlargement. Among them:

- acting as a watchdog on human rights and electoral processes;
- monitoring economic and democratic reforms and progress in raising environmental standards;
- promoting regional co-operation;
- encouraging the effective use of PHARE and TACIS funds;
- evaluating the implications of enlargement for the EU budget, for agricultural policy and for other policies.

Parliament has also adopted clear positions on a number of issues central to enlargement: for instance, on the need for a **positive outcome to the IGC**; on **social and environmental standards**; on **human rights** and treatment of **minorities**; on adaptation to the **single market**, etc.

What opportunities will the PES Group and the European Parliament have to influence the process of enlargement?

The Parliament's formal role in enlargement comes at the end of the process, through the power of assent. Prior to that, it is likely that - as in past enlargements - the Parliament will prepare a Report on each of the Commission's **Opinions**.

Less certain, and dependent on Parliament's own initiatives, is the role which it will play in the earlier stages of the enlargement process. As noted, the Commission intends no formal dialogue with the Parliament - neither on the readiness of the candidates for membership, nor on the EU's strategy for dealing with the internal impact of enlargement - until publication of its Opinions and presentation to the European Council of its political and budgetary assessments.

It will be for Parliament to consider what input it should nevertheless try to make into the development of the Commission's positions, and how to maximise its influence. Some Committees - including the **Budget Committee** and the **Agriculture Committee** - are already organising hearings and preparing reports on certain aspects of enlargement.

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VII What Will Be the Big Issues ?

The next enlargement could take the EU from 15 to up to 27 Member States, with a 29% increase in population and 33 % increase in land area, bringing in countries with dramatically lower standards of living, mostly still in the course of transition from command economies, some with very delicate relationships with neighbouring countries or their own minorities, and some in which democratic politics is not yet entirely securely anchored. It is clear that virtually all areas of EU policy will be affected - as the list of likely topics for negotiation in Table 2 suggests.

Table 2
Indicative List of Negotiation Headings

- | | |
|-----|--|
| 1. | Free Movement of Goods |
| 2. | Freedom to Provide Services and Right of Establishment |
| 3. | Free Movement of Workers |
| 4. | Free Movement of Capital |
| 5. | Transport Policy |
| 6. | Competition Policy |
| 7. | Consumers and Health Protection |
| 8. | Research and Information Technologies |
| 9. | Education |
| 10. | Statistics |
| 11. | Company Law |
| 12. | Social Policy |
| 13. | Environment |
| 14. | Energy |
| 15. | Agriculture |
| 16. | Fisheries |
| 17. | Customs Union |
| 18. | External Relations |
| 19. | Structural Instruments |
| 20. | Regional Policy |
| 21. | Industrial Policy |
| 22. | Taxation |
| 23. | Economic and Monetary Policy |
| 24. | Foreign and Security Policy |
| 25. | Justice and Home Affairs |
| 26. | Other Provisions of the Treaty on European Union |
| 27. | Financial and Budgetary Provisions |
| 28. | Institutions |
| 29. | Other |

A considered PES Group assessment of the issues posed in each area of policy will have to draw on the knowledge of its specialists in those areas, and this **Fact File** does not pretend to do that. However, it is clear from the outset that the biggest and most challenging issues seem likely to include the following:¹⁵

Security

The historic opportunity to help extend eastwards and southwards the security and stability enjoyed in Western Europe is one of the fundamental driving forces of EU enlargement. The PES Group **Discussion Paper on Common Foreign and Security Policy** has pointed out that security is one of the arguments put forward by many CEECs for EU membership. The **Discussion Paper** argues, however, that EU enlargement, like NATO enlargement, should not lead to new tensions in Europe, and that it will have to be accompanied by policies to create stronger links with the countries that remain outside, especially Russia.

Enlargement will potentially have an impact on the security of countries just beyond the borders of an expanded EU, and on EU relations with those countries. The most sensitive cases include **Russia** and the former Soviet states of **Ukraine, Belarus and Moldova**. Relations between the EU and **Turkey** are also an issue of great importance and sensitivity. The EU will have to develop policies to minimise the risk that enlargement could provoke an anti-European reaction in some or all of these countries; to deal with the frustration of those who themselves aspire to membership; and to bolster the security and independence of the Ukraine, Belarus and Moldova.

The **CFSP Discussion Paper** also draws attention to the fact that enlargement is one of the challenges that will force the EU and other European organisations to consider in detail the future of Europe's security systems. Among the questions which enlargement will pose is whether EU membership entails a right to join the WEU - with far-reaching implications in respect particularly of the Article 5 provisions on mutual defence. Both the outcome of the IGC and the ideas outlined in the **Discussion Paper** concerning the development of European security policy and security structures will have an important bearing on this aspect of enlargement.

