

AGENDA 2000

For a stronger and wider Union

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For a stronger and wider Union

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Introduction

The Madrid European Council in December 1995 reaffirmed that the necessary decisions for launching the accession negotiations with the countries applying for European Union membership would be taken within six months of the conclusion of the Intergovernmental Conference (IGC) and in the light of its outcome. It called on the Commission to submit as soon as possible after the IGC the opinions on the individual applications and to embark on the preparation of a composite paper on enlargement. It further asked the Commission to undertake a detailed analysis of the European Union's financing system in order to submit, immediately after the IGC, a communication on the future financial framework of the Union as from 31 December 1999, having regard to the prospect of enlargement.

The present Agenda 2000 communication, together with the opinions on each application for accession, constitutes the comprehensive Commission reply to these requests. It outlines in a single framework the broad perspectives for the development of the Union and its policies beyond the turn of the century, the horizontal issues related to enlargement, and the future financial framework beyond 2000 taking account of the prospect of an enlarged Union.

Enlargement plays a far greater role in Agenda 2000 than in any of the large financial packages of the past. The number of applicant countries and the differences between them are greater than ever before, and they will all be net recipients of Community funds. Moreover, both the policy reforms and the absorption of new members will have to be accommodated in a tight budgetary framework.

What has been achieved since the Single Act

Europe has undergone considerable changes in the space of a single decade. Two successive enlargements have raised the number of Member States to 15. Two major Treaty reforms -- the Single Act and the Treaty on European Union -- have radically modified the Union's institutional and political framework. And two comprehensive financial packages have redef-

ined the objectives and means of integration that have accompanied these changes.

These developments contributed to a new dynamic of integration paralleled only by that of the early years of the Communities. The launching of the single market was instrumental to this process, as was the unprecedented effort of solidarity between Member States expressed in the rapid development of economic and social cohesion policies. The road to economic and monetary union (EMU), which was opened up by the Single Act and formally established in the Maastricht Treaty, further strengthened this development by encouraging greater economic stability and confidence.

This regained momentum in the history of European integration was based on both a strong and evolutive treaty framework and on sound and stable medium-term financial perspectives, coupled with an interinstitutional consensus on the need for budgetary discipline and moderation in the development of Union policies. In spite of the considerable expansion of Union action over the past decade, the Community budget has stayed well below the expenditure ceilings. In actual payments, the 1997 budget remains at 1.17% of GNP in comparison with a financial perspective ceiling of 1.23% of GNP.

But the historic acceleration of the pace of European integration in this past decade was also influenced by outside events. The end of the Cold War and the break-up of the Soviet Union opened up new horizons of international cooperation, and propelled the Union into a key role for promoting change and stability across Europe. This was notably the case through its support for German unification, and the major assistance effort for the countries of Central and Eastern Europe (CEECs). The 1993 Copenhagen European Council opened up the perspective of enlargement towards these countries. Subsequently, an ambitious strategy of pre-accession was launched at Essen.

Closer relations have also been established with the New Independent States emanating from the former Soviet Union and with the countries on the southern and eastern rim of the Mediterranean. Similarly, the breadth and strength of the Union's relations with the West European

partners and the United States was reflected in the establishment of the European Economic Area and the New Transatlantic Agenda. On the economic front, the Union played a decisive role in the successful conclusion of the Uruguay Round and the establishment of the World Trade Organization (WTO). It thus confirmed its stature as a key player in the context of growing globalization.

But these genuine advances should not mask the difficulties encountered by the Union in recent years. These were first and foremost economic. After the strong economic performance at the end of the 1980s and early 1990s, when nine million jobs were created, the subsequent downturn caused rising unemployment in the Union and made budgetary and structural reforms in the Member States more difficult to achieve. Nevertheless, considerable progress has been made since, not least as a result of the convergence programmes established under the Maastricht Treaty provisions to prepare for EMU. At Union level, policy coordination has been strengthened and new initiatives taken to make better use of the potential of Europe as a single economic entity. Although these actions contribute to giving the Union a better economic outlook now than it has had for many years, unemployment levels are still at an unacceptably high level.

The difficulties were also of a political and psychological nature. The debate on the ratification of the Maastricht Treaty revealed that the general public had not kept up with the accelerating pace of institutional change, in which they did not feel properly involved. The importance taken by the Union in daily news stood in contrast to the persistence or even aggravation of their own difficulties. Since the Union has become so important, people expect a lot of it. They want to be listened to and to be involved, they want answers to their concerns — be they unemployment, the environment, public health, the problems of drugs and crime or the instability near our borders.

The Treaty of Amsterdam

Before embarking on a crucial new stage in the history of Europe, it was necessary to modernize the Treaty in order to strengthen Citizen's Europe, improve the Union's capacity for external action and reform the institutional framework. Those were the stakes of the IGC

which has just finished. The Treaty of Amsterdam made considerable progress on these fronts, but the institutional reforms were only partial and need to be completed before the forthcoming enlargements. The provisions on an area of freedom, security and justice and the integration of the Schengen Convention into the Treaty constitute a major step towards a Citizen's Europe. The incorporation of a title on employment translates the importance of the fight for employment in the Union into Treaty language. The changes to the social and environment provisions manifest the concern to build a Europe that is more human, closer to the citizen.

The new treaty improves the provisions on the common foreign and security policy (CFSP) and the coherence between it and external economic relations. The Union can now gradually enhance its presence and effectiveness on the international stage and develop an external policy which is commensurate with its potential and more in line with the expectations of the Europeans.

At the institutional level, the role of the European Parliament as co-legislator has been strengthened quite considerably by the extension of the co-decision procedure and the simplification of procedures in general. The extension of qualified majority voting is more modest, even though important new areas of activity, such as research, will now be subject to majority decisions.

There is all the more reason, pending later reforms, to make full use of all the possibilities offered by the new Treaty as regards the changeover to qualified majority voting. This applies in particular to the measures concerning the area of freedom, security and justice, the common commercial policy and the CFSP.

The introduction of enhanced cooperation will also make it easier to take up the challenges of a broader and more heterogeneous Union.

The substantial strengthening of the status and powers of its President will raise the profile and efficiency of the Commission. At the same time, the internal reforms announced by the Commission and mentioned in a Declaration at the Conference will prepare the institution for the requirements of the 21st century.

Strengthening the institutions

The Treaty of Amsterdam is thus a new step on the road to the unification of Europe and allows to start the enlargement process. But that process must not get carried away. The euro must therefore be in place by 1 January 1999, as laid down in the Maastricht Treaty. Similarly, all the Union's policies must be developed and deepened in order to build a wider and stronger Europe.

Above all, the institutions and their functioning must be strengthened in good time, as foreseen by the Protocol on the future of the institutions annexed to the Treaty. Any delay in this respect would only serve to compromise the Union's effective enlargement.

The Commission therefore proposes that, as from now, a date be set for the reform regarding the weighting of votes in the Council which must accompany the reduction in the number of Commissioners to one per Member State prior to the first enlargement. Regardless of the likely date of that enlargement, the political decision on this reform should be taken well before 2000. However, this reform will not be sufficient to proceed with a substantial enlargement, as is also clear from Article 2 of the Protocol on the future of the institutions. The Commission therefore suggests that a new Intergovernmental Conference be convened as soon as possible after 2000 to produce a thorough reform of the provisions of the Treaty concerning the composition and functioning of the institutions. This would, in any event, have to involve the introduction of qualified majority voting across the board.

Enlarging the Union

Enlargement to include the countries of Central and Eastern Europe and Cyprus is an historic challenge for the Union. But it is also an opportunity — in terms of its security, its economy, its culture and its place in the world. The continent-wide application of the model of peaceful and voluntary integration among free nations is a guarantee of stability. The Union, with more than 100 million new citizens, will see enhanced trade and economic activity, and a new impetus for the development and integration of the European economy as a whole. Europe's cultural diversity will be a source of creativity and wealth. The accession of new

Member States will enhance the Union's weight and influence internationally.

At the same time, the sheer number of applicants and the very large differences in economic and social development which they will bring with them, will present the Union with institutional and political challenges far greater than ever before. The Union population will potentially increase by more than a quarter to nearly 500 million, but total GDP would rise by barely 5%. Notwithstanding the enormous efforts undertaken by these countries, their integration into existing programmes and structures will be a very delicate task. The enlargement process will also require careful management in the Union's relations with other partners in Europe and beyond, in order to ensure that it contributes to the overall objectives of strengthening international security and cooperation.

The challenges ahead

With the help from a new Treaty, the support from a strong euro and a vast internal market and the driving force from the dynamics of enlargement, the Union should enter the next century in conditions which are better than those which it faces today. In this perspective, a reflection is needed on how longer term trends, both internal and external, will shape events and influence the ways in which it can hope to achieve its objectives.

This reflection must also address the question of how to develop the European model of society in the 21st century and how to best respond to the major concerns of the citizens. The primary of these concerns relates to the present unacceptably high rates of unemployment and social exclusion which tear at the very fabric of society. At the same time, growing threats to natural environment have become a major issue for all citizens. Similarly, drug abuse and organized crime are increasingly at the forefront of citizen's preoccupations.

The demographic evolution in the Union over the next 25 years will be quite dramatic: the number of people aged over 60 will grow by 37 million, whereas the working population will decrease by 13 million. This will put increasing strains on pensions and social protection systems, which will require a combination of reforms and strengthened economic

performance in order to guarantee the sustainability of a high level of protection. At the same time, the shift in the age structure of the working population strengthens the need to increase the qualifications of young people and to offer the perspective of a full-length working life through continuous learning. Special attention must be given to the growing participation of women in the world of work and society and to changing family patterns.

New technologies develop at an ever increasing pace, and their implications are becoming more and more widespread. They will have a profound effect on all aspects of society. A special effort is required to exploit the new possibilities for the organization of work they offer, allowing to combine flexibility with individual interests. Technological change can raise productivity by enhancing people's skills, improving tools and facilitating production processes. In areas where this combination is particularly successful, such as the information society, biotechnology or environmental technology, this evolution creates considerable opportunities for growth and jobs. To make full use of these possibilities, the necessary investments must be made in research, new equipment, the adaptation of management structures and the constant upgrading of human resources. Special attention should be given to make sure that technological progress benefits all sectors of the society.

The ongoing process of restructuring of markets and enterprises, fuelled by innovation, competition and international trade, has been accelerated by the creation of the single market. This process will entail the modernization of manufacturing industry alongside the rapid growth in the services sector, which is particularly favourable to the development of small and medium-sized enterprises (SMEs). In this context, public services will need to adapt accordingly. The major challenge here is to balance the dynamic and social aspects of the restructuring process by combining flexibility for enterprises with security for individuals. While restructuring is both necessary and beneficial in overall terms, labour market rigidities and mismatches between skills and demand have made it difficult to take full advantage of its employment potential. This problem has been aggravated by the persistent low geographical mobility of people, both in the Member States and between them.

The Union will have to adjust to the continued process of globalization. It is well placed to draw advantages from this process; its overall economic balance with the rest of the world is positive and has grown more so with market liberalization. The external dimension of Community policies — on the environment or energy, for instance — will more than before become an integral component of its external relations. The Union will also have to adapt to the emergence of a multi-polar world. Its economic and geopolitical weight give it the possibility of becoming an important actor on the world stage. To that end, it will have to develop a coherent overall approach to its external relations.

* * *

It is against this background that the Commission presents its Agenda 2000 communication which sets out to deal in a comprehensive manner with the future challenges of the Union.

The first part deals with the development of Union policies. Building on the new Treaty of Amsterdam, internal policies should set the conditions for sustainable growth and employment, put knowledge at the forefront, modernize employment systems and improve living conditions. Further reforms of structural policies and of the common agricultural policy (CAP) will deepen the commitment to economic and social cohesion as well as to agriculture and rural development while preparing the Union for enlargement. Finally, it addresses the question of how to achieve greater unity and effectiveness in the Union's external relations.

The second part addresses the challenge of enlargement. It draws the main conclusions and recommendations from the individual opinions on the applicant countries and gives the Commission's views on the launching of the accession process and on reinforcement of the pre-accession strategy. Volume II of this communication contains an analysis of the impact of enlargement on the Union's policies and a detailed presentation of the reinforced pre-accession strategy.

The third part provides the new financial framework for the period 2000-2006. It demonstrates that the twin objectives of deepening and enlarging the Union can be achieved within the 1.27% GNP ceiling for own resources, thus ensuring continued budgetary discipline, and

addresses the question of the future financing system.

Taken together, these elements offer a clear and coherent vision of the Union as it enters the 21st century.

Part One — The policies of the Union

Beyond 2000

The Union's internal and external environment is in a state of rapid change. Europe must adapt, develop and reform. Even more than in the past it must concentrate on what is essential and focus its attention on areas where it can provide real added value. Through its right of initiative the Commission has a crucial role to play in reshaping the policies of the Union. At the same time it must rethink its action and improve its administrative, coordination and control capabilities. In a bigger and more diversified Europe, its role as defender of the common interest will be even more decisive than in the past. To succeed in this, it must reorganize and modernize its structures.

The development of internal policies is a first priority. This should be done in four directions: setting the conditions for sustainable, employment-intensive growth, putting knowledge and technology to the forefront, modernizing employment systems and improving living conditions.

The objectives of cohesion are clearly stated in the Treaty. Economic and social cohesion will become even more important in an enlarged, and therefore more diversified Union. The cohesion effort is an investment in our own future. The question is how to adapt the

Union's instruments to the future and to the challenge of enlargement.

The 1992 reform of the common agricultural policy has been highly successful. But the time has come to deepen the reform and to take further the movement towards world market prices coupled to direct income aids. Several reasons militate for such an approach: the risk of new market unbalances, the prospect of a new trade round, the aspiration towards a more environment-friendly and quality-oriented agriculture, and last but not least the prospect of enlargement. At the same time, there is a growing need for a fully fledged rural development policy.

In its external relations, the time has come for the Union to develop a fully operational foreign policy. The Amsterdam Treaty gives it more adequate instruments to develop the CFSP. The euro provides it with a unique opportunity to become one of the leading financial players. Enlargement will enhance its influence. There is a genuine call for Europe whose partnership and cooperation is sought after worldwide. The Union must respond positively, both because it has political and economic interests to defend and because it has a major contribution to bring to peace, democracy and the defence of human rights and values.

I. Internal policies

The successful passage to EMU and the full exploitation of the potential of the single market will enhance Europe as an economic entity, contributing to sustainable growth. Its competitiveness depends on dynamic enterprises and the skills and knowledge of its people. In order to turn growth into jobs, employment systems should be modernized. Beyond these economic goals, Europeans also want a cohesive and inclusive society based on solidarity, as well as a high quality of life, sound environment, freedom, security and justice. The internal policies of the Union should be more resolutely oriented towards meeting these objectives.

1. Setting the conditions for sustainable growth and employment

The process leading towards economic and monetary union continues to be a major driving force for the Union. All the technical preparations are now in place to ensure that the euro will see the light of day on 1 January 1999. As a result of the enormous convergence efforts of the Member States, there is a good prospect that a large number of them will be ready for participation from the start. The move towards

the euro will not only provide an anchor of stability, improve market efficiency and encourage investment. It will also open new possibilities for more effective macroeconomic management in Europe. The Amsterdam Resolution on Growth and Employment and the Stability and Growth Pact provide a favourable framework for economic growth and new job opportunities.

The single market can play a central role in furthering growth and employment, provided its potential is fully exploited. To this end, the action plan endorsed by the European Council of Amsterdam must be implemented in all its components. Making the rules more effective and removing all market distortions and sectoral obstacles will turn Europe into a dynamic and attractive market place. Moreover the single market must be there for the benefit of all citizens. The assets of the single market must be used to promote the Union's interests and presence internationally.

With further integration, the strict application by the Commission of competition rules, including close surveillance of State aids, becomes ever more important for the market operators and will enhance the overall economic performance of the Union. Rules will be made simpler and surveillance and enforcement structures will be modernized in partnership with Member States, with a view to decentralization where possible. The Union should also press for more international cooperation in competition policy.

Given their proven potential for job creation, improving the operating conditions for small and medium-sized enterprises in the single market remains a high priority. This must be done by reducing administrative and regulatory red tape, stimulating new forms of cooperation between small and large companies and improving SME access to finance and capital. The projected new EIB lending facility will be of particular importance. Moreover, the Union should continue to fund actions aimed at improving the operating conditions of SMEs.

Following the inclusion of sustainable development as one of the Union's objectives into the Amsterdam Treaty, progress must be made towards environmentally sustainable production and consumption patterns. The incorporation of the latest technological evolutions into environ-

mental policy and the use of new instruments like market-based incentives can actually enhance the competitiveness of European industry and services.

The continued development of the Trans-European networks (TENs) will serve to enhance both sustainable development and the internal cohesion of the Union by tying regions closer together. This will need to be accompanied by a move towards sounder transport systems, drawing fully on new technology, to address the problems of congestion, pollution and climate change. TENs also have a particularly important role to play in creating new links with the Central and Eastern European candidate countries. It is precisely the trans-European nature of the benefits from these projects which justifies continued substantial contributions at the Union level towards their realization.

Community funds can play a crucial role in getting TEN projects in transport, energy and telecommunications off the ground. The next financial period will see the main construction phase on many of the priority projects, involving higher overall spending than in the period 1994-99 during which the Community essentially financed preparatory works. Enlargement will extend the geographical coverage of the TENs, and consequently the financing needs. There is a range of sources of finance for TENs, including the Cohesion Fund, the European Regional Development Fund (ERDF) and the European Investment Bank/European Investment Fund (EIB/EIF). Effective coordination of these instruments, including development of public/private financing, is essential, but will not be sufficient to cover the identified needs in this sector. Additional funding must therefore be identified beyond present appropriations.

2. Putting knowledge at the forefront

The key feature of today's world economy is a rapid shift towards globalization and information and communication technologies. These technologies determine the global competitiveness of all economic sectors and foster the emergence of new immaterial goods.

In order to derive the maximum benefit from this process in terms of growth, competitive-

ness and employment, special attention must be paid to the development, dissemination and use of these immaterial goods. Knowledge policies — research, innovation, education and training — are therefore of decisive importance for the future of the Union.

In response to the challenges of technological development and innovation coming at a time when Europe's competitors are stepping up their efforts significantly, it is vital that the Community research and technological development effort be given new impetus. Community R&TD must provide real added value in relation to national programmes. This is the main objective of the fifth framework programme, which will need to see its financial allocation increased above the level of the present programme. The Union must focus research activities on improving the competitiveness of the European economy, thereby promoting the creation of new jobs. It is particularly important that Europe should be able to transform scientific and technological breakthroughs into industrial and commercial successes. In this connection, innovation by small and medium-sized enterprises is a particularly important factor on which to build. The creation of innovative high-tech companies in Europe must be encouraged. The Union also has to improve on the dissemination of technology and the system of intellectual property rights for its discoveries.

Like research, education and training represent essential immaterial investments. The Union will go on giving priority to concrete initiatives to promote exchanges of young people, scientists and teachers along the lines of the Socrates, Leonardo da Vinci and Youth for Europe programmes. The success of schemes like the Erasmus programme should lead to new initiatives to promote transnational mobility for European citizens. An exchange programme for young apprentices should be developed rapidly. At the same time the European youth volunteer programme should be developed. The new generation of programmes would seek to encourage life-long training through innovative transnational projects and the exchange of good practice.

The information society holds major opportunities for Europe's competitiveness and its development must be promoted in areas such as

electronic commerce and the audiovisual sector. But it has also become a formidable medium for education, training and culture. Familiarity with these new technologies must therefore be improved, in particular in schools.

3. Modernizing employment systems

In order to draw the maximum benefit from growth and competitiveness for employment, labour market and employment policies must be modernized. Whereas the responsibility for these policies is largely national, the Union has provided a reference framework building on the process started in Essen and amplified in Amsterdam. It should fully exploit all the possibilities offered by the new employment title of the Treaty such as pilot projects, exchange of best practices, benchmarking exercises and specific recommendations to Member States. In this way, a true coordination of national employment policies will take place involving all relevant actors and stimulating social dialogue. The aim must be maximum flexibility for the enterprises and maximum security for the individuals.

The Community and its Member States will have to rethink a number of policies in order to achieve these aims: how to invest permanently in the skills of the existing workforce; how to increase the participation rate by providing new forms of work organization; how to encourage mobility; and how to anticipate and respond to restructuring by appropriately informing and consulting workers, improving their reintegration and stimulating entrepreneurship. The present social protection systems should be made more employment-friendly, unemployment schemes should be geared towards greater employability in the context of a move towards life-long learning. Furthermore, tax regimes should also provide the appropriate incentives towards job creation.

The reform of pensions and health care systems against the background of an ageing population presents the Member States and the Union with a particular challenge. It must be reconciled with the need for budgetary rectitude. Modernization of protection systems must build on common analysis, coordination of policies and

joint dialogue with the social partners. The Union will continue to serve as a forum for promoting better mutual understanding of long-term perspectives and for identifying common challenges. Where necessary, regulatory initiatives can provide a new common framework, in particular for pension funds in the euro financial area.

4. Improving living conditions

The overall growth and employment prospects in the coming decade are encouraging. At the same time, there could still be very different patterns of employment and social development within the Union, or within individual Member States. Special efforts will be required to ensure that the benefits of growth can be used to promote a more cohesive and inclusive society. Beyond the targeted use of Structural Funds and other Community instruments, the Union can play a supporting role by encouraging best practices and facilitating cooperation in the fight against social exclusion and all forms of discrimination.

Recent events have increased the sensitivity of Europeans as regards public health. There is an urgent need to draw the lessons from this situation, notably for improving food safety. As a matter of priority, a reflection is needed on the system of authorizations for the production and distribution of products with an impact on public health. In this context, Article 129, as complemented by the Amsterdam Treaty, should be fully exploited. The Union should also defend its approach and high standards in this field at the international level in accordance with multilateral rules.

In order to be able to respond to the environmental challenges in an enlarged Union, a better implementation and enforcement of the environmental *acquis* must be ensured. Further efforts will have to be made towards integrating environmental considerations into the design and implementation of all relevant Com-

munity policies, thus responding to public demand for creating higher 'quality of life'.

Globalization and increased economic integration imply that cost-effectiveness becomes a crucial determinant of sound environmental policy and so does an extended cooperation with the stake-holders, as successfully practised in the Auto/Oil Programme. This not only preserves and improves the situation within the Union, but also presents a way to achieve the objectives the Union is committed to in the follow-up of the Special Session of the United Nations General Assembly on the environment and sustainable development.

The right to move and settle freely is fundamental to the European citizen. The free movement of persons must however be accompanied by an adequate level of security and justice if it is to be seen as a genuine advantage by all. In Amsterdam, this twin requirement was written into the Treaty in the form of a progressive establishment of an area of freedom, security and justice. The integration of the Schengen cooperation into the Treaty amplifies the *acquis* in this area.

Migratory pressures on Europe will remain strong in the coming years and will, as in the past, have a strong impact on economic and social development. Europe will continue to attract people in need of international protection.

Crime, fraud, corruption, trafficking in human beings or smuggling of drugs and other illicit goods all call for clear common responses. With the new Treaty there is now scope for developing a comprehensive Union policy covering border control, immigration, asylum, the fight against crime in all its forms as well as judicial cooperation in civil and criminal matters. The Action Plan against Organized Crime agreed in Amsterdam bears witness as to the political determination to move forward immediately in this area of great interest to the European citizen.

II. Economic and social cohesion

1. Continuing to strive for cohesion

Maintaining the political priority

Economic and social cohesion was introduced in the Single European Act, paving the way for the 1988 reform of the Structural Funds. The Treaty on European Union turned cohesion into one of the three pillars of the European construction alongside economic and monetary union and the single market. Finally, the Amsterdam Resolution on growth and employment enshrines the priority to be given to fighting unemployment.

There is no doubt that economic and social cohesion must remain a political priority. In fact, the prospect of enlargement to new countries with widely differing levels of development makes it still more essential. European solidarity will become more important than ever in achieving the major goal of reducing disparities in levels of development explicitly set by Article 130a. It makes a vital contribution to the stability of the Union and the promotion of a high level of employment. There is still a need to address the unequal abilities of the regions to generate sustainable development and their problems in adapting to new labour market conditions, which require a more forward-looking adaptation of the skills of working men and women. The Structural Funds should aim at fostering competitive development and sustainable and job-creating growth throughout the Union and the promotion of a skilled, trained and adaptable workforce.

Assuring financial solidarity

The European Council in Edinburgh decided that this solidarity should reach a significant proportion of the Union's GNP (0.46%) at the end of the current financial perspective.

The priority given to economic and social cohesion has been translated into comprehensive programmes implemented in partnership with Member States and regions, both for regions where development is lagging behind (Objectives 1 and 6), and for declining industrial areas (Objective 2) and rural areas (Objec-

tive 5(b)). A substantial effort is also being devoted to employment and industrial change (Objectives 3 and 4).

The first Cohesion Report drawn up under Article 130b of the Treaty showed the need for and relevance of the Community's structural support system and allowed for lessons to be learnt for the future. It also demonstrated that the Member States and regions which lag behind and are eligible under Objective 1 have made progress towards real convergence, not least as a result of assistance from the Structural Funds and the Cohesion Fund. However, despite significant successes, there is still much left to be done, particularly as regards employment: unemployment has not fallen significantly and is growing not only in many less-developed regions where disparities are widening but also in the more prosperous parts of the Union. The effort to support both the balanced development of the Union and the development of human resources throughout it will therefore have to continue over the next period of the financial perspective.

However, budgetary constraints will make it impossible to go beyond the effort made in terms of Union GNP in 1999 (0.46%). Nevertheless, with the extra resources generated by growth and a more efficient use of the resources available, it should be possible to finance both the development of structural policies in the Union of 15 and the gradual integration of new Member States from the moment of their accession.

Category 2 of the Community budget, covering structural operations, will therefore have to retain a privileged place in the budget. However, automatic and systematic rebudgeting in the framework of multiannual programming is to be avoided.

An amount of ECU 275 billion (at 1997 prices) will be available for structural operations (under both the Structural Funds and the Cohesion Fund) as compared with ECU 200 billion for 1993-99. On the basis of the assumptions made in Part Three of this communication, ECU 45 billion will be earmarked for the new Member States, including ECU 7 billion by way of pre-accession aid. The increase in transfers to the acceding countries will be gradual in line with their absorption capacity. At all events, total transfers from the Structural

Funds and the Cohesion Fund to a present or future Member State should not exceed 4% of its GDP.

A better division of responsibilities

Making the Structural Funds more effective will require simplification of management and greater flexibility and decentralization in implementation, in line with modern management principles and future staffing restrictions. In return, the Commission will require greater selectivity and rigour when priorities are defined at the outset. This is where the concept of partnership between the Commission and the Member States will have to be given a real meaning. The monitoring and evaluation systems will also have to be improved and checks made more efficient and rigorous.

2. Greater concentration

The Commission proposes to consolidate the budget effort of the Structural Funds over the period 2000-06 at a level of ECU 210 billion for the 15 existing Member States. This means that over the new period average annual funding for EUR 15 will fall slightly from the 1999 level.

For reasons of visibility and efficiency, the present seven objectives should be reduced to three: two regional objectives and a horizontal objective for human resources.

The percentage of the population of the Union of 15 covered by Objectives 1 and 2 should be reduced from 51% to 35-40%. This figure will be smaller than the population covered by Article 92(3)(a) and (c), which should also be reduced from 1 January 2000. Furthermore, measures for the regions which will benefit from transitional (phasing out) support from the Structural Funds will have to comply with the competition rules on State aids.

A continuing high priority for Objective 1

The regions lagging behind in development which are eligible under Objective 1 and which face the most serious difficulties in terms of income, employment, the productive system and infrastructure, should enjoy the same prior-

ity as at present. It should be noted that their average level of unemployment is 60% higher than the Community average. In some regions, over one quarter of the labour force is unemployed.

That is why the total amount of the Structural Funds to be allocated to the Objective 1 regions should cover about two thirds of the Structural Funds available for the 15 Member States, a share comparable to the average for the current programming period.

In future, the threshold of a per capita GDP of 75% of the Community average should be applied strictly. Care should also be taken that there is complete congruence with the regions assisted by the Member States under Article 92(3)(a) of the Treaty. The efforts made following the 1993 revision of the Structural Funds regulations to achieve indicative financial allocations which are more objective, transparent and equitable should be continued. Using objective criteria broadly similar to those for the current period, only the eligible population, the gap between regional prosperity and the Community average, and national prosperity should be taken into account. Additional support would be granted to regions with a high level of unemployment.

For those regions currently eligible under Objective 1 but which will have passed the 75% threshold, phasing out of the relevant transfers over a transitional period will be required. The precise ways of achieving this will be defined at a later date. In view of their particular situation, the outermost regions covered by a new Treaty Article and Protocol will be treated as Objective 1 regions on an ad hoc basis. Similarly, the most northern regions with an extremely low population density which do not qualify for Objective 1 but which are at present eligible under Objective 6 should enjoy special arrangements.

As is presently the case, an integrated approach should be applied to the development of structurally backward regions. The success of efforts undertaken in partnership with the Member States depends on appropriate coordination of all the components of structural assistance, whether from the Regional Fund, the European Agriculture Guidance Fund (EAGGF — Guidance Section), the Social Fund or the Financial Instrument for Fisheries Guidance (FIFG). Each region will have to be looked at in terms both of specific needs and Community priori-

ties. Programmes will be drawn up taking account as much as possible of the priorities voiced by the regions concerned. There will be special emphasis on improving competitiveness, which is vital if jobs are to be created and maintained. This will require support for measures to assist infrastructure, innovation, SMEs and human resources.

Redefining Objective 2 — Economic and social restructuring

A new Objective 2 devoted to economic and social restructuring will bring together measures for other regions suffering from structural problems. These are areas undergoing economic change (in industry or services), declining rural areas, crisis-hit areas dependent on the fishing industry or urban areas in difficulty. All these areas are facing structural problems which take the form of economic restructuring problems, a high rate of unemployment or depopulation. A limited number of significant areas should be identified in order to facilitate an integrated strategy for economic diversification.

Almost one fifth of the population of the Union outside the Objective 1 regions lives in areas where the unemployment rate is above the Community average. Youth unemployment is still over 30%. In some urban areas, unemployment ranges from 30% to 50%.

Vigorous structural measures are required to foster diversification, restore economic dynamism and promote an active business culture. Such measures should help exploit the very high economic development potential of such areas, accompany restructuring and encourage the adjustments required. Particular attention will have to be paid to education and training and to access to new technologies to the extent that skills do not meet the requirements of a modern economy.

The new programmes to support the Objective 2 areas will favour economic diversification, including in regions heavily dependent on a single declining economic sector. This will require increased support for small and medium-sized enterprises and innovation as well as a greater emphasis on vocational training, local development potential, the protection of the environment and combating social exclusion, particularly in urban areas in difficulties. Investment in human resources, based on anti-

icipation and on activating the labour market and on permanent training, should be increased in these areas undergoing changes. The development of rural areas should build better links between the countryside and local towns. This should facilitate the diversification of industrial, craft, cultural and service activities.

The Commission would like to see simpler, transparent and specific eligibility criteria developed for the various types of areas covered by the new Objective 2. Account will have to be taken of relevant socioeconomic criteria, and in particular of the rate of unemployment, the levels of industrial employment, the level and development of activity in agriculture and in the fishing industry, and of the degree of social exclusion. In the interest of simplification, the different funds (ERDF, Social Fund, EAGGF, FIFG) will be involved through a single programme per region. The use of Community criteria in the context of partnership with the Member States, and with due regard for their regional priorities, should result in geographical concentration on the areas most affected at Community level. This will lead to a zoning which is less scattered and as consistent as possible with the areas assisted by the Member States under Article 92(3)(c) of the Treaty.

The areas currently eligible under Objectives 2 and 5(b) which would no longer be eligible under the future selection criteria should enjoy limited financial support for a transitional period.

In addition to the aid provided under Objectives 1 and 2 of the structural policies for changes taking place in the fisheries sector, the FIFG could support restructuring on the Union's coastline from Category 1 of the financial perspective.

Developing a strategy for human resources: a new Objective 3

The development of human resources will be a key element both in the Objective 1 and 2 regions and elsewhere in the Union and should be implemented in a consistent way. A determined effort should be made to modernize labour markets in a way consonant with the multiannual plans for employment and the new Title on employment introduced in the Treaty of Amsterdam. Priority should be given to access to employment, the development of

lifelong learning and the promotion of local employment initiatives, including territorial employment pacts.

A new Objective 3 will be introduced for regions not covered by Objectives 1 and 2. It will help the Member States to adapt and modernize their systems of education, training and employment. This is required both to make their economies competitive and for reasons related to safeguarding the European model of society. Education is, in fact, a powerful tool for social equity and inclusion.

The new Objective 3 will be based on a common European framework, but with sufficient flexibility so as to reflect a variety of systems, approaches and levels of development in the Member States. Strategy and funding should therefore be sufficiently flexible so as to be modulated as a function of Member State and the scale of intervention foreseen. The policy dialogue with Member States should ensure that Objective 3 programmes provide concentration within a realistic and effective range of measures and that monies are used in a way which both ensures consistency with the mainstream of national policies and also guarantees visibility of the Union contribution. Objective 3 will promote activity in four areas which will complement the guidelines developed as part of the European Employment Strategy:

- accompanying economic and social changes;
- lifelong education and training systems;
- active labour market policies to fight unemployment;
- combating social exclusion.

Reducing the number of Community initiatives

There are at present 13 Community initiatives, which have resulted in 400 programmes, as many as all the other structural measures put together. This is clearly excessive, particularly since the initiatives often deal with the same topics as the main programmes.

Reform is obviously required to bring out more clearly the Community interest of the initiatives and their innovative character. The Commission is therefore proposing to restrict them

to three fields where the value added by the Community is most obvious:

- cross-border, trans-national and inter-regional cooperation to promote harmonious and balanced spatial planning;
- rural development;
- human resources, paying special attention to equal opportunities.

The schemes covered by other initiatives will be incorporated in the programmes financed under the various objectives. This will enable the share of the resources of the Structural Funds allocated to the Community initiatives to be reduced to 5%.

Finally, innovative measures and pilot projects, which currently absorb 1% of the Structural Funds must be improved. Such an arrangement will make it possible to test innovative measures, to provide an interesting financial lever and to develop stronger partnerships. However, a scattering of means and the proliferation of mini-projects which are difficult to manage effectively and to monitor should be avoided at all costs. Consideration should therefore be given to concentrating on significant projects and making implementation simpler and more transparent.

3. The future of the Cohesion Fund

One of the major innovations of the Treaty of Maastricht was the decision to establish a Cohesion Fund 'to provide a financial contribution to projects in the fields of environment and trans-European networks in the area of transport infrastructure,' (Article 130d).

Assistance from this Fund is subject to three conditions: it goes to those Member States whose per capita GNP is less than 90% of the Community average. It is aimed exclusively at projects concerned with the environment and transport and it is applicable only where a national programme leading to the fulfilment of the requirements of economic convergence referred to in Article 104c of the Treaty has been drawn up.

It is proposed that this fund be maintained in its present form; Member States whose per capita GNP is less than 90% and which take part in the third phase of EMU should remain eligible for assistance from the Fund. The

latter's national coverage enables Community support for the whole territory of the less prosperous Member States to be continued. Macroeconomic conditionality should continue to apply. For countries taking part in the third phase of EMU, this will require compliance with the Stability and Growth Pact and in particular the stability programmes. A review of eligibility under the criterion of per capita GNP being less than 90% of the Community average will be carried out half-way in the period.

It is proposed that the Fund should have available, for all its beneficiaries, a total of some ECU 3 billion per year.

4. Structural support for the new Member States

As soon as the next enlargement of the Union takes place, support from the Structural Funds and the Cohesion Fund should in theory apply to all the countries which join. There is ample reason for Community solidarity towards these new democracies, which have enormous development needs, particularly as regards infrastructure, including in the environmental field, the productive sectors and human resources.

To avoid major problems with regard to absorption, the level of annual aid should increase gradually, subject to the general limit of 4% of national GDP, which would apply to the Structural Funds and the Cohesion Fund together.

As a result, the resources under Category 2 of the Community budget available for the new Member States would be about ECU 45 billion for the Structural Funds and the Cohesion Fund. At the end of that period, the level of structural transfers to the new Member States would represent approximately 30% of the total for Category 2.

Pre-accession aid, to be drawn from the ECU 45 billion allocation for the new Member States, would be made available from the year 2000. This assistance, to be granted at a constant rate of ECU 1 billion per year, would initially be granted to all the applicant countries and would subsequently be focused on countries due to join the Union at a later stage. It would be primarily intended to help bring the

applicant countries' infrastructures up to Community standards, particularly in the transport and environment fields, along the lines of existing Cohesion Fund transfers. It would also enable the countries concerned to become familiar with the procedures concerning structural operations.

5. Enhancing cost-effectiveness

The reduction of economic and social disparities depends not only on a real medium-term vision of territorial development and human resources supported by adequate resources, but also on a demanding and decentralized partnership to facilitate the preparation of integrated regional and social development strategies. This is the background against which the Union's structural instruments will be radically adapted to make them more effective through simplification, evaluation and auditing.

The reduction in the number of objectives and Community initiatives constitute a first step towards simplification. Other approaches, aiming at the simplification of operational procedures, should also be explored. There would be a single multiannual programme for each region for Objectives 1 and 2. For the horizontal Objective 3, there would be a national programme or a set of regional programmes. This would substantially reduce the administrative burden while strengthening the integrated strategic approach to development and further building on the political dialogue between the Member States, the regions, the economic and social partners and the Commission concerning the effectiveness and the results of measures financed by the structural policies.