Some applicant countries face security problems of a more local character. Among these:

- **Cyprus**: the partition of the island and the presence of Turkish troops in the north;
- **Hungary and Slovakia**: tension over the treatment of Slovakia's large Hungarian minority;
- **Estonia and Latvia**: tensions with Russia over treatment of their Russian minorities, and recognition of pre-war frontiers;
- **Lithuania**: tensions with Russia over the latter's Kaliningrad enclave.

EU Budget

The budgetary impact of enlargement - potentially one of the most explosive issues - is also one of the most uncertain, and vastly different estimates have been produced. What is certain is that the main budgetary costs will lie in the areas of the **common agricultural policy** and the **structural and cohesion funds**, which between them account for just over 80% of the current EU budget.

At one end of the spectrum, some estimates have suggested that extending the present CAP to the 12 candidates will add around 36 billion ECU to the budget, and extending the structural and cohesion funds a further 26 billion. In other words, enlargement would, on those figures, require around a **two-thirds increase in the EU budget**.

Such estimates rest on highly uncertain assumptions - for example, concerning what **reforms** of the CAP and the structural/cohesion funds can be expected, and concerning developments in the candidate countries, especially regarding GDP growth rates and agricultural production and consumption. The speed of change in Central and Eastern Europe, in particular, makes such matters difficult to predict.

At the Budget Committee's hearing "Financing Enlargement" on 7th May, Commissioner LIIKANNEN quoted the estimate in the Commission's Agricultural Strategy Paper (see 'Agriculture' below) of 12 BECU for extending the CAP - apparently taking account of some (unspecified) further CAP reform, the non-extension of direct payments ("MacSharry payments"), and best guesses of developments in the CEECs. Other figures quoted in the hearing suggested a possible total budgetary cost of 24 BECU - equivalent to a rise in the 1999 ceiling on own-resources from 1.27% to 1.31% of Community GDP. The Socialist Chair of the Budget Committee has elsewhere offered the verdict that:

*"The enlargement of the Community is impossible without a change in the core policies of the European Union, i.e. agricultural policy and structural policy, unless the volume of the budget is increased to over 2% of the EU's GDP."*¹⁶

Other members of the PES Group (and Commission officials) have argued that, given the degree of uncertainty, there is no value in making such calculations at this early stage.

In contrast, an internal Commission review in June 1996 is reported¹⁷ to have concluded that the EU can absorb East European entrants without increasing its budget in real terms in the next ten years. Within the existing budget ceiling of 1.27% of EU GDP, scope is identified for a 30% increase in the funds available for structural and cohesion expenditure. Commissioner WULF-MATHIES has also indicated that the share available for new Member States would be further increased by drawing more tightly the map of eligible areas among existing Member States.

Sooner or later, a difficult debate can be foreseen between the defenders of existing EU policies, the advocates of rapid enlargement, and the guardians of budgetary realism. The next two sections look in turn at the two "budget-sensitive" policy areas, CAP and Structural Funds.

¹⁶ Detlev SAMLAND, Speech to the Institute of European Affairs, January 1996

¹⁷ Financial Times, 26.6.96

Agriculture

The Commission published an **Agricultural Strategy Paper**¹⁸ in November 1995 whose central message was that Eastward enlargement will require the 1992 MacSharry reform of the CAP to be completed and refined, principally for the following reasons:

- Central European agriculture has the potential to produce large surpluses, at internationally competitive costs.
- As the process of CEEC reform continues, large increases in production can be expected.
- Alignment of CEEC agricultural prices with the EU's would trigger even larger production responses.
- Higher food prices would be difficult for the low-income consumers in the CEECs to bear.
- Extension of the current CAP to the CEECs would involve a large burden on the EU budget.
- The CAP is not consistent with the CEECs' WTO commitments (for example, tight limits on subsidised exports).

The Commission's strategy enjoyed a mixed reception from the Agriculture Council following its publication, with several Ministers expressing great caution over further reform, and others calling for a **transitional period** of 10 years or longer. However, in past enlargements, transition periods were made possible by the use of **border controls** to pay and levy compensation for differences in price levels. Such border controls would be incompatible with the Single Market - for this reason, the 1995 'EFTA' enlargement had no transition period for agriculture.

The Strategy Paper also argues that the "MacSharry" direct payments to farmers (representing 60% of CAP expenditure) need not be extended to the CEECs. In that case, commentators have argued, a further decoupling of the MacSharry payments from production will be necessary to preserve the Single Market. The Paper also argues that, independent of eastward enlargement, other pressures - notably the EU's commitments under the WTO agreement on agricultural trade - will in any case require the EU to undertake further reform of the CAP within the next few years.

The Agriculture Committee of the Parliament hosted a hearing on **the CAP, GATT and Enlargement** on June 3-4, and an **own-initiative report** (rapporteur: REHDER, PES) is currently in preparation.

18

Study of alternative strategies for the development of relations in the field of agriculture between the EU and associated countries with a view to the accession of these countries (CSE(95)607)

Structural and Cohesion Policy

If the Structural and Cohesion Funds were applied as they are now in an enlarged Union, *and* existing beneficiaries continued to receive transfers at present levels, the cost of the Structural and Cohesion Funds (all objectives) expressed as a share of Community GDP at the end of this century would be more or less doubled from 0.45% to 0.94%. This would, in turn, push the cost of the budget as a whole significantly over the ceiling agreed by the Edinburgh Council of December 1992. Given the present difficulties of all EU member states in controlling public expenditure, such calculations have been widely regarded as implying an impossible financial burden.

A recent evaluation by the Centre for European Policy Studies has sought to put such costs into a wider political perspective:

*"Additional expenditure of 25 billion Ecu per annum (which is almost certainly an overstatement of the price) represents only a small fraction of the overall defence budget of the Member States. As enlargement to the east is a classic example of a preventive security policy, it is quite legitimate to make this comparison, particularly as the great majority of the EU's Member States have been able to cut their defence budgets since the end of the cold war. Strong political leadership of the kind that the German government has shown in relation to German unification, where the sums involved were much, much higher as a proportion of GDP, should therefore be able to muster sufficient support for expenditure designed to stabilise Europe, and in doing so eliminate the need for still greater expenditure on significantly less productive causes if peace breaks down."*¹⁹

While the link made here between enlargement and preventive security policy may be important, it is unlikely that national Finance Ministries will see things in these terms.

The potential costs are in practice likely to be limited by the inability of some or all of the countries concerned to absorb efficiently transfers on the scale implied by extending Structural Funds and Cohesion Funds on the basis currently used for existing Member States (i.e., transfers equivalent to 20% of GDP in Romania, 13% in Poland, and 10% in Hungary, Slovakia and the Czech Republic). However, the implication is not only that transfers to the CEECs following accession are likely to be smaller, but also that the huge gap in per capita incomes between western and eastern Member States will be likely to persist for a significant number of years. Since the citizens of the CEECs have on average a real spending power only one-fifth of that enjoyed in the present EU, the persistence of such disparities would be likely to have serious political consequences both for the CEECs and for the 15 (some of which are considered under the heading 'Social Model', below).

The European Commission communication to the Madrid Summit on **the effects of EU enlargement** establishes six principles which should govern future cohesion policy:

¹⁹

Peter LUDLOW, Preparing for Enlargement, CEPS, 1996

- "i) The objective of strengthening the economic and social cohesion, as laid down in Article B of the Common Provisions of the Treaty on European Union, continues to be a fundamental element of EU policy.
- ii) There must be a guarantee for the poorer Member States on the continuation of solidarity, *although its application should take account of the success achieved in economic and social cohesion*. The general application of the cohesion policy throughout the Union should be maintained, even if there is a need to concentrate funding on specific regions or policy priorities.
- iii) ... A revision of cohesion policy is necessary ... The Cohesion Report which the Commission will establish in 1996 in accordance with Article 130B of the Treaty will provide a basis for the review. The reform of cohesion policy within the 15 Member States, which is to follow, should, however, take place in an acceptable time period.
- iv) ... The Union should also provide a clear signal that it shapes its policies in a way that the principle of budget discipline is concretely respected.
- v) The objective should be full application of cohesion policy to new Member States; transitional arrangements after accession will be necessary to integrate them gradually into the policy and its financial aspects.
- vi) While implementing the Structural Funds in the CEECs, the economic effectiveness of transfers must be assured. Experience suggests that volumes of assistance which are high in relation to the recipients' GDP are difficult to use effectively and can even distort their economic structure. In other words, high volumes of assistance might pose big problems for the new Member States, as their administrative systems, their absorptive capacity and their ability for co-financing the aid might be overwhelmed by the influx of funds."