Simplifying the system for implementing the structural policies requires first of all a clear division of responsibilities between the national, regional and local authorities and the Commission. This division should be based on the following elements:

- The Commission and the national, regional and local authorities will identify in partnership the priorities for development and assistance in relation to verifiable targets;
- Management in the Member States and the regions will be decentralized, with special treatment of major projects. It will be facilitated by

simpler financial management at both Commission level and that of the Member States. In return for decentralized management, the Member States and the regions will systematically have to account directly for the use made of the Structural Funds;

□ To provide more stringent checks and verification of results, the Commission will ensure that the Member States have adequate systems for management, evaluation and auditing.

Finally, increased effectiveness could be backed up by a reserve, which should be substantial (at least 10%) and allocated only half-way in the period to regions with good

performance in terms of results that are verifiable, including from the standpoint of budget implementation. It should be simple and transparent in application.

The multiplier effect of structural resources should be increased by greater use of other forms of assistance than grants (interest-rate subsidies, guarantees, venture capital holdings, other holdings) in order to better respond to economic needs and take better account of the returns from projects. This would also apply to infrastructure, including the trans-European networks. In this respect, greater cooperation between the EIB, the EIF and the Structural Funds appears to be an essential first step.

III. The common agricultural policy

In December 1995, the Commission presented its Agricultural Strategy Paper to the Madrid European Council. This stressed the importance of improving the competitiveness of the European agricultural and agri-food sectors on internal and world markets, in the context of trade liberalization and an expected growing world food demand. It highlighted the need for a further evolution of the CAP, by developing the approach successfully started by the 1992 reform. The Paper also outlined the need for an integrated rural policy which would accompany the reform process. Moreover, it called for a radical simplification of legislation at Union level and for a substantial decentralization of policy implementation.

Later on, in November 1996, the First Cohesion Report argued in particular in favour of a more rational development of agricultural production, through a greater market orientation of prices and continuing structural adjustment. The Union should make a parallel effort to enhance the economic potential and the environmental value of rural areas and their capacity to provide sustainable jobs.

Building on these ideas, it is now time to formulate concrete proposals to reshape the common agricultural policy and prepare it for the next century.

1. The assessment of the reform process

Agricultural market policy

After the 1992 reform, there has been a considerable improvement of market balances and a decrease of public stocks in most of the reformed sectors. In the case of cereals, set-aside has helped to keep production under control, while the increased price competitiveness has allowed significant additional quantities to be used on the domestic market, mainly for animal feed. In the beef sector, the market situation evolved favourably and intervention stocks were diminishing rapidly until the outbreak of the BSE crisis in March 1996.

The general evolution of agricultural income per capita has been positive since the reform was implemented growing by +4.5% on yearly average between 1992 and 1996, with a diversity of situations according to Member States and farm orientations. The improvement of the market situation, the strong adaptation capacity of farmers, the agri-monetary context and, last but not least, the continuing decline in agricultural employment have contributed to this result. In the case of cereals the market prices improved much more than originally expected. This has led to an over-compensation of producers in the last few years. In the case of oilseeds, too, the observed market prices have been most of the time significantly higher than

the reference price so that producers have benefited from the franchise in four years out of five.

The reform effects on the environment are mixed. Some positive elements can be identified: the more rational use of fertilizers and pesticides resulting from price decreases, the possible environmental benefits of set-aside (if well managed), incentives for a long-term improvement in the territorial distribution of livestock rearing. But there are also negative elements, mainly the encouragement given to irrigated crops through the regionalization of direct payments to cereals, oilseeds and protein crops, as well as the relative advantage given to intensive livestock farming through lower feed prices and subsidizing silage.

The reduction of price support and the introduction of direct payments have benefited consumers as part of the burden of agricultural support has shifted away from them. Budgetary expenditure is therefore significantly higher in the sectors concerned. It is also under better control since factors of uncertainty (world prices, dollar exchange rate, level of intervention stocks) that strongly affected its past evolution have become less determining. At the same time the shift to direct payments has made the support for farmers more transparent.

Rural development policy

Since almost two decades, attempts have been made to integrate agricultural structural policy into the wider economic and social context of rural areas. Experience gained shows how rural diversification can be exploited in a flexible way as a necessary complement to farming. Activities which had hitherto been marginal — the development and marketing of high-quality produce, rural tourism, investment projects linked with the environment or the region's culture, small and medium-sized enterprises — have been developed and opened up new perspectives.

The 1992 CAP reform stressed the environmental dimension of agriculture as the largest land user. Among the accompanying measures of the reform, the agri-environmental measures are of key importance and have in general been welcomed by the public and well received by farmers. However, the scale of support still provided through prices and crop specific pay-

ments (e.g. silage, maize and flax) may discourage farmers from committing themselves to more extensive practices or dedicating land to environmental purposes.

On the whole, as a result of these different developments, rural policy in the Union still appears as a juxtaposition of agricultural market policy, structural policy and environmental policy with rather complex instruments and lacking overall coherence.

2. Long-term outlook

According to the major forecasting institutes worldwide, the long term outlook for the main agricultural markets is favourable for exporting countries. Prospects for increased food consumption, mainly in developing countries, combined with the limited possibility of a proportionate growth in domestic production, are expected to boost world trade and sustain world prices over the next decade.

Two key factors influence food demand: population growth and rising incomes. The world population is expected to increase by more than 85 million people a year between 1995 and 2005. Moreover, growing urbanization will influence the pattern of food consumption. The second factor determining increasing food demand is the favourable prospect for world incomes and economic growth, particularly in developing countries.

An increase in world agricultural production is expected over the next decade, but at a lower rate than in the past. In particular in many developing countries, the increase will be less than the growth in demand. This is firstly due to the limited availability of land, because of urbanization and environmental constraints and, secondly, to a slowdown in the growth of yields. The development of genetic engineering, if well controlled, could enhance production but may raise questions of acceptability to consumers.

Almost all analysts expect generally strong prices for agricultural commodities up to 2006 and even beyond. Prices are projected to strengthen or remain strong for cereals, oilseeds, beef, poultrymeat, cheese, milk powder, but may weaken for pigmeat. However, price variability could increase in the future, as world stocks are expected to be relatively low compared to in the past.

Despite this favourable world context, the agricultural commodities outlook is not very promising at European level. Supposing that present policies continue, over the coming years a gap between Union and world prices will remain for many sectors. Taking into account current commitments under the Uruguay Round Agreement, in particular on export subsidies, non-exportable surpluses are likely to emerge after 2000, for the existing Union. A structural surplus was already projected for beef before it was made worse by the BSE crisis. Increasing problems may also appear for cereals, sugar, wine, olive oil, skimmed milk powder and some other dairy products, and the Union risks losing more and more of its share in expanding world markets.

New multilateral trade negotiations will start in 1999 as a follow-up to the Uruguay Round. Cutting border protection, reducing export subsidies and reshaping internal support towards more 'decoupled' instruments will enhance the Union's negotiating stance in the new Round. Another, increasingly sensitive, issue is the need to introduce environmental and social standards at international level and to take into account consumer concerns.

Eastward enlargement will add over a 100 million consumers, whose average purchasing power would however be only roughly one third of that of the current consumers in the Union. Agricultural area would be expanded by half and the agricultural labour force would at least double. The Central and Eastern European countries have a serious need for structural improvement in their agriculture and up- and downstream sectors. Restructuring can be expected to reduce the labour absorption capacity of agriculture, implying a need for diversification of their rural economies.

If the CAP instruments, mainly support prices and direct payments, were applied at their present level by the Central and Eastern European countries, particular problems would arise. Inordinate cash injections through direct payments would risk creating income disparities and social distortions in the rural areas of these countries. In addition, surpluses would increase, in particular for sugar, milk and meat, reinforcing the growing market imbalances predicted after 2000.

Consumer requirements from agriculture and the food industry are also evolving. Health, notably food safety, is the main one. Conve-

nience (fast-food, ready-made meals and snacks) is becoming more and more important in the context of changing life-styles. But at the same time, typical, well-identified products, linked to specific areas or cultural values (traditional production methods, animal welfare, etc.) are increasingly sought after.

Rural trends in the Union show a sharp decline in the number of farms and in the number of people employed in agriculture. In terms of regional income and employment, agriculture (and forestry) no longer forms the main basis of the rural economy. It represents only 5.5% of total employment on average, and in very few regions is its share higher than 20%. The long term trend is a further drop in the number of farmers, at a rate of 2-3% per year.

New activities and new sources of income are emerging on-farm and off-farm. Among those, the production of renewable raw materials, for non-food purposes in niche markets or the energy sector, can represent a new opportunity for agriculture and forestry and contribute to job creation in rural areas.

Society is increasingly conscious of the importance of the natural environment and of the environmental effects — both positive and negative — of human activity. Rural areas are in a unique position to respond to these concerns by maintaining and creating environmentally attractive living, working and recreational spaces. In this context, the concept of public payment for the protection of natural resources and the enhancement of the countryside is increasingly gaining acceptance and offers agriculture and forestry, as the main land users, both new challenges and fresh opportunities.

While the successive reforms have improved transparency and effectiveness, a number of inconsistencies and overlaps between different policies have developed. Too many programmes and measures can apply simultaneously in the same area under different policy headings, affecting consistency. There is an urgent need for a radical simplification of rules and a greater decentralization of policy implementation, with more margin being left to Member States and regions. More decentralization should not, however, lead to any renationalization of policies.

The CAP absorbs around 0.6% of the Community's GDP. Considering both the declining share of agriculture in the economy and the

increasing budgetary constraints many Member States are facing, this public support has to be fully justified. This means that the crucial role that agriculture plays, in producing high quality food, in maintaining a living countryside, in protecting landscapes and preserving cultural values, has to be clearly demonstrated. While the generalization of direct payments to farmers after the 1992 CAP reform made financial support for agriculture more transparent, it also increased the need for it to be economically sound and socially acceptable.

3. Policy objectives for the CAP

In order to help European agriculture take advantage of the expected positive world market developments, further reform of the CAP must improve the competitiveness of Union agriculture on both domestic and external markets. Lower prices will benefit consumers and leave more room for price differentiation in favour of high quality speciality products. Greater market orientation will facilitate the progressive integration of new Member States and will help prepare the Union for the next WTO Round. It will also help the Union to reinforce its position as a major world exporter.

Prices are, however, only one aspect of competitiveness. Food safety and food quality are at least as important. It is a fundamental obligation to guarantee the safety of food to consumers both within and outside the Union, and this must therefore be a top priority for the CAP. As far as possible it will continue to support quality products, which are often linked to specific geographical origins or specific production methods identifiable by consumers.

Complete reliability from the point of view of food safety, and continuous efforts to improve quality, will also determine the image of European products on domestic and international markets. Of growing importance in this area too are questions of the environmental friendliness of production methods, and animal welfare considerations. In all these respects, European farmers are able to offer quality products deserving to be known worldwide.

Ensuring a fair standard of living for the agricultural community and contributing to the stability of farm incomes remain key objectives of the CAP. In this context the questions of

differentiation, redistribution of income support among farmers and the preservation of sustainable farming are gaining importance, not least from the point of view of social cohesion.

The integration of environmental goals into the CAP and the development of the role farmers can and should play in terms of management of natural resources and landscape conservation are another increasingly important objective for the CAP.

The creation of complementary or alternative income and employment opportunities for farmers and their families, on-farm and off-farm, remains a major aim for the future, as employment possibilities in agriculture itself fall away. Rural areas are multi-functional, and farmers should be encouraged to exploit all opportunities for rural entrepreneurs.

Last but not least, while recognizing the need of all rural areas for improving agricultural competitiveness and enhancing economic diversification, agricultural and rural policies have to contribute to economic cohesion within the Union.

4. New reforms

The Commission confirms the policy choice expressed in the 'Agricultural strategy paper' of December 1995. It proposes deepening and extending the 1992 reform through further shifts from price support to direct payments, and developing a coherent rural policy to accompany this process. Direct payments will be set at an appropriate level while avoiding any overcompensation.

Crop sector: Cereals, oilseeds and protein crops

Over the coming years, the areas devoted to the cultivation of these crops and to set-aside are expected to stabilize at a level of about 53.5 million hectares. In the present policy framework, and supposing that the set-aside rate returns to its reference level of 17.5%, the areas devoted to each of the three crops would also be relatively stable over time.

Cereals yields are forecast to resume their upward trend and production is therefore expected to rise from 201 million tonnes in 1996 to 214 million tonnes by 2005. Total

consumption of cereals is also forecast to further increase, though at a slower rhythm, in response to the development of white meat production. Up to 2000, the situation is likely to remain relatively tight, in particular for wheat. From 2001 onwards, the current GATT commitments on subsidized exports become constraining for both wheat and coarse grains, leading to a rapid increase in intervention stocks (some 58 million tonnes by 2005).

Oilseed yields are expected to increase very modestly and the area cultivated is strictly limited by the outcome of the Uruguay Round Agreement. Production is expected to increase slightly, from 12.2 million tonnes in 1996 to 12.8 million tonnes in 2005. Trade deficits in oilseeds and oilseed meals would remain very substantial.

In theory, it would be possible to react to new cereals surpluses by increasing the compulsory set-aside rate. But this could then risk gradually increasing to over 20%. Furthermore, the Union could well fail to benefit from the positive developments expected on the world market, since internal prices could be expected to remain above world prices. A more offensive strategy could simultaneously avoid the routine use of export subsidies, reinforce the competitiveness of cereals on the single market, overcome the Uruguay Round constraints for oilseeds and, last but not least, bring a good deal of simplification.

The Commission therefore proposes the following measures:

□ The cereals intervention price is fixed in one step (2000) at a safety net level of ECU 95.35/tonne (presently ECU 119.19/tonne);

□ A non crop specific area payment is established at ECU 66/tonne (multiplied by the regional cereals reference yields of the 1992 reform); this payment will be lowered if the market prices are sustained at a higher level than currently foreseen;

□ Set-aside: the reference rate for compulsory set-aside is fixed at 0%, voluntary set-aside is allowed, extraordinary set-aside is abolished; set-aside areas get the non crop specific payment;

□ Silage cereals (mainly silage maize) are excluded from the regime;

□ Special cases: for protein crops, a supplementary aid is established at a level of ECU

6.5/tonne in order to preserve their competitiveness with cereals; for durum wheat the present supplements are maintained.

As it already is the case in the beef and sheep sectors, the Commission will table a proposal enabling Member States to make the granting of direct payments for arable crops and set-aside conditional on the respect of environmental provisions, allowing them to be increasingly used to pursue environmental objectives.

Beef regime

Over the coming years, beef production will be influenced on the one hand by the short term measures adopted in 1996 (i.e. the calf processing and early marketing of veal calves schemes) and on the other by the elimination of adult cattle over 30 months in the UK from the food and feed chain. The first will be felt mainly in 1998 and 1999, whereas consequences of the second will continue until 2001. Beef consumption is expected to gradually recover from the 1996 shock and return to its long term (declining) trend.

These factors add to a cyclical downswing of production until 2000 and should lead to a substantial reduction in stocks over the next few years, from the levels built up during 1996 and 1997. After 2001 however, if the market policy remains unchanged, production would return to its full potential whereas consumption would continue its long-term decline. Intervention stocks would tend to accumulate again (given the GATT limited export possibilities) and could reach some 1.5 million tonnes by 2005.

It is not acceptable in the long run to solve the problem of over-production in this sector by the slaughtering of young calves a few days after birth. Nor can the surplus problem be solved efficiently by pure supply management (quotas on animal numbers or on production), as this would present major administrative complications.

A more offensive strategy, on the other hand, could at the same time substantially reduce export refunds to traditional destinations, help develop new export outlets without subsidies and rebalance internal meat consumption to the benefit of beef. Moreover, it would reduce the incentive for higher carcass weights.

The Commission therefore proposes to gradually establish effective market support at a level of ECU 1 950/tonne (presently at ECU 2 780/tonne), over the period 2000-02. It should be possible to stabilize market prices around or above this level through border protection, export measures and the introduction of a private storage regime, as already exists for pigmeat.

Single market prices can be expected to remain higher than the new support price levels. In addition, as observed after the 1992 reform, farmers are likely to adjust their production systems and investment behaviour to save costs, and some input prices may well decrease. On the whole, the income loss farmers perceive due to the reform measures will probably be lower than a simple static analysis would indicate. Nevertheless there will be losses.

The Commission proposes to respond through direct income payments, gradually increasing and still paid per head of cattle and while avoiding overcompensation. In permanent regime, they would reach the following level (the present level is mentioned in brackets):

- Suckler cow (yearly payment)
ECU 215 (ECU 145)
- Male bovine: bull (one payment)
ECU 368 (ECU 135)
- steer (two payments)
ECU 232 (ECU 109)
- Dairy cow (yearly payment)
ECU 70 *no premium*

The different mechanisms governing headage payments and favouring extensification (the density factor, individual and regional ceilings) would be adapted in order to take into account the termination of the silage maize regime. At the same time, the Commission will reflect on how incentives to extensify production can be strengthened with a view to improving their effectiveness in relation to environmental objectives, without a major change in the global level of support.

Dairy regime

If milk quotas remain unchanged over the coming years, total milk production is forecast to decline slightly from 121.6 million tonnes in 1996 to 118.1 million tonnes in 2005, due to a small increase in milk fat content and adjust-

ment of production to the quota level. Global milk demand (in whole milk equivalent) is expected to decline from 112.2 million tonnes in 1995 to 108.7 million tonnes in 2005. This is the net result of decreasing consumption of some dairy products, notably butter, and increasing demand for other products, such as cheese and fresh products. On-farm consumption (animal feed) should also drop in line with the expected decline in cattle numbers. The net surplus is likely to vary between 9.0 and 9.5 million tonnes of milk equivalent in the 1996-2005 period, with a tendency to increase by the end of the period.

Turning to the different milk products, which are all covered by GATT commitments, and supposing no policy changes, it appears that:

- further export growth in the cheese sector would appear to be constrained by GATT limitations on subsidized exports;
- intervention stocks of skimmed milk powder will tend to increase from 1998 onwards and reach some 200 000 tonnes in the first half of the next decade, as the GATT export commitments become binding;
- for butter, GATT export commitments give sufficient margin for subsidized exports, so that no accumulation of intervention stocks would necessarily be expected; it is however questionable whether real outlets exist on world markets for a quantity as large as the expected surplus of around 300 000 tonnes.

After an in-depth examination of the different options, the Commission discards radical solutions, such as drastic price cuts and rapid abolition of the quota system. Expected market developments do not justify such extreme measures. The Commission sees no strong reason for introducing fresh quota cuts either, since no major deterioration of the market balance is expected. Finally, the Commission also discards a double price-double quota system, which would raise serious questions of WTO compatibility, could be quite distortive, depending on how it were shaped and implemented, and would add to current administrative complexity and control problems.

However, dairy farmers should not be given the impression that the present system, with its intrinsic rigidities, can last for ever. The recent debate on long term prospects has revealed factors of uncertainty; in particular, the results

of the next WTO Round could also affect the dairy sector.

The Commission therefore recommends a cautious approach at this stage. It proposes to:

- extend the quota regime up to 2006;
- improve flexibility and simplify the present common market organization;
- gradually decrease support prices, by an average of 10% in total over the period;
- introduce a new yearly payment for dairy cows adjusted to average yield, at a level of ECU 145.

Together with the new payment introduced for dairy cows in the beef context, the total dairy cow premium would be ECU 215, equal to the suckler cow premium.

Mediterranean products

As a continuation of the 1992 reform process, the Commission presented in December 1996 a report on the tobacco regime to the Council and the Parliament. This report gives a positive assessment of the 1992 tobacco reform and proposes further strengthening the market orientation of the sector, while recognizing the important economic role it plays in some rural areas. In February 1997, the Commission presented a report on the olive oil regime. It suggests as a possible option a further shift from price support to direct payments and a radical simplification of these payments. As soon as the necessary debates have taken place, the Commission will table detailed legislative proposals on these two sectors.

For fruit and vegetables, a major reform was adopted by the Council in July 1996: budgetary efforts were shifted from supporting prices to strengthening producer organizations and their competitiveness, and emphasis was placed on the structural adjustment of the sector and on its environmental dimension. The Commission will follow the implementation of this reform carefully.

For wine, a reform proposal has been pending at Council level since 1994. In view of the latest developments, and in particular the new context created in this sector by the Uruguay Round Agreement, the Commission intends to review the pending proposal and to table a fresh one as soon as the 1997 situation has

been fully analysed. The new proposal would take into account the guidelines which have in the meantime been defined in the 1995 'Agricultural strategy paper'.

Differentiation and ceilings for direct payments

The Commission intends to propose the introduction of an individual ceiling covering all direct income payments granted under the common market organizations. In addition, while excluding renationalization, Member States would be allowed to introduce differentiation criteria according to commonly agreed rules.

Rural policy

Over the coming decade, agriculture will have to adapt to further changes in market evolution, market policy and trade rules. These changes will not only affect agricultural markets, but also local economies in rural areas in general. Many of them are already confronted with acute economic development problems. Moreover, rural areas have increasingly important environmental and recreational functions to fulfil, and requirements linked to these functions may well imply additional adjustments for agriculture, as the main land user. Conversely the increasing importance of environmental and recreational needs will also offer new development opportunities from which farmers and their families should be able to benefit.

The Commission suggests that these developments should be encouraged and supported by a reorganization of the existing rural policy instruments.

Existing accompanying measures financed by the EAGGF, Guarantee Section (agri-environment scheme, afforestation, early retirement) will be supplemented by the Less-Favoured Areas (LFA) scheme including its application in the regions lagging behind in their development (Objective 1 regions). All these measures will be applied horizontally and implemented in a decentralized way.

For those rural areas which are located in regions eligible under Objective 1 of the Structural Funds, the current approach of integrated development programmes will be maintained, as described in the chapter on economic and social cohesion.

□ In rural areas eligible under the new Objective 2, operations (formerly Objectives 5(a) and 5(b)) will be financed by the EAGGF Guarantee Section as accompanying measures. These measures will intervene together with the ERDF, the Social Fund and, where appropriate, the FIFG in the same programme within the Objective 2 region.

□ In all rural areas outside Objective 1 and the new Objective 2, rural development measures to accompany and complement market policies will be co-financed by the EAGGF Guarantee Section. They will embrace all types of measures supporting structural adjustment and rural development as presently co-financed by the EAGGF Guidance Section. Included into the same legal framework as the present accompanying measures, they will be applied horizontally and implemented in a decentralized way at the appropriate level, at the initiative of Member States. The same approach will apply to fishery coastal areas as far as the interventions of the FIFG are concerned.

Agri-environmental policy

In the coming years, a prominent role will be given to agri-environmental instruments to support a sustainable development of rural areas and respond to society's increasing demand for environmental services. The measures aimed at

maintaining and enhancing the quality of the environment shall be reinforced and extended.

With respect to better integrating the environment into the common market organizations, the Commission will make a proposal enabling Member States to make direct payments conditional on the respect of environmental provisions.

A possibility which deserves further consideration is to take into account the considerable overlap between LFAs and areas of high nature value, and to gradually transform the related support scheme into a basic instrument to maintain and promote low-input farming systems. Such systems, because of specific geographic conditions or just as the result of centuries of traditional farming, often have a high landscape and nature value.

Moreover, targeted agri-environmental measures should be reinforced and encouraged through increased budgetary resources and, where necessary, higher co-financing rates. Most relevant are services which call for an extra effort by farmers, such as organic farming, maintenance of semi-natural habitats, traditional orchards or hedgerows, continuation of alpine cattle keeping, upkeep of wetlands. A high level of commitment is also needed where actions result in a significant loss of yield, for instance due to the establishment of buffer strips along rivers or field margins.

IV. The Union in the world

It is imperative that Europe steps up its activities in the external relations field. The European project will remain credible only if it responds to the growing calls from its citizens for greater unity and more effective ways of building and defending peace, stability and prosperity on the European continent and throughout the world.

The Member States of the Union have many common interests. The Union must increase its influence in world affairs, promote values such as peace and security, democracy and human rights, provide aid for the least developed countries, defend its social model, and establish its presence on the world markets. In addition to maintaining the territorial integrity of the

Union, Member States must combine their forces to combat organized crime, terrorism and the proliferation of nuclear, bacteriological and chemical weapons, prevent major damage to the environment and ensure sustainable growth with an optimum use of world resources.

Collective action by the European Union is an ever-increasing necessity if these interests are to be defended, if full advantage is to be taken of the benefits of globalization and if the constraints it imposes are to be faced successfully. Europe's partners, beginning with the applicant countries, expect it to carry out fully its responsibilities.

The enlargement of the European Union will affect not only the destiny of the Europeans, the Member States and the applicant countries. Through its international implications, enlargement will have an impact far beyond the new frontiers of an enlarged Europe because it will increase Europe's weight in the world, give Europe new neighbours and form Europe into an area of unity and stability. The geopolitical impact of the enlargement process was already underlined in the Madrid European Council conclusions concerning 'The political agenda for Europe'.

1. A stable Europe that is open to the world

Over the last four decades and in line with the basic intentions of Europe's founders, the Member States have developed between them a real Community of security within which it is inconceivable that there would be the slightest threat of recourse to force as a means of settling disputes. The challenge is now to extend that basic achievement of the European project to new Member States. The enlargement of the European Union must therefore aim to make an additional stabilizing impact complementary to that made by the enlargement of NATO. This stability should facilitate the gradual definition of a common defence policy that could lead to a common defence, in accordance with Article J.7 of the Amsterdam Treaty.

An enlarged Union will have more direct frontiers with Russia as well as frontiers with Ukraine, Belarus and Moldova. It will enjoy direct access to the Black Sea which will lead to intensified contacts with the countries of the Caucasus and Central Asia. An enlarged Union will also surround the Kaliningrad oblast, which is part of Russia, and will contain several hundred thousand ethnic Russians, living mainly in Estonia and Latvia. It will be important for the enlarged Union to deepen its relationship with Russia, Ukraine and the other NIS on the basis of the Partnership and Cooperation Agreements (PCAs). Among the Union's new neighbouring countries will be those of the Balkan region. Stability through cooperation in this region will be all the more important for the enlarged Union.

The Union will have to continue and step up its policy of providing support for democracy, and

assisting the reform process and the transition to the market-economy system, which constitute long-term guarantees of security and stability. There is likely to be an increase in trade flows, a rise in energy and raw material imports from CIS countries, an expansion of transport networks and increased cooperation on environmental protection. Moreover, these developments could lead to changes in the content and geographical organization of Community programmes such as TACIS in order to take account of new geopolitical circumstances.

Active measures will have to be taken to reinforce links between the Union and its Mediterranean partners. The stable development of the southern Mediterranean rim is a challenge of ever increasing proportions. The potential of the Barcelona process will have to be fully exploited to that end. The Union will also have to maintain an increased presence in the Middle East as one of the main promoters of peace in that region. Enlargement should therefore lead to an intensification of economic and commercial relations between the European Union and its southern partners, based on the pursuit of reciprocal interests.

Development cooperation constitutes the third major element of the Union's external action. The Union's development assistance and its efforts to reduce poverty and inequalities around the world are closely linked to the search for peace and stability, the need for better management of global risks and interdependence, and the promotion of a sound development path. As part of the new partnership arrangements which will have to be established between the European Union and the ACP countries, whose political and economic situations differ, the question of the inclusion of development cooperation in the Community budget will have to be examined.

The Union should also intensify its relations with the United States, with the implementation of the New Transatlantic Agenda agreed in Madrid in December 1995. Asia and Latin America are also among the regions which should be given particular attention.

2. A strong and coherent Europe

The enlarged Europe will have richer but inevitably more complex relations with the rest of

the world. In order to be more effective and more present, in order to prepare as much as possible to exercise wider responsibilities and in order to assume its role on the international scene, Europe will have to reinforce its political decision-making capacity and ensure consistency in all of its actions.

Making the European Union a global actor

It is in the interests of the European Union to exercise political responsibility commensurate with its economic power. The interdependence of modern economies and the increased importance of transnational factors mean that an active and effective foreign policy cannot be limited to the more traditional aspects of international relations. This applies in particular to the Union, characterized by its strong economic dimension. Ultimately, a common foreign and security policy can become reality only if the Member States accept, in terms of working methods and in substance, that progressively an integrated approach to external relations must be built.

This integrated approach will make it possible to support a common political will with the instruments of the CFSP, those of commercial policy, development aid or other common policies and the operational capacity of the Western European Union to carry out tasks recently included in the Treaty. It should also strengthen the complementarity, which is currently inadequate, between the activities of the Union and those of the Member States.

The provisions of the new Treaty for designing and implementing the common foreign and security policy will make it possible to strengthen the overall cohesion and continuity of external action. The Council and the Commission will have to cooperate closely to that end. It will of course be essential to resort more frequently to a qualified majority for the Union to be able to take rapid, specific action.

The European Union will increasingly have to acquire the capacity to take foreign-policy decisions involving the use of military resources. This is essential if the Union's external action is to be credible. It will therefore be necessary to strengthen the operational resources of the WEU, both in order to carry out the new tasks laid down in the Treaty of Amsterdam and with a view to the WEU becoming increasingly

integrated in the development of the European Union itself.

Maintaining the commercial power of the Union

The international environment must not be seen as a threat to the Union, but rather as a positive challenge and development factor. The EU, the biggest trader on the world stage, has a strong interest in consolidating the new WTO structures and in promoting further international trade liberalization beyond that which is already programmed. The alternative to a multilateral approach is likely to be a risk of less advantageous conditions of access and competition. It is also essential that the dismantling of trade barriers be accompanied by the development of competition policy principles within the WTO framework.

Taking account of the new forms of international trade, it will be necessary to make full use of the new opportunities offered by Article 113, as amended by the Treaty of Amsterdam, for conducting international commercial negotiations in the field of services and intellectual property. In this way, the enlarged Union will be able to act more decisively and more cohesively in international organizations such as the WTO or the OECD.

Ensuring complementarity between internal and external policies

The advent of the euro will give Europe a key role to play in economic and monetary matters. During the next 18 months, it will therefore be necessary to define the relationship with international financial institutions and the arrangements for external representation in this field.

The external potential of the single market should be developed. Both the strength and the experience of the internal market can be used to promote the Union's interests and presence internationally, for example in the area of aeronautics and satellites. Another example is greater European assertiveness in international standard-setting, but the potential extends into many other areas, including financial services, intellectual property and competition policy.

Greater care will have to be taken to ensure coherence and complementarity between the internal and external dimensions in Union policy. Energy policy provides a good example of such a consolidated approach, where the achievement of market integration will provide the essential basis for the diversification and flexibility of energy supplies as well as reinforcing the competitiveness of European enterprises in this field. A careful coordination of external energy policy will also contribute simultaneously to enhanced supply security and the achievement of international environmental objectives.

Better integration is equally necessary for other internal policies of the Union, for example in the field of research, in order to promote the Union's international interests.

Handling transnational issues which are at stake

The process of globalization, from which the Union has benefited so much, also exposes it to both economic and political risks in the international arena, such as the consequences of demographic imbalances, failures in governance and environmental mismanagement. These must be handled resolutely with the Union's international partners in multilateral forums.

The increasing importance of threats to the environment, like global climate change, is already high on the international agenda. The Union has, on various occasions, confirmed its leading role in this field, where it is particularly well placed for taking the leadership in international negotiations in order to reconcile conflicting interests.

The proliferation of drug trafficking and organized crime also requires coherent and concerted action at the international level. This should be developed in close cooperation with the Union's main partners and with the countries most afflicted by these phenomena, focusing on preventive action in a multilateral framework as well as on measures aimed at eliminating the social and economic sources of these scourges of society.

Increasing the visibility and adapting the procedures for the Community's external assistance

External action should become more visible. The Community and its Member States finance half of the international development assistance effort, in particular through the comprehensive partnership embedded in the Lomé Convention. They are responsible for well over half of the humanitarian aid distributed throughout the world. They provide one third of total aid to the Middle East, including half the assistance granted to the Palestinian Territories, nearly 60% of international aid to Russia and the republics of the former Soviet Union, and 40% of the reconstruction in Bosnia-Herzegovina. These figures, often unknown, show that the Union is the most important provider of international aid — a situation which should be consolidated by enlargement.

The reality of Europe's presence will have to be explained and enhanced in order to increase the margins of manoeuvre in the common foreign policy.

Strengthening decision-making capacity, and the efforts which may be required in order to increase the speed with which action can be taken, will be decisive in improving the impact of the Union's external assistance programmes.

The effectiveness of Community instruments in the external sphere is currently limited by slow, complex internal procedures. A reflection should be undertaken on how to overcome these constraints where rapid action by the Union is required. In addition, here as elsewhere, it will be appropriate to limit as much as possible the spread of financing over too many small-scale measures. It will also be necessary to promote closer coordination of Community programmes and national action by Member States.

Where the Union's external financial action is concerned, it will be necessary to foster the synergy between the Community instruments and those of institutions such as the EBRD or the IMF, as part of a balanced financial burden sharing.

Given the prospects for economic growth, the maintenance of financial resources in terms of percentage of GNP will make it possible to ensure that Europe has a strong presence at world level.

V. An efficient Commission at the service of European citizens

Armed with its right of initiative, the Commission must remain a dynamic force for renewal, including in the new domains opened up by the Amsterdam Treaty. Nevertheless, the legislative activity of the Union will be less intense than in the past. Implementation and enforcement of existing legislation will need to have the highest priority. Greater decentralization will require closer monitoring on the ground. More generally, the Commission will have an enhanced role in the promotion of cooperation, the launching of partnership and network activities as well as an effective coordination. Managing a high level of integration will require a thorough re-evaluation of the Commission's executive and management functions and a change in its administrative culture.

Budgetary constraints will remain tight, with an inevitable impact on spending policies and the management of human and financial resources. With increased competition for limited funds, there will be a need to identify more clearly the core functions on which the Commission should concentrate. The relevance of policies, structures and procedures should be examined critically in a screening process preceding decisions on funding programmes and allocating resources to their management. It is imperative to make more efficient and effective use of available resources.

In this context, the quality of available human resources and use of their full potential are crucial. A European public service operating on the basis of the three principles of competence, independence and permanence must therefore be preserved; it must nevertheless be capable of adapting and modernizing in order to take up the ever-evolving challenges of European integration and of a profoundly changing world.

Therefore, the Commission has already initiated a far-reaching programme of reform of its administration in the Sound and Efficient Management (SEM 2000) and Modernization of Administration and Personnel policy (MAP 2000) initiatives. This will involve a review of its structures, modernization of the management and a streamlining of procedures. Decentralization, rationalization and simplification are key words for such an undertaking. It will be necessary to determine for each policy area

the appropriate balance between core policy and control functions, which need to be retained within the Commission, and executive functions which are more effectively administered at a level closer to the end users.

Consideration should be given to the appropriate size of programmes and projects supported financially by the Community to ensure that the programmes deliver a clear added value at European level and that the required administrative resources are not excessive. Administrative functions can sometimes be carried out by executive agencies reporting to the Commission, by administrations in Member States in partnership with the Commission or even by non-governmental organizations or other private sector organizations on a contract basis. In some areas, new network management structures involving both Community and national levels may be appropriate. In all cases, however, a clear policy framework will have to be established.

Ultimately, the Commission depends on the competence and motivation of its staff to be able to respond effectively to the demands of the integration process. More emphasis should therefore be put on the upgrading of skills and competence in order to take full advantage of synergies created in the reform of structures and to enhance flexibility in view of the new challenges ahead.

In recent years the Commission has had to take on a growing number of new tasks, resulting in successive reorganizations which have often had to be carried out hastily and without adequate preparation. Now that a new phase in European unification is beginning and that the shape of Europe in the 21st century is emerging more clearly, the time has come to embark on a thorough review of the organization and operation of the Commission beyond the year 2000. It was along these lines that the Commission defined its position in its recent contribution to the IGC, in which it announced that it would be regrouping and redefining tasks, including those of its Vice-Presidents. It also announced that it would undertake a corresponding restructuring of its departments. By strengthening the status and powers of the Commission Pres-

ident, the Amsterdam Treaty has introduced a reform sought by the Commission which will heighten the effectiveness and profile of the Commission as a body. In a declaration annexed to the Final Act of the Amsterdam Treaty, the Member States have taken note of the Commission's intention to prepare the above mentioned reorganization in time for the

new Commission due to take office in the year 2000.

The Council must also play its part, for example by reducing the number of different compositions in which it meets and by assigning to the General Affairs Council its true overall coordinating role.

Part Two — The challenge of enlargement

This part of the Agenda 2000 communication is the composite paper on enlargement which the Commission was invited to prepare by the Madrid European Council. Its aim is to explain the way in which the Commission has examined the different applications for accession and the main questions they raise, as well as the timetable for opening negotiations which appears most realistic. It draws the main conclusions and recommendations from the opinions and presents the Commission's views on launching the process of accession negotiations. It also tackles the horizontal questions linked to enlargement as well as the practical arrangements for the initial phase of the negotiations and the reinforcement of the pre-accession strategy as a whole.

These conclusions and recommendations are based on the criteria adopted by the European

Council when it met in Copenhagen in June 1993:

'membership requires that the candidate country:

□ has 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, and

□ [has] the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.'

I. Assessment on the basis of the accession criteria

At the request of the Council, the Commission has prepared opinions on each application for membership. Its assessment draws on numerous sources of information, taking as a starting point the replies to questionnaires sent to each of the applicant countries in April 1996. Bilateral meetings were held with each of the applicant countries, which were given an opportunity to provide any further information concerning their preparations for accession by the end of May 1997.

The Commission also took into account assessments made by the Member States, particularly with respect to the political criteria for membership established by the Copenhagen European Council. The European Parliament's reports and resolutions, and the work of various international organizations, non-governmental organizations and other bodies were also used by the Commission.

The Commission also considered the progress made under the bilateral agreements which are the main element in the Union's relations with the applicant countries. Europe (Association) Agreements, which cover economic coopera-

tion, trade and political dialogue have entered into force with six of the applicant countries. For Estonia, Latvia and Lithuania, the agreements need to be ratified by all Member States before they come into force. In the case of Slovenia, the Slovenian Parliament still has to ratify the agreement.