Points v) and vi) point towards an intention to limit the costs of enlargement, at least in its first phase, by the use of transitional periods when the new Member States would have restricted access to Structural and Cohesion Funds. In point ii), the second line (our italics) may be seen as hinting, more controversially, at a phasing out or scaling-down of payments to some existing beneficiaries. Enlargement will lower the average GDP of the EU and could result in some of the "cohesion countries" going above the 90% mark, which would then no longer be entitled to Cohesion Fund money.

A review of the Structural Funds is planned for 1999 - on the basis of the **Cohesion Report** to be produced already in 1996. The additional demands of enlargement will intensify that debate and underline its importance in determining the future social character of the European Union.

The social model

The defence and re-inforcement of the social character of the **European social model** is at the heart of the political project of the PES and the Group. Enlargement is likely to be a defining moment in the evolution of that social model:

- on the one hand, an enlarged European Union will be by far the largest economic bloc in the world, with the chance of increased economic and political influence on the rules of the world trading and financial systems, and therefore a greater prospect that European social standards are exported to the other great trading blocs, rather than economic liberalism imported into Europe;
- on the other hand, it cannot be taken for granted that the existing social model (and existing commitments to its development) will survive enlargement undamaged.

Enlargement represents a challenge both to cohesion and to social standards. The challenge to **cohesion** lies in the gulf in living standards between the candidates and the existing Member States - illustrated in Table 3. There is of course, great uncertainty about the extent to which this gap may have narrowed by the (also uncertain) date of any future enlargement, but on all likely scenarios, the EU post-enlargement will be marked by a bigger disparity between rich and poor - and quite possibly (given the heavy cost of extending existing structural funds) equipped with less adequate instruments for reducing it.

Table 3: GDP PER CAPITA AS PERCENTAGE OF EU AVERAGE			
<i>EU members at accession</i>		<i>New Applicants in 1993</i>	
Ireland (1973)	53	Slovenia	50
Greece (1981)	44	Czech Republic	42
Spain (1986)	55	Estonia	38
Portugal (1986)	27	Hungary	36
		Slovakia	34
		Bulgaria	33
		Poland	32
		Latvia	29
		Lithuania	18
		Romania	16

Source: 'Enlarging the Union', Federal Trust, 1996

The Social Affairs Committee's Opinion on the OOSTLANDER report²⁰ identified the scope of the challenge to **social standards**, in their insistence that **Social Union** must be a central feature of enlargement, and that to conform to EU social policy, the CEECs will need:

- well-developed structures and procedures for **social dialogue**
- modern social security and health systems
- trade unions

- labour market agencies
- training systems
- a guarantee of equal opportunities
- adequate statistical services
- labour inspection and law enforcement
- means of combatting discrimination, poverty and social exclusion.

Without satisfactory progress in these areas, enlargement might introduce further strains into the EU labour market, with the risk of downward pressure on employment, wages and working conditions in existing Member States.

The Development Challenge

The phrase "development challenge" is used here as shorthand for the challenge which both the applicant countries and the EU face in ensuring that the former meet the EU's membership criteria as soon as possible. And of course, the converse: the task which the EU will face in interpreting those criteria and judging the readiness of the applicants.

The scale of change which the CEEC applicants, in particular, must achieve in the economic, legal, administrative, environmental, social and other areas has already been documented in the White Paper on Integration into the Internal Market (COM(95)163) and the OOSTLANDER report. The Commission reports annually to the Council on progress achieved. The Parliament will want to monitor this process particularly closely, and to draw any necessary conclusions both for the further development of EU assistance and trade policies towards the applicants; and for the evaluations which the Commission is likely to make in its Opinions on readiness for membership.

Freedom of Movement, Immigration and Asylum

Enlargement would extend to the citizens of the new Member States the *acquis communautaire* on **freedom of movement** - and notably, rights to seek work or to be educated anywhere within the EU. In some Member States, particularly those geographically close to Central and Eastern Europe, this prospect has caused alarm in some quarters. Equally, some applicant countries are concerned at the prospect of nationals of existing Member States buying up property in easily accessible areas such as Sudetenland, Silesia etc.

Similar concerns are raised by the issues of **third-country immigration** and **political asylum**. Some applicant countries have found themselves unprepared for such phenomena and, following the collapse of the communist system, they lack appropriate legislation and administrative resources. As a result, some have become a magnet for migrants, particularly from Africa, Asia and the former Soviet Union, and transit points for those who want to proceed to Western Europe.

Representatives of the applicant countries now meet regularly with EU Justice and Home Affairs Ministers and there are contacts between all relevant authorities. The applicant countries are therefore currently making efforts to adopt all of the restrictive measures that the Council is introducing for the EU countries. Given the absence of long-standing democratic and humanitarian traditions and the relevant resources in these countries, these developments lead to concern: absence of administrations to deal with asylum seekers and refugees, absence of decent temporary accommodation, social and welfare care for them, risk of refugees being returned to their home countries, even if threatened with persecution.

The EU and applicants will need to develop new credible and humanitarian alternative approaches to these issues, if they are not to develop into an authoritarian, undemocratic greater "fortress Europe". Careful handling will also be needed to ensure that public fears in some Member States do not cast a shadow over the accession negotiations.

Institutions: the Outcome of the IGC

As already remarked, the Parliament has regularly emphasised that the outcome of the IGC will be crucial to the prospects for enlargement - and in particular, the achievement of greater democracy and efficiency in EU decision-making.

Following the IGC, the Group and the Parliament will have to evaluate the progress actually achieved, its implications for enlargement, and the ability of EU institutions, as reformed by the IGC, to cope with a Union of up to 27 members, including a number of new members with tiny populations.

EMU

The conditions for EU accession laid down by the European Council in Copenhagen included:

"ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union."

Candidates for membership of the EU must therefore be committed to joining EMU and have at least the prospect of meeting, within the foreseeable future, the EMU convergence criteria.

Both Malta and Cyprus, on current figures, can be considered to be broadly on target to be capable of meeting the Maastricht convergence criteria by the time of their likely accession. For the CEECs the picture is less clear. The most recent figures provided by the EBRD's **Transition Report** are summarised below. Given the speed of change in the region, however, the table provides no reliable guide to where these indicators will stand in 5 or more years' time. It will be one of the tasks of the JPCs to follow closely the evidence on macro-economic developments, and on the **political attitudes** of the governments concerned, with regard to early EMU membership.

Table 4: Convergence in CEECs²¹

	Inflation 1995 (est.)	Inflation 1996 (projected)	Budget deficit (-)/ surplus (+) (as % of GDP, 1995 est..)
Estonia	29%	22%	+ 0.3
Latvia	23	20	- 4.5
Lithuania	36	30	- 2.6
Czech Republic	8	n.a.	+ 1.0
Poland	22	19	- 2.2
Slovakia	7	7	0.0
Hungary	28	22	- 6.8
Slovenia	9	6	- 0.9
Bulgaria	33	30	- 6.7
Romania	28	20	- 2.8

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VIII Twelve Applicants, Twelve Stories

While this briefing paper deals horizontally with enlargement, each of the 12 applicant countries has its own, unique political and economic circumstances, and will present different problems and opportunities with regard to enlargement. It is impossible in a few words to do justice to these national differences, but a few points on each country may give at least a hint of the diversity of circumstances:

POLAND, occupying a vital strategic location, is the largest applicant, with 38 million inhabitants. GDP growth in 1995 was 7%, the second highest in Europe, and Poland complies with the Maastricht criteria on budget deficits and public debt. Inflation is still about 22%, but falling rapidly. Unemployment remains high, at 15%. Some 27% of the population work in agriculture, producing some 8% of GDP. The private sector accounts for 60% of GDP (EU average about 80%). Economic reform has been pursued with greater intelligence and flexibility under Poland's new government. The entire political elite supports Poland's integration into both the EU and NATO.

The CZECH REPUBLIC is capable of especially close integration with the German and Austrian economies, since its industrial centres are geographically highly accessible. It has enjoyed steady progress so far in democratisation, economic stabilisation and privatisation. By

1995 70 per cent of the economy was in private ownership, inflation was under control and growth was accelerating from 3 per cent in 1994 to a forecast 5 per cent in 1996.

SLOVAKIA has special problems since its breakaway from the Czech Republic in 1993. Assertive nationalistic politics are exacerbated by problems concerning civil liberties, and the treatment of a Hungarian minority amounting to more than 10 per cent of the population. Slovakia's uncompetitive heavy industries have caused a massive reconstruction problem. Privatisation seems to be advancing, with 60 per cent of the economy in at least nominal private ownership by 1995. Inflation is under control and GDP is growing at around 4-5%.

HUNGARY attracted the lion's share of foreign direct investments in Central and Eastern Europe in the first years after Communism. Nevertheless a large external debt has created special difficulties for Hungarian macroeconomic policy. During 1995 budget and payment deficits were brought under control, but at the cost of reducing GDP growth to less than 1%. Large ethnic Hungarian minorities in Slovakia, Romania and Serbia create problems in relations with these neighbouring states, but so far these have been handled with restraint.