The Commission's task was unprecedented because the Copenhagen criteria are broad in political and economic terms and go beyond the *acquis communautaire* (for example, assessing administrative and judicial capacity), and because the *acquis* itself has expanded considerably since previous enlargements. The *acquis* of the Union now includes the common foreign and security policy and justice and home affairs, as well as the objectives and the progressive realization of political, economic and monetary union.

The Commission not only gives a picture of the situation in 1997 and of the applicants' progress in recent years. It has also made an analysis of expected progress over the medium term, as far as the economic criteria and the countries' ability to implement the *acquis* are

concerned. In making this forward assessment, the Commission has taken into account trends in policies and programmes for progressively implementing the *acquis* under way in the applicant country. The Commission has also anticipated the future development of the Union's policies, particularly in certain fields such as the environment, the single market and the information society where the *acquis* is evolving rapidly.

With regard to the political criteria for membership, the Commission considers that an assessment could be conducted only on the basis of elements of the present situation which it has been able to verify and confirm. The effective functioning of democracy is a primordial question in assessing the application of a country for membership of the Union. The Amsterdam Treaty has enshrined in Article F a constitutional principle that 'The Union is founded on the principles of liberty, democracy, respect for human rights and fundamental freedoms and the rule of law'. Accordingly the Intergovernmental Conference has decided to modify Article O to make the respect of Article F an explicit condition for membership.

The Commission considers therefore that the respect of the political conditions defined by the European Council in Copenhagen by an applicant country is a necessary, but not a sufficient, condition for opening accession negotiations.

1. Political criteria

The Copenhagen European Council indicated that 'membership requires that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities'.

In order to evaluate the extent to which applicants meet this condition for membership, the Commission, in each opinion, went beyond a formal description of political institutions, and the relations among them, to assess how democracy actually works in practice, in terms of a series of detailed criteria. It examined how various rights and freedoms, such as the freedom of expression, are exercised, through, for example, the role of political parties, non-governmental organizations and the media.

Democracy and the rule of law

Countries wishing to become members of the Union are expected not just to subscribe to the principles of democracy and the rule of law but actually to put them into practice in daily life.

On the whole, the applicant countries' constitutions guarantee democratic freedoms, including political pluralism, the freedom of expression and the freedom of religion. They have set up democratic institutions and independent judicial and constitutional authorities, which permit different State authorities to function normally, have held free and fair elections, permitting the alternation of different political parties in power and, in general, recognize the role of the opposition.

Some of the applicant countries — beyond the normal cycle of elections — do not have stability of institutions enabling the public authorities to function properly and democracy to be consolidated. All the applicant countries have flaws in the rule of law which they need to put right. There is a lack of suitably qualified judges and guarantees of their independence. Police forces are poorly paid and require better training and discipline. The autonomy of local government also requires a firmer legal basis in several cases.

Romania did not experience a genuine change of government until the November 1996 elections. The political system has long been characterized by the persistence of practices inherited from the Communist system, with too much government interference in the media and the judicial system. The changes that have taken place in the wake of the election of a new president and a new government majority have altered the situation of the country considerably: it has thus improved the functioning and stability of its institutions. The reform of the secret police services and the judicial system has been completed very quickly.

The changes that have taken place this year in Bulgaria and the reforms announced by the government should also enable it to achieve decisive progress in terms of democracy and the rule of law and the stability of its institutions.

In Slovakia there is still a gap between the letter of constitutional texts and political practice. The Commission is concerned that the rule

of law and democracy are not yet sufficiently deeply rooted. This would require a greater openness to opposing views, the proper functioning of State institutions and the respect for their individual roles in the constitutional order. A democracy cannot be considered stable if the respective rights and obligations of institutions such as the presidency, the constitutional court or the central referendum commission can be put into question by the government itself and if the legitimate role of the opposition in parliamentary committees is not accepted.

The failure of the May 1997 referendum on NATO membership and on the direct election of the president, unsuccessful attempts by the government to reform the penal code, with a view to limiting the freedom of expression, the efforts to block an enquiry into the activities of the secret services and various forms of pressure exerted by the government on officials and cultural bodies, are symptomatic of the instability of the country's institutions.

Human rights

Respect for fundamental rights is in principle guaranteed in most of the applicant countries. All have acceded to the Council of Europe's Convention for the Protection of Human Rights and Fundamental Freedoms and the Protocol allowing citizens to take cases to the European Court of Human Rights.

Romania inherited from the Communist regime a system which placed many children in State institutions in conditions which violate conventions on children's rights. This concerns more than 100 000 orphans. However, the former legislative provisions dating from 1972 have been abrogated and the basis for reforms, founded on direct support to families, established.

Freedom of expression and of association is assured in all applicant countries but the independence of radio and television needs to be strengthened in some cases.

Respect for minorities

Many of the applicant countries have minority populations, whose satisfactory integration into society is a condition for democratic stability. Minorities account for 44% of the population in Latvia (where 34% are Russian), 38% in

Estonia (30% Russian), 20% in Lithuania (9% Russian, 7% Polish), 18% in Slovakia (11% Hungarian, 5% Roma), 14% in Bulgaria (9% Turks, 5% Roma) and 13% in Romania (8% Hungarian, 4% Roma).

A number of texts governing the protection of national minorities have been adopted by the Council of Europe, in particular the Framework Convention for the Protection of National Minorities and Recommendation 1201 adopted by the Parliamentary Assembly of the Council of Europe in 1993. The latter, though not binding, recommends that collective rights be recognized, while the Framework Convention safeguards the individual rights of persons belonging to minority groups. Bulgaria has not yet signed the Framework Convention; the Czech Republic, Latvia, Lithuania, Poland and Slovenia are among the countries that have not yet ratified it.

In Romania, the Hungarian minority is represented in Parliament by 25 deputies and 11 senators and in the government by 2 ministers. It is also represented in local authorities and benefits from the right to education in Hungarian in primary and secondary schools and from the right to use Hungarian in contacts with the administration and the judiciary.

In Slovakia, however, where such rights are in principle recognized, the Hungarian minority faces a number of problems in exercising its rights. Following the adoption of the law on the national language and in the absence of a law on the use of minority languages, the exercise of several of the Hungarian minority's rights have been put into question. Certain recent developments with regard to cuts in cultural subsidies and changes in administrative subdivisions of the country give cause for concern.

Non-citizens constitute 28% of the population in Latvia and 25% in Estonia. There is no evidence that these minorities are subject to discrimination except for problems of access to certain professions in Latvia. But the rate of naturalization of non-citizens has been slow in both countries and it should be accelerated to ensure the integration of non-citizen minorities into society.

Except for the situation of the Roma minority in a number of applicants, which gives cause for concern, the integration of minorities in their societies is, in general, satisfactory.

Minority problems, if unresolved, could affect democratic stability or lead to disputes with neighbouring countries. It is therefore in the interest of the Union and of the applicant countries that satisfactory progress in integrating minority populations be achieved before the accession process is completed, using all opportunities offered in this context.

Conclusion

Even though progress has still to be made in a number of applicant countries as regards actually practising democracy and protecting minorities, only one applicant State — Slovakia — does not satisfy the political conditions laid down by the European Council in Copenhagen.

2. Economic criteria

The Copenhagen European Council indicated that, in the economic area, membership requires 'the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union'.

The applicant countries have made considerable progress in the transition to a market economy, including with privatization and liberalization, although their economic situations vary considerably. For all of them, the break-up of the CMEA, the former Communist trading bloc, and the beginning of market reforms implied a major initial shock. However, for some this was aggravated by severe disequilibrium at the outset, while others inherited comparatively stable conditions and higher standards of living. Moreover, half the applicant countries needed to create the institutions of a new State while at the same time conducting a fundamental overhaul of their economies.

Reform has taken a different course from country to country. In some, reform has benefited from wider support and policy has proved relatively constant even when governments changed. Although almost all applicants have progressed substantially in recent years, often with high growth rates, several still find themselves in fragile economic conditions. There have also been some reversals with the introduction of administrative forms of control, e.g. on prices or imports.

The average GDP per inhabitant of the applicant countries is only about one-third of the Union's. Some applicants, and by no means always those with the lowest income per head, have achieved annual GDP growth of 5-7% in recent years, while others have lagged behind, for a variety of reasons. Some have achieved a high degree of price stability and are close to budget balance, while others face large and/or rising trade deficits, resulting from imports of capital equipment as well as consumer goods. In general, structural reform still has a long way to go, particularly as regards the banking and financial systems, and as regards social security. Most applicants still need to restructure large State-owned industries, which dominate local economies and are very hard to reform for both social and economic reasons.

None of the applicants fully meets the two economic conditions of Copenhagen today, although some should be able to do so a few years from now.

The existence of a functioning market economy

The first economic criterion identified by the Copenhagen European Council is the existence of a functioning market economy.

This requires a number of conditions to be met which are analysed in each opinion, namely that:

- equilibrium between demand and supply is established by the free interplay of market forces; prices, as well as trade, are liberalized;
- significant barriers to market entry (establishment of new firms) and exit (bankruptcies) are absent;
- the legal system, including the regulation of property rights, is in place; laws and contracts can be enforced;
- macroeconomic stability has been achieved including adequate price stability and sustainable public finances and external accounts;
- broad consensus about the essentials of economic policy;
- the financial sector is sufficiently well-developed to channel savings towards productive investment.

The opinions assess each applicant in the light of these conditions. The Commission finds that five of them (the Czech Republic, Estonia, Hungary, Poland and Slovenia) can be considered functioning market economies, even if in all these cases some important features, such as capital markets, still need to mature and develop further. A sixth applicant (Slovakia) comes very close in terms of legislation and systemic features, but lacks transparency in implementation.

The other applicants have made substantial progress, especially in recent times, and should be able to meet this first economic criterion early in the next century. For these countries, the main challenge now is to strengthen the implementation of their legal and institutional reforms, and in some cases to avert the risk of further macroeconomic instability.

The capacity to withstand competitive pressure and market forces within the Union

The second economic criterion is the capacity to withstand competitive pressure and market forces within the Union. This will require a minimum level of competitiveness in the main parts of the economies of the applicant countries.

The necessary evaluation is more difficult than for the first criterion. On the one hand, a comprehensive view needs to be taken including a considerable number of factors and on the other hand, an assessment of future developments needs to be made. A key question is whether firms have the necessary capacity to adapt, and whether their environment supports further adaptation. The elements to be taken into account include:

- the existence of a functioning market economy, with a sufficient degree of macroeconomic stability for economic agents to make decisions in a climate of stability and predictability;
- a sufficient amount, at an appropriate cost, of human and physical capital, including infrastructure (energy supply, telecommunication, transport, etc.), education and research, and future developments in this field;
- the extent to which government policy and legislation influence competitiveness through

trade policy, competition policy, State aids, support for SMEs, etc.;

the degree and the pace of trade integration a country achieves with the Union before enlargement. This applies both to the volume and the nature of goods already traded with Member States;

the proportion of small firms, partly because small firms tend to benefit more from improved market access, and partly because a dominance of large firms could indicate a greater reluctance to adjust.

The analysis carried out by the Commission services in the opinions led to the following overall picture:

trade integration in most countries and Foreign Direct Investment (FDI) in some countries have progressed substantially. However, in some countries, there has been reversal from initial trade liberalization, mainly for macroeconomic reasons:

the functioning of capital markets and competition rules is improving everywhere, but generally still far from satisfactory:

the state of infrastructure remains poor;

wage levels are still well below Union levels;

privatization has progressed at different rates and the process remains to be completed.

A major difficulty in assessing the applicants according to the second criterion is its forward-looking nature. Although all the countries have opened up to foreign trade substantially, entering the single market (including harmonized VAT, public procurement, banking insurance, etc.) will take them considerably further along the road of integration. In particular, they will need to be able to produce products conforming to European technical requirements which will be helped by taking over the *acquis*, creating the necessary institutional structures and making them work, and appropriate standardization activity. How they will perform with regard to this criterion therefore remains difficult to predict. In the meantime, further progress in implementing the measures indicated in the 1995 White Paper on the single market will remain both an essential method of preparation and an approximate yardstick for the applicants' degree of preparedness.

In support of the applicants' domestic policy efforts, continued external support will be required from PHARE, and the international financial institutions (IFIs). After accession, the Structural Funds will take over the leading role in this regard.

While keeping in mind the difficulties inherent in such an assessment, the Commission finds that two countries (Hungary and Poland) should satisfy the second criterion in the medium term, provided they stay on their current course. Three others (the Czech Republic, Slovakia and Slovenia) should be in the same position on condition that they strengthen their efforts and avoid policy reversals. Because Estonia has modernized and radically liberalized its economy, it comes close to this last group, but its large external imbalance is a cause for concern. Latvia, Lithuania and Romania have made great strides recently, but will require further consolidation of their efforts. Bulgaria is shedding the difficult legacy of the past; it has made considerable progress very recently and is on course to join the others during the next decade.

Conclusion

For the two criteria taken together, therefore, Hungary and Poland come closest to meeting them, while the Czech Republic and Slovenia are not far behind. Estonia meets the first criterion, but has some progress to make to meet the second criterion of capacity to withstand competitive pressure. Slovakia meets the second criterion but cannot yet be fully regarded as a functioning market economy.

3. Other obligations of membership

The Copenhagen European Council concluded that membership requires 'the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union'.

The aims of political, economic and monetary union

In applying for membership, the countries of central and eastern Europe accepted the objec-

tives of the Treaty on European Union, including political, economic and monetary union.

As regards the common foreign and security policy, the applicants have demonstrated, through political dialogue and concrete action, their will to contribute to effective action by the Union. In its opinions, the Commission's assessment is that they could fulfil the obligations of membership in this field.

With respect to the aim of economic and monetary union, it is unlikely that the applicants will be able to join the euro area immediately upon accession. Indeed, further progress in structural reform will be necessary before they will be able to maintain sufficient macro-economic stability in the long run. However, new Member States will have to adopt the *acquis* of Stage 2 of EMU. This implies central bank independence, coordination of economic policies (national convergence programmes, multilateral surveillance, excessive deficit procedure, etc.), and adherence to the relevant provisions of the stability and growth pact. New Member States will forego any direct central bank financing of public sector deficits as well as privileged access of public authorities to financial institutions. They shall have completed the liberalization of capital movements. Also, they are expected to participate in an exchange rate mechanism and avoid excessive exchange rate changes.

Adoption of the acquis

The adoption and implementation of the *acquis* upon accession is a difficult challenge for the applicants to meet and considerable additional efforts need to be made. This is a far greater challenge than in earlier enlargements. In the last enlargement, the new members, as participants in the EEA with highly developed economies, had already taken on large parts of the *acquis*. This is not the case with present applicants. Moreover, Community legislation has expanded considerably. Certain policies which were limited at that time, today consist of an impressive set of principles and obligations. New obligations have arisen regarding the single market, CFSP, EMU, and justice and home affairs.

As in previous enlargements, the European Council has ruled out any idea of a partial adoption of the *acquis*. The Commission's observations on this question in the context of

the accession of Spain and Portugal are relevant to the forthcoming enlargement. 'A partial adoption of the *acquis* without solving the underlying problem, whose solution would merely be postponed, could create new difficulties which would be even more considerable. If one or the other party obtained such an exception, it is clear that this would not be without compensation. Little by little, a process would begin, going beyond the principle that problems of integration can be gradually solved by transitional measures which would considerably dilute the *acquis* as a whole. In addition, the problem would arise of the institutions' capacity to take decisions on policies which would no longer be common'.

The capacity to take on the obligations of membership, which include the whole range of policies and measures that constitute the *acquis* of the Union, can be judged, to some extent, by the applicant countries' record in implementing existing commitments.

Firstly, their performance in carrying out obligations under the Europe agreement, or other contractual agreements with the Union, for example, in trade policy and the approximation of legislation, provides some indication of their capacity to implement the *acquis*. In most cases, however, the agreements do not stipulate precise targets, but only that countries should endeavour to ensure that their legislation gradually becomes compatible with the Union's. There are however specific provisions on rules for State aids and competition.

Secondly, the 1995 White Paper on the single market set out the key elements of the *acquis* to be adopted in each sector. However, none of the applicants has yet been able to transpose a large proportion of Community laws on the single market into national legislation and a major effort is needed before accession, according to a precise timetable and monitoring procedure.

Thirdly, there is the *acquis* in areas not covered or only partly covered by the White Paper, that includes many other important areas of the Union's activity such as agriculture, environment, energy, transport and social policy.

The progressive adoption of the *acquis* in these different areas in this three stage framework is a task which the applicant countries need to complete as far as possible before accession. Their progress so far is uneven, taking into

account the trends shown by the following indicators considered by the Commission in each opinion:

(a) the obligations set out in the Europe Agreement, particularly those relating to the right of establishment, national treatment, free circulation of goods, intellectual property and public procurement;

(b) the progress in transposition and effective implementation of the measures set out in the White Paper, particularly key single market directives in areas such as taxation, public procurement and banking;

(c) the progressive transposition and implementation of the other parts of the *acquis*. In this area, the situation varies considerably among the applicant countries. For most of the countries, significant and far-reaching adaptations will be needed in the fields of environment, energy, agriculture, industry, telecommunications, transport, social affairs, customs administration and justice and home affairs. The assessment in this area is therefore more prospective than in the other areas.

From this, and taking the applicants in the order of their applications for membership, it emerges that:

Hungary is making satisfactory progress with regard to all three main criteria, suggesting that it should be in a position to adopt the main parts of the *acquis* in the medium term; particular progress should be made in the area of environment, customs, control and energy.

Poland, despite its comprehensive strategy has run into problems with regard to (a) (trade disputes) but its record on (b) is satisfactory; concerning (c), current efforts need to be stepped up in areas where progress is lagging (such as agriculture, environment and transport); if that is done, Poland should be in a position to adopt the main part of the *acquis* in the medium term.

Romania, despite the efforts it is making on (a) has not yet implemented key parts of (b) and (c) and will not be in a position to take on the obligations of the *acquis* in the medium term.

Slovakia is well advanced with respect to (b) and (c) but some problems remain for (a). Provided current efforts are significantly stepped up, Slovakia should be in a position to adopt the main part of the *acquis* in the

medium term, even if further work is required in certain sectors, particularly for the environment.

☐ Latvia has anticipated important obligations of the Europe Agreements but very substantial efforts are needed on (b) and (c) to adopt the main part of the *acquis* in the medium term.

☐ Estonia has anticipated important obligations of the Europe Agreements but substantial efforts are needed for (b) and (c) to adopt the main part of the *acquis* in the medium term.

☐ Lithuania has anticipated important obligations of the Europe Agreements but very substantial efforts are required on (b) and (c) to adopt the main part of the *acquis* in the medium term.

☐ Bulgaria has made satisfactory progress on (a) but not with respect to (b) and (c) and will not be in a position to take on the obligations of the *acquis* in the medium term.

☐ The Czech Republic has run into problems with (a), but is making satisfactory progress with regard to (b); concerning (c), current efforts need to be continued; if that is done the Czech Republic should be in a position to adopt the main part of the *acquis* in the medium term. Particular efforts will be required in sectors such as agriculture, environment and energy.

☐ Slovenia, as a result of delays in the signature and ratification of the Europe Agreements, is considerably behind with regard to (a). In addition, (b) and (c) are unsatisfactory and no national programme has been drawn up on the implementation of the *acquis*. Considerable efforts will have to be made by Slovenia to adopt the *acquis*, including the single market (indirect taxation).

Administrative and judicial capacity to apply the acquis

The applicant countries' administrative and judicial capacity is of crucial importance for the adoption, implementation and enforcement of the *acquis* and for the efficient use of financial support in particular from the structural funds. It is vital that Union legislation be transposed into national law. But this is not sufficient to ensure its correct application. It is

equally important for the applicants' administrations to be modernized so that they can implement and enforce the *acquis*. This will often require new administrative structures as well as properly trained and remunerated administrators. The applicants' judicial systems must be capable of ensuring that the law is enforced. This requires the retraining and in some cases, the replacement of judges, to ensure that courts are able to operate effectively in cases involving Community law. It is important that these countries' courts should be able, from accession, to apply the principles of Community law, such as primacy over national law or the direct effect of some legislation. It is also essential for these courts to have a sufficient number of judges trained in Community law in order to make use of the preliminary ruling procedure in Article 177 and to ensure effective cooperation with the Court of Justice of the European Communities.

Yet in many cases the applicants still lack the structures needed to apply new regulations, for example on environmental and technical inspections, banking supervision, public accounts and statistics. There are also widespread problems of corruption which are now being tackled by most governments of the applicant countries.

Each opinion sets out the national administrations, and the supervisory bodies, with the number of employees who will be in charge of implementing the *acquis*. The general situation gives rise to considerable concern. The efforts undertaken are beginning to bring results in Hungary, Poland, Estonia, Lithuania and the Czech Republic.

Each of the applicant countries should be asked to introduce a timetable for reinforcing institutions, administrations and judicial systems responsible for applying the *acquis* as part of the pre-accession strategy with the aid of PHARE. Training for this purpose is one of PHARE's two priorities. 30% of PHARE's resources could be used to finance exchanges and the long-term detachment of experts from the Member States to the applicant countries in the framework of twinning programmes. This training of specialists in the application of the Community *acquis* should be accompanied by measures to ensure that the staff trained remain in the public service for a number of years.

Conclusion

In the light of the main trends observed in the candidate countries, it emerges that if current efforts are reinforced, Hungary, Poland and the Czech Republic should be able in the medium

term to take on the major part of the *acquis* and to establish the administrative structure to apply it, while Slovakia, Estonia, Latvia, Lithuania and Slovenia would be able to do so only if there is a considerable and sustained increase in their efforts.

II. The principal questions on the way to enlargement (Impact study)

The Essen European Council asked the Commission to conduct a 'detailed analysis of the effects of enlargement in the context of the Union's current policies and their future development'. The Commission prepared an interim report for the Madrid European Council, drawing attention to the advantages of enlargement in terms of peace and security as well as economic growth and development in Europe as a whole. It identified certain areas in which enlargement would have a marked impact on Union policies. In response to the European Council's request, this analysis has been pursued in greater depth with particular reference to the common agricultural policy and structural policies.

The results of this work (see *infra*) confirm that Union enlargement to some 25 countries and 475 million inhabitants will bring considerable political and economic advantages, and will further Union policies if certain conditions are met.

Enlargement will, however, bring greater heterogeneity to the Union and some sectoral and regional adjustment problems will result. These could limit the benefits of enlargement and make more difficult the further development of the *acquis* unless adequate preparations are made.

It is vital to use the pre-accession period to the full to ensure that the applicants make adequate preparations for membership. This will require substantial investment in sectors such as the environment, transport, energy, industrial restructuring, agricultural infrastructure and rural society. The funds needed will have to come from public and private sources in the applicant countries themselves, the Union and other providers of foreign capital. Standards among the applicant countries are generally low in the social sphere, in particular in the areas of

public health, unemployment and health and safety at work. Too slow an adaptation of their standards could undermine the unitary character of the *acquis* and possibly distort the operation of the single market. Supporting the process of adaptation will be necessary in the reinforced pre-accession strategy.

1. Agriculture

In most of the candidate countries currently important price gaps (in the sense of lower prices than in the EU) exist for the main commodities. In the crop sector these vary from around 10-30% for cereals, oilseeds and protein crops to 40-50% for sugarbeet (although for sugar the price gap is generally somewhat smaller) and in the livestock sector from 30-40% for milk and dairy products to 35-45% for beef. For the cereals based meats (pigmeat and poultry) price differences are relatively small. For certain fruit and vegetables important price differences exist (e.g. up to 80% for tomatoes). A further increase in producer prices in these countries can be expected from here towards the middle of the next period of financial perspectives, which will somewhat reduce, but not eliminate the price gaps.

By then, the gaps for cereals and beef may have largely disappeared if the proposed reforms are carried out. For sugar and dairy and certain fruit and vegetables price gaps in the order of 20 to 30% or higher can still be expected to exist in the medium term. For the sugar and dairy processing industry in these countries overnight price alignment (i.e. full integration into CAP from day one) would imply an important hike in their raw material price, while at the same time facing the full competitive pressure from the single market.

Introduction of quotas would counteract the tendency to increase sugarbeet and milk production under influence of the higher producer prices. Domestic demand could be expected to be negatively affected, increasing sugar and dairy surpluses in these countries. For certain fruit and vegetables, immediate integration in the CAP would provoke market imbalances.

The primary sector in candidate countries, with a relatively large average size of holdings, in particular in the arable crop sector, would face relatively few problems in integrating into the CAP market and price policy. In the livestock sector such integration will take longer, in view of the capital investments, restructuring and the reorganization of management still needed. In some candidate countries agricultural structures are weaker due to the much smaller average farm size.

In the downstream sectors, including the first processing stage, large efforts in restructuring and modernization remain necessary in all countries, although those countries with relatively large foreign investment in the food processing industry would seem to be more advanced. Adjustment pressure on the CEEC food industry when entering the single market is expected to be large, in particular in those industries faced with increases in raw material prices and in those countries with a weak primary sector.

The weakness of their farm sector and agri-food industry and the foreseeable price differentials make it necessary to envisage for most of the applicant countries a transition period that could vary in length according to the country concerned. Such a transition period would make it possible to cushion the shock of price adjustment to the extent necessary and would avoid exposing the applicant countries' processing industry to excessive competition. In all events, there would be no need during this period to provide direct income support such as that resulting from the 1992 CAP reform. On the other hand, the applicant countries should be able to receive aid for developing their agricultural and processing structures in order to gradually prepare them for full integration into the common agricultural market.

2. Cohesion policy

The continued commitment to economic and social cohesion which results from the first part of this communication implies that new Member States as of accession will progressively — and in line with their absorption capacity — benefit from the co-financing under the Union's structural policies. Towards the end of the next period of financial perspectives (2000 — 2006) it would thus be possible that financial transfers from the structural policies would be comparable to those attributed to Union Member States lagging behind in their development.

It is of utmost importance to familiarize the applicant countries with the structural policies' principles and procedures in order to prepare them before accession for the progressive introduction of Union structural policies. To this effect — in the context of the enhanced pre-accession strategy — applicant countries should benefit from pre-accession assistance to prepare themselves.

It should also be pointed out that the high level of co-financing by the Cohesion Fund (85%) should permit from the outset of accession and given the existence of a convergence programme, financing of important projects in such sectors as environment and trans-European networks which are crucial to their integration into the Union.

3. Implementing the single market

A fully operating single market is of crucial importance to the new Member States as it offers potential for growth and jobs. Hence the importance of applying in advance of accession all the elements of the White Paper on the single market, through a specific procedure. Only then a full application of a single market without border controls is conceivable.

Possible difficulties related to trade in agricultural products or to free movement of workers and of persons in general should not prevent the full implementation by the candidate countries of the measures foreseen in the White Paper related to the abolition of border controls.

4. Implementing environmental standards

Environment is a major challenge for enlargement: while the adoption of the Union's environmental rules and standards is essential, none of the candidate countries can be expected to comply fully with the *acquis* in the near future, given their present environmental problems and the need for massive investments.

These problems are far more severe than those faced by present Member States. The persistence of a gap between levels of environmental protection in present and new members would distort the functioning of the single market and could lead to a protectionist reaction. This situation would affect the Union's capability to develop its environmental policy.

Nonetheless, effective compliance with Union environmental standards would necessitate, apart from important legislative and administrative efforts, massive investment in the 10 applicant countries. Such levels of investment would appear unsustainable for national budgets even in the long term. The Union will not be in a position to cover the resulting financing gap by the time of enlargement. Investment for the adoption of the *acquis*, however, is one of the priorities of the reinforced pre-accession strategy, and forms the basis of the reorientation of PHARE.

This apparent impasse can be tackled through a two-fold approach:

□ In partnership with the Union, realistic national long-term strategies for gradual effective alignment should be drawn up and start being implemented in all applicant countries before accession, in particular for tackling water and air pollution. These strategies should identify key priority areas and objectives to be fulfilled by the dates of accession as well as timetables for further full compliance; ensuing obligations should be incorporated in the accession treaties. All new investments should comply with the *acquis*.

□ Important domestic and foreign financial resources, in particular from the private sector, will have to be mobilized in support of these strategies. The Union will be able to make only a partial contribution.

5. Transport

Very important investment in the applicants' transport infrastructure will have to be made, to avoid bottlenecks resulting from increasing flows and to allow for the full benefits of integration to be reaped. Development of transport infrastructure is also likely to be a high priority for the applicant countries themselves. Investment needs in transport infrastructure will be very high and an important part will have to be financed from sources other than national budgets. Substantial support will be needed from the Union for TEN-related corridors.

Full adaptation to Union safety and other technical norms will be necessary for a smooth enlargement. On the whole, operators should be able to bear the cost of gradual adaptation involving substantial renewal of fleets. However, specific measures might be needed, mainly in the railway sector, to encourage a favourable modal development in line with the orientations of the common transport policy, and to address the consequences of restructuring.

6. Nuclear safety

The nuclear industry accounts for 30% of electricity-generation in the applicant countries, on average, and as much as 80% in some countries. Most of the power stations were built using Soviet technology and do not meet international safety standards.

The solution is not simply to close them down, as they do not all pose the same risk and the cost of obtaining alternative energy supplies would be extremely high. Several of the applicant countries have already begun constructing new nuclear power plants, which they consider the least expensive way of meeting growth-led energy demand and of achieving independence in the energy sector.

The Union must protect the life and health of its present and future citizens. This implies that the applicants should cooperate fully in efforts to bring their levels of nuclear safety up to international standards, in accordance with the approach of the G7 since 1992. This implies that:

□ Where Western-designed nuclear plants are in use (Romania and Slovenia), developments

should be monitored to ensure that operations comply with the appropriate safety standards. Technical assistance can be provided if necessary.

□ Where the safety of Soviet-designed nuclear power stations, which are in operation or under construction, can be upgraded to meet international safety standards, modernization programmes should be fully implemented over a period of 7-10 years. (This applies to Dukovany and Temelin in the Czech Republic, Paks in Hungary, and certain units at Bohunice and Mochovce in Slovakia and at Kozloduy in Bulgaria.)

□ The timetables agreed by the governments concerned, subject to certain conditions, for the closure of non-upgradeable units must be respected. (This applies to Bohunice in Slovakia, Ignalina in Lithuania and certain units at Kozloduy in Bulgaria.)

□ Meanwhile, the urgent improvements called for by international experts should be carried out.

The plant closure commitments given by Bulgaria and Lithuania in return for loans granted by the EBRD/Nuclear Safety Account were subject to certain conditions. The Nuclear Safety Account Agreement entered into in 1993 by Bulgaria provided for the closure of the four units concerned at Kozloduy as soon as other duly specified energy sources became available. The necessary work was to be completed by the end of 1998; this timing having slipped, it is now thought that units 1 and 2 could be closed in 2001 and units 3 and 4 in 2001/2002. The Nuclear Safety Account Agreement concluded in 1994 with Lithuania for the closure of two units at Ignalina provided for the first to close in 1998 and the second in 2002; however, their operation could be extended until 2004 and 2008 at the latest if certain criteria were fulfilled.

Slovakia has not taken on any international commitments concerning the closure of the two reactors concerned at Bohunice, but the government adopted a resolution in 1994 whereby these reactors would be closed down by the year 2000 at the latest if the two new units under construction at Mochovce have in the meantime entered into commercial operation.

Agreement should be reached as soon as possible between the institutions providing financial support and each of the countries concerned on

the earliest practical date for the closure of the nuclear power stations in question and a support programme to make their closure possible. These programmes should be prepared by the EBRD, together with PHARE, Euratom and the World Bank, which should coordinate closely.

Such coordination should be extended to all assistance and modernization operations. Given the amounts in question (some ECU 4-5 billion for the main operations over 10 years), the Union will be able to make only a partial contribution.

The Union should cooperate closely with the safety authorities of the countries concerned to create a climate favourable to nuclear safety, and should support their independence vis-à-vis the political authorities.

7. Freedom, security and justice

Justice and home affairs became part of the Union's agenda with the entry into force of the Treaty of Maastricht. The Treaty of Amsterdam transfers some of these areas into Community competence and reinforces cooperation in the residual third pillar areas. It moreover integrates the Schengen agreements into the Treaty on the European Union. All applicant countries are to a varying degree confronted with the challenges of the fight against organized crime, terrorism, trafficking in women and drugs.

The control of external frontiers and respect for international norms in fields such as asylum, visas and immigration brings an added dimension. The geographical situation of some of the applicants exposes them to risks of importing problems from their neighbours.

The impact of these factors on the present Union is already apparent. But the enlargement of the Union provides an opportunity to address more effectively common problems in these fields which affect both the present Union and the applicants.

Some applicant countries began determined reforms in this area early on. Others have experienced delays notably due to changes in government. Overall, their achievements both in legal terms and in practical implementation varies considerably. However the lack of trained and experienced manpower is a common feature.

In these fields institution building in the pre-accession period will also be of utmost importance.

8. Border disputes

Enlargement should not mean importing border conflicts. The prospect of accession acts as a powerful incentive for the States concerned to settle any border disputes. The Stability Pact promoted by the Union between May 1994 and March 1995 has also been influential in this regard. Today several disputes, of low intensity, among applicants remain to be resolved.

The dispute between Hungary and Slovakia over the dam on the Danube is before the International Court of Justice, while the question of the maritime frontier between Lithuania and Latvia is in the process of being settled. Some of the applicant countries also have unresolved disputes with third countries. The Commission considers that, before accession, applicants should make every effort to resolve any outstanding border dispute among themselves or involving third countries. Failing this they should agree that the dispute be referred to the International Court of Justice.

In any event, all candidate countries should therefore, before accession negotiations are completed, commit themselves to submit

unconditionally to compulsory jurisdiction, including advance ruling of the International Court of Justice in any present or future disputes of this nature, as Hungary and Slovakia have already done in the abovementioned disagreement.

9. Applying Community rules in advance of accession

The applicant countries must abide by commitments they have made in the framework of the WTO and the OECD. But there have been a number of disputes between the Union and certain applicant countries, in cases where the latter have put international rules, such as the most favoured nation clause or certain trade arrangements, above the provisions of the Europe Agreements and their future obligations as Member States. Such an approach is contrary to the spirit of gradual adoption of the *acquis communautaire*. Stepping up the pre-accession strategy should therefore include finding solutions to these problems.

The application before accession of certain Community rules on competition and State aid is also needed. This implies that the Commission should be asked to approve or, in any event, be consulted on national decisions by the authorities in the applicant countries.

III. A strategy for enlargement

Negotiations will define the terms and conditions on which each of the applicant countries accede to the Union. As in the past, the basis for accession will be the *acquis* of the Union as it exists at the time of enlargement. While transition periods of definite and reasonable duration may be necessary in certain justified cases, the objective of the Union should be that the new members apply the *acquis* on accession.

This will ensure a balance of rights and obligations. The new members should accept the basic obligations on accession, otherwise their right to participate fully in the decision-making process may be put in question. The Union should not envisage any kind of second-class membership or opt-outs. Good preparation for membership, on the part of all the applicant

countries, is therefore of fundamental importance. The actual timetable for accession will depend primarily on the progress made by individual countries in adopting, implementing and enforcing the *acquis*. This should continue, and be accelerated, in parallel with accession negotiations.

A successful strategy for enlargement thus needs to combine:

- negotiations, based on the principle that the *acquis* will be applied on accession;
- a reinforced pre-accession strategy, for all applicant countries, designed to ensure that they take on as much as possible of the *acquis* in advance of membership.

1. Accession negotiations

Principles

The position to be presented by the Union to the applicant countries with which negotiations are opened should be based on the following principles:

[] new members will take on the rights and obligations of membership on the basis of the *acquis* as it exists at the time of accession;

[] they will be expected to apply, implement and enforce the *acquis* upon accession; in particular, the measures necessary for the extension of the single market should be applied immediately;

[] transition measures — but not derogations — may be agreed in the course of negotiations, in duly justified cases; they should ensure the progressive integration of the new members into the Union within a limited period of time;

[] during the accession negotiations, the applicants' progress in adopting the *acquis* and in other preparations for membership will be regularly reviewed on the basis of reports from the Commission.

The negotiations will begin with the screening of secondary legislation by the Commission and each of the applicant countries with which negotiations have been opened. This preliminary stage will identify the main problem areas for subsequent negotiation.

In the last accession negotiations, which took place with particularly well-prepared applicant countries, difficulties occurred in the conduct of four separate, but parallel, accession conferences of an intergovernmental nature. The Union's arrangements for the future accession negotiations will need to take full account of the complexity of the matters involved, the degree of preparation of the applicant countries, and the need for overall coherence with the reinforced pre-accession strategy.

Transition periods

In its interim report on enlargement to the Madrid European Council, the Commission

indicated that the basis for accession is the *acquis* of the Union, as it exists at the time, but that transitional arrangements may be needed in some areas such as agriculture and free movement of persons. Any transition periods should, however, be limited both in scope and duration.

2. Reinforcing the pre-accession strategy

At the request of the Dublin European Council, the Commission is proposing the reinforcement of the pre-accession strategy for all CEEC applicant countries, whatever the stage they have reached in the transition process. This will enable assistance to be directed towards the specific needs of each applicant, with a view to the negotiations, in a coherent overall approach. In this way, the Union will be able to provide support for overcoming particular problems identified in the opinions, without the need for long transition periods which would put into question the *acquis* and the economic and social cohesion of the Union as a whole.

The reinforced pre-accession strategy outlined below has two main objectives. First, to bring together the different forms of support provided by the Union within a single framework, the Accession Partnerships, and to work together with the applicants, within this framework, on the basis of a clearly defined programme to prepare for membership, involving commitments by the applicants to particular priorities and to a calendar for carrying them out; secondly, to familiarize the applicants with Union policies and procedures, through the possibility of their participation in Community programmes.

The existing pre-accession strategy is founded on the Europe Agreements, the White Paper on the single market, the structured dialogue and PHARE.

In the light of the intensity of contacts between the Union and the applicants during the coming phase of the accession process, in the framework of the negotiations, the Europe Agreements and the Accession Partnerships, the present structured dialogue no longer appears appropriate.

Most accession-related issues of principal concern to the Union and the applicants will be

discussed bilaterally. In the event that accession-related issues of a horizontal nature arise which could advantageously be taken up in a multilateral framework, an ad hoc dialogue could be arranged for this purpose by the Presidency and the Commission with the 10 Central and Eastern European countries. This approach should enable the dialogue to focus on such issues with a minimum of formality.

Pre-accession aid

In addition to PHARE (ECU 1.5 billion per year), the pre-accession aid to be granted to the applicant CEECs from the year 2000 will consist of two elements:

- aid for agricultural development amounting to ECU 500 million a year;
- structural aid amounting to ECU 1 billion. This aid would be directed mainly towards aligning these applicant countries on Community infrastructure standards, particularly — and by analogy with the assistance currently provided under the Cohesion Fund — in the transport and environmental spheres. It would also familiarize these countries with the arrangements for implementing structural measures.

Accession Partnerships

The new instrument of the Accession Partnership will be the key feature of the reinforced strategy and will mobilize all forms of assistance to the applicant countries in central and eastern Europe within a single framework for the implementation of national programmes to prepare them for membership of the Union.

Accession Partnerships would involve:

- precise commitments on the part of the applicant country, relating in particular to democracy, macroeconomic stabilization and nuclear safety, as well as a national programme for the adoption of the Community *acquis* within a precise timetable, focusing on the priority areas identified in each opinion;
- mobilization of all resources available to the Community for preparing the applicant countries for accession. This means first and fore-

most the PHARE programme but also any new forms of assistance that the Community could provide in the context of future financial perspectives. Other resources could be mobilized from international financial institutions for work on standards and the development of SMEs. PHARE could be used as a catalyst for co-financing operations with the EIB, the EBRD and the World Bank with whom the Commission will conclude framework agreements. Given the enormous requirements, in particular in the field of environment and transport, the Commission suggests that around 70% of the PHARE funds be used for investment.

The programme for adopting the *acquis* would be drawn up with the Commission in partnership with each of the applicant countries. The priorities set should initially correspond to the sectors identified as deficient in the opinions. Work towards the objectives would be covered by an indicative timetable. The granting of assistance — on the basis of annual financing agreements — will be conditional on achieving these objectives and on progress made. Implementation of the programme would thus depend on strict 'accession conditionality' based on suitable evaluation mechanisms and a continuous dialogue with the Commission.

The Commission would regularly report on progress to the European Council. The first report will be submitted at the end of 1998 and then on an annual basis thereafter. The progress of the applicant countries in fulfilling the targets set out in each individual Accession Partnership will serve as the basis of the reports. When an applicant country is judged to have fulfilled the necessary conditions to enter into accession negotiations and has not already done so, the Commission will forward a recommendation to the Council that accession negotiations should be launched.

Each Accession Partnership will take the form of a Commission decision to be taken after consulting the applicant country concerned and with due regard to the opinions of the management committees involved in administering assistance which has hitherto been granted from a range of different sources.

Preparation of the Accession Partnerships will begin in the second half of 1997.

*Participation in Community programmes and mechanisms to apply the *acquis**

As the applicant countries progressively adopt the *acquis* in preparation for membership, they should be given an opportunity to participate in Community programmes.

This is provided for in the Europe Agreements and does not raise problems of principle. As these programmes encompass most Community policies, covering education, training, research, culture, environment, SMEs and the single market, they will provide a useful preparation for accession in familiarizing the applicant countries and their citizens with the Union's policies and working methods.

The problem is to make this participation effective for all programmes. It will be necessary, depending on the budgetary resources of each country, to permit the PHARE programme to co-finance the applicant countries' participation in the programmes beyond the 10%

assistance limit laid down by the European Council in Essen.

The gradual integration of the Central and Eastern European countries into the different programmes will enable their representatives to become more familiar with Community legislation and proceedings and to take advantage of Member States' experience in areas such as public procurement, the right of residence and VAT. Nevertheless, this does not imply giving decision-making power to countries which are not yet members of the Union.

The involvement of certain Community agencies or bodies will also help better prepare the adoption of the *acquis*. More frequent contacts within these bodies will enable certain problems to be resolved at a technical level. A special effort will be made to familiarize the applicants with Community agencies, such as the Medicines Evaluation and the Environment Agency, the European Statistical Office (Eurostat), and the Veterinary and Phytosanitary Office, and with certification and standardization bodies.

IV. Cyprus

In July 1993 the Commission delivered a favourable opinion on Cyprus's application for membership. The European Council subsequently reaffirmed on several occasions, most recently at Florence in June 1996, that accession negotiations with Cyprus should start six months after the conclusion of the IGC.

1. Economic development

In its 1993 opinion the Commission noted the Republic of Cyprus's advanced level of development and economic dynamism. This still holds good with full employment (2.5% jobless rate), moderate inflation (3%) and public debt standing at 53% of GNP in 1996. The southern part of the island should not encounter any major problems in adopting the *acquis communautaire* or in coping with competition inside the EU. However, there is a need to align regulations and practices in the financial sector more fully with those which apply in the Union

and to reinforce cooperation and controls in all areas of justice and home affairs.

In northern Cyprus the trends observed by the Commission in 1993 remain unchanged. Average income per capita is about ECU 3 600 per annum, one third of that of the southern part of the island. The economy is becoming increasingly dependent on the public sector, which ultimately means financial transfers from Turkey. Investments remain low despite its human and natural resources.

2. Prospects for a political settlement

The 1993 opinion noted the continuing division of Cyprus. Efforts since then, chiefly under UN auspices, to work towards a political settlement, in accordance with various UN proposals, have not achieved much progress. The UN conducted intensive contacts with the leaders of the two communities during the first half of

1997 which have now led to face-to-face talks between them under UN auspices. There is a chance to make progress before the Presidential elections due in Cyprus in February 1998.

The shape of a settlement, establishing a bicomunal and bizonal federation, is well established, and supported by the Union. A number of options for constitutional and territorial arrangements to implement it have been explored, and the beginnings of a possible consensus have sometimes been discernible. But there has not hitherto been sufficient incentive for the two communities to reach agreement.

The Union is determined to play a positive role in bringing about a just and lasting settlement in accordance with the relevant United Nations Resolutions. The status quo which is at odds with international law, threatens the stability of the island and the region, and has implications for the security of Europe as a whole. The Union cannot, and does not wish to, interfere in the institutional arrangements to be agreed between the parties. But it is available to advise on the compatibility of such arrangements with the *acquis* of the Union. The prospect of accession, whose political and economic advantages are now becoming clear to Turkish

Cypriots as well as to Greek Cypriots, can in itself provide such an incentive.

3. Relations with the European Union

The timetable agreed for accession negotiations to start with Cyprus means that they could start before a political settlement is reached. The Union shares the view expressed by the UN Secretary-General, that the decision to open negotiations should be seen as a positive development which could promote the search for a political settlement.

Negotiations on accession would be facilitated if sufficient progress is made between the parties in contacts this year under the auspices of the United Nations to allow representatives of the Turkish Cypriot community to be involved in the accession process. Agreement on a political settlement would permit a faster conclusion to the negotiations. If progress towards a settlement is not made before the negotiations are due to begin, they should be opened with the government of the Republic of Cyprus, as the only authority recognized by international law.

V. The European Conference

Enlargement is a long-term process affecting the whole of Europe. The Member States of the Union and all those European countries aspiring to membership and linked to it through an association agreement should be brought together in a single forum.

The European Conference would provide an opportunity for consultations on a broad range of issues arising in the areas of the common foreign and security policy and justice and home affairs.

With regard to the CFSP, the conference would provide a framework for dialogue on international problems of common concern, such as relations with Russia, Ukraine and other CIS countries and European security. The conference would enable participating countries to be involved more closely in the preparation and

implementation of joint actions, declarations and demarches. This would contribute to the overall weight and coherence of decisions and actions taken under the CFSP.

In the field of justice and home affairs, the Union and the other participants in the conference share many concerns in areas including the fight against organized crime, terrorism, corruption, drug trafficking, illegal arms sales, money laundering and illegal immigration. The European Conference would facilitate cooperation between national authorities, including police and judicial officials, and cooperation with Europol.

The Conference would meet each year at the level of Heads of State or Government and the President of the Commission and, where necessary, ministerial level.

VI. Relations with Turkey

Turkey's eligibility for EU membership, first raised in the 1964 Ankara Association Agreement, was reiterated in the Commission's 1989 opinion on Turkey's 1987 application for membership. On 29 April 1997 the EU-Turkey Association Council reaffirmed Turkey's eligibility and confirmed that Turkey will be judged by the same objective standards and criteria as other applicants.

The entry into force of the customs union on 31 December 1995 marked a major step forward in relations between the EU and Turkey. The customs union is working satisfactorily and provides a sound basis for the further development of relations between the EU and Turkey. However, political circumstances have not so far allowed for the pursuit of financial cooperation and political dialogue, as agreed when the customs union decision was taken on 5 March 1995.

The Turkish economy has grown rapidly in the last 10 years. Following the entry into force of the customs union total EU-Turkey trade has increased from ECU 22 billion in 1995 to an estimated ECU 27 billion in 1996 (with an estimated EU surplus of ECU 9 billion). The customs union has demonstrated the Turkish economy's ability to cope with the competitive challenge of free trade in manufactured goods, as well as the trade, competition, and intellectual property components of the *acquis communautaire*. However, macroeconomic instability continues to give cause for concern. Over the past decade, Turkey has been unable to break the cycle of inflation, public spending deficits and currency depreciation. The structural causes of macroeconomic instability need to be tackled, for example, by improving the efficiency of tax collection, restructuring and privatizing public sector enterprises, reforming the social security system and reviewing public expenditure. Efforts are also needed to bring about economic and social cohesion, to modernize agriculture and to focus more on investment in infrastructure and human capital.

In political terms Turkey has a government and parliament resulting from multi-party, democratic elections and an administration capable of framing and applying legislation compatible with the *acquis communautaire*. Despite political recognition of the need for improvement and certain recent legislative changes, Turkey's

record on upholding the rights of the individual and freedom of expression falls well short of standards in the EU. In combating terrorism in the south east, Turkey needs to exercise restraint, to make greater efforts to uphold the rule of law and human rights and to find a civil and not a military solution. Persistent cases of torture, disappearances and extra-judicial executions, notwithstanding repeated official statements of the government's commitment to ending such practices, put into question the extent to which the authorities are able to monitor and control the activities of the security forces.

Recent developments in the administration and the education system, while intended to strengthen secularism, nonetheless underline the particular role of the military in Turkish society. The National Security Council has a special role under the Constitution in the formulation and implementation of national security policy and the Council of Ministers is required to give priority to its decisions. There are ambiguities in the Turkish legal system with regard to civilian political control of the military.

The further pursuit of democratization in Turkey should be accompanied by a firm commitment to resolve a number of problems in the region. As was pointed out at the EC-Turkey Association Council on 29 April 1997, tensions in the Aegean can be overcome only through the settlement of the issues between Greece and Turkey in accordance with international law, including means such as the International Court of Justice, as well as through good neighbourly relations and the rejection of the threat or use of force in accordance with the UN Charter. Moreover Turkey should contribute actively to a just and lasting settlement of the Cyprus question in accordance with the relevant United Nations resolutions.

The EU should continue to support Turkey's efforts to resolve its problems and to forge closer links with the EU. The Association Agreement and the customs union provide the foundations for building an increasingly close political and economic relationship which should evolve in parallel with the democratization process inside Turkey, progress towards lasting good-neighbourly relations towards

Greece and the achievement of a just and lasting settlement in Cyprus.

A number of proposals designed to take the relationship forward are set out in the Commission's communication to the Council on the future development of relations with Turkey (COM(97) 394). As requested by the Council on 24 March 1997, they aim to take the relationship beyond the customs union in the light of the decisions of the April 1997 Association Council.

VII. Final recommendations

1. The Commission invites the Council to endorse the approach to the challenge of enlargement set out in this communication.

Enlargement, as the Amsterdam European Council indicated, is an inclusive process embracing all of the applicant countries. The overall process includes the opening of accession negotiations with individual countries, according to the stage which each has reached in satisfying the basic conditions of membership and in preparing for accession; and an accompanying framework which consists of the reinforcement of the pre-accession strategy for countries of Central and Eastern Europe, as well as the creation of a multilateral forum of cooperation in the form of a European Conference.

2. As regards the opening of accession negotiations, the European Council has already concluded that they should commence with Cyprus six months after the end of the Intergovernmental Conference.

3. Concerning the countries of Central and Eastern Europe, the Commission has now presented in its opinions an objective analysis, in the light of the criteria laid down by the Copenhagen European Council. The Commission considers that none of them fully satisfy all the criteria at the present time. However, nine countries satisfy the political conditions, while certain countries have made sufficient progress towards satisfying the economic conditions and those related to the other obligations of membership.

In the light of its analysis, and in accordance with their respective merits, the Commission

Several of the proposals put forward by the Commission will require funding from the Community budget. Without it most of these proposals cannot be implemented. The Commission considers that the special financial regulation designed to accompany the customs union should be adopted as soon as possible. It also notes that MEDA is available for financial cooperation with Turkey and trusts that the conditions will be established for the full use of this instrument.

considers that Hungary, Poland, Estonia, the Czech Republic and Slovenia could be in a position to satisfy all the conditions of membership in the medium term if they maintain and strongly sustain their efforts of preparation.

The Commission underlines that a decision to open accession negotiations simultaneously with the countries mentioned does not imply that negotiations will be concluded simultaneously. The timing of the conclusions of accession negotiations will depend in large part on the accomplishment of the further efforts required from each applicant country in the respective opinions.

4. On this basis, the Commission recommends the Council to open negotiations with the following countries (listed in chronological order of their accession requests):

Hungary

Hungary presents the characteristics of a democracy, with stable institutions guaranteeing the rule of law, human rights, and respect for and protection of minorities. It can be regarded as a functioning market economy, and should be able to cope with competitive pressure and market forces within the Union in the medium term. It would be capable in the medium term of taking on the *acquis*, particularly of the single market, provided that it continues its efforts of transposition and implementation. However, particular efforts will be needed in the fields of environment, customs and energy. Further reforms will also be necessary for the

country to have the structures to apply and enforce the *acquis*.

Poland

Poland presents the characteristics of a democracy, with stable institutions guaranteeing the rule of law, human rights and respect for and protection of minorities. It can be regarded as a functioning market economy, and should be able to cope with competitive pressure and market forces within the Union in the medium term. It should be able in the medium term to participate fully in the single market, provided that it continues its efforts on transposition of the *acquis*, and intensifies work on its implementation. However, particular effort and investment will be needed to meet the *acquis* in sectors such as agriculture, environment and transport. Further administrative reform will also be indispensable if Poland is to have the structures to apply and enforce the *acquis* effectively.

Estonia

Estonia presents the characteristics of a democracy, with stable institutions guaranteeing the rule of law, human rights and respect for and protection of minorities. However, measures need to be taken to accelerate the naturalization of Russian-speaking non-citizens, to enable them to become better integrated into Estonian society. It can be regarded as a functioning market economy, and should be able to make the progress necessary to cope with competitive pressure and market forces within the Union in the medium term. Estonia has made considerable progress in transposing and implementing the *acquis* relating particularly to the single market. With further effort it should be able to participate fully in the single market in the medium term. Particular efforts, including investment, will be needed to apply the *acquis* fully in sectors such as environment. Strengthening of the administrative structure will also be indispensable if Estonia is to have the structures to apply and enforce the *acquis* effectively.

Czech Republic

The Czech Republic presents the characteristics of a democracy, with stable institutions guaran-

teeing the rule of law, human rights and respect for and protection of minorities. It can be regarded as a functioning market economy, and should be able to cope with competitive pressure and market forces within the Union in the medium term. It should be capable in the medium term of applying fully the *acquis* relating to the single market, provided that it continues its efforts on transposition and intensifies work on its implementation. However, particular efforts, including investment, will be needed to meet the *acquis* in sectors such as agriculture, environment and energy. Further administrative reform will also be indispensable if the Czech Republic is to have the structures to apply and enforce the *acquis* fully.

Slovenia

Slovenia presents the characteristics of a democracy, with stable institutions guaranteeing the rule of law, human rights, and respect for and protection of minorities. It can be regarded as a functioning market economy, and should be able to cope with competitive pressure and market forces within the Union in the medium term. However, considerable efforts will be needed to take over the *acquis*, particularly for the effective application of the single market. Important progress will be needed in the fields of environment, employment, social affairs and energy. Further reforms will also be indispensable for Slovenia to equip itself with administrative structures to apply the *acquis* effectively.

Slovenia has not yet ratified the Europe Agreement, although its government has committed itself to obtaining the necessary modification of the Constitution and ratification of the agreement as soon as possible; such action on the part of Slovenia should be considered a precondition for the opening of accession negotiations.

5. As regards the reinforcement of the pre-accession strategy, the Union is firmly committed to working with each of the PECO applicant countries, notably through the Accession Partnerships, to overcome the difficulties which they face in preparation for membership, and which are identified in the opinions. The Commission will report regularly to the European Council on the progress made. The first report will be submitted at the end of 1998 and then

on an annual basis thereafter. The progress of the applicant countries in fulfilling the targets set out in each individual Accession Partnership will serve as the basis of the reports. When an applicant country is judged to have fulfilled the necessary conditions to enter into accession negotiations and has not already done so, the Commission will forward a recommendation to the Council that accession negotiations should be launched.

6. In place of the existing structured dialogue, multilateral meetings with the applicant countries of Central and Eastern Europe could be

arranged by the Presidency and the Commission to discuss accession-related issues other than those arising in the individual accession negotiations.

7. The overall framework should be completed by the creation of a European Conference, to address issues related to cooperation in the fields of common foreign and security policy, and justice and home affairs; the Conference would comprise the Member States of the Union and all those European countries aspiring to membership and linked to it through an association agreement.

Part Three — The new financial framework (2000-06)

I. What is at stake?

Since 1988 the Community budget has been contained within a medium-term financial framework accepted jointly by the Council, Parliament and the Commission. Subject to a guaranteed ceiling of own resources, this arrangement has produced a steady evolution in the broad categories of expenditure in accordance with the priorities set for the development of Community policies. The rules and procedures which were also laid down by interinstitutional agreement have undoubtedly helped to ensure more trouble-free annual budgetary procedures.

This financial framework system has demonstrated its worth in political, economic and budgetary circumstances which have after all undergone far-reaching changes over the past decade. It is the Commission's strong opinion that this arrangement must be continued.

The new financial framework to be laid down for the period immediately after 1999 will have to provide coherent coverage, within reasonable budget limits, for the development of Community policies and the impact of the Union taking in new members, along the lines set out in this communication.

An assessment needs also to be made of whether the current financing system should be amended, in particular to take account of likely changes in budgetary circumstances.

The new financial framework will have to satisfy three major concerns. It must:

- cover a sufficiently long period of time;
- be capable of financing essential requirements;
- ensure the sound management of public finances.

The Commission is assuming that there will be a first wave of accessions towards the middle of the period covered by the new financial perspective (2000-06).

1. Covering an adequate period

The period covered by the new financial framework must be long enough to cater for:

- the likely impact of changes to certain Community policies;
- the impact of the first enlargement and the subsequent transitional arrangements for the countries concerned;
- the development of pre-accession aid for all the applicant countries.

The period to be covered is therefore 2000 to 2006.

2. Financing essential requirements

The reform of the common agricultural policy to make it more consumer-friendly will, in the first instance, entail additional expenditure. However, given the content of the proposed reform, these costs should be relatively low and the level of agricultural expenditure should be stabilized.

The existing 15 Member States will continue to give priority to cohesion with greater thematic, geographical and financial concentration of aid. There will also be efforts to improve efficiency through simplification of the implementation of aid, improved division of responsibilities and systematic evaluation of results.

Other Union priorities whose financial implications will have to be accommodated in the new framework are:

- the development of a number of internal policies intended to serve priority objectives shared by all the Member States and where there is an obvious added value;
- giving the Union a higher profile on the world stage, by continuing cooperation with third countries, economic and financial development aid and humanitarian aid;

financing a modernized Community administration where human resource and financial costs will be kept under control.

The new accessions will entail substantial extra costs for the existing 15 members. However, enlargement is likely to take place in stages. Prior to this, pre-accession aid will be stepped up to support the necessary adjustment processes in the applicant countries and to spread them over time.

3. Sound management of public finances

Public finances will have to be kept on a tight rein in all the Member States in order to consolidate sound growth. The same applies to the Community budget.

This budgetary discipline is not incompatible with the considerable challenges that will have to be met by the new financial perspective.

There are various indications that it should be possible to cover the development of priority measures to be financed from the Community budget over the period 2000 to 2006 without

raising the own resources ceiling from its level of 1.27% of GNP.

The 1999 budget should be adopted well beneath the 1.27% ceiling, leaving a fairly substantial margin right from the beginning of the period.

With economic growth forecast to be running at 2.5% a year for the period 2000 to 2006 for the existing 15 Member States and at 4% a year between now and 2006 for the applicant countries, if the own resources ceiling is maintained at its 1999 level in terms of GNP, by the end of the period there would be potential additional resources slightly in excess of ECU 20 billion (1997 prices).

Disregarding pre-accession aid and on the basis of the working assumptions used, the initial round of accessions would not begin to have any budgetary impact until about 2002 or 2003. In any case, transitional arrangements will be in force, particularly as regards the common agricultural policy, through the rest of the period covered by the financial perspective. Allocations to the new members for structural measures will only increase gradually.

II. Development of expenditure

Expenditure needs have been estimated on the basis of the expenditure classification used in the current financial framework under the following six major categories:

- The common agricultural policy, expenditure on which is limited by the agricultural guideline;
- Structural actions;
- Other internal policies;
- External action;
- Administrative expenditure;
- Reserves (monetary reserve and reserves for emergency aid and loan guarantees).

Where appropriate, requirements have been broken down into those needed for the existing 15 Member States, pre-accession aid and expenditure following the accession of new Member States.

1. Agricultural expenditure

Maintaining the current method of calculating the agricultural guideline would not pose any difficulty in covering identified agricultural expenditure needs.

Expenditure under the reformed agricultural policy for the existing 15 Member States would cover:

market intervention measures and export refunds; following the reform (which is to bring Community prices closer to prices on the world market) these costs should fall by about ECU 3.7 billion (1.4 billion for cereals, 1.2 billion for beef and 0.9 billion for milk products) by the year 2006 compared with what they would be if there were no reform;

direct compensatory aid; here the reform will entail additional expenditure of about ECU 7.7 billion by the same date (1.7 billion for cereals, 4.1 billion for beef, 3.0 billion for milk

products and a saving of 1.0 billion as a result of direct payments for silage and maize being abolished);

□ existing accompanying measures (agri-environment, afforestation, early retirement); about ECU 2.8 billion a year plus the new rural development accompanying measures and the horizontal measures in the fisheries sector (FIFG), costing from ECU 1.9 to 2.0 billion a year over the period, which are to be taken over by the EAGGF Guarantee Section; on that occasion a proposal will be made for the appropriate adjustments to the EAGGF financial regulations.

At the same time, agricultural expenditure for the applicant countries would comprise:

□ Pre-accession aid, currently estimated at about ECU 500 million a year, for modernizing farms and agri-foodstuff distribution channels in the applicant countries. Following the first accessions, the total amount allocated for this aid would remain the same, meaning that each of the countries not due to join until later would receive more.

□ Expenditure relating to the accession of the new Member States to market organization measures (estimated at between ECU 1.1 and 1.4 billion a year), enhanced accompanying measures and special modernization aid following on from the pre-accession measures (an additional amount rising from ECU 0.6 to 2.5 billion over the period from the time of accession).

Application of the guideline as it stands would leave a margin that would grow from 2003 onwards, to reach a very substantial amount by the end of the period.

There are in any case good reasons for leaving a large margin in order to cover market uncertainties and to enable the reform of the common agricultural policy to continue before the end of the period covered by the financial perspective. In addition, it should be made feasible in due course to put an end to transitional arrangements for new Member States. The Commission nevertheless finds, irrespective of the accession effect (ECU 1.3 billion to 1.4 billion), that it is not the right moment to review the way the guideline is calculated now, but that the issue should be reviewed in about 2005.

2. Structural expenditure

Financing for structural operations, including those for the new Member States, would be maintained, in relative terms, at the 1999 level, namely 0.46% of the Union's GNP. The total allocation for the period 2000 to 2006 would therefore be ECU 275 billion at constant 1997 prices.

Of this amount, ECU 210 billion would be allocated to the Structural Funds proper for measures in the existing 15 Member States in line with the changes proposed above:

□ about two thirds would be allocated for measures in Objective 1 regions, including the transitional schemes for regions above the 75% threshold in terms of GDP per inhabitant, which would be gradually phased out of the Objective 1 arrangements;

□ the remainder, for measures under other objectives, would slightly decrease over the period at the same time as concentrating greater funds on a smaller target population; this would be done without prejudice to the new rural development accompanying measures which are now included in the agricultural guideline.

Generally speaking, and in particular in areas where Community aid is to be appreciably reduced, ways will have to be developed to get the best leverage from operations funded by the Community budget by using public-private partnerships as well as combining subsidy arrangements, loans and venture capital contributions.

The new Member States would receive a total allocation of some ECU 45 billion, to be phased in over the period and accounting for about 30% of the total allocation for structural measures by the end of the period.

Pre-accession aid, to be drawn from the ECU 45 billion allocation for the new Member States, would be made available from the year 2000. This assistance, to be granted at a constant rate of ECU 1 billion per year, would initially be granted to all the applicant countries and would subsequently be focused on countries due to join the Union at a later stage. It would be primarily intended to help bring the applicant countries' infrastructures up to Community standards, particularly in the transport and environment fields, along the lines of existing Structural Fund operations.

The allocation for the Cohesion Fund will be ECU 20 billion. A review of eligibility under the criterion of per capita GNP being lower than 90% of the Community average will be carried out half-way in the period.

3. Other categories of expenditure

The proposed figures for agricultural and structural expenditure and for the own resources ceiling are determined by reference to the growth in Community GNP, which must also be the benchmark for determining the development of other types of expenditure.

The 1999 budget should leave significant margins below the ceilings in categories 3 to 5. The ceilings could then be maintained in real terms at the same level in 2000 and would not need to be increased until after that date.

The growth in expenditure under categories 3 to 5 from 2000 onwards must be looked at in the light of the specific features of the measures concerned and their future development, as well as in the light of enlargement, which will affect expenditure on different policies in different ways.

Internal policies

The development of internal policies over the period covered by the next financial perspective will have to satisfy two considerations, both designed to enhance the effectiveness of measures taken at Community level. First, the resources available for internal policies will have to be targeted so that they are not wasted on measures that are unlikely to have a significant impact. At the same time, allocations may be increased faster than GNP growth for certain programmes, which have been given priority because of the value added they derive from Community-level action, for example in terms of growth, employment and the development and dissemination of new technologies. This would essentially mean the trans-European networks, research, education and training, the introduction of environment-friendly technologies and measures to support SMEs.

Regardless of enlargement, redirecting internal policies in this way would in overall terms mean raising the category 3 ceiling slightly

more than the rise in the GNP of the 15 Member States.

The effect of enlargement will vary from programme to programme. Although increases in line with the new countries' GNP would be appropriate for a good number of programmes, requirements may be greater in certain areas. This will be the case for policies where the population or the language concerned are more relevant as criteria than GNP (education and training, culture, information, etc.). The development of the trans-European networks will also necessarily have a different dimension in an enlarged Union. In addition, all the programmes that contribute to the proper functioning of the single market, and which are at the heart of Community action (such as statistics, standardization, administrative cooperation and controls in agriculture and fisheries) are also likely to be substantially affected by enlargement. Prior to enlargement the PHARE programme will finance the applicant countries' participation in certain internal policies, including the research and technological development programme, as part of the pre-accession aid, but once they have joined, this funding will have to come from within category 3 for the new Member States.

This means that the increase in the allocations for internal policies following enlargement will have to be more than just in proportion to the new members' GNP. The increase will not only have to finance measures in the new Member States, but must also enable the Union to cope efficiently with a broader and less homogeneous whole without crowding out operations in the existing Member States.

The upshot of this is that the ceiling under category 3 will have to rise more rapidly than the GNP of the enlarged Community after the first accessions.

External action

From the beginning of the next period, the Community should pay special attention to the development of pre-accession aid, one of the objectives of which, in addition to the measures under categories 1 and 2, is to help finance the applicant countries' participation in Community programmes, including research programmes. After the first accessions, the total amount of this aid should remain stable at

ECU 1.5 billion and be concentrated exclusively on the countries due to join at a later date.

As regards other external action by the Union, in contrast with what was done for the last enlargement, there will be no increase based on the new countries' GNP, since the acceding countries will have been in receipt of external aid prior to accession.

For the whole period 2000 to 2006 the ceiling for Heading 4 should therefore on average rise in step with the GNP of the existing 15 Member States. In this way, the Community will be able to develop its international cooperation, in particular with its closest neighbours, such as the former Soviet republics, the former Yugoslavia, Albania, the Mediterranean countries and Turkey. It will also be in a position to step up its humanitarian aid, given the primary responsibility it has acquired in this area. This assumes, however, that no large increases in Community financing for the common foreign and security policy will be required in the coming years.

Administrative expenditure

The Commission's efforts to modernize the way it operates should make it possible to keep any increases in administrative expenditure within tight limits. The ceiling for category 5 may therefore rise more slowly than the 15 Member States' GNP, if all the institutions apply the same budgetary discipline. This allocation will have to cover items such as buildings programmes already under way and pension commitments which will rise by about ECU 250 million over the period.

In contrast, enlargement will involve an increase in costs proportionately larger than the increase in GNP provided by the new Member States. The institutions will have to be equipped to work in new languages, to assume a bigger role in a more diverse Community and to accommodate nationals from the new Member States.

The Commission, nonetheless, feels that if the entry of the new Member States into the various institutions is made a sufficiently gradual process and is accompanied by the necessary rationalization measures, the overall administrative expenditure ceiling, after taking enlargement into account, may increase more slowly than the GNP of the enlarged Community over the whole period 2000 to 2006. This

would make it possible to reduce the relative cost of running the Community institutions.

Overall development of Headings 3 to 5

The guidelines proposed above point to different developments for the three different categories. However, between 2000 and 2006, the overall rise in these headings taken together should be slightly below that of the GNP of the enlarged Community.

4. Reserves

The monetary reserve, which was set up in 1988, and the guarantee and emergency aid reserves set up in 1993 have, by and large, operated effectively.

It should, however, be possible to reduce the reserves during the coming period:

□ The phasing-out of the monetary reserve by 2003 should be possible in view of the reform of the common agricultural policy, which is supposed to bring Community prices for several major products into line with world market prices, thereby significantly reducing the Community budget's vulnerability to fluctuations in the dollar.

□ The emergency aid reserve could be cut back to ECU 200 million. This reserve has been systematically used to supplement allocations available for external action and this runs counter to proper budgetary discipline. The relevant items under category 4 should be given bigger allocations and the emergency aid reserve should be restored to its original role as a reserve to be mobilized to deal with situations that were genuinely unforeseeable when the budget was drawn up.

5. Proposed reference framework

The figures for the broad categories of expenditure (in terms of commitments) at 1997 prices produce a 17% increase between 1999 and 2006 in total appropriations for commitments, which is less than the growth in GNP (24% according to forecasts for the same period.

taking account of the first wave of accessions). However, because the increase in total commitments will be lower than in the preceding period, the increase in payments would be more marked (20.5%) and the appropriations for commitments/appropriations for payments ratio would tend to fall in relation to what was used for drawing up the current financial perspective.

A significant margin would, nonetheless, remain available beneath an own resources ceiling maintained at 1.27% of Union GNP. This would most likely be more than sufficient to cover requirements should economic growth

turn out lower than forecast. There are in any case good reasons for leaving such a margin:

□ The integration of the applicant countries will not have been completed by the end of the next period. It would therefore be wise to leave some resources available to cover the end of the transitional arrangements for the first wave of new countries and the subsequent accessions.

□ Political circumstances permitting, the issue of including the EDF in the budget may come up again in 2005, even though this would not have a significant impact on the appropriations for payments required until some time later.

III. The financing arrangements

Over the period covered by the next financial perspective, it is possible to face the challenges posed by the necessary reforms of some of the most important Community policies and those deriving from a first wave of accessions without exceeding the existing own resources ceiling (1.27% of GNP). As a result, there are no technical or legal reasons which impose a modification of the decision at the basis of the financing arrangements. The current own resources decision will remain in force as long as it is not modified by a new one.

The question of the opportunity of proposing a modification of the current financing arrangements rests therefore on an assessment of their current and expected performance. This assessment will have to take into account the fact that a modification of the own resources decision would require unanimity among the Member States and ratification by national parliaments.

1. The functioning of the system

As demanded by Article 10 of the own resources decision, the Commission will present in the course of 1998 a full report on the functioning of the own resources system covering also the mechanism used to reduce the contribution of the United Kingdom and the possibility to introduce a new own resource. It is, however, already possible, even at this stage, to draw some broad conclusions.

The current arrangements have provided the Union with an adequate amount of financial resources and look likely to do so for the period covered by the next financial perspective. The margin available under the own resources ceiling has never been fully utilized. This has been due to various factors such as systematic underspending, for example in the agricultural area, and delays in carrying out commitments, for example in structural spending. Since 1997 the reduction in the increase in expenditure, measured as a percentage of GNP, has been the result of cautious budgetary decisions, in line with the budgetary consolidation efforts of the Member States. These trends, combined with the increases in the own resource ceiling for the years 1997 to 1999, are creating a margin which will help to accommodate a first wave of accessions.

The last modification of the own resources decision, whose effect has started being felt from 1995 onwards, has made the system more equitable by bringing national contributions more in line with the shares in GNP. The weight of the VAT resource, whose yield is poorly correlated with contributive capacity, is being reduced. Whereas in 1992 the VAT resource still represented 61.6% of the total resources put at the disposal of the Union, in 1996 this share was down to 51% and is expected to drop to about 33% by 1999. The increase in the relative share of the GNP contribution, however, has been less rapid than anticipated as actual Union spending (and con-

tributions) is increasing less than what is allowed by the own resources ceiling and less than what had been anticipated in 1992. While some improvement in the 'fairness' of the financing system has already taken place, the largest part is still to come.

The share of the Community budget financed by the so called 'traditional own resources' (custom duties and agricultural levies) has also continued to decline. In 1992 these resources still represented 22% of total receipts, but in 1999 they are expected to drop below 15%.

2. The introduction of a new own resource?

The trend described in the previous paragraph often prompts the demand for the introduction of a new own resource to increase the percentage of tax-based own resources. The VAT and GNP contributions are perceived by Member States as transfers from the national exchequers and not as real own resources of the Community.

However, the introduction of new own resources still presents technical and, above all, institutional obstacles. One important consideration is that the fiscal autonomy of the Union would not be significantly enhanced by an increase in the share of financing provided by tax-based own resources. As long as the residual financing of the budget is covered by a 'complementary' resource activating transfers from the national exchequers, any increase in Community spending would still translate in a corresponding increase in own resources payments. A real modification would be brought about only by the passage to a situation where the whole of the Community budget would be financed by autonomous fiscal resources. However, this would represent a significant institutional development that would have little chance of being countenanced by all Member States in the present phase of the integration process.

In addition, the introduction of any new resource is likely to make the system less equitable as the yield pattern of the new resource by Member States is unlikely to correspond to the GNP shares and require the introduction of an equalization mechanism that would adjust national contributions to make them correspond to the GNP shares. While this mechanism would make the system more equi-

table, it would also raise the question of whether it would not be more cost-effective to switch to a system entirely based on GNP contributions.

Indeed, a strong case could be made for replacing the VAT resource. Its weak link with contributive capacity has already led to the decision to reduce its importance. Furthermore, in the countries where the harmonized base is capped, the resource is already effectively a GNP resource since its base is a conventional '50% of GNP'. A good case could also be made for replacing traditional own resources with GNP contributions. As the importance of traditional own resources for the financing of the Community budget decreases, the balance between their advantages and disadvantages as a source of Community finance shifts towards the latter. In particular, their collection and recovery procedures are very complicated, exposed to fraud and very costly in terms of controls. This would not mean that the Union could ignore the effective collection of customs duties by Member States since these duties constitute an instrument of Union trade policy, but would modify substantially the perspective of its involvement in this complex area.

On the whole, the considerations presented in this section do not suggest the existence of a strong case for a rapid modification of the present arrangements.

3. Main trends to 2006

A first wave of accessions will affect the budgetary positions of all the present Member States, reducing the positive balances of net beneficiaries and increasing the negative ones of the others. The applicant countries have levels of prosperity significantly below those of the Union and will have therefore a strong claim to substantial amounts of Structural Fund payments. In addition, the experience of the enlargement to Spain and Portugal suggests that long transition periods for the 'own resources' payments of the applicant countries might be introduced.

Future expenditure flows in the Union will also be influenced by the necessary reforms of the main policies. The common agricultural policy will be modified along the lines of the previous reform and the changes will affect essentially the same products. The new reform will therefore affect the budgetary positions of the Member States along the pattern of the previous one.

However, its effects on the budgetary positions might be smaller as income losses will only be partially offset by increases in direct aids.

Structural Fund spending in the new Member States will be financed through a combination of greater concentration of spending in the present Member States (which may supply about one third of the amounts needed) and of use of the margins created by economic growth (the other two thirds). However, the regions which will remain classified as 'objective 1' and which experience high rates of unemployment will benefit from higher per capita transfers.

Internal policies will focus more on some key themes such as research and development efforts and the support of the completion of the trans-European networks. This concentration will be accompanied by stronger emphasis on selection criteria such as excellency and Community interest. This should lead to a more balanced distribution of expenditure among Member States.