SLOVENIA has the most highly developed and best managed economy among the former Yugoslav republics. Growth has been about 5-6 % since 1994, and GDP per capita is ahead of all the other applicant states. Following harmonisation of its legislation regarding purchasing of property by European citizens, the Association Agreement was signed by the Council on 10th June 1996. Slovenia falls into a category of small states which will present the EU with specific institutional problems.

LITHUANIA, LATVIA and ESTONIA have asserted their independence from Russia by staying out of the CIS. The treatment of the substantial Russian ethnic minorities in Estonia and Latvia is likely to be an important issue in accession talks. Formidable economic problems must be overcome. Estonia is the most advanced in GDP per capita and in economic transition, with 6% annual growth in recent years. All three have close links with Nordic countries. The small populations of all three will pose institutional questions for the EU.

ROMANIA is among the poorest and least industrially advanced of the applicants. There are concerns about the depth of its political revolution, and the existence of the large Hungarian minority in Transylvania has triggered a strong nationalist reaction. It has a large agricultural sector, and over 50% of the economy is still in the public sector. Since 1994, however, GDP is growing at a rate of 4-5 %.

BULGARIA is making a slow transition to a market economy and private ownership, with even nominal privatisation leaving more than half the economy still in public ownership. Growth resumed a modest rate of 3 % per annum by 1995, but the country is reported to be close to financial collapse. The Bulgarian Socialist Party (successor to the Communists) has been in power since December 1994. While improvements in human rights have been achieved, concerns still exist about restrictions on Press freedom and pluralism and the position of the Turkish minority.

CYPRUS' economic record is impressive. GDP has grown at 5%+ since the late 1970s and real per capita GDP, according to the World Bank, is higher than in Greece, Portugal or Spain. Unemployment is 2.6%, and Cyprus currently meets the Maastricht criteria on inflation, deficits and debt. It has also already gone a long way towards harmonisation of its laws to meet the single market. The major issues in enlargement talks are likely to be: first, the occupation of North Cyprus; second, the institutional issues raised by the small population. The EU, while continuing to encourage the search for a settlement of the partition problem, has made clear that this is not a pre-condition for accession, and that its only formal interlocutor is the internationally recognised Government of Cyprus.

MALTA's economy is strong: growth of over 5% per year since 1988, inflation below 4%, unemployment low, public debt well within the Maastricht criteria and the budget deficit just over 3% of GDP. Wide-ranging economic reforms since 1994 have dispelled Commission doubts over Malta's technical preparedness for membership. Malta's domestic politics are sharply divided over EU membership, which is opposed by the main opposition Maltese Labour Party. Like Cyprus, Malta's small population raises institutional issues.

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IX Fifteen Attitudes to Enlargement

While all fifteen EU Member States have expressed support for eastward and southward enlargement, differences of emphasis can be detected:

GERMANY has been among the most forceful advocates of eastern enlargement, with a strong commitment to the security of the region. As the EU's largest investor and leading trading partner in Central and Eastern Europe, Germany also has a strong economic interest in enlargement. Recent press reports suggest, however, that the German government now expects a slower timetable than initially envisaged (see FRANCE below), and CDU sources have aired the possibility of at least some applicants participating at first in the second and third pillars, and only later having full membership. There are also tensions within the Government between the declared desire for rapid enlargement and the concern, voiced particularly by Finance Minister WAIGEL, that enlargement should not increase Germany's financial contribution to the EU.

FRANCE's chief concern is to achieve a common approach with Germany. In June, France and Germany were reported by the press to be discussing a common strategy for enlargement, envisaging entry in 2002 for a few applicants (Czech Republic, Poland, Hungary; possibly Malta, Cyprus, Slovenia and Estonia), with a new 'partial member' status for disappointed applicants. France made clear at the European Council in Florence that the success of the IGC must be presented as a prerequisite for enlargement.

The UK has strongly supported enlargement, in part on the basis of a judgement by the ruling Conservatives that widening will be a defence against deepening. It believes that EU agricultural and regional policies must be reformed in preparation for enlargement.

ITALY favours enlargement from the opposite, federalist perspective. It sees the success of the IGC as a prerequisite for enlargement, and considers that the CAP must be revised. Italy has had a number of bilateral disputes with Slovenia, which until June had blocked the signing of the latter's Europe agreement.

SPAIN, PORTUGAL and GREECE have expressed concern that enlargement should not be financed at the expense of existing Structural Fund and cohesion policies. In some political quarters, concern has been expressed over the possibility of a shift of the EU's centre of gravity to the north and east. Spain has argued for enlargement to be balanced by a further strengthening of EU Mediterranean policy and sees "variable geometry" as the key to resolving the antithesis between deepening and widening. Greece opposes the idea of a "second-class" membership for the applicant countries, but supports transitional measures. It has a particular, regional interest in the position of Romania and Bulgaria. The Portuguese Prime Minister argued at the Florence European Council that negotiations would have to recognise the diversity of circumstances among the applicant countries.