Whereas the future budgetary trends for the United Kingdom are no more difficult to forecast than those for the other Member States, a considerable amount of uncertainty surrounds its future position in terms of relative prosperity, which is one of the factors at the base of the rebate granted to this country. Producing a projection of the relative prosperity of the United Kingdom to the year 2006 depends on forecasting, over a period of nine years, the rates of economic growth and of inflation of all Member States and the relative trend of the pound sterling if the United Kingdom decided not to join EMU. In a Union of 15 members, it is likely that in 2006 the relative prosperity of the United Kingdom would still be below the average of the Union. The accession of four or five of the applicant countries, however, might change this tentative conclusion.

At the time of the enlargement, it will be necessary to adapt the definition of the expenditure on which the calculation of the rebate is based to avoid an unjustified increase in its amount due to purely statistical changes. This is made necessary by the fact that with enlargement some expenditure flows directed to the new Member States, which are now considered 'external expenditure' and therefore do not enter into the calculation, will be replaced by payments under internal policies, which enter into the calculation.

4. The future financing system

National contributions to the Union budget have become more proportional to GNP shares, thus improving the degree of fairness of the current financing system. Community expenditure has been increasingly directed at achieving cohesion goals, which has implied a substantial amount of redistribution. Even if relative positions have developed in line with what had been expected at the time of the negotiation of the present own resources decision, in some cases the combination of these trends and of low returns from agricultural expenditure has resulted in budgetary positions which are perceived as excessive net financial burdens.

The next enlargement, which will take place during the period covered by the next financial perspective, will inevitably provoke a deterioration in the budgetary positions of all the current Member States. This cannot come as a surprise and should not give rise to claims for compensation.

However, over the same period, the maintenance of the current financing arrangements and the effects of the reform of the main Community policies are not expected to lead to major changes in the relative budgetary positions of the Member States.

The uncertainties surrounding the future relative prosperity situation of the United Kingdom, however, lead the Commission to propose postponing a re-examination of the rebate mechanism until immediately after the first enlargement.

At that moment, it will be possible to proceed to an assessment of the situation on the basis of more reliable data. If the relative prosperity of this country were to be above the Union's average, it would be appropriate to review the current arrangements and to foresee a gradual reduction of the current rebate.

The review might be extended to the financing of the budgetary rebate. If the data were to show that the effects of the reform of the common agricultural policy were significantly different from those expected and that they were leading to unjustifiable budgetary positions it might be conceivable to adjust its financing key. A first step in this direction was taken already in Fontainebleau when it was decided that Germany would pay two thirds of

the amount resulting from the standard GNP key.

If and when the Union were to require an increase in its financial resources beyond the present 1.27% of GNP ceiling, a more fundamental reform might be considered. In such a case, it might become possible to re-examine the whole structure of the system of own

resources. If, in addition, the budgetary positions were to be significantly affected by the increase in expenditure or by the reform of the structure of financing, it could be appropriate to envisage the introduction of a generalized system of corrections, which would also address the problems of the United Kingdom, aimed at smoothing further deteriorations of the largest budgetary imbalances.

Annex to Part Three — Tables and graph

Table 1 — Overview of the new financial framework 2000-06 (1997 prices).

Table 2 — Heading 1: Agricultural expenditure (current prices).

Table 3 — Heading 2: Expenditure on structural operations (1997 prices).

Table 4 — Pre-accession aid and expenditure connected with the accession of new Member States (1997 prices).

Graph — Expenditure in categories 3 (Other internal policies), 4 (External action) and 5 (Administration) (1997 prices).

Main assumptions (Tables 1 to 4 and graph)

1999: Current financial perspective. 1997 prices. Based on May 1997 economic forecasts.

Real GNP growth after 1998: average of 2.5 % per year for all current Member States; average of 4 % per year for applicant countries.

Implicit GNP deflator in ecus after 1998 (for calculation of agricultural guideline at current prices): average of 2 % per year.

Technical working assumption that five Central or East European countries and Cyprus will join in 2002.

Table 5 — Own resources ceiling and effective budgetary resources (1993-99)

Table 6 — Percentage shares in the financing of the Union and in total GNP (1992, 1996 and 1999)

Table 1 — Overview of the new financial framework 2000-06 (1997 prices)

(ECU billion)

Appropriations for commitments	1999	2000	2001	2002	2003	2004	2005	2006
Agriculture (guideline)	43.3	44.1	45.0	46.1	47.0	48.0	49.0	50.0
Structural operations	36.1	35.2	36.0	38.8	39.8	40.7	41.7	42.8
<i>of which: past adjustments</i>	<i>1.8</i>							
Internal policies	6.1	6.1	6.4	7.3	7.5	7.7	7.9	8.1
External action	6.6	6.6	6.8	7.0	7.1	7.3	7.5	7.6
Administration	4.5	4.5	4.6	5.1	5.2	5.3	5.4	5.5
Reserves	1.2	1.0	1.0	0.8	0.5	0.5	0.5	0.5
Appropriations for commitments								
— Total	97.8	97.5	99.8	105.1	107.1	109.5	112.0	114.5
Appropriations for payments								
— Total	92.5	94.1	96.6	101.1	103.9	106.5	108.9	111.4
Appropriations for payments (as percentage of GNP)	1.25	1.24	1.24	1.22	1.22	1.22	1.22	1.22
Margin	0.02	0.03	0.03	0.05	0.05	0.05	0.05	0.05
Own resources ceiling	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27

Table 2 — Heading 1: Agricultural expenditure (current prices)

(ECU billion)

	1999	2000	2001	2002	2003	2004	2005	2006
Guideline (current prices) ¹	45.0	46.7	48.5	50.6	52.6	54.7	56.9	59.2
Agricultural expenditure (current prices)		44.0	45.9	49.7	52.1	53.2	53.9	54.5
Community of 15								
Reformed CAP	41.7	41.6	43.4	45.4	47.3	47.9	47.9	47.9
New rural development accompanying measures and horizontal fisheries meas- ures		1.9	2.0	2.0	2.0	2.0	2.1	2.1
New Member States								
CAP (market measures)		0.0	0.0	1.1	1.2	1.2	1.3	1.4
Specific rural development accompany- ing measures		0.0	0.0	0.6	1.0	1.5	2.0	2.5
Pre-accession aid ²		0.5	0.5	0.6	0.6	0.6	0.6	0.6
Margin		2.7	2.6	0.9	0.5	1.5	3.0	4.7

¹ Assumed 2% deflator per year from 1999 to 2006.² Equal to ECU 500 million at constant 1997 prices.

Table 3 — *Heading 2: Expenditure on structural operations
(1997 prices)*

(ECU billion)

	1999	2000	2001	2002	2003	2004	2005	2006
Community of 15								
Structural Funds	31.4	31.3	32.1	31.3	30.3	29.2	28.2	27.3
Cohesion Fund	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
New Member States¹		0.0	0.0	3.6	5.6	7.6	9.6	11.6
Pre-accession aid		1.0	1.0	1.0	1.0	1.0	1.0	1.0
Total	34.3	35.2	36.0	38.8	39.8	40.7	41.7	42.8

¹ Including participation in the Cohesion Fund.

Table 4 — *Pre-accession aid and expenditure connected with the accession
of new Member States (1997 prices)*

(ECU billion)

	1999	2000	2001	2002	2003	2004	2005	2006
Total pre-accession aid	1.3	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Heading 1		0.5	0.5	0.5	0.5	0.5	0.5	0.5
Heading 2		1.0	1.0	1.0	1.0	1.0	1.0	1.0
Heading 4 ¹	1.3	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Other applicant countries ²	0.5	1.2	1.2	3.0	3.0	3.0	3.0	3.0
New Member States²	0.8	1.8	1.8					
Amounts for the new Member States				5.8	8.2	10.8	13.3	15.7
Heading 1 ³				1.5	1.9	2.4	2.9	3.3
Heading 2				3.6	5.6	7.6	9.6	11.6
Heading 3				0.7	0.7	0.8	0.8	0.8

¹ The 1999 amount is intended as a guide.

² The breakdown for 1999 to 2001 is purely indicative.

³ Figures converted to 1997 prices for purposes of comparison. Only the estimates in current prices are relevant.

Graph — Expenditure in categories 3,4 and 5
(billion ecu, 1997 prices)

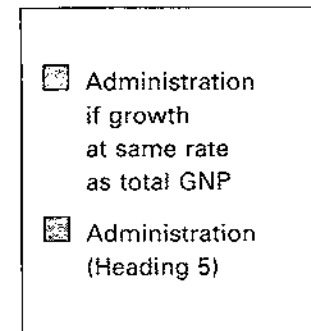
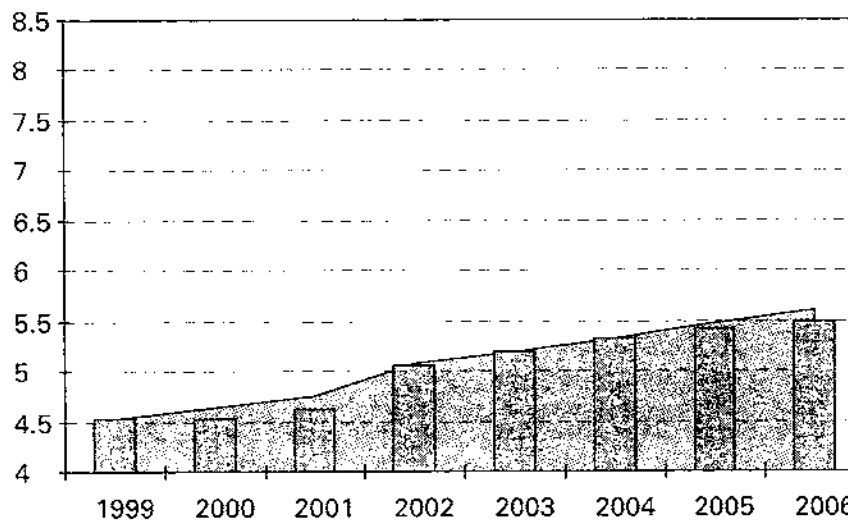
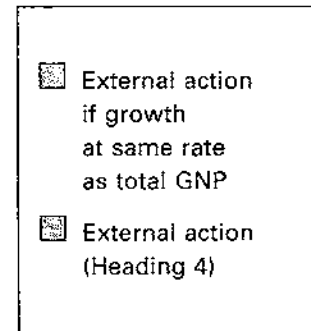
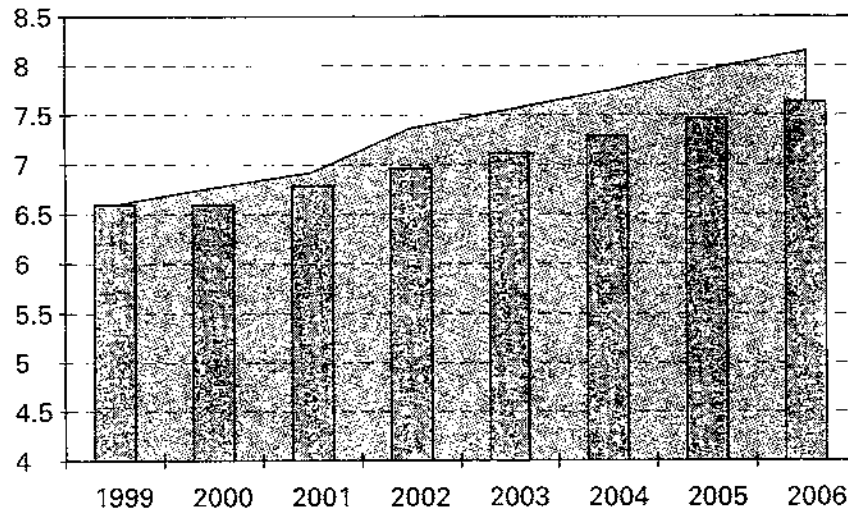
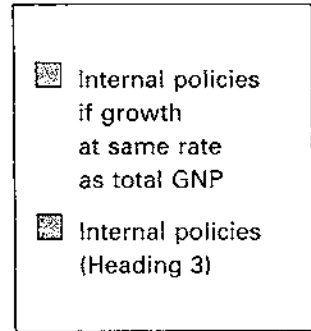
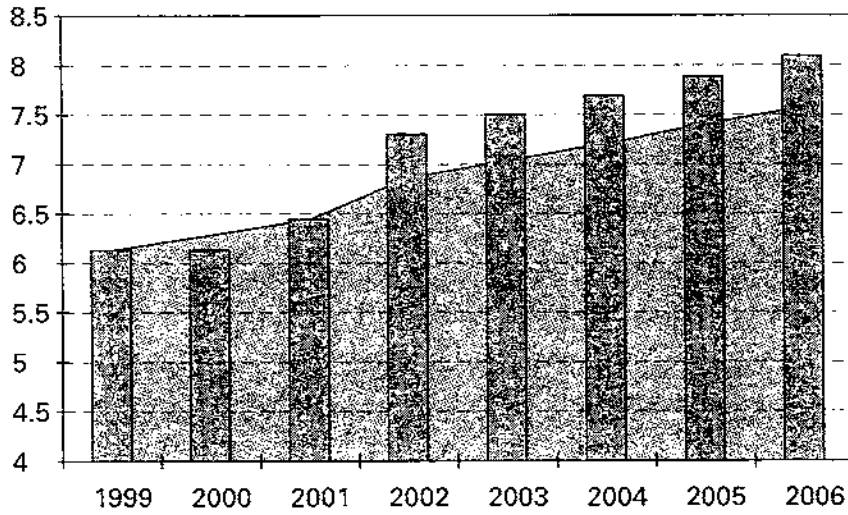


Table 5 — *Own resources ceiling and effective budgetary resources*

	1993	1994	1995	1996	1997	1998	1999
Ceiling as a % of GNP	1.20	1.20	1.21	1.22	1.24	1.26	1.27
Total resources (% of GNP)	1.11	1.12	1.15	1.17	1.17	1.15	1.15
Unused margin	0.09	0.08	0.06	0.05	0.07	0.11	0.12

1993-97: Budget; 1998: draft budget presented by the Commission; 1999: projections based on an extrapolation of the 1998 budgetary orientations.

Table 6 — *Percentage shares in the financing of the Union and in total GNP*

	1992		1996		1999	
	Budget	GNP	Budget	GNP	Budget	GNP
B	4.0	3.1	3.9	3.1	3.8	3.0
DK	1.8	1.9	1.9	2.0	2.0	2.0
D	30.2	28.2	29.4	27.4	27.7	26.2
GR	1.3	1.4	1.5	1.5	1.6	1.6
E	8.6	8.2	6.3	6.8	6.7	6.7
F	18.7	18.6	17.5	18.1	17.5	17.5
IRL	0.8	0.7	0.9	0.7	1.0	0.8
I	14.7	17.0	12.5	14.1	13.4	14.3
L	0.2	0.2	0.2	0.2	0.2	0.2
NL	6.3	4.6	6.2	4.6	5.9	4.6
A	—	—	2.7	2.6	2.6	2.5
P	1.5	1.3	1.3	1.2	1.4	1.3
FIN	—	—	1.4	1.4	1.4	1.4
S	—	—	2.6	2.9	2.9	2.8
UK	11.9	14.8	11.6	13.4	11.9	15.1

Reinforcing the pre-accession strategy

**The effects on the Union's policies
of enlargement
to the applicant countries
of Central and Eastern Europe
(Impact study)**

Reinforcing the pre-accession strategy

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The pre-accession strategy, as defined by the Essen European Council, is founded on three elements: the Europe Agreements, the Structured Dialogue and PHARE.

At the request of the Dublin European Council, the Commission is proposing the reinforcement of the pre-accession strategy for Central and East European applicant countries. The strategy, which is applied to all applicant countries, will make it possible to offer them practical support, irrespective of their current state of preparation (or the date of the launch of negotiations), in introducing the reforms entailed by accession according to the priorities identified in the opinions.

I. Objectives

The general objective of the Reinforced Pre-Accession Strategy (SPAR) is to offer a coherent programme to prepare the Central and Eastern European applicant countries for accession to the European Union.

SPAR is directed at all applicant countries, whatever their specific situation and projected date of accession. It constitutes for each an expression of support on the part of the Union for their desire to become Member States and, at the same time, practical preparation for their future responsibilities within the Union.

SPAR aims at solving the main problems identified by the Commission in each opinion

This reinforced pre-accession strategy comprises two new features which will guarantee a higher degree of consistency between the preparations for accession and the negotiation itself:

- bringing together within a single framework (the Accession Partnerships), which nevertheless takes account of the requirements of each applicant country, all the resources and forms of assistance available for facilitating the adoption of the *acquis* and disciplines;
- extending the participation of applicant countries to Community programmes and mechanisms to apply the *acquis*.

on the accession applications. Some are common to the majority of applicant countries, while others are specific, resulting from the different situations prevailing in each country.

Where resources are concerned, all the instruments and forms of assistance which the Union and its Member States can make available to the applicant countries must be mobilized in order to help solve the most pressing problems confronting them with a view to accession. The countries currently least ready to comply with Community constraints must be given particular encouragement to step up their preparations.

II. Method

To be effective, SPAR must concentrate its efforts on the priorities for accession. The scope of certain problems will make it neces-

sary, from 1998, to establish intermediate objectives with precise conditions attached.

A. Focusing on enlargement priorities

Adoption of the *acquis* forms the basis of any accession, and SPAR will contribute towards solving the main problems identified in the opinions. In addition to those questions which

are specific to each applicant, the analyses carried out at this stage have revealed two types of horizontal requirements:

1. Reinforcing the institutional and administrative capacity of the applicant countries ('institution-building')

As emphasized by the Madrid European Council, the applicant countries' institutional and administrative capacity to implement the *acquis* is a key problem in the enlargement preparations. They must be helped to set up institutions and administrations capable of establishing and effectively implementing Community legislation.

Efforts will focus on training specialists in the following fields in particular: law, customs, public accounts, budgetary control, environment, telecommunications, veterinary and phytosanitary inspections, technical controls, statistics, energy, etc. Applicants should also be helped to develop their own capacity for dealing with justice and home affairs: combating illegal immigration, drug-trafficking, international crime, etc. In addition, the Union must establish close cooperation in the nuclear-energy field with the countries concerned and their safety authorities in order to assist them in introducing appropriate safety standards as soon as possible.

Programmes for the long-term secondment to applicant countries of experts from the administrations of the Member States must be drawn up for each applicant in the light of the needs identified, particularly in the opinions.

B. Setting intermediate objectives

From 1998, reinforcement of the pre-accession strategy will be accompanied by a move to make the granting of European Union assistance, particularly financial assistance, to the applicant countries conditional upon their implementing the programmes aimed at preparing them to meet their obligations as future Member States. This will be done on the basis of existing commitments or objectives to be defined with the applicant countries in the context of the Accession Partnerships. The conditional aspects could cover compliance with democratic principles and practices, fulfilment of commitments entered into under the Europe Agreements, implementation of the main provisions of the White Paper, sensitive

2. Bringing enterprises into line with Community standards

Adoption of the *acquis* implies the imposition by applicant countries, as swiftly as possible, of Community standards on enterprises and large industrial plants. This is primarily the case in such areas as the environment, working conditions, transport, nuclear safety, energy, marketing of food products and the control of production processes, sound commercial practices and large industrial plants. Investment aimed at adapting to Community standards is the only alternative to long transition periods or exemptions. As requested by the Copenhagen European Council, it will help reinforce the competitiveness of the applicant countries' economies and their ability to cope with the competitive pressure and market forces to which they will be subjected within the Union.

In this connection, SPAR will have to encourage the development of transport infrastructures, particularly TENs, which are essential to the smooth operation of the internal market and common policies.

Particular attention will be paid to the creation of SMEs and to industrial restructuring efforts.

issues identified in the opinions, progress in implementing the PHARE programme and first steps towards implementing the future economic convergence programmes.

The opinions have highlighted the extent of the efforts which have still to be made in certain areas, country by country, in order to satisfy the Copenhagen criteria. This situation will require the definition of intermediate stages in terms of priorities, each to be accompanied by precise objectives to be set in collaboration with the countries concerned, the achievement of which will condition the degree of assistance granted and the progress of the negotiations

under way with some countries and the opening of new negotiations with the others.

The Commission will report periodically to the Council on the progress achieved by the appli-

cant countries in the programme for adopting the *acquis*, particularly through the Accession Partnerships, with a view to fulfilling the Copenhagen criteria.

III. Financial resources

Assessments of the cost of the applicant countries' adoption of the whole of the *acquis* (i.e. application of Community rules and standards and of all the measures implementing common policies) show that it will be very considerable everywhere. As budgetary resources will be very limited compared with these needs, the solution is not to promise new budgetary appropriations but to organize the Union's response in a more coordinated manner by combining and interlinking the forms of assistance and instruments available.

In other words, the most effective possible use must be made of all the Community procedures and forms of aid which exist or will be created by attempting to establish maximum synergy with other potential contributors: Member States, the EIB and international financial institutions. Private funding will increasingly have to be included in this mobilization of financial resources in support of the applicant countries.

A. The PHARE programme

The new PHARE programme is, and will remain, the main instrument. On the basis of the new guidelines already adopted by the Commission, PHARE's prime objective is to prepare the applicant countries for accession by focusing the assistance it provides on the two key priorities involved in the adoption of the *acquis*: institution building and the financing of investment projects, which will account for 30 % and 70 % respectively of its budget for the applicant countries. With financial resources which will grow until the end of 1999 under the current financial perspective —

and which should increase after the year 2000 — PHARE's effectiveness will be strengthened by reformed administrative methods:

- concentration of projects on the *acquis* implementation priorities programmed by the Accession Partnerships;
- improved budgetary implementation;
- a radical increase in the size of projects;
- continued decentralization of management in favour of the recipient countries.

B. Pre-accession aid for agriculture

This aid — already announced in the 'agricultural strategy' document presented by the Commission to the European Council in Madrid at the end of 1995 — should be provided in priority areas, such as the improvement of conversion structures, marketing channels, and

food quality control. These measures will be implemented on the basis of national programmes. They should also ensure funding for specific integrated development projects designed to provide support for local initiatives, such as those covering local

economic diversification, the supply of basic services and the improvement of local infrastructures.

This assistance will be coordinated, within the framework of the Accession Partnerships, with the measures financed by PHARE.

C. Structural assistance at regional level

This assistance will be provided at two levels:

1. In view of the current tendency for regional disparities to increase in each of the applicant countries, the prime task must be to familiarize them as soon as possible with the objectives and procedures of the Structural Funds. This is the best way of ensuring that these countries will be able, at the appropriate time, to apply the rules of the Structural Funds and to utilize the initial payments from those Funds.

PHARE will begin preparations to that end in 1998 on the following levels:

the establishment of development strategies and priorities on the basis of the problems identified at regional level;

administrative cooperation on the modernization of the administrative and budgetary procedures which will be used subsequently under the Structural Fund joint-financing arrangements. The Commission and Member States will have to work together to acquaint the competent authorities with the Union's structural policies;

joint financing of projects in the transnational cooperation sphere. These projects would be selected for their 'model' value and would help the applicant countries to familiarize themselves with the principles underlying the Structural Funds.

2. The other aspect concerns the beginning of direct funding by the Structural Funds of measures in the applicant countries (particularly during the period between the signing of the accession treaty and its entry into force).

This assistance, which will be provided firstly under PHARE and then under the Structural Funds, will be based on a multiannual programming system. Priority will be given to measures similar to those of the Cohesion Fund, namely transport networks and infrastructures linked to environmental protection which meet important needs in the applicant countries. This assistance should also support other measures, for example those connected with training and innovation.

This structural assistance will have to lead to the gradual establishment of a system, based on principles akin to those of cohesion policy, that will ensure step by step, particularly through its alignment on the principles and procedures in force (complementarity, concentration of effort, programming, etc.), that the applicant countries soon begin to apply the Community's rules on financial management (public procurement, financial control, assessment, etc.).

In funding regional structural measures, the PHARE programme will adopt the operational measures of the Structural Funds.

D. Complementarity of assistance

The maximum multiplier effect will have to be achieved for each Community aid measure.

Firstly, in accordance with the principle of complementarity, joint financing will be systematically required of the applicant countries in keeping with the prevailing rules of the Structural Funds.

Secondly, active steps will have to be taken whenever possible to secure external funding, particularly for the joint financing of investment linked to the *acquis* (loans from the EIB, the EBRD and the World Bank), including private sector funding, in sectors likely to generate profits, such as telecommunications,

the TENs, etc. Framework agreements on the provision of funding connected with the observance of Community standards will be concluded by the Commission with these institutions. PHARE should act as a catalyst for public and private international loans by providing grants.

Finally, in the nuclear safety sphere, this coordination between the various lenders will have to apply to all the operations (assistance, modernization, closure) which will be carried out to improve safety standards. The Union will contribute to this through PHARE and Euratom lending and by ensuring that the timetables

already laid down in the Nuclear Safety Account Agreements are observed.

All of these resources can be mobilized in pursuit of the objectives of the pre-accession strategy, for the most part from 1998, through improved interlinking, particularly through the Accession Partnerships and within the framework of the administrative responsibilities already devolved to the Commission. It will be necessary, however, for the European Council, as it did at its meeting in Essen, to increase the resources available to PHARE for funding investment projects linked to the adoption of the *acquis*.

IV. Legal instruments

During the period within which the accession process with all the applicant countries will be completed successfully, it will be necessary to have an improved framework for relations between the Union and each applicant country in order to clarify the accession preparation programme and implement it with each one.

Putting the framework in place means, in addition to the new instrument of the Accession Partnership, better use of existing procedures, especially the Europe Agreements, and increased participation by the applicant countries in Community programmes and in the machinery for dealing with the *acquis*.

1. The Accession Partnership

The Accession Partnership will be a key feature of the reinforced strategy and will mobilize all forms of assistance to the applicant countries within a single framework for the implementation of national programmes to prepare them for membership of the European Union.

Accession Partnerships would involve:

[] precise commitments on the part of the applicant country, relating in particular to democracy, macroeconomic stabilization, industrial restructuring, nuclear safety and a national programme for adopting the *acquis* within a precise timetable, focusing on the priority areas identified in each opinion;

[] mobilization of all the resources available to the Community for preparing the applicant countries for accession. This initially means PHARE but also any new forms of assistance

that the Community could provide in the context of future financial perspectives (agricultural aid, Euratom loans and balance-of-payments loans; see above).

A programme for adopting the *acquis* would be worked out by the Commission in partnership with each applicant country. The priorities set should initially correspond to the sectors identified as deficient in the opinions. Work towards the objectives would be covered by an indicative timetable. The granting of assistance — on the basis of annual financing agreements — will be conditional on achieving these objectives and on progress made. Implementation of the programme would thus depend on strict 'accession conditionality' based on suitable evaluation machinery, and on ongoing dialogue with the Commission.

The Commission will report regularly to the European Council on progress (and the prospects for opening negotiations with those countries with which such negotiations have not yet begun).

The Accession Partnership and the project financing agreement, as the Commission explained in connection with the PHARE reform, will replace the various programming documents it adopts after consulting the Management Committee (Country Operational Programme (COP), Sectoral Operational Programme (SOP), Strategy Papers (SP), etc.).

2. Europe Agreements

The Europe Agreements introduced bilateral cooperation with the Union, which will lead to advanced integration in a large number of fields (trade agreements, competition, approximation of laws, standardization, etc.). The bodies set up under these agreements (councils, association committees and subcommittees, parliamentary committees) are the preferred bodies for consulting the applicant countries.

The work carried out under the agreements will help to implement the reinforced pre-accession

The Accession Partnership, which will include multiannual programming, will take the form of a Commission decision to be taken after consulting the applicant country. The annual financing agreement for implementing the projects provided for by the Accession Partnership will be concluded with the applicant country on the basis of a Commission decision, following opinions from the competent management committees.

Preparation of the Accession Partnerships will start in the second half of 1997.

strategy through the cooperation achieved in particular in the association subcommittees for monitoring progress on the approximation of laws and the exchange of information on the evolution of the *acquis*.

Since the agreements cover most of the fields associated with the *acquis*, they will be used to help the applicant countries establish their national programme for adopting the *acquis*.

3. Participation in Community programmes and machinery for applying the *acquis*

As the applicant countries start irreversibly to adopt the *acquis*, it will be necessary to increase the assistance provided by the Union with regard to the approximation of laws. It is also logical, without waiting for the accession date, to involve the applicant countries in Community programmes and the machinery for applying the *acquis* as soon as they have transposed the latter, sector by sector.

(a) Intensification of assistance for the approximation of laws means reinforcing and extending the brief given to TAIEX (Technical Assistance Information Exchange Office), which was set up under the White Paper on preparation of the associated countries of Central and Eastern Europe (CEECs) for integration into the internal market of the Union. Under SPAR,

TAIEX should provide information on the entire *acquis* (in particular on the environment and transport) and should also broaden the scope of its activities in the applicant countries, not only as regards governments but also firms, in order to prepare them for the disciplines of the single market.

(b) The progressive opening-up to the CEECs of a broad range of Community programmes will be one of the intermediate objectives of accession.

The participation of the applicant countries in Community programmes, as provided for by the Europe Agreements, does not raise problems of principle, and the legal procedures for this purpose have been begun. As these programmes encompass most Community policies

(education, training, research, culture, environment, SMEs, single market, etc.), they will provide a useful preparation for accession by familiarizing the associated countries and their citizens with the Union's policies and working methods.

The problem is to make such participation effective for all programmes. Depending on the budget capacity of each country, the PHARE programme should be allowed to part-finance the participation of the applicant countries in the programmes to an extent greater than the 10% limit set on its assistance by the Essen European Council.

(c) Participation in certain machinery for administrative cooperation and application of the *acquis*.

□ The progressive integration of the CEECs in the different programmes, and in particular in those concerned with administrative cooperation and application of the *acquis*, will enable them to obtain accurate information about Community law, will let them benefit from the experience of the Member States and will start a process of increasing confidence between administrations. The aim is not to give decision-making power to countries which are not yet members of the Union, but primarily to associate them in Community procedures by giving them observer status as they transpose the *acquis*, policy by policy, sector by sector.

□ Active participation in certain Community agencies or bodies will also make it possible to prepare better for adoption of the *acquis*. More frequent contacts within these bodies will thus make it possible to resolve certain problems, at a strictly technical level. A special effort will be made to associate the applicants with Community agencies, such as the Medicines Evaluation and Environment Agencies, the European Patent Office and the European Training Foundation.

* * *

The next enlargement, unlike the previous ones, is forcing the European Union to link, in an overall approach as provided by SPAR, the instruments granting aid to all the applicant countries and the conduct of the negotiations, irrespective of the date when each applicant country will be involved, so as to give cohesion to the entire exercise. Such a reinforced pre-accession strategy, if carried out well, will give all parties a guarantee of a well-prepared accession and will facilitate the solution of the problems raised by enlargement by avoiding systematic recourse to long transition periods, which could jeopardize the *acquis* and the cohesion of the Union.

The effects on the Union's policies
of enlargement
to the applicant countries
of Central and Eastern Europe
(Impact study)

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Introduction

The European Council at Copenhagen in June 1993 agreed that the associated countries in Central and Eastern Europe that so desire shall become members of the Union. At the same time it stated that accession will take place as soon as a country is able to assume the obligations of membership by satisfying the economic and political conditions. The Union's capacity to absorb new members, while maintaining the momentum of European integration would also be an important consideration. Since then, all 10 associated countries of Central and Eastern Europe have applied for membership¹ and the Council has initiated the procedure of consulting the Commission, in accordance with Article O of the Treaty on European Union.

The Essen European Council in December 1994 requested the Commission 'to submit as soon as possible the detailed analysis desired by the Council on the effects of enlargement in the context of the Union's current policies and their future development'. An interim report was presented by the Commission to the Madrid European Council in December 1995.² In it the Commission announced a subsequent report which would provide a more detailed analysis of the effects. The Madrid European Council called 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 present report is the response to this request. It attempts to present a comprehensive assessment of the impact of enlargement on EU policies.

Enlargement to the associated States of Central and Eastern Europe is a great opportunity for both acceding countries and the European Union as a whole. It is expected to bring major

political benefits to the Union and to peace and security in Europe. In the economic field too, important benefits are expected, but problems, related to adjustment strains from the developing integration process, will also have to be addressed, especially since acceding countries are at a lower level of economic development, while they are still undergoing transition towards a market economy.

Enlargement will greatly increase the EU's heterogeneity. If properly perceived and addressed, diversity is a fundamental element of the richness of the common European heritage and identity. Enlargement will thus promote the idea of European integration, which underlies the Treaty, and which rejects divisions along cultural or religious lines.

The integration of new members will be a complex task. It will pose a major challenge to the Union, its policies and its cohesion, while it is likely to put a strain on its resources. The objective must be to ensure that the full potential of enlargement is developed to strengthen the European model, namely a Europe built on a set of values shared by all its societies and combining the characteristics of democracy with those of an open economy underpinned by market forces, internal solidarity and cohesion.

Assessing the impact of enlargement is an extremely complex and hazardous task. There is a great degree of uncertainty on a number of important factors which will directly determine that impact; indirect effects, which could be as important as direct ones, are even more difficult to estimate. The impact of enlargement will very much depend on the economic performance of the present EU, itself depending to a large extent on the success of economic and monetary union; on the economic performance of candidate countries; on largely exogenous factors, such as the international environment, world agricultural and energy prices; on the timely implementation of the Union's new institutional arrangements; and on the future form of the Union's policies, in particular the common agricultural and structural policies, but also of the common foreign and security policy and of policies in the area of justice and home affairs. It will also depend on the date

¹ Hungary, Poland, Romania, the Slovak Republic, Latvia, Estonia, Lithuania, Bulgaria, the Czech Republic, and Slovenia (in the chronological order they submitted their applications). This report does not deal with the candidature of Cyprus, for which the European Council has decided that it will be involved in this phase of enlargement.

² 'Interim report from the Commission to the European Council on the effects on the policies of the European Union of enlargement to the associated countries of Central and Eastern Europe', CSE(95) 605, 5.12.1995.

and possible sequence of accessions, the effort deployed during the pre-accession period, and the nature and duration of any transitional measures after accessions.

Given the complexity of assessing the impact of enlargement, and the uncertainties involved, a number of working hypotheses had to be retained. The present report assumes accession by all 10 candidate countries in a mid-term horizon. It assumes that current EU policies will be applied, but also takes into account their foreseeable future development. These hypotheses are purely methodological and do not prejudice in any way the Commission's position on these issues. It should be stressed in particular that present policies will continue to develop, and not only for reasons related to enlargement. Naturally, the impact of enlargement would be different, were the accessions of the 10 candidate countries not to occur simultaneously. The report also takes into account, to the extent possible, the indirect impact on the Union's policies of developments and strains on the enlarged Union caused by the integration process. The report does not venture into proposals for possible pre-accession or post-accession transitional measures, nor into the detail of likely EU policy reforms, though in

certain cases it highlights the relevance of such measures on the impact of enlargement and incorporates existing Commission proposals on policy reforms.

The Commission strongly supports the commitment to enlargement to include the associated countries of central and eastern Europe. The enlargement process is irreversible; it reflects fundamental European interests; the cost of not implementing it would be high. Candidate countries' accession is no longer a far-off prospect. Nonetheless, enlargement must be undertaken with safeguards for the achievements of 40 years of European integration. These achievements are the basis of the Union's solidarity with the acceding Member States. The present report elucidates the implications of enlargement on the Union's policies with the aim of allowing for its adequate preparation and implementation. Emphasis on possible problems and strains reflects the Commission's concern to ensure that the integration of new members will evolve smoothly and as fast as possible both before and after their accession, without creating major tensions or endangering the Union's achievements, which would adversely affect the enlargement process itself.

Part I — Summary

1. The external dimension

Enlargement to the countries of Central and Eastern Europe will increase the economic and human potential of the Union, thus enhancing its weight and role in the world, as well as its own security and welfare derived from international exchange. Increased diversity of interests and perceptions and a modified geopolitical situation will pose a challenge to its foreign relations and policies. In order to be capable of addressing new security and foreign policy problems arising from enlargement, the Union would need a coherent and efficient common foreign and security policy (CFSP), building on the changes agreed in Amsterdam. Equally, the Union should persevere and further develop its open external policies, including their financial dimensions; this should enable it to reap the full benefits of integration. The Union will have to ensure that enlargement to Central and Eastern Europe serves as a bridge to reinforce its relations with countries in the surrounding region and beyond, and does not give rise to perceptions that it may be less open to the world.

2. Overall economic impact

Economic benefits from enlargement are expected to result from the expansion of the single market, from the overall integration process, as well as from the strengthening of the Union's position in global markets. The Union's human potential will be considerably enriched, not least in qualified and highly qualified labour. Acceding countries have significant natural resources (agricultural land, some minerals, biodiversity, etc.). Their geographic position will be an asset with respect to transport, energy transit and communications. The integration of these countries into the Union will be a powerful stimulus to their economic development. Major investments related to the radical modernization of the acceding countries' economies and their catching up with EU living standards will boost

demand across the Union and strengthen competitiveness.

At the same time, substantial sectoral and regional adjustment pressure will result from the enlargement process, although implementation of the Europe Agreements will have integrated EU and candidate country markets considerably by the time of accession. Sensitive areas for the Union as a whole could include the labour market (though alarmist forecasts would not seem justified), certain industries, especially in labour-intensive and other traditional sectors, some areas of transport, etc. The regional distribution of costs and benefits from enlargement is difficult to assess, but inordinate pessimism with regard to the impact on the less-developed regions in the current Member States does not seem justified.

In acceding countries, strains resulting from increased competitive pressure could initially be more widespread and could affect large sectors of industry, including small and medium-sized enterprises (SMEs), agriculture and fisheries, services, the audiovisual sector. They could also affect the financial system and the balance of payments. Were such problems not to be addressed by appropriate measures, especially before accession, their impact on new Member States could be quite serious, and would thus also burden Community policies. Moreover, there would be spill-over risks to the rest of the Union (e.g. in the labour market), though in many areas (e.g. the financial system) such risks would be limited by the relatively small size of acceding countries' economies.

The economic gains to be reaped from enlargement will depend primarily on the conditions in which the single market is enlarged, which in turn depend on the progress which the associated countries are able to make between now and accession in aligning their laws and practices with those of the EU. Economic gains will also depend on the adequacy of transport, telecommunication and energy infrastructures and networks in acceding countries, which are necessary to support the increased trade and economic activity resulting from integration.

3. Structural policies

The new enlargement concerns a group of countries in a clearly unfavourable socio-economic situation, as compared to that of existing Member States. Under present rules all regions of candidate countries would be eligible for Objective 1 support. Considering the legacies of the past, rapid transition towards the market, and the scale of the necessary effort for participating in the single market, success of integration and the capacity of economic operators to reap its benefits will largely depend on the intensity of structural actions that can be directed to the acceding countries. Such actions should primarily aim at reducing the distance of new members to the Community average, but also at reducing their increasing internal disparities.

Enlargement will not substantially alleviate the problems of regions and population groups eligible for structural aids in present Member States (in particular in Objective 1 regions); it could also generate some adjustment pressure. Hence Community interventions to such regions and groups will be continued, as they play a decisive role in structural development and in the global catching up within the EU 15. Changes will be made, to take account of progress accomplished in some regions in terms of real convergence and of the need of concentration of the Community effort. Changes are advisable also for increasing efficiency, control and simplification within the framework of budgetary discipline which implies a levelling off in relative terms of the cohesion effort after 1999. These principles should be applied both to present and to acceding Member States.

Already now, a gradual two stage pre-accession strategy must start being implemented (1997-99, 2000-accession dates), with Community support, to prepare candidate countries for the adoption of the *acquis* in this field. On accession, all dispositions in force concerning structural policies must be applied to the new members, including technical adjustments that would prove necessary and would justify the existence of a specific phase. Financial amounts to be allocated to new members will be determined so as to take into account absorptive capacities, the necessary efficiency of structural spending, as well as a progressive increase of per capita support.

In an enlarged EU territory, economic and social cohesion should be taken into account more than ever in the formulation and implementation of every Community policy.

4. Agriculture

Enlargement will greatly increase the agricultural potential of the Union, while the market for European primary products and processed food will increase by more than 100 million consumers. Trade in these products between existing and acceding members will be fully liberalized. These developments should improve economic welfare in the Union as a whole. At the same time, adjustment strains from exposure of the candidate countries to competition could be considerable, not least in terms of a significant shedding of surplus labour. To a lesser extent, problems could also arise for some products in the present Member States.

Extension of the common agricultural policy (CAP) in its present form to the acceding countries would create difficulties. Given existing price gaps between candidate countries and generally substantially higher CAP prices, and despite prospects for some narrowing of these gaps by the dates of accession, even gradual introduction of CAP prices would tend to stimulate surplus production, in particular in the livestock sector, thus adding to projected surpluses. World Trade Organisation (WTO) constraints on subsidized exports would prevent the enlarged Union to sell its surpluses on third markets. Extension of the CAP would also entail an important budgetary charge, estimated at around ECU 11 billion per year, direct payments to farmers representing close to two thirds of this sum.

Substantial rises in agricultural prices and important direct transfers to farmers would have a negative economic and social impact on acceding countries. Moreover, direct payments, conceived as compensation for price reductions, would not be justified for farmers in acceding countries who would face price rises instead.

In view of the growing market imbalances foreseen for the EU after 2000 (even without enlargement), further adjustments in the current support policies would probably be needed. A reorientation of the CAP with less focus on price support and more on direct income support as well as on rural development and

environmental policy was already suggested in the agricultural strategy paper of 1995. This would help to reduce the price gap and would provide support for the structural adjustment process of acceding countries. In the latter context, in place of direct payments to farmers, a significant amount of the money could be used, at least during a transitional period, for structural reforms and rural development in these countries.

Adequate implementation and enforcement of the Community *acquis* in the candidate countries is essential for the protection of plant, animal and public health in an enlarged Union as a whole. It must be accomplished before free movement of agricultural products without border control can be established. The implementation of these measures will require substantial investment and time.

5. Internal market and economic and monetary union

Internal market: The impact of enlargement on the functioning of the internal market will largely depend on the extent of economic benefits which will result from enlargement, but also on the management of sectoral and regional strains resulting from the adjustment process. Market distortions and prejudice to EU consumers could result from possible inadequate implementation of the internal market *acquis*. Sensitive areas in this respect include implementation of the *acquis* regulating free movement of goods, the protection of health, environment and consumers, indirect taxation, adequate management of the external borders, implementation of safety requirements and State aids. The capacity of acceding countries' administrations to manage the Community *acquis* will be a key element. The more this capacity is achieved before accession, the fewer problems will arise after it. If important problems were to remain after accession, protectionist political pressure could develop in both present and acceding Member States and could endanger the functioning of the internal market as a whole.

Economic and monetary union: Enlargement will take place during stage three of economic and monetary union. This creates a major challenge for acceding members, since they will have to implement the *acquis communau-*

taire in this area, at least as non-participant countries if, as it can be expected, most or all of them will not initially participate in EMU. It will thus be important for acceding countries to undertake the necessary reforms permitting them to stabilize their economies in the long run, as well as to avoid disruptive movements in nominal exchange rates and misalignments that could threaten the proper operation of the single market. Enlargement could shift the institutional balance between EMU participants and non-participants, but the impact on the dynamics of EMU is likely to be limited. Most candidate countries have adopted a positive approach towards EMU.

6. Horizontal policies

Social policy: Social policy in an enlarged Union will have to address the acute social problems of acceding countries, including unemployment and public health issues, as well as problems resulting from the adjustment process in both old and new Member States. Important investment in human resources will be necessary and Community social policy and its funding will be burdened accordingly. Adaptation of acceding countries to the Community social *acquis* and the European social model could be adversely affected by the large number of citizens having a standard of living far below the EU average, by insufficiently developed vocational training networks, by systems of industrial relations still in transition and in need of improvement, and by inefficient public administrations. In some areas, for instance in health and safety at work, adaptation of acceding countries to the Community *acquis*, while benefiting the well-being of workers and enhancing productivity, will require serious and sometimes costly efforts. However, too slow or inadequate adaptation could have adverse effects on competition and could complicate further development of Community policies. On the other hand, enlargement will highlight the importance of social cohesion in the objectives of the Treaties and should thus enhance the role of social policy.

Environment: Enlargement to new members which face severe environmental problems, will present a considerable challenge for Community policy in this field. The gap between acceding and present members in the levels of environmental protection will gradually have to be bridged, for environmental and for economic

reasons, and this will necessitate massive investment in the acceding countries, mainly in the public utility sectors for water, energy and waste, but also by enterprises. A major effort will also be needed in developing the administrative structures for implementation and enforcement of EU environmental law. EU financial assistance, both before and after accession, should contribute to keep adaptation within reasonable time limits. A risk that Community environmental policy will be diverted away from global issues, and that membership by countries enjoying lower standards will hamper its further development will have to be addressed. At the same time, EU responsibility for problems having cross-border effects and already largely affecting European citizens will increase. In this sense, enlargement does not create problems, but will rather highlight them and improve the framework for their solution. Enlargement is likely to further strengthen a more flexible approach to EU environmental regulation with a stronger emphasis on implementation and enforcement.

Consumers: On the whole, enlargement should benefit EU consumers by increasing their choices and by improving the level of protection in acceding countries. However, Community consumer policy will have to be strengthened in order to take account of increased disparities resulting from enlargement. Eventual inadequacy of control structures and business ethics could result in the creation of 'weak links' which would adversely affect the functioning of the enlarged internal market.

Science, research and development: Benefits can be expected for EU research and development from the inclusion of countries with an important scientific potential. Some adjustments in priorities of Community programmes could prove necessary to better reflect the needs of new members and of an enlarged Union. Structural Fund aid could assist acceding countries to increase their capacity to participate in Community programmes.

Information society: Candidate country interest in information and communication technologies (ICTs) is particularly high. These countries represent most promising opportunities for related industries and might well become leaders in some uses of ICTs. Enlargement could thus further increase overall EU focus on ICTs with likely positive repercussions on related policies. At the same time, proactive measures

will be needed to ensure that acceding countries can really integrate themselves into the information society.

Culture, education, training, youth: The broader cultural dimension is a fundamental element of EU enlargement to the countries of Central and Eastern Europe. No substantial problems are expected from the participation of acceding countries in Community cultural, educational and training activities, but new members are likely to draw important amounts from Community programmes and structural funds. Sustained cooperation in the run-up period to accession will contribute to improve the viability and efficiency of these sectors in candidate countries in view of facilitating their integration into the European framework.

7. Sectoral policies

Transport: Expansion of the single market through enlargement should benefit the transport sector as well. However, important financial resources, partly from EU funds, will be needed for the development of transport networks, for adaptation of acceding countries and their transport fleets to Community social, safety and other technical requirements, as well as for encouraging a favourable modal development in line with the orientations of the common transport policy. Possible inadequate preparation of candidate countries before accession could adversely affect competition within the internal market, and would increase protectionist political pressure which is also likely to result from adjustment strains in the transport sector. Problems resulting from enlargement and affecting the Union's transport sector and common policy should be manageable, provided appropriate measures are taken for timely and adequate implementation of the *acquis*, especially in safety, and in reinforcement of the capacity of relevant administrations. Also, the quality of transport will have to be substantially improved, notably by the provision of sufficient resources for network and fleet renewal. Such investment will stimulate demand from related EU industries.

Energy: Enlargement would not seem to create major problems for the Union and its policies in the energy sector, while it will bring accompanying benefits with respect to stability of energy supplies, research, and energy efficiency on a continental scale. These benefits should

have a positive impact on security and peace in the region. Important investments will be necessary to ensure upgrading and adaptation to the EU *acquis*, and such investment will generate demand from related EU industries. However, lack of sufficient funds constitutes in certain countries a bottleneck, and, as in other sectors, preparation during the pre-accession period will be a critical factor. EU energy policy would have to take account of the realities of an enlarged Union, such as an increased dependency on Russia, or the economic and social consequences of mine restructuring in acceding countries. Achievement of its objectives (for example, completion of the internal energy market) could prove more difficult in an enlarged Union. However, in several areas (including nuclear safety and environmental norms) problems for the Union and its policies would be even more serious without the effort related to accession. In some candidate countries, nuclear safety is a problem with a broader regional and European significance, causing serious concern throughout the continent. The solution of this problem in accordance with the Community *acquis* and by promoting a 'nuclear safety culture' is thus a crucial and urgent task.

Industry: Enlargement should on the whole benefit Community industry, as a result of the expected increase in economic activity and improved resource allocation. However, significant adjustment strains can be expected in both acceding and present members. During an initial period, low-cost production will be a comparative advantage of acceding countries. Industrial cooperation is one of the main instruments for achieving integration and alleviating its strains. In an enlarged Union, EU industrial policy will not have to modify its objectives and basic horizontal approach, but it will have to adapt to the specific needs of both the acceding States and the resulting broader integration process.

Telecommunications: No major problems are expected from enlargement for Community telecommunications policy, while the market for the telecommunications sector will expand. A considerable shortfall in investment is likely to generate demand for Community funding. No noteworthy impact is expected from the adoption of the *acquis* by acceding countries, but enlargement might influence EU positions in international negotiations.

Small and medium-sized enterprises: Enlargement will expose SMEs in acceding countries to considerable competitive pressure. Hence EU policies will have to focus on supporting their adjustment. No particular problems are expected in the integration of acceding countries into Community enterprise policies. Enlargement should offer additional business opportunities to EU SMEs.

Audiovisual policy: Enlargement should bring benefits to the audiovisual sector in the Union as a whole through expansion of markets. No major problems for Community audiovisual policy are expected, though legislative alignment will be necessary to avoid distortions in competition, and ailing national audiovisual sectors in acceding countries will need some Community support, especially as regards improving the technical infrastructure and the implementation of the audio-visual *acquis*.

Fisheries: No serious problems should arise from enlargement for the common fisheries policy (CFP). The Union's fishery resources will not increase significantly. Fishing sectors in some coastal regions of acceding countries, already in deep crisis due to problems of overcapacity and obsolescence, will have to be restructured, with possible sensitive social repercussions which will have to be addressed. Cooperation already under way in the Baltic will facilitate integration, but Community policies will also have to tackle problems related to fisheries in the Black Sea. The capacity of some candidate countries to implement the *acquis* should, nevertheless, be closely monitored.

8. Justice and home affairs

The expansion of the Union will provide both a challenge and an opportunity to tackle common transnational problems in the fields of migration and asylum, police and customs cooperation and judicial cooperation affecting the current EU and the countries of Central and Eastern Europe. Just as any weaknesses in the defences of the applicant countries in these areas will represent a threat to the existing EU Member States, so also strong justice and home affairs (JHA) performance in candidate countries will contribute positively to security and freedom of citizens in the present EU. It is also in the general interest to ensure that justice and

home affairs measures are applied according to common and high standards throughout the enlarged Union and that each acceding State is able to meet adequately EU requirements. Hence the importance of associating candidate countries to these measures as much as possible

in advance of accession, and to provide the necessary technical assistance. The process is already under way. The more it is strengthened, the less spill-over of crime and fraud into the Union will occur and the fewer the problems will be upon accession.

Part II — Analysis

1. The external dimension

1.1. Political

An enlarged EU will have substantially enriched and diversified human potential and economic resources. It should be able to play an increased role and to assume greater responsibilities in world affairs, providing it demonstrates its willingness and capacity to act. Enlargement should increase the security of EU Member States and of the entire continent.

Enlargement will modify the Union's geopolitical situation and its proximity to critical zones in Eastern and South-eastern Europe. Bilateral disputes involving acceding members, and issues related to national and ethnic minorities, could burden the Union's cohesion and its CFSP, and would have to be effectively tackled before accession. Exacerbation of such problems could pose security threats to the Union independently of enlargement. The process of enlargement should provide an opportunity to address and find positive solutions to issues vital to pan-European security. The EU and its Member States, with their weight, stability and democratic traditions, could greatly contribute to this.

An enlarged EU will be substantially more heterogeneous in its foreign and security interests and perceptions. Definition of common interests and other CFSP decisions may thus prove more difficult. On the other hand, acceding countries should have no major problem in adopting the EU *acquis* in this field, while most of them would favour its development. A consistent and effective CFSP, comprising an enhanced preventive diplomacy capability, will be vital, if the EU is to face successfully the challenges posed by enlargement and to play its role in world affairs.

Although autonomous processes, there are important links between EU and NATO enlargement, particularly as the June 1996 NATO ministerial meeting in Berlin agreed on the establishment of a European Security and Defence Identity (ESDI) within the framework of the Atlantic Alliance. The progressive development of a common defence policy of the

Union will also be affected by enlargement since the security interests and requirements of an enlarged EU will be more complex and heterogeneous. At the July 1997 summit in Madrid, NATO agreed to invite three countries to open negotiations, and also agreed new measures to deepen cooperation with other partner countries. The summit also made clear that there will be future enlargement negotiations with other partner countries. This means that the issue of congruence in membership of the EU, Western European Union (WEU) and NATO remains an open and delicate question, the outcome of which may also affect the objective of integrating the WEU into the EU.

1.2. Foreign economic relations

An enlarged EU will not wish to modify its open, outward perspective as regards economic and trade policy. It could, moreover, improve its competitive position in a world characterized by increasing globalization.

Direct trade effects from enlargement will tend to be limited, as non-agricultural EU trade with both candidate and other third countries already is or is in the process of becoming extensively liberalized (Europe Agreements, other existing and planned free trade zones, Uruguay Round decisions). However, as with previous enlargements, further considerable trade benefits can be expected between the Union and the rest of the world from the increased dynamism of the enlarged Union's economy.

Enlargement is very likely to have a net trade-creating effect. The common external tariff, which will be applied by acceding countries, is on average lower than national tariffs presently applied. Developing countries, enjoying preferential access to the EU, will find new markets in the acceding countries, while the latter will also improve their access to the markets of the former (through economic and trade cooperation). Important remaining links of some candidate countries with their partners in the former Soviet Union and in certain developing coun-

tries should provide EU-based firms opportunities to channel increased trade with these countries. New trade creation effects will depend, however, on cost-price relative competitiveness. On the other hand, enlargement could also lead to some trade diversion, and to erosion of preferential margins enjoyed by developing countries on the EU market, especially in certain agricultural goods.

On accession, new Member States will have to bring their trade regimes and other external economic policies into line with the Community common commercial and other external policies or remove inconsistencies between their regimes and the Community's. They will have to ensure compatibility with the Community's international, multilateral and bilateral commitments, either making adjustments to their own or in some instances, adopting those of the EC in their entirety. This will imply extending preferential treatment to third countries in accordance with Community international obligations (bilateral free trade agreements, the future Lomé Convention) and autonomous regimes (Generalized System of Preferences). By the date of the accessions, the Community *acquis* which new Member States will have to adopt is likely to have considerably developed towards further liberalization (implementation of old and possibly new WTO agreements, new free trade agreements, etc.). In cases where third countries entertain special arrangements or relations with acceding States (including payment arrangements), care should be taken that the necessary adaptation will not adversely affect EU relations with the countries in question. Similarly, the EC will have to bear in mind the potential impact on third countries when the EC's remaining quantitative restrictions are adjusted to take the acceding Member States into account.

Enlargement is likely to have a strong positive effect on inward foreign direct investment in the acceding countries, and the net effect on investment flows into the enlarged Union is also likely to be positive. The effect on outward flows is difficult to predict.

Labour mobility from acceding members could have an impact on immigration to Member States from third countries, affecting thus EU relations with the latter.

The Union's partners, in particular in the Mediterranean, the new independent States and the

ACP countries fear that efforts to absorb new members could limit the availability of Community resources for assistance to their regions. Without a commitment that this would not be the case, the Union's relations and mutual confidence with these countries would be affected, while competition for the funds both among and within the regions concerned would increase.

It will be thus important to ensure that enlargement with new members facing considerable problems of transition and development will not dampen the Union's attitude of openness and responsibility towards the rest of the world, and in particular towards the developing countries.

1.3. Selected areas

Enlargement to the Central and East European countries will influence EU relations and policies towards third countries and regions, as well as towards international organizations.

A long-term stable and close relationship with a democratic Russia is essential to the EU, and indeed to stability in Europe and the world. Enlargement should benefit relations and cooperation with Russia, Ukraine and the other new independent States. By consolidating democracy and enhancing stability and security in Central and Eastern Europe, enlargement will increase the security of the EU's eastern neighbours as well. Geographic proximity, important traditional economic ties, cultural and religious affinities between acceding members and new independent States are assets to a closer relationship. Meanwhile, adverse effects could result from enlargement, were it to be perceived as raising new barriers in Eastern Europe. The Union is taking steps to minimize such risks and to create conditions for exploiting fully the opportunities created by enlargement: support for the development of trans-European networks, for NIS participation in sub-regional cooperation and for their full participation in the pan-European and global economic and political system. Due account will have to be taken of eastern neighbours' legitimate security and economic concerns, as well as of those on the situation of Russian minorities in an enlarged Union. Disputes between acceding members and their eastern neighbours could constitute potential security threats for the Union and will have to be effectively

addressed. It will be important to ensure that maximum use is made of the Partnership and Cooperation Agreements, as well as of the EU action plans for Russia and Ukraine, and to persist in the assistance to the transition process in the NIS.

Events in former Yugoslavia have underlined the importance of South-Eastern Europe to the peace and security in the whole of the continent. The EU's relations with these countries are based on a regional approach, offering political and economic relations to countries which are prepared to cooperate with their neighbours and the EU. Enlargement to the candidate countries of this area, as part of a process of rapprochement of the whole region to the Union, could substantially contribute to regional stability. EU relations with non-Member States in the area will become more important, as the Union becomes increasingly involved in Balkan issues, and since acceding members share borders and historic ties with these countries. Bilateral disputes of acceding members with countries in the region, including those related to minorities, will have to be addressed. In the economic sphere, an enlarged and open EU market is likely to have a positive effect on countries which are still recovering from the effects of the war in former Yugoslavia; this would reflect favourably on the EU's relations with these countries. At the same time, care will need to be taken to avoid enlargement causing possible adverse economic effects on non-member States in the region. Areas requiring particular attention include trade, the development of trans-European networks and transit routes.

The European Union strongly supports regional cooperation schemes (Barents, Baltic and Black Sea areas, Central European Initiative, various initiatives in the Balkan region, etc.), as factors promoting stability and security in Europe, as well as European integration. With enlargement, the number of EU Member States among their participants will increase and so will EU involvement in their activities. At the same time, the importance of such regional cooperation will also increase, as its development will promote the openness of the enlarged Union towards its eastern neighbours, so that no new dividing lines are drawn on the European continent; it will also serve the objective of participating non-EU countries for ever closer relations with the Union.

The EU has developed close relationships with the Mediterranean countries and these will continue to grow in importance after enlargement. The Barcelona Euro-Mediterranean Conference gives concrete evidence of this. Care will be needed to avoid adverse effects on EU relations with Mediterranean countries, for example in the area of agriculture, textiles and energy exports, the level of FDI going to these countries and the situation of their nationals in the EU. Further initiatives may prove necessary to counteract such effects. The EU has a particularly close relationship with Turkey whose eligibility for EU membership has been recently reaffirmed. The EU and Turkey are already in a customs union. Enlargement to the Balkan applicant countries (as well as to Cyprus) will further increase the importance of this relationship.

Economic and commercial cooperation and development aid within the framework of the North-South dialogue are a central element of the EU contribution to world political stability. The Union's developed partnership with the ACP countries is based on contractual principles of dialogue and predictability which engage it on financial, economic and technical assistance and on conceding preferential access to its market for ACP country exports. Enlargement to the countries of Central and Eastern Europe could not be made or perceived to be made at the expense of these policies and relations. Enlargement will broaden the export markets for ACP and Asian-Latin American (ALA) countries and South Africa. Eventual problems to some exports which are not yet sufficiently competitive, could be alleviated through a greater efficiency in aid, resulting from the strengthening of coordination between EU and Member State cooperation policies. Acceding countries should contribute to the Community development policy, not least through their own experience in economic transformation and sectoral adjustment.

EU enlargement to the Central and Eastern European countries should strengthen and deepen transatlantic relations. The United States (and Canada) have voiced strong support for enlargement. Pressure from the US on Europe to assume greater responsibility for its own security and in global and regional affairs is likely to increase. In the economic field, specific areas of difficulty could arise in negotiations for compensation, or in some sectors (c.g. steel, agriculture) where the Union's

competitiveness could be significantly increased following enlargement.

EU enlargement should have the same general positive effect on our relationship with Asia, and Japan in particular. Problems that could arise in negotiations for compensation following enlargement are not expected to be important. Capital flows from Asia and industrial cooperation between Asia and the candidate countries will help facilitate the individual candidates economic adjustment.

Enlargement will strengthen the weight and negotiating power of the Union in international

organizations, provided that the Union is able to speak and act in a coherent manner. This will tend to attract, even more than in the past, a careful scrutiny of EU actions by its trade partners. The Union will need to reflect on implications of enlargement on its positions in the WTO and on its role and representation in organizations such as the United Nations, the Organization for Security and Cooperation in Europe, and International Financial Institutions (IFIs). It will also have to take account of the fact that financing of candidate countries by certain IFIs will be terminated as a consequence of their accession to the EU.

2. Overall economic impact

The economic effects of enlargement will undoubtedly be beneficial for the Union in the longer run. Enlargement will mean the creation of a larger economic area, with up to 500 million consumers, compared to the current 370 million. Liberalized factor and goods markets, common rules of the game and, eventually, a common currency will allow for a better allocation of resources, and for exploiting economies of scale. This could trigger a higher-growth/lower-inflation scenario for the whole area, and improve the EU's competitive position in the world.

However, these benefits will not all be instantaneous, or evenly spread. For a long period following enlargement substantial adjustment pressure at the sectoral and regional level will be unavoidable. This could cause economic, social and political tensions.

Yet, independently of enlargement, the Union will need to change anyway. Domestic imbalances; the globalization of markets for goods and services; the changed world trade order; the emergence of new and highly competitive producers in South-east Asia and in eastern Europe — these factors are all putting our economies under severe adjustment pressure. The Union is already committed to responding to these issues. The economic effects of enlargement should thus be regarded as a development of tendencies which are already present, rather than an imposition of new stresses on the Community economy.

2.1. Potential economic benefits

In general, the enlarged internal market should create substantial new output and employment opportunities. The opening of the candidate countries has already led to rapidly growing trade links. Indeed, the value of their trade with the Community has more than tripled over the 1989-95 period. Further integration and enlargement will help rapidly growing income in Central and East European countries translate into a continuous rapid growth of the West-European export market. The emergence of new and competitive suppliers in eastern Europe should also have a dampening effect on input prices for key industries and services, thus reducing or containing costs and improving their global competitiveness. The need for modernizing the public and private capital stock in eastern Europe and to build a pan-European infrastructure should stimulate investment expenditure. More integration should intensify competition on factor (labour) and goods markets. This should contain price inflation facilitating a stability-oriented monetary policy with relatively low interest rates, which will in itself stimulate growth.

Intensified competition in the labour market — be it directly through migration or indirectly through the emergence of new competitors — would probably contribute to wage moderation in Western Europe, thereby supporting job creation. Faster growth at moderately rising wages could also allow for further improved employment prospects, although there may continue to be a shortage of openings for

unskilled workers. The potential integration of the (pan-European) labour force should alleviate constraints on growth potential. The emergence of the East European market should continue to imply a reorientation of regional trade structures. The new division of labour resulting from enlargement should lead to a further intensification of cross-border transactions. The enlargement process should accelerate trade expansion for two reasons: closer integration will mean that a greater share of trade will be with the Union; and accession will stimulate economic growth in the applicants, and thus raise their import demand. Moreover, increasing public transfers in the context of cohesion considerations may allow these countries to import the necessary investment goods that will enable them to expand their production potential and to catch up more rapidly.

2.2. Problem areas and risks

This enlargement is different from the previous one because the candidate countries are catching-up countries. Therefore, major challenges related to enlargement are (i) the low per capita income of the applicants, (ii) the heavy bias of most of their economies towards agriculture and so-called sensitive sectors, (iii) inadequacy of transport, telecommunication and energy infrastructures and networks and (iv) their weak administrative capacity. Notwithstanding the rapid growth and pace of structural adjustment in some of the applicants, these features are likely to persist over the medium-term. Furthermore, (v) high unemployment both in the EU and in most of the applicants' economies make it more difficult for potential 'losers' at the sectoral and regional level of the adjustment process to find new jobs. These problems might trigger sectoral and regional policy interventions and a conduct of fiscal and monetary policy not favourable for reaping the above-mentioned benefits of enlargement.

Indeed, given the high unemployment rates all over Europe, any adjustment that leads to a loss of jobs will be politically difficult. If the new jobs resulting from structural adjustment are created in regions and sectors different from the old ones, even a net increase in jobs may be objectionable in the eyes of policy-makers. It will therefore be all the more important to promote trade, investment and market integration — the main vehicles for growth and employment in this context.

Adjustment is likely to be quite painful in regions or industries already suffering from excess supply on the labour market or excess capacity in so-called sensitive sectors. Adjustment will be much easier whenever capacities are complementary, or not really competing, for example, in telecommunications, energy supply, financial services or tourism. It is hard to predict exactly which sectors and regions will 'lose' or 'win' and how much, but adjustment needs will be reinforced in regions and industries already suffering from economic decline. Public support may be needed to alleviate the regional and social problems related to this structural change.

2.2.1. Sectoral and regional issues

Labour markets

A substantial West-East wage differential serves as a strong incentive to East-West migration despite high unemployment in Western Europe. On the one hand, this may accelerate the drive towards more flexible labour markets, especially in bordering countries, such as Germany, Austria, Greece or the Scandinavian countries. On the other hand, labour market imbalances might increase, as there will be little employment opportunities for those parts of the Western labour force which will be crowded out. Although adjustment pressure will be highest at the lower end of the wage scale, there might also be an inflow of highly qualified workers, which could alleviate some supply bottlenecks in this segment of the labour market. The size of these effects is hard to gauge: the widely expected massive migration from Greece, Spain and Portugal after their accession in fact never materialized. In the case of the current applicants, the size of the wage gap may increase the likelihood of migration actually occurring, though such migratory movement may to some extent be checked by anticipated relative improvements in those countries and uncertain employment opportunities in the West.

Sectoral adjustment

Sectoral adjustment in the enlarged Union might be most marked in agriculture, coal and mining and traditional industries such as tex-

tiles. Additional employment and output opportunities will emerge in those sectors which benefit from the adjustment pressure in upstream sectors — for example, food processing and clothing — and where the emergence of a new market in the East, and the privileged access to this market, will boost demand.

Enlargement would extend the market for European agricultural products. Under the Europe Agreements, agricultural goods have remained more protected than industrial goods. Removing remaining barriers to trade would thus increase trade in primary products as well as in processed food and could improve economic welfare in the Union as a whole. Although adjustment pressure from exposure to competition could be considerable in acceding countries, while, to a lesser extent, problems could arise as well for some products in the present Member States. Enlargement may also improve the Union's access to the acceding countries' traditional markets in the countries of the former Soviet Union. However, extending the CAP in its present form to acceding countries would create a number of difficulties in terms of budgetary implications, the economies of acceding states, and international trade commitments of the EU (see section II.4).

Regional adjustment

Accession of a large number of relatively poor countries will pose a special challenge to Community policies which aim at strengthening economic and social cohesion. This challenge will be all the greater since adjustment strains as a result of increased exposure to competitive pressure could be widespread in acceding countries. The problem will be more important in regions remaining very dependent on agriculture, or on the industrial sectors which will be most affected by enlargement. In this context, it will be important to ensure that national development strategies take account of the need to avoid widening existing within-country regional disparities.

The need to build up an adequate publicly and privately financed infrastructure, and to invest in human resources, in order to improve the growth potential of the joining economies will require substantial financial resources, which will only partly come from domestic savings. With respect to public infrastructure in particu-

lar, transfers from western countries, and especially from the Community, are of considerable importance.

The experiences of Ireland, Spain and Portugal show that economies are able to catch up rather quickly once supported by adequate domestic policies and a favourable international environment. Community support, in the form of the Structural Funds, has made an important contribution to the catching-up process, and should play a similar role in the acceding countries.

The likely medium-term impact of enlargement on the cohesion countries in the present Union is highly uncertain. Different countries and regions will be affected in different ways, according to their respective competitiveness. With respect to adjustment strains, one should be wary of accepting an unduly pessimistic outlook for the less developed regions of the current Union; similar fears expressed at the time of the enlargement to Spain and Portugal proved to be exaggerated.

The economic centre of gravity of the Community will shift eastward, which will have some implications for the locational decisions of firms, primarily as a result of access to new markets, but also in the form of relocation due to production cost considerations. In terms of their geographic position, the candidate countries are generally in a favourable situation. They may thus be well-placed to profit from their comparative advantages, such as low unit labour costs, and low transport costs due to their proximity to the main Community markets, provided the necessary transport infrastructure is available. The new theory of location emphasizes that the consequences for the periphery are not necessarily adverse: elimination of trade barriers could induce concentration in clusters of industries because of economies of scale also to the benefit of peripheral regions, if improved market access were combined with competitive advantages such as low wages. However, only industries for which the sunk cost is low and which are faced with a sufficient reduction of transport costs would be inclined to relocate from current Member States to areas in the candidate countries in which real unit labour costs are even lower.

2.2.2. Increased heterogeneity

Enlargement will make the Union much more heterogeneous. This will constitute a major

challenge for one of the key tenets of European integration so far: the unitary character of the *acquis communautaire* — one set of policies that applies to all. Enlargement does not call for a change in this fundamental principle and any transitional arrangements will have to be limited both in time and in scope. However, even within this framework, the Union will be faced with unavoidable choices between faster adaptation to the *acquis* by the new entrants, which would probably entail substantial financial costs, and a more gradual adaptation. If conducted after accession, the latter option would carry certain risks, for instance of negative side-effects in the functioning of the internal market.

Extending economic and monetary union to the new Member States will not be straightforward. The increased diversity of economic positions in the enlarged Union may complicate the coordination of economic policies. In addition, further fiscal reforms and experience in tax collection are necessary in the candidate countries in order to meet EU fiscal discipline on a

permanent basis. Also, the catching-up that is needed in the candidate States often goes hand in hand with higher inflationary pressure, which will complicate monetary and exchange rate policies. Large movements in nominal exchange rates could threaten the operation of the single market.

Apart from the market related impacts on policy, enlargement will increase the heterogeneity of the agricultural, rural and environmental problems in the Union. This will call for better targeting and a broader range of policies. More local (regional or national) influence on policy may be appropriate, though this will have to integrate a concern for preserving fair competition and promoting cohesion.

Finally, enlargement may prompt changes in the Union's administrative procedures to take account of the less-developed administration in the acceding countries and the need to combat fraud.

3. Structural policies

The effects of enlargement on structural policies are assessed on the basis of the following presuppositions:

□ reinforcement of economic and social cohesion is, and will remain, one of the fundamental pillars of the European Union, together with the single market and economic and monetary union;

□ in the post-1999 context, cohesion policies will be reinforced in their current basic principles and will be adapted to become more exacting, particularly through measures required to improve concentration of effort, effectiveness, monitoring and simplification. These arrangements will have to apply both to the eligible regions of the present 15 Member States and to those of the future Member States.

3.1. The new situation created by an enlarged EU

A Union made up of 26 Member States¹ would constitute a considerable change, since previous enlargements have involved three new Member States at most (in 1973 and 1995).

The scale of the changes which will be brought about by the next enlargement is illustrated (Table 1) by the area and population increases, which will be similar in size to those of the previous enlargements. But the most important feature is the reduction in the average per capita GDP for the Community as a whole, which is unprecedented and greater alone than that resulting from all the previous enlargements.

With an overall per capita GDP estimated at 32% of the Community average, the 10 CEECs

¹ Including Cyprus, which is not covered in this study.

Table 1 — *Impact of successive enlargements of the EU
(based on 1995 data)*

	Increase in area (%)	Increase in population (%)	Increase in total GDP ¹ (%)	Change in per capita GDP (%)	Average per capita GDP (EUR 6 = 100)
EUR 9/EUR 6	31	32	29	- 3	97
EUR 12/EUR 9	48	22	15	- 6	91
EUR 15/EUR 12 ²	43	11	8	- 3	89
EUR 26/EUR 15	34	29	9	- 16	75

¹ In purchasing power parities.

² Including German unification.

lag far behind the four least favoured countries of the present EU, which together stand at 74% of the Community average. Major differences separate the applicant countries, which range from 18 to 59% of the average for the EU of 15, namely a ratio of 1 to 3.2 between the two CEECs furthest apart (Latvia and Slovenia).¹ Current growth rates suggest that these differences will widen, although it is not yet possible to pinpoint a group of countries that will consistently grow more rapidly than the others.

As in the case of the EU, the differences between applicant countries regarding unemployment are wider than for income. The unemployment rate in Bulgaria (13.7%) is four times higher than that in the Czech Republic (3.4%).

The applicant countries are also faced with a wide range of internal regional problems and with weaknesses in their human resource policies, largely as a result of past policies. But the reconstruction of a market economy inevitably brings to light major differences in the growth potential of the regions. The employment trend and the distribution of foreign investment are already showing that regional disparities are tending to widen.

The need for a structural policy to be formulated now and applied as of the next accessions is therefore justified both by external factors (reduction of the gap between the CEECs and the Community average) and by the internal necessity of combating increasing disparities within the applicant countries.

¹ For EUR 15, the range is 66 to 169%, namely a ratio of 1 to 2.6, between Greece and Luxembourg.

The CEECs have been unable to mobilize sufficient administrative and budgetary resources to combat these disparities either under the centralized planning system or at the beginning of the economic transition process. Faced with the rise in unemployment and the realization of the social and regional cost of the economic changes, they have recently created a number of instruments with an explicit or implicit regional dimension, including schemes for assisting SMEs, although the human resource instruments (vocational training, labour market, social solidarity systems) are still deficient.

To date, only one applicant country has adopted a law covering both regional policy and spatial planning, although similar laws are being prepared in three other countries. In the other applicant countries, non-binding guidelines have been issued. However, almost all the applicant countries have spatial planning policies, which occasionally extend to regional policy.

Over the next few years, and before the next accessions, it will therefore be necessary for policies tailored to the adoption of the *acquis* to be created and implemented in order to prevent discrepancies between national and Community instruments.

3.2. Adoption of the *acquis* by the applicant countries

3.2.1. The definition of a strategy for assistance

On the basis of the current eligibility criterion, the available data suggest that all the applicant countries would be eligible for assistance under

Objective 1 of the Structural Funds in respect of the whole of their territory.

The definition of highly selective geographical priorities is not necessary in the medium term owing to the extent of the problem areas and the smallness of some countries.

The need to combat the increase in internal disparities must therefore be viewed as part of the priority aim of reducing the overall gap between the applicant countries and the Community average.

A distinction should be made in this connection between three geographical levels:

□ regional and local: internal disparities, which are increasing and could create serious political tensions, can be reduced by methods tailored to the particular features of each country and to the actual capacity to act of the government departments at the regional level or of elected local authorities;

□ national: structural assistance can be based on the strategies and instruments which have been most developed by the central authorities, through national regional development programmes of the Objective 1 type which will co-finance a limited number of economic priorities;

□ transnational: the applicant countries are a specific group of interlocking countries and therefore have a frontier density not seen elsewhere. This peculiarity calls for a Community approach to the development of infrastructure based on strengthened cross-border and transnational cooperation.

3.2.2. The modernization of aid instruments

Almost all the applicant countries have embarked on a process of reform of the State, which should lead to radical changes in the organization of central government. From the viewpoint of the application of the Structural Funds, they do not yet have suitable instruments for:

□ regional policies in the strict sense of the term (small or non-existent budgets, poorly developed instruments, skeletal administrations, etc.);

□ appropriate interministerial coordination procedures for clarifying the possible role of

the sectoral ministries which are involved in spatial development and can contribute to the co-financing of structural measures;

□ action by the elected local authorities, which currently lack budgetary resources and technical experience.