IRELAND, the fourth cohesion country, is expected - following rapid economic growth - to pass the threshold for ending cohesion funding, and for Objective 1 status, but shares some of the concerns of the southern Member States. Ireland will seek to ensure that the costs of enlargement are fairly shared among the EU's developed and less developed regions and in a way which does not prejudice existing EU policies. It has insisted, in particular, that enlargement must not be a pretext to change the essential nature of the CAP.

FINLAND, SWEDEN and DENMARK strongly favour enlargement, emphasising in particular that the Baltic States should be treated in the same way as the other Central and Eastern European countries. The Nordic countries have close historical, cultural and economic links with the Baltic republics and a strong interest in the preservation of their independence and democracy. Denmark sees the preparation of enlargement as the most important task of the IGC.

AUSTRIA, as the immediate neighbour of four applicant countries, is one of the Member States likely to be most affected by enlargement. In the public perception, this is seen as likely to have both positive and negative consequences, and enlargement is a topic of public debate in the run-up to the European elections in October. Debate is focussing particularly on the issues of migration and free movement of persons. Austria has expressed support for a step by step and graduated approach to enlargement, with special attention to the cautious opening of the labour market.

The NETHERLANDS considers that the EU has a historic duty to make Europe whole, and to encourage security, democracy and social and economic development in Central and Eastern Europe. Enlargement is seen pre-eminently in a security perspective, as an essential contribution to a new security arrangement for the whole of Europe. Concern has, however, been expressed that enlargement should not add to the Dutch financial contribution to the EU, which is already

the subject of a high-profile national debate. The Dutch make a strong link between enlargement, the outcome of the IGC, and reform of the structural funds and the CAP. They insist, in particular, that the IGC must improve decision-making, and increase transparency and democracy. They do not expect that the first entrants from Central and Eastern Europe will be ready for membership before 2005.

BELGIUM favours enlargement, on grounds broadly similar to those of Germany and the Netherlands, but places emphasis on the need for a timetable which allows adequate preparation by the applicants and the EU. Enlargement must be achieved, not by dismantling of existing policies, but by including transitional measures in the accession treaties. It also emphasises that widening must go hand in hand with deepening.

LUXEMBOURG, in a context of support for enlargement, has a particular concern that institutional changes associated with enlargement should not dilute the representation of smaller Member States within the EU institutions - in particular, in the right of each Member State to nominate a Commissioner; and in the weighting of votes in the Council.

SOME KEY DOCUMENTS ON ENLARGEMENT

OJ L061/71	Europe Agreement with Malta
OJ L133/73	Europe Agreement with Cyprus
OJ L347/93	Europe Agreement with Hungary
OJ L348/93	Europe Agreement with Poland
OJ L357/94	Europe Agreement with Romania
OJ L358/94	Europe Agreement with Bulgaria
OJ L359/94	Europe Agreement with the Slovak republic
OJ L360/94	Europe Agreement with the Czech republic

Europe Agreements with Latvia, Lithuania, Estonia and Slovenia²²

Helsinki Final Act, 1975

COMMISSION DOCUMENTS

COM(93)312 final	Commission opinion on Malta's application for membership
COM(93)313 final	Commission opinion on the application by the Republic of Cyprus for membership
COM(94)320 final	Communication from the Commission to the Council The Europe agreements and beyond: A strategy to prepare the countries of Central and Eastern Europe for accession
COM(94)361 final	Communication from the Commission to the Council Follow up to Commission communication on "The Europe agreements and beyond: a strategy to prepare the countries of Central and Eastern Europe for accession"
COM(95)163 final	White paper on "The Preparation of the associated countries of Central and Eastern Europe for integration into the internal market of the Union"
COM(95)609	Report on the "State of progress and prospects for cooperation in the Baltic region";
COM(96)90 final	Commission opinion Reinforcing political union and preparing for enlargement

CSE(95)605	Interim report from the Commission to the European Council on the effects of enlargement to the associated countries of Central and Eastern Europe on European Union policies + summary
CSE(95)606	Report on the state of implementation of the strategy for preparing for the accession of the associated countries of Central and Eastern Europe + summary