In the budgetary sphere, two conditions will have to be met. The first is of a quantitative nature and concerns the mobilization of funds to match those expected from the Structural and Cohesion Funds. The information available provides no indication as to when or how this co-financing will be provided. The other condition is qualitative and concerns the improvement of methods. As a result of the reforms being carried out, the countries should introduce monitoring procedures and systems comparable with those in operation in the current Member States.

It follows that the technical capacity to act will increase only gradually. The full effects of these reforms, which are crucial to the future management of the Structural and Cohesion Funds, will not be felt for a number of years. Past experience shows, as in the case of Spain and Portugal, that the central authorities are able to establish fairly rapidly a suitable structure for mobilizing and coordinating the skills needed to manage the Structural Funds, provided that they have sufficient time for preparation and adequate technical assistance.

The aim should not be to establish a structural policy to replace the competent authorities but to give them the instruments necessary for the adoption of the Community *acquis* in this sphere based on the integrated approach adopted in the regions lagging behind in their development.

3.3. Cohesion policies in the enlarged EU

On the basis of the regulations in force and their application in 1993-94 (see Table 2), enlargement would lead to a sharp increase in the population eligible for assistance under Objective 1, which would rise from 94 million to 200 million. If no change were made to the other objectives, the population of the eligible areas in the enlarged EU would amount to 60% of the total, which would be contrary to the principle of concentration of effort on which the effectiveness of assistance depends.

Table 2 — *Changes in the population eligible for assistance under the Structural Funds (based on 1995 population figures)*

	Eligible population (in thousands)	Eligible population as % (EU = 100)	Objective 1 population (in thousands)	Objective 1 population as % (EU = 100)
EUR 12 — 1989	140 600	43.3	69 700	21.4
EUR 15 -- 1995	185 600	49.8	94 000	25.2
EUR 26 — 2000 +	291 400	60.9	199 800	41.7

It is difficult to predict and measure the short and medium-term impact of enlargement on the prosperity of the regions of the EU of 15. Both positive and negative effects could be felt. At all events, enlargement will not appreciably reduce the regional and social disparities in the current Member States. Cohesion policy, as the vehicle of Community solidarity, will therefore have to continue to target all the regions in difficulty in the EU.

Support should therefore continue to be provided through an integrated approach, for those present EU regions lagging behind in their development which strictly satisfy the Objective 1 eligibility criterion and for those areas undergoing change and conversion in the more prosperous Member States. Community support should be concentrated on those regions most in difficulty so as to increase its effectiveness. In order not to disrupt their economies, transitional arrangements should be applied to those other regions which no longer strictly meet the eligibility criteria.

Support for regions lagging behind in their development will therefore have to remain the prime concern of cohesion policy. It will also have to be maintained for those regions and social groups that are in difficulty in the more prosperous Member States.

3.4. The adjustment phases

The important changes anticipated around the turn of the century call for new structural responses that are tailored to an enlarged EU. This process will necessitate phases of adjustment, both for the current 15 Member States and for the future members.

Although the applicant countries are in very different situations as regards the introduction of structural policies, it is generally accepted

that they will all be able to adopt the rules introduced under those policies over a period of five to ten years depending on their level of preparation. That period should be divided into three phases:

- the pre-accession period covered by the current financial perspectives (1997-99);
- from the year 2000 to the date of accession and for the next programming period, a system as close as possible to structural assistance will have to be established in order to prepare for the management of the future programmes;
- on accession, the Structural Funds will have to be applied taking account of the programming period in force in the EU.

This will have to be accompanied by an increase in the participation of the recipient countries and by a generalization of co-financing through contributions from national or local budgets and from the private sector. The programmes should be aligned on the same period as that for structural assistance.

Specific arrangements will have to be made in the area of management to help the recipient authorities adapt to a situation of increased discipline and responsibility and to prepare properly for the post-accession period.

In the transitional post-accession period (between accession and the future expiry of Structural Funds' programming), the new Member States will be entitled to assistance from the Structural and Cohesion Funds on the basis of their respective eligibility criteria, in continuation of the priorities already established and according to the results of the previous periods.

The allocation of financial resources will have to be determined so as to take account of their absorptive capacity, the required effectiveness of structural spending and the need to ensure a

progressive rise in per capita support. The co-financing requirement for the new Member States will have to be progressively increased.

3.5. Conclusion

Owing to the unfavourable socioeconomic situation in the applicant countries, their rapid transition to the market-economy system, and the scale of the action to be taken to enable them to participate in the single market, the successful integration of these countries will depend in part on the intensity of structural support that can be given them and, therefore, on their level of preparedness to adopt the *acquis*.

The handicaps suffered by the regions currently eligible for assistance (particularly under Objective 1) will not be reduced appreciably by the arrival of new Member States. It is therefore essential to continue to provide the Community assistance which is playing such a key role in the catching-up process within the EU of 15.

Changes should be made to enhance effectiveness, monitoring and simplification in accord-

4. Agriculture

Agriculture is relatively more important in the candidate countries than in the EU in terms of area, contribution to GDP, and especially in terms of share in total employment. On average, over 22% of the work force is employed in agriculture, namely a total number of 9.5 million, compared to 5% or 8.2 million in the EU. Agriculture still contributes 9% to GDP, compared to 2.4% in the EU.

With enlargement, the Union's agricultural area would be expanded by 60 million hectares to close to 200 million ha. Of the 60 million ha two thirds would be arable land, adding 55% to the EU's existing arable area of 77 million ha, but under quite diverse land quality and climatic conditions. The agricultural labour force projected at around 6.6 million in 2000 for the existing EU could be expected to at least double, with the average available agricultural area per person employed in the candidate countries being 9 ha compared to 21 ha in the existing EU.

Enlargement would add over 100 million food consumers to the internal market, if all associated countries were to join, but with on average a level

of per capita purchasing power roughly only a third of that of the existing EU.

ance with the four basic principles and the need for budgetary discipline, which calls for the cohesion effort in 1999 (0.46% of the GNP of the EU) to be maintained in relative terms. This threefold requirement applies both to the current Member States and to the applicant countries.

A pre-accession strategy should be introduced already now to provide for gradual change in two stages (from 1997 to 1999 on the basis of the current financial perspective and from the year 2000 to the dates of accession by applying the principles and operational arrangements of the Structural Funds). Accession will entail full application of all the arrangements in force under the structural policies, including any technical adjustment which might be necessary and which might justify a specific phase.

With the prospect of an enlarged Community territory, cohesion must also be taken into account in the formulation and implementation of each common policy in order to adapt to entirely new circumstances. This will have numerous implications for the shaping of policies with a marked regional or spatial dimension.

of per capita purchasing power roughly only a third of that of the existing EU.

4.1. Current situation in the candidate countries and medium-term outlook

Although there are signs of recovery, in particular in the crop sector, agricultural output in most candidate countries is generally still much below pre-transition levels. Output was affected by the fall in demand, as consumer subsidies were removed and the general economic situation deteriorated and by the price-cost squeeze agriculture faced (i.e. input prices rising much faster than output prices). The crop sector generally resisted better than the livestock sector. Most CEECs have become net importers of agricultural and food products in recent years. The EU is the most important agrofood trade

partner for many candidate countries, and all of them except Hungary are increasingly net importers from the EU.

In the transition to a market economy the agricultural sector in most CEECs has been subjected to large scale restructuring starting with the privatization of land and assets. The restructuring process can be expected to continue in the medium term and to include the linkages to the downstream sector, which is itself under pressure to rationalize to reduce overcapacity and to modernize to replace obsolete technology. The further restructuring can be expected to reduce the labour absorption capacity of agriculture, implying a need for diversification of rural economies.

The rate of structural reform will depend to a large extent on the emergence of functioning land markets, which so far has been hindered by the delay in most countries of the definitive settlement of property rights. At the same time, a return to profitability of farming will largely depend on a competitive downstream sector and on a reorganization of the farm sector itself, for example in bundling supply and strengthening its negotiating position vis-à-vis the food processing industry and distribution channels.

Agricultural prices in the candidate countries are in general substantially lower than those in the EU, although the differences vary considerably by country and by product. In 1995, farm gate prices in the candidate countries were in the range of 40-80% of the EU level, with a few exceptions in both directions. The highest prices were generally for cereals, oil seeds and protein crops, while the gap was larger in relative terms for beef, milk and dairy products, sugar beets and certain vegetables and fruit. For cereal based meat (pigmeat and poultry) prices differences were relatively small. When considering the generally low level of farm gate prices in the candidate countries, the downstream inefficiencies in many countries should be taken into account, for example for wheat a doubling or more of the farm gate price to get the product to the border is not exceptional. The low dairy and beef prices reflect the fact that the decrease in supply is only now matching the fall in demand and can also reflect quality differences.

Over time the price gap can be expected to be eroded to a certain extent by a relatively high inflation (not fully compensated by currency

depreciation) and by a rise in domestic agricultural prices as food demand recovers somewhat more quickly than supply. In a situation of rising output, production costs will be more fully reflected. The price gap will also be influenced by the development of EU prices in the coming years (see 4.4 below).

In most candidate countries measures have been introduced to stabilize the agricultural sector, in the wake of the disruptions the early years of transition brought. Depending on the country, support to agriculture has taken various forms ranging from CAP like intervention and border measures, to administrative controls still close to those used under central planning. In view of the budgetary constraints in many countries, State support to agriculture is not expected to increase much above current levels, limiting the possibilities of market intervention and structural aid. Use of import protection within GATT limits can be expected to increase, although the scope for domestic price rises is limited by the still high share of household income spent on food and by the still excessive inflation rates in many countries.

4.2. Enlargement under the status quo: production projections and budgetary implications

Taking into account the rate of restructuring in agriculture and the food industry which could reasonably be expected, a first assessment of the longer term development of the agricultural sector of the candidate countries was made in the country studies and the agricultural strategy paper of 1995.¹ These long-term projections for the main commodity sectors have in the meantime been partially revised to take into account the new information on the general economic situation and agricultural markets in the candidate countries, which has become

¹ 'Agricultural situation and prospects in the Central and East European Countries', 10 country studies and a summary report published as working documents by DG VI in July 1995: 'Study on alternative strategies for the development of relations in the field of agriculture between the EU and the associated countries with a view to future accession of these countries' (Agricultural strategy paper), a communication (CSE(95) 607 of 29.11.1995) presented by the Commission to the Madrid European Council in December 1995.

available since the work was undertaken. In most candidate countries recovery in agriculture has been somewhat slower than expected as major structural handicaps continue to hamper progress (definitive settlement of property rights, capital constraints, inefficient downstream sector).

In the coming years, a number of factors will influence the gap in agricultural prices between the candidate countries and the EU, for the reasons explained above (4.1). Though it is difficult at this stage to foresee how significant the price gap will be at the time of accession, it is likely that significant price gaps will still exist, especially in dairy products, sugar and certain vegetable and fruits. For cereals and beef they may have largely disappeared if the reforms proposed by the Commission are carried out. If a significant price gap existed on accession, abrupt introduction of CAP price levels would raise food prices in countries where already a relatively large share of household budgets is spent on food. It would tend to stimulate agricultural production and to dampen domestic demand, while raising raw material prices for the food industry, which at the same time would be facing increased competitive pressures from the Community market.

The projections for production and consumption of the main crop and livestock products cover the period up until 2005. As a working hypothesis¹ for the impact assessment it was assumed that all 10 candidate countries would join in 2002 and would start applying the CAP in its current form, that is including quantitative restrictions such as set-aside and production quotas for dairy and sugar, and would align their prices to EU levels gradually.

In the crop sector, when applying set-aside the 10 CEECs would become net importers of cereals of around 1 million tonnes in 2005, compared to a projected EU 15 surplus of over 40 million tonnes. Without set-aside, a surplus of a few million tonnes could be expected. With crushing capacity assumed stable after 2000, export availability of oilseeds would increase to 0.9 million tonnes, even if some area has to be set aside, compared to an EU 15

import need of 16 million tonnes. For sugar a surplus is projected for the CEFTA countries² by 2005 (even though production would be stabilized under quotas). Given the still relatively high cost of sugar production and the continuing overcapacity in the processing sector in the CEFTA countries it is not clear if the rate of surplus production is sustainable over the projection period. The CEFTA surplus of around 750 000 tonnes in 2005 would be added to a growing EU 15 surplus of 3.5 million tonnes.

In the livestock sector implementation of milk quotas (with some limited room for expansion on the level in preceding years) would stabilize production after 2002. The start of price alignment would however dampen the growth of domestic use in the candidate countries (the price gap for livestock products in general being more important than for crop products), leading to more or less a doubling of the projected milk surplus between 2000 and 2005 to 2 million tonnes, which would be added to a growing EU 15 surplus of 9.4 million tonnes. For beef the price alignment starting in 2002 would stimulate production and negatively affect consumption, thereby rapidly increasing the surplus to 435 000 tonnes by 2005, which would be added to an EU 15 surplus of 0.5 million tonnes. For pigmeat consumption would tend to stagnate after accession, while production would continue growing, leading to a surplus of 252 000 tonnes by 2005, compared to an EU 15 surplus of 0.7 million tonnes. The poultry surplus is projected to remain relatively stable after 2000 between 170 000 and 194 000 tonnes, compared to an EU 15 surplus of 0.4 million tonnes.

Some market imbalances could also occur in table wines, as well as in certain vegetables and fruit.

Following the hypothetical scenario of all 10 associated countries joining in 2002 and fully applying the CAP in its current form, the budgetary impact of enlargement would be an additional cost to the EAGGF Guarantee section in the order of ECU 11 billion per year by 2005, of which the direct payments (i.e. arable payments and animal premia) would make out close to ECU 7 billion and the accompanying measures (agri-environmental action pro-

¹ The example taken here is purely hypothetical and only for illustrative purposes. It does not prejudice the effective entry date, the number of entrants, nor the modalities of any transition period, which will be the subject of future accession negotiations.

² Central European Free Trade Area of which Poland, Hungary, the Czech Republic, the Slovak Republic and Slovenia are members.

gramme, afforestation and early retirement) ECU 1.5 billion. Market support measures (essentially intervention and export refunds) for the 10 CEECs would cost up to ECU 2.5 billion, largely absorbed by the dairy sector.

4.3. Other implications of enlargement: adjustment pressures and adaptation to the *acquis*

Enlargement will entail full liberalization of trade in agricultural and agro-industrial products between present and acceding members (as well as between the acceding members themselves). Since this sector has remained relatively protected under the European Agreements, considerable further adjustment pressure on the primary sector as well as the food processing industry could be expected as the CEEC economies are exposed to the Community market. The restructuring can be expected to be accompanied by a significant shedding of surplus labour. Vice-versa, for some sectors in the existing Union, in particular for certain fruit and vegetables, increased competitive pressure from the enlarged market can be expected.

The coherence of the internal market, which includes the maintenance of a high level of consumer protection, requires the adoption by new Member States of the *acquis communautaire* in the area of the free movement of animals and agricultural products within the Union.¹ Full implementation of the *acquis*, leading to the abolishment of internal borders, would require not only the harmonization of legislation, but also an adequate control and inspection infrastructure in the candidate countries to enforce the *acquis* both domestically and at the external borders.

Adequate implementation and enforcement of these requirements in the candidate countries is essential for the protection of plant, animal and public health in an enlarged Union as a whole and must be accomplished before free movement of agricultural products without border control can be established. The implementation

¹ An analysis of the approximation of veterinary, plant health and animal nutrition legislation and marketing standards relating to the internal market was included in the Commission's White Paper on the 'Preparation of the associated countries of Central and Eastern Europe for integration into the internal market of the Union'.

of these measures will require additional investment in inspection and testing facilities in the public sector, as well as substantial investment in the private sector for upgrading of establishments in the food industry to meet EU requirements and standards.

4.4. Policy implications

As far as market policy is concerned, it can be seen from the projections for the main commodity markets that adoption of the *acquis* in its current form would tend to increase surpluses in most sectors in the candidate countries, which would be added to the growing market imbalances foreseen after 2000 for the existing EU. Although in general a favourable development of world market prices for agricultural commodities is expected over the next decade, the gap between the domestic EU price level and the world market would remain significant for most commodity sectors. The WTO constraints on subsidized exports would prevent the enlarged Union to sell its surpluses on third markets.

Adjustments in present support policies would therefore probably be needed. In general a reorientation of the CAP with less focus on price support and more on direct income support as well as rural development and environmental policy can be expected in the medium term as has been suggested in the agricultural strategy paper of 1995. Such a reorientation of the CAP would fit well with the needs of the candidate countries, by reducing the price gap and providing support for their structural adjustment process.

In the context of acceding CEECs and during a transitional period, instead of applying the regime of direct payments to farmers, it seems more constructive to spend a significant amount of money for structural reforms and rural development. Indeed, in the 1992 reform, payments per hectare or animal were meant as compensation for the reduction in price support in these sectors. When joining the CAP producers in the acceding countries will most likely experience price increases. Adding the direct payments would for many of them represent an inordinate cash injection. A strong increase in incomes for farmers alone through direct payments would risk creating income disparities that could rapidly lead to social tension in the countries and regions concerned. On the other

hand, candidate countries are in great need of structural improvement programmes in agriculture and in the downstream sectors directly linked to it, in view of the structural handicaps still to be overcome, as well as of rural development in general, in view of the economic diversification needs in their rural areas.

Concerning the adoption of the internal market *acquis* in the agricultural sector, efforts are

being made by the candidate countries to align their legislation with that of the Union and to set up the required administrative infrastructure. Large differences, however, exist between the candidate countries in the level of approximation of legislation and of implementation of internal market requirements, which would make it difficult for a number of countries to apply the *acquis communautaire* from day one without transitional measures.

5. Internal market and economic and monetary union

5.1. Internal market

Achieving free movement as provided for in the Treaty, requires effective application of Community rules for approximation of Member State legislation and administrative practices in the fields of health, safety, environment and consumer protection and combined with mutual recognition of national legislation. Equally important is the establishment or coordination of regulatory certification and surveillance mechanisms, where appropriate. The creation of a climate of mutual confidence is also indispensable for the proper functioning of the internal market. Though the major part of the internal market is already in place, a number of horizontal and sectoral measures aiming at its completion and consolidation are expected to be adopted during the next years.

Major benefits are expected from the functioning of the internal market in an enlarged Union: expansion of economic activity, broader choice for consumers, increased competition, more efficient allocation of factors of production. However, sectoral and regional tensions are likely to result from the adjustment process (see Section II.2). While the existence of tangible benefits from enlargement would have positive effects on the internal market by strengthening confidence in its principles, adjustment tensions could generate protectionist reaction in both acceding and present members. Inadequacy of transport and telecommunication networks could affect the functioning of the internal market and reduce the benefits from its enlargement. Also, if there were inadequate implementation of the Community *acquis* by administrations and operators in acceding coun-

tries, this could distort the functioning of the internal market and harm consumers throughout the Union. This in its turn could provoke reaction. Therefore, it is of the utmost importance that such essential provisions as those concerning conformity assessment, product liability and general product safety be in place as soon as possible.

Free movement of goods

Adjustment strains resulting from the free movement of goods could be important in both acceding and present members, particularly in sectors where liberalization under the Europe Agreements is limited, and where considerable shifts are expected (see Section II.2).

Implementation of common or minimal norms and standards, as prescribed by Community legislation is likely to require a very significant administrative and financial effort on the part of acceding States (see following sections). On the other hand, deficient implementation by one State, could cause serious prejudice to public health, consumers, or to the environment, in other Member States as well. It could also distort competition to the detriment of operators in Member States which abide by such standards and norms. Under these conditions, mutual confidence would be undermined, and Member States could be tempted to react by resorting to restrictive measures. Such measures would risk being applied not only against the new member concerned, but also against other Member States. Situations as

those described above could also serve as a pretext for protectionism leading to a partitioning of the internal market.

Free movement of capital

Full liberalization of capital movements presupposes the existence of a solid financial system and lasting progress in economic stabilization and in achieving sustainable external financial positions. Without these prerequisites, liberalization risks causing serious strains to the acceding countries' external balance and could lead to at least partial reintroduction of restrictions. However, the Treaty itself allows for preventive mechanisms (for example, balance of payment assistance), as well as for provisional safeguard measures. Use of these provisions should provide sufficient protection to acceding members without affecting the overall functioning of the internal market. Furthermore serious problems could arise from eventual defaults of financial institutions in candidate countries and ensuing loss of confidence by the public and by institutional investors, which could turn into a currency crisis. Here too, however, given the limited relative size of financial sectors in those countries, spill-over effects on the rest of the Union would probably be manageable. A solid financial system and durable progress in economic stabilization and reform in acceding countries could enhance the beneficial effects of capital mobility and limit potential adverse effects.

Free movement of services

The impact of enlargement on free movement of services is particularly difficult to assess, given the great number and extreme variety of areas concerned. Issues related to transport, energy and telecommunications are addressed in following sections. Certain types of services presuppose the adoption of Community legislation before free movement is fully implemented. If these prerequisites are not met, there would be a danger of partitioning of the internal market, as in the case of goods. In the case of financial services in particular, strengthening the solidity and efficiency of the financial system in all candidate countries seems indispensable. Financial supervising authorities must acquire the qualifications and capacity to implement fully relevant Community legislation (level of equity, technical ratios, quality of

management and shareholders of financial institutions, etc.). If extended to financial institutions of acceding countries without such implementation, liberty of establishment and the European passport could be undermined.

Free movement of persons

Free movement of workers is one of the fundamental freedoms under the Treaty. As explained above (Section II.2), migration flows are likely to increase, both from acceding to present members and among the acceding members themselves, given the importance of wage differentials, and the limited freedom of movement before accession. However, fears that mass migration would 'flood' the labour markets of present States do not seem justified, also in the light of experience from previous enlargements which would suggest that migration flows are affected by economic conditions and prospects, more than by the right of free movement. Measures to alleviate adjustment strains will evidently be critical in ensuring that this freedom will not be exposed to pressure.

No major problems are expected from the application upon accession of the Community *acquis* on freedom of movement to other categories of persons. Existing regulations would probably suffice to limit adjustment strains: issuance of residence permits to students, retired and other economically inactive persons is subject to certain conditions (proof of sufficient resources, social security coverage); the right to exercise liberal professions is also conditional upon fulfilment of certain requirements, including possession of recognized diplomas with a minimum duration of studies; in certain health-related professions, safeguard mechanisms against excessive migration exist. Family reunification of all categories of citizens from acceding countries presently residing in the Union could put some strain on the social security schemes and infrastructure as well as on the labour market. Lastly, strict implementation by acceding countries of Community requirements concerning company and accounting legislation will be necessary, lest the right of establishment of firms (assimilated to physical persons in terms of free movement) results in insecurity for third parties beyond the acceding countries.

Competition policy

Competition policy should not be profoundly affected by enlargement. Its direct and uniform implementation over a wider economic area by a single authority should increase its efficiency. However, enlargement could create some problems in the efficient enforcement of competition policy. In particular, the heavier and more complex administrative burden for the management of competition policy will be a challenge for the Commission.

In the field of anti-trust, approximation of legislation in most candidate countries is progressing satisfactorily and competition authorities have been set up to enforce the law. However, beyond approximation, a 'competition culture' is necessary. In the likely event that such a 'competition culture' will not have been fully achieved upon accession, problems could arise in enforcement. Also, enlargement may prove a challenge to the Commission's attempt to further decentralize competition policy enforcement to the Member States while ensuring uniform enforcement.

In the field of State aids, efforts within the framework of the pre-accession strategy should be intensified, and political resistance to alignment with the Community *acquis* will have to be overcome, or else enlargement would risk to create distortions in the functioning of the internal market. Current rules seem to provide the flexibility needed to take account of any specificities of acceding countries. The ability of the relevant administrations to implement properly the competition rules in this field should also be ensured. In particular, if monitoring authorities in acceding States were not to have the powers, skills and necessary political support to create a sufficient degree of transparency in the granting of State aids, this would considerably increase the workload and difficulties of the Commission in dealing with these matters. Enlargement will also have an impact on regional aid policy: with present rules unchanged, some assisted areas in present Member States could be crowded-out as a result of the overall increase in eligible areas, and as a consequence of the mechanical effect of enlargement on average EU per capita GDP.

As regards State monopolies of a commercial character, public undertakings and undertakings enjoying exclusive or special rights, some

problems related to the specific character of economies of transition could arise; however, they could be met through the flexibility provided for in the Treaty, and through an elaboration of suitable transitional integration procedures for State monopolies.

Customs and indirect taxation

The functioning of the internal market as a whole is highly dependent on the effective and efficient protection and control of the EU's external borders, for the implementation and enforcement of the Community's common commercial, agricultural, fisheries and other policies. The capacity of candidate countries to ensure such protection and control by the date of accession is a clear prerequisite for the latter. Increasing computerization in Community customs services (for example, tariffs, transit system, mutual assistance) could prove an additional challenge for acceding countries.

Regimes of indirect taxation as applied since 1993, and in particular in the field of intra-Community value-added tax (VAT), require a high degree of cooperation between Member States, including an adequate administrative infrastructure and sophisticated administrative cooperation methods. Were acceding countries to implement inadequately the required administrative cooperation, problems could ensue, including tax evasion and fraud which would distort competition in the internal market. Such difficulties could be further intensified in the context of the introduction of the future new common VAT system. Similar problems could also affect the collection and the level of own resources.

5.2. Economic and monetary union

Enlargement is expected to take place in Stage 3 of economic and monetary union. All Member States must endorse the aim of EMU, and thus should be able to participate in time in the euro area. While it is unlikely that at the time of their entry, the new Member States will be in a position to participate fully in the euro area, the major challenge for them will not be to enter the euro area, but to adopt the Community *acquis* in the area of EMU even as non-participating countries.

The *acquis* has changed since the conclusion of the TEU, and will change further as the Union enters Stage 3. EMU has changed the institutional frame-

work with which all Member States, including the non-participating countries, will operate. All Member States participate in EMU: they are involved in the procedures of coordination of economic policies, they are required to follow the rules disciplining fiscal policy, except those related to sanctions, and they shall have completed liberalization of their capital movements. Non-participating countries will be able to conduct their own monetary policy and will participate in the European System of Central Banks (ESCB) on a restricted basis; they will not have to participate in the pooling of reserves of the European Central Bank (ECB), nor to comply with guidelines and instructions of the latter. However, their central banks will have to be independent and to follow an objective of price stability. Finally, all Member States shall treat their exchange rate policy as a matter of common interest and the new Member States may be expected to participate in a new exchange rate mechanism linking their currencies with the euro.

During the catching-up process in transition economies, a trade-off between exchange rate stability and price stability cannot be avoided. Exchange rate stability and the loss of the exchange rate instrument may therefore be too constraining for some of the acceding countries. Likewise, certain aspects of the liberalization of capital movements might require closer scrutiny.

The new Member States' participation in the euro area will be judged on an equal basis with other members, namely on the basis of the TEU convergence criteria. It should be noted, however, that these are not accession criteria, and early emphasis on the former might be

inappropriate for transition economies. Indeed, in these economies concepts such as long-term interest rates and budget deficits are not yet fully compatible with those of more mature market economies.

Also, it is important that the new members undertake the necessary reforms permitting them to stabilize their economy in the long-run. Even as non-participating members, acceding countries should be able to avoid disruptive movements in nominal exchange rates and misalignments; they should also be able to pursue disciplined and responsible monetary policies so as not to put at risk the objective of price stability.

Failure of acceding countries to meet the requirements of non-participant members in EMU could generate spill-over effects which would endanger stability within the euro area and the normal functioning of the single market. However, as the economic weight of candidate CEECs relative to the present EU will be small, these effects should remain limited, although the risk of some political tensions cannot be excluded (for example, if large shifts in market shares were to occur between acceding and present members).

Enlargement is likely to modify the institutional and economic balance between participants and non-participants in the euro area, but the impact on the dynamics of the EMU should be limited.

6. Horizontal policies

6.1. Social policy

Community social policy covers a wide range of subjects: living and working conditions of workers, their health and safety, equal opportunities for men and women, dialogue between social partners, human resources, employment, social protection, social exclusion. Social policy has been developed through a variety of instruments, including legal provisions, the European Social Fund, and also by action focused on specific issues, such as public health, poverty and the role of the disabled. Social progress, aiming at high levels of employment and of social protection, the raising of the standard of

living and quality of life and economic and social cohesion, is a key element of the European model of society, characterized by a balance between social justice and economic efficiency.

The history and development of social policy in the candidate countries has been quite different from those of the Union. While such policies were highly developed in some areas under the previous regimes, an important deterioration accompanied the transition process of recent years, and policies are generally not adapted to conditions of market economies. Adoption by these countries of the Community social *acquis* and, more generally, of

the European social model will be affected by the large number of citizens having living standards far below the EU average, by their acute social problems, by low efficiency of public administrations, and by still underdeveloped systems of industrial relations.

Social policy in a Union enlarged with several countries presenting the above-mentioned characteristics will have to address their acute social problems, including unemployment and public health issues. Additional important social problems could result in both new and old members from the adjustment processes triggered by enlargement (see Sections II.2 and II.3). Those adjustments would necessitate considerable investments in human resources in order to alleviate the strains in economic and social cohesion, and could subject Community social policies and their funding to strain. A revival of the discussion on the role and functioning of Community Funds could also result.

Adoption of the Community *acquis* will require considerable financial and administrative efforts from the candidate countries especially in the area of health and safety at work, but too slow or inadequate adaptation could undermine the unitary character of the *acquis* and distort the functioning of the internal market. Long-term development strategies based on competitive advantages from observance of low health and safety norms, would be unacceptable within the Union. Similar, though less severe problems could arise in the fields of equal treatment of men and women, where adequate legislation is already in place, but its enforcement is severely hampered by the unequal way in which present economic difficulties affect women and men; of social dialogue and labour law, where adaptation is often hampered by the lack or low level of development of employer and employee organizations, and by reluctance of certain governments to accept an autonomous role of social partners, trade unions in particular.

Enlargement carries a risk that support for a broad social policy would become weaker in the Union as a whole, especially if adaptation of acceding countries to the *acquis* were inadequate. Further development of Community policies (equal opportunities for women, labour law, coordination of social security schemes) could be hampered, in particular when unanimity will be required for decisions. Achievement of the aims of recommendations for social

protection could be retarded. On the other hand, enlargement will unavoidably highlight the importance for the Union of social cohesion and hence of social policy. In the long run, acceding Member States are likely to broadly support policies and principles which are crucial for the development of their peoples.

6.2. Environment

Departing from an initial reactive approach to environmental issues, present Community policy has adopted an approach towards sustainability based on the integration of the environment into sectoral policies and the reshaping of social and economic behaviour through the use of a broader range of instruments and by promoting the principle of shared responsibility. Moving from 'pollution reduction' to 'pollution management' also requires in-depth research and policy cooperation.

Candidate countries are facing on the whole more acute environmental problems than the EU 15, particularly in water and air pollution and in waste management. In certain highly industrialized areas, environmental degradation has resulted in severe damage, and effects on human health. Most of these problems are legacies from the past (insufficient controls of industrial emissions and waste, underpricing of energy), but some have intensified during the rapid transition process. CEEC actions in the environmental field tend to take the form of 'end-of-the-pipe' solutions, whereas the EU has entered into a phase where the objective is to deal with mitigation of the effects of diffuse, hard to control, sources in sectors such as agriculture, transport, energy, tourism and specific industrial branches.

The ongoing adaptation to the principles of market economy has already led to the closing down or upgrading of many of the most energy intensive and polluting installations, and adaptation to world market prices for energy will further accelerate this trend. Candidate CEECs are already addressing their environmental problems, with EU and other international assistance. Further substantial efforts during the pre-accession period should diminish the actual gap in terms of the level of protection. Nevertheless, the difference is most likely to remain significant over a long period.

A very important effort, including considerable EU technical and financial assistance, would appear indispensable for a rapid progress of acceding countries towards alignment to the EU environmental *acquis*, especially in the areas of water and energy related issues. Investment will also be needed to address problems which have a direct health impact on the population, and to improve situations linked to

past environmental liabilities (contaminated soil, hazardous waste, etc.). Most burning industrial related environmental problems should be mainly addressed through modernizing production technology. Although the bulk of financing here would need to come from the private sector, substantial amounts of funding by the Union might prove necessary, especially during an initial period marked by underdevelopment of capital markets and lack of fully cost-based tariffs.

Given the significantly higher marginal environmental benefits of investments in the acceding countries compared to EU 15, focusing investment in environmental infrastructure in the former should bring about higher social benefit and thus higher protection for all European citizens. Indeed, evidence is emerging to show that investments in certain CEECs to address transboundary problems would result in cost savings for the EU, compared to trying to solve these problems within the present Member States. Moreover, investments required for improving environmental protection in acceding countries could develop important markets for EU industries in the environmental and other sectors; this in turn could improve their competitive position in fast-growing high tech world markets. On the other hand, allocation of large amounts of funding and attention over an extended period of time to problems of new members could have an inward-looking effect on Community environmental policies; Member State governments could find it more difficult to shoulder the wider international burden of promoting sustainable development (for example, in global issues such as the greenhouse gases and ozone depleting substances). This would affect the Union's political position on the world scene and should be prevented.

Persistence of the gap between acceding and present members for a long time after accession would put a strain on the cohesion of an enlarged Union and would distort competition within the internal market. As in social policy, national long-term development strategies based on the competitive advantages of low environmental standards would be unacceptable within the Union. A gradual but steady process of alignment, starting already before accession, would seem the most appropriate. Enlargement with countries enjoying lower environmental standards could also affect the capability of the Union to keep a satisfactory rhythm of continuously developing higher standards. At the

same time, however, it is likely to further strengthen a more flexible approach to EU environmental legislation, with a stronger emphasis on implementation and enforcement of adopted legislation.

Candidate countries have sometimes different, but still efficient approaches to certain environmental issues. This could enrich future EU policy orientations and legislation. In particular, many candidate countries have a long tradition in preserving biodiversity and promoting nature conservation. It would be important to ensure that policies in these areas will be maintained.

6.3. Consumers

The Community *acquis* covers protection of economic interests of consumers (including control of misleading advertising and of other abusive commercial practices), consumer safety and health, consumer information and education, consumer representation, and consumer access to justice. It mainly consists of directives for minimal harmonization. The *acquis* is developing, with a number of new directive proposals at various stages of the decision process. In coming years an increased emphasis on food products can be expected.

Candidate CEEC market economies are at different levels of development, and, hence, have adopted at varying degrees consumption modes similar to the ones in EU countries. On the whole, CEECs lag considerably behind EU standards in ensuring an efficient protection of consumers, particularly against problems resulting from the newly introduced economic system. This holds true for most areas covered by Community consumer policy.

In a number of cases, candidate country consumer legislation is relatively advanced, but frequently lacks the precision necessary for its efficient implementation. In some areas (advertising, product liability, product safety), some candidate country legislations even provide for a higher level of consumer protection than in the EU. Generally, however, the main problem in candidate countries lies in the lack of adequate structures to ensure effective implementation of Community legislation: weakness of the consumer movement, insufficiency of administrative means for necessary market controls (e.g., for dangerous products), etc. An important difference is also that CEECs tend to concentrate on a priori product controls before commercialization, while EU legislation uses a posteriori controls on the market. Expected developments in the Community *acquis* are likely to intensify the problems of adaptation.

Enlargement should have positive effects on EU consumers, for example, by increasing

flows of goods and services and hence consumer choice opportunities, and by improving on the whole the level of protection for citizens in acceding countries.

Consumer policy at the Community level, as well as work for approximation of national legislations would have to be strengthened, since disparities among Member States may tend to increase. Policies and legislative techniques would eventually have to be adapted so as to better cover specificities of acceding countries, and this could include reflection on the significance of the term 'high level of protection' endorsed by the Treaty. Enlargement will necessitate the allocation of more means to consumer information and education, access to justice, to the development and activities of consumer associations, and to the establishment of new forms of partnership and collaboration both among acceding countries, and between these countries and present members.

A critical element in the adaptation process will be to ensure in practice the implementation of Community law. Without efficient control structures and adequate business ethics in the field of consumer protection, acceding countries would risk becoming turntables for non-secure or otherwise 'doubtful' products and services, with serious consequences for citizens in the whole of the enlarged Union. They could also become the seat of firms which would abuse the freedoms of the internal market and use aggressive and misleading commercial practices throughout the Union. Transition from a system of a priori to one of a posteriori controls could have a temporary negative impact on the level of consumer protection in acceding countries. It is also uncertain whether 'self-responsibility' of firms in acceding countries will be at a level with EU standards.

6.4. Science, research and development

R&TD activities at Community level, as provided for by the Treaty and in the framework programme, aim at improving the competitiveness of European industry, the quality of life, as well as at supporting sustainable development, environmental protection, sustainable mobility for the transport system and other common policies. The fifth framework programme for the period 1998-2002 is presently in the process of being adopted

Though candidate CEECs had relatively high levels of R&D activities under the previous regimes, R&TD resources faced serious decline during the transition period. This trend has lately tended to be reverted, especially in the most advanced countries; however, most indicators of R&TD/S&T activities are still low if compared to most EU countries, while such activities are still not sufficiently adapted to the needs of modern market economy societies: candidate countries generally have a low profile of R&TD in national agendas, an oversupply of researchers, and lack of research laboratories in private industry.

Community R&TD programmes have been opened to CEEC participation within the framework of the pre-accession strategy, and limited financial support is also provided by the Community. Some candidate countries are already prepared to play an active role in European R&TD activity and to allocate the necessary funds, but financial and organizational constraints subsist in most of them. Reforms in S&T are closely related to broader framework conditions (privatization, reform of financial, tax and banking systems). Further efforts have to be made in adaptation of standards, patent regime, promotion of industrial research, innovation in industry, in particular in SMEs, and technology transfer.

Enlargement will enrich the Union's scientific potential; new and original approaches can be expected from closer cooperation with scientists in acceding countries, which have high standards of research. Existing scientific links of candidate countries with Russia and other NIS could benefit the Union as a whole by increasing the possibilities of cooperation.