- CSE(95)607 Agricultural strategy document
Study of various strategies which could be followed to develop relations between the European Union and the associated countries in the field of agriculture, with a view to the future accession of these countries + summary
- 8169/96 PECOS 81 Relations with the associated CCEE in the first half of 1996
- Agricultural Situation and Prospects in the CEEC's, DGVI working document and summary;

EP DOCUMENTS

- A4-0101/96-17.4.96 Preparation for accession of East European countries; Resolution on the White Paper: "Preparing the associated CEECs for integration into the internal market of the Union" (COM(95)163-C4-166/95)
- A4-0060/96-27.3.96 Institutional committee
Report on the report of the European Council to the EP on the progress of the EU in 1994; Part A: Resolution
- PE165.972-27.5.96 Briefing on the 1996 Intergovernmental Conference and the Enlargement of the EU, N° 36; Task Force on the IGC

COUNCIL DOCUMENTS

- Bullec 06-1993 21/22.6.93 Copenhagen Council, presidency conclusions
- Bullec 12-1994 09/10.12.94 Essen Council, presidency conclusions
- Bullec 12-1995 15/16.12.95 Madrid Council, presidency conclusions

PES AND SI DOCUMENTS

- Final declaration, Party Leaders Summit Essen, December 1994, (point 4)
- Barcelona declaration, Second PES congress, March 1995, (page 5, "enlarging the Union")
- Leaders conference, Leaders declaration, Madrid, December 1995, ("Bringing the EU into balance")
- SI declaration on "Central and Eastern Europe", adopted in Budapest; 2/3 December 1994
- SI resolution on "the new Europe in an interdependent world", adopted in Brussels, 7/8 December 1995

FORUM DOCUMENTS

- Annual report 1994
- Annual report 1995

Country up-dates:**Bulgaria; (April 1995)****Czech republic; (May 1995)****Estonia; (June 1995)****Hungary; (September 1994, April 1996)****Latvia; (July 1994, March 1996)****Lithuania; (June 1994)****Poland; (June 1995)****Romania; (February 1996)****Slovakia; (March 1996)****Slovenia; (September 1994)**

ANNEX

Presidency Conclusions - Madrid, 15 and 16 December 1995

ENLARGEMENT

Enlargement is both a political necessity and a historic opportunity for Europe. It will ensure the stability and security of the continent and will thus offer both the applicant States and the current members of the Union new prospects for economic growth and general well-being. Enlargement must serve to strengthen the building of Europe in observance of the *acquis communautaire* which includes the common policies.

With that in mind, the European Council took note of the **Commission reports on the effects of enlargement on the policies of the European Union, on alternative strategies in agriculture and on the progress of the pre-accession strategy for the associated countries of Central and Eastern Europe.**

The European Council takes note of the **Council report on relations with the associated CCEE during the second half of 1995.**

The PHARE programme, as supported by the European Council's decisions at its Cannes meeting, and the continued activities of the European Investment Bank will allow an overall increase in the input for accession preparations.

The European Council reiterates that the accession negotiations with Malta and Cyprus will commence, on the basis of the Commission proposals, six months after the conclusion of the 1996 Intergovernmental Conference, and will take its results into account. It is pleased that structured dialogue with both countries began in July 1995 within the framework of the pre-accession strategy.

The European Council also confirms the need to make sound preparation for enlargement on the basis of the criteria established in Copenhagen and in the context of the pre-accession strategy defined in Essen for the CCEE; that strategy will have to be intensified in order to create the conditions for the gradual, harmonious integration of those States, particularly through the development of the market economy, the adjustment of their administrative structures and the creation of a stable economic and monetary environment.

The European Council calls upon the Commission to take its evaluation of the effects of enlargement on Community policies further, particularly with regard to agricultural and structural policies. The European Union will continue its review at its next meetings on the basis of reports from the Commission.

It asks the Commission to expedite preparation of its opinions on the applications made so that they can be forwarded to the Council as soon as possible after the conclusion of the

Intergovernmental Conference, and to embark upon preparation of a composite paper on enlargement. This procedure will ensure that the applicant countries are treated on an equal basis.

It also calls upon the Commission to undertake a detailed analysis as soon as possible of the European Union's financing system in order to submit, immediately after the conclusion of the Intergovernmental Conference, a communication on the future financial framework of the Union as from 31 December 1999, having regard to the prospect of enlargement.

Following the conclusion of the Intergovernmental Conference and in the light of its outcome and of all the opinions and reports from the Commission referred to above, the Council will, at the earliest opportunity, take the necessary decisions for launching the accession negotiations.

The European Council hopes that the preliminary stage of negotiations will coincide with the start of negotiations with Cyprus and Malta.