Upon accession, CEECs will participate in all decisions concerning R&TD policy and will influence policy orientations in this area. A problem could arise if participation and hence benefits of new members from Community programmes remained lower than their fixed financial contribution to the same (based on the GDP). Adjustments in research priorities and certain re-orientation of S&T systems will have to take place to ensure a competitive, single market environment, but also programmes reflecting needs of acceding members. Such changes should not affect adversely advanced activities with other partners. Adaptation could best be brought about through gradual involvement of CEECs in the R&TD decision process, starting before accession. After accession, structural fund support in the areas of R&TD could also facilitate adaptation of new members.

6.5. Information society

Enlargement is approaching at a time when West European economies are subject to a rapid rate of actual and potential change arising partly from the combined properties of information and communication technologies (ICTs). This trend has been taken into account by the Community through the launching of an information society action plan, giving coherence to its impact on all sectors namely R&TD, telecommunications, education, audiovisual, intellectual property, data security and privacy protection, electronic commerce, etc. In the next years, this plan is likely to develop an important new *acquis*. The implementation of the action plan is proceeding on the basis of several communications from the European Commission to the Council and the European Parliament and a Green Paper entitled 'Living and working in the information society — People first'.

In the CEECs most economic sectors were largely insulated from the influence of new ICTs until quite recently. Public information sectors were closely controlled and grossly underdeveloped. In addition, economic decline created a vicious circle in which low demand and lack of infrastructure reinforced each other. However, over the last five years spending on information and communication technologies has grown remarkably. Still, availability of telecommunications in the CEECs is at about 40% of the level within the EU, and of poorer quality. Availability of Internet host computers (i.e. those providing a service to others) is at about 20% of the level within the EU. CEEC governments are showing great interest in the information society and in its implications for their policy-making.

Possibilities offered by ICTs are likely to seem even more significant in CEECs than they do within the EU, being closely associated both to ongoing economic reform, and to increased freedom of communication resulting from the liberalization process. Recent spending indicates that these countries represent one of the largest ICT industry opportunities in the world. CEECs helped by their highly educated populations may well become leaders in some uses of ICTs.

Enlargement will thus increase overall EU interest in ICTs with positive repercussions on related policies. At the same time, proactive measures will be needed to ensure that CEECs can really integrate themselves into the information society: support for the development of advanced infrastructure, promotion of private investments by removing obstacles of a regulatory nature, promotion of participation in networks for services, help for the informatization of industry, commerce, administration, educa-

tion, organization of awareness actions concerning effective uses of ICTs. The EU/CEEC information society action plan contains many projects of this sort. Specific measures to help CEECs join the EU information society have already been promoted, in particular through the EU/CEEC ministerial forums which took place in 1995 and 1996.

6.6. Culture, education, training, youth

In accordance with the TEU, the Community shall contribute to the flowering of the cultures of the Member States, while respecting their national and regional diversity and at the same time bringing to the fore the common cultural heritage. The Community shall also contribute to the development of education, and implement a vocational training policy, while fully respecting the responsibility of Member States for their content and organization, as well as their cultural and linguistic diversity. Community actions in the above-mentioned fields are carried out in respect of the subsidiarity principle and are aimed at encouraging cooperation among member States and, if necessary, supporting and supplementing their action in certain areas (e.g., with programmes such as Socrates, Leonardo Da Vinci, Youth For Europe and Kaleidoscope). Moreover, an important part of Community structural funds is allocated to training and education activities.

In general, education and in particular higher education attains a relatively high level in the candidate countries, though prolonged budgetary constraints have had important negative effects. Vocational training and youth policies face important needs of modernization and adaptation in order to be able to cope with the requirements of democratic market societies.

Enlargement will enrich both the diversity and the common heritage of the cultures in the European Union, thus widening the scope of Community cultural policy. Participation of acceding countries in Community cultural, educational and training activities will help to build closer links with these countries and will provide an enriched experience for all parties involved.

Since participation in Community programmes by citizens, firms and institutions of EU Member States is voluntary, enlargement should not create specific problems and no transitional measures would seem necessary. Acceding countries will have acquired valuable experience from their participation in the programmes

within the framework of the pre-accession strategy. Given the existence of a considerable gap between these countries' overall wealth on the one hand, and their potential and needs in the fields of education, training and culture on the other, it is likely they will have an absorptive capacity in excess of their contribution to the programmes. In the absence of a proportional

increase of financial resources, this could result in a certain dilution, or in a reduction of the intensity of activities presently developed in the Union. After accession, the CEECs are also likely to draw considerable amounts from the structural funds to modernize and adapt their educational and training systems.

7. Sectoral policies

7.1. Transport

Community transport policy presently concerns application of the internal market to the sector, harmonization of conditions of competition, and development of infrastructure projects contributing to trans-European networks. Future developments will aim at achieving sustainable mobility, allowing for optimal use of existing and planned transport resources. Policies and initiatives will seek to improve the quality of transport services, the functioning of the single market, and to achieve an allocation of costs, based on real cost advantage; they will also aim at broadening the external dimension by improving transport links with third countries and fostering the access of EU operators to other transport markets.

Despite recent developments in candidate countries, there remains an important gap in the level of development as well as a number of other differences between their transport sectors and that of the EU: the level and characteristics of transport demand as well as availability of financial resources for investment reflect lower economic development; the modal split, initially much more in favour of non-road transport, is moving quickly towards road which runs counter to the policy the Union seeks to develop; quality of transport fleets, despite improvements, generally does not comply with EU standards, notably in safety and environment; missing links in infrastructure persist, notably between the EU and the candidate countries. The structure of the markets, including the important role of surviving State monopolies in road transport, the legal status of transport companies, the current gap between EU safety requirements and existing conditions in the candidate countries, and wide differences in the taxation systems for road transport, often reflect a transition still in process. There is a lack of adequately trained and motivated staff to administer efficiently the application of common transport rules; transport statistics are often poor.

Urgent needs for development and upgrading of transport infrastructure are already apparent.

especially in road, combined rail-road transport and airports; they are bound to increase with the expected further important rise of flows. All modes will in due course need major investment, in particular those parts which carry trans-European traffic. The relevant Community policies will be burdened accordingly. Without such investment, severe problems of traffic congestion are likely to arise, affecting the Union's overall traffic and policies. Given the increase in flows resulting from the implementation of the European Agreements and the long lead time inherent in infrastructure development, these problems should be dealt with already before accession, with specific attention being given to the improvement of border-crossing facilities.

Candidate countries will face problems in adopting the Community *acquis* concerning social, safety and other technical requirements (in all transport modes), as well as access to the market and to the profession (mainly in road transport, and, to a lesser extent, in air and rail transport). The planned development of the *acquis* in these areas during the coming years is likely to aggravate these problems. Adaptation will be a lengthy and costly process, especially since it is likely to involve considerable renovation and restructuring of transport fleets and infrastructure. It should prove faster in international than in domestic services. In order to avoid excessive strain on the transport sectors and the economies of acceding countries, measures to ensure compliance should be introduced progressively, starting preferably before accession in a step-by-step approach linked to market opening (though in air transport, full access to the market will have to be achieved by the date of accession, and the harmonization process should not become an obstacle to the achievement of this goal). Failure to take

necessary measures already during the pre-accession period could endanger the normal functioning of the internal market, lead to difficult options on accession, and could significantly slow down the development of the common transport policy.

Enlargement could create adjustment problems in the transport sectors of both acceding and present members; these in their turn could generate political pressure, especially from the EU transport sector and from regions with heavy transit traffic. Such pressure would only increase if by accession the new members did not effectively comply to safety, social and technical requirements.

Once compliance with the Community *acquis* has been achieved, enlargement could be an incentive for the development of the common transport policy, since elimination of borders over a wider area is bound to give a new impulse to the transport sector. At the same time, it is also likely to create a need for restructuring, either as a direct effect (for example, rail transport), or as a consequence of some degree of overcapacity (for example, inland waterways, air transport). Infrastructure development and re-equipment of the transport sector in the acceding countries should create real opportunities for construction firms and related industries, as well as for transport equipment manufacturers.

7.2. Energy

EU energy policy has been developed under various provisions of the Treaties (EU, EC, ECSC and EAEC). The ECSC Treaty expires in 2002 and reflections have started on the consequences. Main EU energy policy objectives, as reflected in the Commission White Paper 'An energy policy for the EU' (December 1995), include enhancement of competitiveness (with relation to the internal market and market based prices), security of energy supplies, and protection of the environment. Key elements of the 'energy *acquis*' comprise Treaty provisions and secondary legislation particularly concerning competition and State aids, internal energy market (including directives on electricity, price transparency, gas and electricity transit, hydrocarbons licensing, emergency response including security stock obligations, etc.), nuclear energy, as well as energy efficiency and environmental rules. Development of Trans-European energy networks and support for energy R&TD are other important elements of energy policy. Ongoing developments include liberalization of the gas sector, energy efficiency *acquis* and the auto-oil programme.

In the field of nuclear energy, the Community *acquis* has evolved substantially from the original EAEC Treaty to a framework of legal and political instruments, including international agreements. At present, it addresses issues of health and safety, including radiation protection, safety of nuclear installations, management of radioactive waste; investment, including Euratom financial instruments; promotion of research, nuclear common market, supplies, safeguards, and international relations.

The energy sector, due to its strategic importance and as a production factor for industry, is crucial for the economic (and social) restructuring of the CEECs. Candidate CEECs constitute, like the EU, a net energy importing region, despite the existence of significant resources in some of them (for example, coal in Poland, oil in Romania, etc.). A number of these countries depend heavily on nuclear power. However, there are important differences with the EU in the energy sector, usually related to a difficult legacy from the past: high dependence on Russia and other NIS for oil, gas, nuclear technology, fuel fabrication and enrichment, and, to a certain extent, for uranium; low efficiencies in production, transmission, distribution and consumption, due to non market related prices, obsolete technologies, lack of investment and inadequate legal and regulatory frameworks; severe environmental damage, nuclear safety problems, and problems related to the disposal or treatment of nuclear waste and spent fuel.

Very important investment will be necessary in the candidate countries' energy sectors for network development, upgrading nuclear safety (by improving existing nuclear or constructing replacement plants), disposing of nuclear wastes, improving energy efficiency and implementing environmental standards (including adaptation of refineries, power plants and the coal sector), building up of oil security stocks and gas storage facilities, restructuring the electricity and gas sectors, and addressing the social and regional consequences of the closing of coal, oil shale and uranium mines. The bulk of investment will have to come from private, as well as from national and other international public sources. Hence the importance of a political and economic environment in candidate countries favourable to investment. However, the EU too will have to contribute to the effort, both before and after accession. Investment in acceding countries will boost demand in Community energy-related industries.

Lack of sufficient funds could hamper for example a timely adoption by certain candidate countries of energy efficiency (for example, minimum efficiency norms, labelling appliances) and environmental norms (fuel

quality standards), and could thus impede the normal functioning of the internal market after accession. It could also delay the fulfilment of requirements on oil stocks, which are important because of their direct link to the principle of EU solidarity in the event of crises. Restructuring of the solid fuel sector in many countries could pose problems with respect to State aids. Finally, lack of adequate energy data collection systems in the acceding countries could also pose problems to EU energy policy.

The problems of nuclear safety in some candidate countries cause serious concern to the EU, even independently of enlargement, and should be urgently and effectively addressed. It is imperative that solutions, including closure where required, be found to these issues in accordance with the Community nuclear *acquis* and a 'nuclear safety culture' as established in the Western world as soon as possible and even before accession. Public opinion is likely to be increasingly sensitive to nuclear safety as a consequence of some nuclear power plant problems in acceding countries, and this could affect major Community policy developments in the field.

Efforts by candidate countries to remedy deficiencies of their energy sectors and to adapt their policies to the EU *acquis* are already under way, though results vary by country. The Europe Agreements, the White Paper, the opening of Community programmes in this sector, and the European Energy Charter provide important frameworks for these efforts. It is highly desirable that problems be addressed as far as possible during the pre-accession period. In all cases, steady and rapid progress towards full implementation of Community norms and rules should be ensured. In general terms, there are no major difficulties expected for the energy sector in the enlargement process, although the nuclear sector (particularly safety concerns in certain countries such as Lithuania and Bulgaria) will certainly be an important issue.

Future EU energy policies will have to take account of and tackle the realities of an enlarged Union, that is of increased dependency on Russia, important nuclear safety problems, costs to improve energy efficiency, environment problems, security of supply, and social and regional consequences of necessary restructuring. Increased use of Euratom loans and a consequent increase in its ceiling could

prove necessary. Intervention under structural policies may also be necessary. Completion of the internal energy market could prove more difficult in an enlarged EU.

Enlargement will also entail accompanying benefits in the energy sector: improved links to EU suppliers (Russia, Central Asia, Middle East) and inclusion in the Union territory of large sections of major transit routes (for example, pipelines in Slovakia, etc.); synergies of energy research and technology development. Convergence of acceding countries with EU standards will improve rational use of energy and the environmental situation on an all-European scale; it should also offer markets for the energy industry. Accrued stability in energy supplies has positive effects on peace and security in the region.

7.3. Industry

EU industrial policy seeks to enhance competitiveness of EU industry, thus achieving rising living standards and high rates of employment. Community action aims at speeding up adjustment to structural change, encouraging an environment favourable to initiative, to the development of undertakings throughout the Community, and to industrial cooperation, and fostering better exploitation of the industrial potential of policies of innovation, research and technological development. EU industrial policy is horizontal by nature. Sectoral communications aim at transposing horizontal concepts into specific sectors. EU industrial policy results from an articulation of instruments from a number of Community policies; it includes both instruments related to the operation of markets (product specification and market access, trade policy, State aids and competition policy) and measures related to industry's capacity to adapt to change (stable macroeconomic environment, technology, training, etc.).

Industry in candidate countries presents both strengths and weaknesses: very low labour costs and a good level of technical qualification in a number of sectors (steel, ceramics, glass, cement, mechanical production) are its main strengths. On the other hand, problems include: an extensive overcapacity in some sectors compared to still insufficient domestic demand; outdated production set-up and lack of knowledge of modern production techniques, which result in low productivity and low-standard and polluting products. Industrial production in CEECs is emerging from an unprecedented contraction during the period 1990 to 1993.

Priorities of industrial policies in candidate countries include privatization, investment, enterprise development, productivity and job creation. Far-reaching adaptation needs are evident in sectors such as steel, chemicals, textiles, foodstuffs, automobiles, shipbuilding and electronics. Privatization and restructuring are progressing at varying degrees, but, on the whole are far from completed. The capacity of the administration to conduct a well coordinated horizontal policy in at least some of the candidate countries is limited.

Enlargement to Central and Eastern Europe should benefit EU industry as a result of the expected increase in economic activity (see Section 2). Better allocation of resources will strengthen its competitiveness in the global economy. Integrating the industry of acceding countries with that of the current Member States will be a major common challenge. At least during an initial period, a crucial issue will be the use of acceding countries as low cost production sites for industrial activities that cannot be carried out with the same advantages elsewhere in the Union. In this process, due account would have to be taken of sectoral and regional adjustment strains in both present and acceding members, as well as of the imperative for gradual but steady alignment of acceding countries to EU environmental and social norms. Integration is already under way within the framework of the Europe agreements and the pre-accession strategy; the more fully this framework is exploited, the less painful will the strains be on accession. Industrial cooperation is one of the main mechanisms for achieving integration, and for alleviating sectoral strains. Industry-to-industry contacts will have to be promoted increasingly with available instruments, including industry-led programmes financed by the EU.

Enlargement should not modify the objectives of EU industrial policy; rather, it will highlight their importance. The horizontal approach would best serve the generally low level of competitiveness in the candidate countries, but it could come under challenge, as sectoral and regional aspects will probably receive high political attention. In the context of industrial policy, it is expected that the whole of the internal market *acquis* will be taken over by acceding countries by the end of any transition periods. However, its implementation in practice is likely to need more attention, because of probable protracted shortcomings in the public administrations of acceding members. Thus, the topic of 'modernization of the role of public

administration with regard to industry' highlighted in the Commission communication on 'An industrial competitiveness policy for the European Union' (1994) may well have to become more important.

7.4. Telecommunications

The objectives of EU telecommunications policy are the harmonization of the standards and conditions for service offerings as well as the liberalization of the markets for terminals, services and networks. The markets for public voice telephony and infrastructure will be opened in 1998 with transition periods up to the year 2000 for three Member States have been adopted. The introduction of full competition in the sector will be accompanied by a regulation aiming at the maintenance and development of universal service guarantees, and other harmonization measures (licensing, numbering, data protection, connected telecommunications equipment, convergence).

CEEC telecommunications networks have suffered from decades of general neglect, under-investment, insufficient maintenance and lack of modernization. They thus lag considerably behind EU levels. Public operators are under pressure to rapidly upgrade and extend their networks, to improve the quality of telephony and to introduce new services. However, up to now, actual investment falls substantially short of estimated needs. Recent years have witnessed important liberalization, though progress has been more uneven than in the EU. Mobile telephony, data communications and value added services are already competitively organized in the majority of candidate countries, mostly with strong Western participation.

Enlargement will benefit the Union telecommunication sector as a whole by providing a larger market for products and services, and by the possibility of acceding countries to act as 'disseminators' for further extension of the market.

Enlargement should have no noteworthy impact on EU policy concerning liberalization of the telecommunication markets. Adoption of the Community *acquis* should be feasible for most candidate countries by 2000 to 2003, while for the others a reasonable additional period should suffice. The preparation of enlargement might also have a positive effect on the efforts of the European Commission to speed up liberalization of the voice telephony and infrastructure market, as well as harmonization of the telecommunications regulation. Concerning investment, a considerable shortfall should also be expected in the next years. The capacity of

larger operating companies from the EU to invest in CEECs will be limited because of demand in domestic markets, and IFI funding cannot be expected to rise dramatically in the near future. Demand for Community funding through the TEN-Telecoms Programme and structural policies will thus be important after enlargement in order to ensure the continuity of networks and services modernization.

Enlargement will have to be taken into account by the Union in international negotiations in the telecommunications sector (WTO/General Agreement on Trade in Services — GATS), since some candidate countries do not participate actively in these negotiations, while offers by some others would need considerable improvement to be compatible with that of the Community. Some progress in this field has already been accomplished.

7.5. Small and medium-sized enterprises

The Community's enterprise policy aims at encouraging an environment favourable for the development of SMEs throughout the EU, at improving the competitiveness of European SMEs and at encouraging their Europeanization and internationalization. Enterprise policy in the EU is characterized by a high degree of subsidiarity, and the complementary role of the Community is defined and implemented through a multiannual SME programme (presently the third MP, covering the period 1997-2000). The *acquis communautaire* is limited to recommendations on specific areas (for example, late payments), though legislation in other sectors also affects SMEs (competition, environment, company law, etc.). Community Structural Funds provide significant financial assistance to support mechanisms in the EU.

Small and medium-sized enterprises are a growing sector in the transition process in Central and Eastern Europe. The new governments have begun to recognize the political and economic importance of supporting SMEs and, on the whole, policies to that effect have become a significant part of the transition process. Nevertheless, SMEs in candidate countries still represent a smaller share of GDP and employment than in the EU. Despite considerable progress, SMEs in candidate countries are still a long way from having the level of support and resources that exist in the EU, for example, in support services, policy coordination, or in development of appropriate legal and regulatory frameworks. Access to finance remains a key bottleneck. Despite reliance on low wages, application of sub-standard social and environmental norms, as well as frequent involvement in the grey economy,

international competitiveness of SMEs in candidate countries is generally low due to lack of full exposure to competitive pressures.

EU membership is likely to put considerable pressure on many SMEs in acceding countries, by exposing them to international competition. This could have an adverse impact on employment. The problem will be less severe, provided the candidate States adopt comprehensive and effective policies to support the emergence and sustainability of SMEs. The Union will have to focus on support to SMEs in acceding countries, both before and after accession. At the same time, SMEs in the Union should benefit from the increased economic activity expected as a result of enlargement, both in terms of trade and investment opportunities.

No significant problems are foreseen in integrating the acceding countries in the relevant Community policies, and the latter should not be adversely affected. Future multiannual SME programmes would have to take into account possible specific needs of SMEs in acceding countries. Candidate CEECs are already satisfactorily participating in some parts of operational SME programmes and they are currently offered the opportunity to participate in the present (third) multiannual programme, in accordance with the Additional Protocols to the Europe Agreements regarding participation in Community programmes. Some problems related to lack of experience are expected to be overcome before accession. However, existing EU policies presuppose the effective functioning of a number of legislative and organizational dispositions in Member States (for example, basic bankruptcy rules, Chambers of Commerce, etc.). Since many of these are currently lacking in candidate countries, it would be advisable to continue to ensure their development; *inter alia* through channelling of Community funding to this end.

7.6. Audiovisual policy

Community audiovisual policy is designed to encourage the provision and free movement of audiovisual services within the Union, to develop a modern European communications infrastructure, to promote the development of the market for television programmes, to increase the production of European audiovisual works and to offer jobs and new outlets for the creativity of professionals. These objectives are implemented by a number of interrelated policy initiatives, including both regulatory measures (for example, the 'Television without fron-

tiers' Directive) and financial support programmes (for example, MEDIA).

Broadcasting legislation in some candidate countries differs considerably from Community standards. Audiovisual sectors in candidate countries have suffered from the unfavourable economic conditions during the transition process, and in a number of cases have almost ceased to exist.

Enlargement will increase the scope of European audiovisual policy to cover new territory and should benefit the whole sector, as markets become larger and possibilities of economies of scale increase. However, alignment of broadcasting legislation will be necessary, in order to avoid possible distortions of competition between broadcasters established in present and in acceding Member States. Such alignment has to be addressed already during the pre-accession period.

Further opening up of national audiovisual sectors to competition could cause additional strains to acceding countries on accession. Thus, specific provisions might prove necessary in financial support programmes, in order to take account of particular characteristics of candidate countries. These provisions could require some additional funding.

7.7. Fisheries

The common fisheries policy comprises common market organizations, structural policy, agreements with third countries, and management and conservation of fish resources in waters under the jurisdiction and sovereignty of the Member States. Being ruled by the same Treaty articles as the CAP, it is an area of exclusive Community competence. The CFP aims at the establishment of a sustainable balance between available resources and the capacity of the Community fishing fleets and improvement of the competitiveness of the fish processing industry.

Seven out of the 10 candidate countries have a seacoast, on the Baltic, the Adriatic or the Black Seas. Just like the EU, candidate countries face serious problems of over-capacity. They will also

have to cope with the obsolete character of their fishing fleet in terms of technical development, as well as with changes in the legal structure of their firms, related to the transition process. In recent years, the fishing industry of most candidate countries has been in deep recession.

Enlargement should not pose serious problems to the CFP and acceding countries should be able to adopt it without difficulty. Nevertheless, the effective implementation of the *acquis* might pose some problems with regard to the adequacy of specialized administrative structures of some candidate countries, in particular in necessary basic data collection. This could have some spill-over effects on the overall functioning and management of the CFP. In the Baltic Sea integration of candidate countries will be facilitated by cooperation already under way, both multilaterally within the International Baltic Sea Fishery Commission, and bilaterally in the framework of fisheries agreements. As regards the Black Sea, the Community does not presently have any fishing activity, and thus the Community *acquis* would have to be completed. Given that pollution is one of the main problems for the rebuilding of stocks in the Black Sea, policies other than the CFP would also be involved in this area.

Enlargement will not significantly increase the overall fisheries resources of the Union. Liberalization of trade should not pose serious problems to the fishing sector in present members, while some export opportunities could emerge, in particular in the markets of land-locked acceding members. In the context of structural adjustment, account will have to be taken of the fact that the fisheries sector is very important for certain coastal States and regions. In particular, the social and economic impact of the likely lack of competitiveness of the sector in acceding countries should not be neglected. Technical assistance provided by the Union during the pre-accession period will facilitate the establishment of appropriate structures in the candidate countries.

8. Justice and home affairs (JHA)

In matters related to justice and home affairs, the TEU creates a framework of cooperation for the purposes of achieving the objectives of the Union, in particular the free movement of persons. Areas concerned include crossing of the external borders,

asylum, immigration, judicial cooperation in criminal and civil matters, and customs and police cooperation, (the latter in particular for combating drug traffic and other forms of serious crime). This framework is recent and has only produced a

limited number of instruments: conventions whose entry into force depend on national ratification procedures; joint actions and joint positions and non-binding acts (recommendations, resolutions and declarations). Decision-making in the JHA area takes place by unanimity.

The Union has a vital interest in developing a full fledged *acquis* in justice and home affairs on which candidate countries could align themselves. The new Treaty agreed upon at Amsterdam provides for improvements of this institutional framework. Therefore, after entry into force of these new provisions, progress towards the establishment of an area of freedom, security and justice should be more rapid. But even before that, a major development will be achieved with the integration of Schengen conventions in the Union's *acquis*.

A number of relevant conventions have been adopted outside the EU framework (mainly in the Council of Europe). The Union *acquis* in this field is in a process of constant development and it is difficult to foresee accurately what it will consist of at the time of enlargement. Practical cooperation measures between Member States in the various JHA fields are as important as the legal *acquis*.

In general terms, the accession of candidate countries will create substantial challenges for the EU in the field of justice and home affairs. The new members will as a rule be inexperienced in practical cooperation on the range of issues dealt with in this area, and their integration into existing activities, programmes and institutions will be time-consuming and difficult. The JHA institutions of the new Member States are all in the process of reform and will need to develop the confidence of their existing EU counterparts before in depth cooperation will be possible.

At the same time, many of the existing challenges facing the EU are transnational in nature and are influenced to varying degrees by the situation in the candidate countries. Their accession will allow the response of the enlarged EU to be more comprehensive in character and consequently more liable to be effective. However, enlargement will not serve to encompass the whole European area in which such transnational challenges exist; indeed the expansion of the EU to the east will bring closer to the EU itself the NIS and former Yugoslavia where such challenges are at their most acute. Given the risks inherent in applying justice and home affairs measures throughout the enlarged Union, it is important for candidate countries to adopt these measures at an early stage before accession and to be

provided with the necessary technical assistance. The process is already under way and the more it is strengthened, the less spill-over of crime and fraud into the present Union will occur and the fewer problems will be upon accession.

The intensity and origin of problems will evidently also depend upon whether enlargement will take place simultaneously with all candidate countries or if a differentiated process will be adopted. At the same time, the aspiration and prospect of enlargement provides a crucial stimulus for the advancement of reform in justice and home affairs in candidate countries.

Asylum and refugee matters: The applicants are transit countries for asylum seekers wishing to reach the EU and sometimes still countries of origin of asylum seekers, while they are becoming target countries also in their own right. Adoption in the new Member States of the Geneva Convention and its necessary implementing machinery, followed by the Convention of Dublin (on the State responsible for determining asylum applications) and of the related measures in the EU *acquis* to approximate asylum measures, will expand the area in which a common approach to asylum issues is taken. This will have the benefit (for existing Member States) of increasing the pool of States who meet common criteria to act as potential recipients for asylum applicants. There may, however, be an overall cost, in that to perform this function effectively the new Member States will have to devote a higher level of resources to asylum issues than they do at present.

Immigration policy and border management: The main JHA impact which might result from the new Member States (after any period of transition) will be that the nationals of the new Member States will no more be subject to the restrictive residence and establishment rules. This could lead to an increase of nationals of these Member States residing in another. Furthermore, in line with Treaty provisions, no visa will be required for nationals of these Member States.

Within the enlarged Union the burden of controlling the Union's external frontiers, both new and existing, will largely rely on the new Member States too. If such controls are not effective this will result in increased problems of illegal immigration and illegal activities

within the enlarged Union. To carry out such management effectively will require resource inputs on a substantial scale by the countries concerned, reflecting the length of their frontiers and the volume of traffic.

Organized and other serious crime: While organized and other serious crime are problems to various degrees throughout the existing Union, the nature of such crime in the candidate countries represents a new challenge which will require effective and continuing action lest it exacerbate the existing problems in this field within the Union. Crime may have a destabilizing effect and after enlargement this could have serious political consequences for the wider Union. On the other hand as yet there is no evidence of indigenous terrorist activities inside these States. The enlargement process will have the potential benefit of giving a real impetus to the nature of cooperation between EU members and candidate countries to tackle joint problems as from today. But the effective implementation of such measures will require substantial resource input over and above current spending by the candidate countries, which is presently in any case insufficient to meet current problems. The streamlined and increased transmission of information between police authorities will provide valuable support

in combating organized crime. But control systems must be developed to secure data protection and to avoid penetration by organized crime elements.

Judicial cooperation: Involvement of new Member States in the enhanced provisions for judicial cooperation will offer for the most part advantages to present EU Member States. As far as criminal matters are concerned, the extension of existing and planned measures such as the extradition convention and the future mutual assistance convention will allow more effective transnational action by investigative and prosecution authorities. If difficulties arise on this front they are most likely to be of a political nature, given the sensitivity of extradition issues on matters such as human rights and 'political crimes' as well as the extradition of nationals to other countries. In the civil field there will also be benefits for matters such as the effective operation of contracts in the new States. The effective integration of new Member States into EU judicial cooperation may be constrained by the difficulties encountered by some of them to ratify certain international conventions and the inexperience of the judiciary in implementing them.

Part III — Conclusions

1. Benefits from enlargement and their impact on EU policies

When the 'cost of enlargement' is assessed, the net economic benefit expected overall should be a central consideration. Political benefits, such as promotion of regional stability, should equally be taken into account, not least because of their indirect economic and even budgetary implications. Enlargement is an investment in peace, stability and prosperity for the people of Europe. The overall economic gains from enlargement will be beneficial to Community policies. When integration brings benefits to economic operators and citizens, confidence in the internal market and its principles strengthens. Community policies will be enriched by the experience and potential of acceding members, for instance in R&TD, culture, education and training, but also in energy and in some industrial and agricultural sectors. Lastly, the more the benefits of enlargement are tangible, the less difficult it should be to address adjustment strains and resulting burdens on Community policies, including their financial dimension.

2. Adjustment strains and their implications

Sectoral and regional strains generated by enlargement in both acceding and present members will burden Community policies. They are also likely to have budgetary implications. Community funding would be required to address social problems, regional imbalances, the inadequacy of basic infrastructure, implementation of industrial and rural restructuring in both present and acceding States. If such problems were to become acute, political pressure could develop in favour of protectionist measures. However, in some fields, such as free movement of capital (within the framework of the discipline for non-participants in the EMU), and competition policy (State monopolies), application of the appropriate rules

provided for by the Treaty could contribute to alleviate strains for acceding countries.

3. Direct budgetary and financial implications

Enlargement will have important budgetary implications. However, under certain conditions described below and developed in more detail in the Commission's proposals for a new financial framework,¹ the financing of enlargement can be achieved within an unchanged ceiling of own resources as a percentage of Union GDP. At such an unchanged ceiling, and given the limited contributive capacity of acceding countries, the evolution in real terms of means available for the present Member States will inevitably lag behind Union GDP rates of change after enlargement.

In the agricultural sector, extension of the CAP in its present form to the acceding countries, would imply an important additional yearly cost (see Section II.4). However, provided that new Member States are not eligible for compensatory aids (which would otherwise represent around two thirds of additional expenditure), at least during a period after accession, the agricultural guideline should suffice to finance additional expenses induced by enlargement (i.e. intervention measures on markets and accompanying measures), taking account also of the envisaged reforms of the CAP.

In the field of structural actions (see Section II.3), a redeployment of allocations must be progressively organized in favour of the new Member States, whose level of prosperity is much lower than the average level in the present Union. Full application of presently valid criteria for payment of aids to the acceding countries would require very important sums. But new Member States could only gradually be integrated into the structural aid

¹ See Part Three of 'For a stronger and wider Union'.

system, while account has also to be taken of their absorptive capacity. Moreover, additional funds which would have to be paid in the medium term would be reduced, if accession of all the candidate countries were not to occur simultaneously. Under these circumstances, the additional payments for acceding countries can be sustained within the ceiling of a constant overall cohesion effort in relative terms after 1999, while the total level of structural interventions to present Member States will only be slightly affected.

Concerning the other *internal policies* (e.g. R&TD, education and training, trans-European networks [TENs], social operations, environment, etc.), in an enlarged Union it will be more necessary than ever to avoid dispersing funds into too wide a range of actions, whose dimensions would not allow them to have a significant impact and whose management costs would be too high. Available financial means should thus be concentrated in a reduced number of programmes where the added-value brought by Community intervention will be proven. Even under these conditions, accession of new members would entail in these sectors probably more than proportional increases in expenditure, with respect to their relative weight in the Community GDP. Indeed, for many of these policies, the cost of implementation is also a function of the target population, of the geographic area, or of the number of participant Member States.

Enlargement will also entail additional administrative expenditure for the institutions, as a result of the introduction of new languages, of the expansion and diversification of tasks, and of the integration of citizens of the new Member States.

Conversely, enlargement should not imply an overall increase in expenditure for the Union's external actions.

Acceding countries will be eligible for loans by the European Investment Bank (EIB), Euratom, and the European Investment Fund on equal terms with existing Member States.

4. Risks from possible late or inadequate adaptation to the Community *acquis*

Full adaptation of candidate countries to the Community *acquis* will be a lengthy and costly

process. Important investment will be necessary to adopt Community *acquis*, especially in the fields of environment, health and safety at work, nuclear safety, energy security stock obligations, public health. In a number of sectors substantial restructuring or upgrading will be necessary (polluting industries, nuclear plants, transport and fishing fleets, energy companies, etc.). Ensuring efficient administrative structures for implementing Community regulations in the above fields, as well as for consumer protection, phytosanitary and veterinary care, management of the external borders and indirect taxation, will also require considerable effort.

A basic principle for the accession of new members to the European Union is that they will have to adopt the totality of the Community *acquis*, and that thus all Community policies will be applied to the enlarged Union, subject to such adaptations or transitional arrangements as may be agreed in the accession negotiations. On the other hand, availability of necessary resources for adoption of the *acquis* is a major bottleneck. Also, costly adaptation of candidate countries in some areas could be delayed by considerations on competitive advantages and protection of domestic industries.

It is nevertheless imperative that full adaptation to the EU *acquis* by candidate countries be realised the soonest possible. Indeed, too slow or inadequate adoption of the *acquis* could create serious problems after accession:

□ The Union could not endorse permanent differentiation between new and old Member States or their citizens. Such a differentiation would undermine the Union's cohesion and confidence in its finality and policies.

□ In a number of areas, inadequate adoption of Community regulations could result in distortions of competition at the expense of operators in countries which abide by these regulations (environmental and social norms, State aids, audiovisual policy, etc.).

□ In certain cases, inadequate implementation of the Community *acquis* would risk having a destabilizing impact on the functioning of the internal market or dangerous effects on the protection of consumers and the health and safety of Community citizens. Such would be the case if protection and control of external borders could not be satisfactorily ensured by

acceding members, or if these countries became 'weak links' for the marketing of non-secure products or for recourse to abusive commercial practices throughout the Union. Issues related to phytosanitary and veterinary protection would be particularly sensitive in this respect, while 'weak links' could also be exploited by organized crime and by traffickers in drugs and in human beings.

□ Distortions of competition and the internal market, and, even more so, situations where the protection of consumers, or the health and safety of citizens were endangered, would generate strong political reactions and protectionist measures, thereby undermining the functioning of the internal market and the Union itself. This would detract from the legitimacy of the Union and of its institutions in the eyes of European public opinion.

5. Adjustment, reform and further development of Community policies

Community policies may sometimes have to undergo certain readjustments or shifts of focus, in order better to meet the needs and problems of new members. This could prove necessary for some Community programmes in R&TD, training, energy, environment.

Modification of present Community policies will become a major issue in areas where enlargement has important budgetary implications. The Commission has already expressed the view that the CAP and structural policies would have had to be adapted, even without enlargement (see Sections II.4 and II.3, respectively).

Considering the likely scarcity of financial resources, the focus on enlargement could risk diverting the Union away from other important policy priorities: external policies, including development assistance, in particular in relation to Mediterranean, ACP and NIS countries, global environmental issues, advanced R&TD. Such a development would be highly undesirable, and appropriate measures will have to be taken to prevent it.

Increased heterogeneity of situations, interests, perceptions and positions in the Union could lead to considerable difficulties in managing and further developing the Union's policies, especially in areas where unanimity is still

required for decisions. In the development of EU policies, the fact that acceding members have lower levels of economic development and might find it thus difficult to adopt and finance higher levels of protection for their consumers and citizens, could prove an additional obstacle. The development of the CFSP, of JHA policies, as well as of Community policies in environment, social issues, consumer protection and the audiovisual sector could be impeded. The same could be true for further liberalization of the energy sector.

This problem highlights the need to prepare adequately the forthcoming enlargement, in order to maintain the Union's capacity to function effectively while preserving the overall institutional balance. Possible difficulties in developing the *acquis* in an enlarged Union also underline the importance of implementing further steps in a number of policies (e.g., in the liberalization of the energy market) during the run-up period to enlargement.

However, difficulties should not be exaggerated: on the whole, acceding members are likely to prove firm supporters of the finality and policies of the EU, including the CFSP, economic and social cohesion, and JHA, while also recognizing the fundamental importance of economic integration through the single market, the EMU and an open attitude towards the rest of the world. In all these basic matters, accession of the CEECs is not likely to increase the range of diverse positions within the Union.

6. Impact of administrative strains in the Union's institutions

Accession of a large number of new members will put a serious strain on the administrations of European institutions. The problems which are likely to be created by the doubling of the number of official languages of the Union should not be underestimated. These issues are not directly covered in the present report. However, they are bound to have a considerable impact on the management and development of the Union's policies, as well as on the budgetary implications of enlargement. The Commission has already initiated important work in this area within the framework of the SEM 2000 and MAP 2000 exercises. The

problems related to enlargement will have to be further addressed in due course.

7. Importance of the pre-accession period

A basic conclusion of the present report is that the impact of enlargement on the Union and its policies, and especially the scale of possible problems, will depend to a very large extent on the preparation of candidate countries during the pre-accession period.

In most cases, a gradual process of adaptation of candidate countries to the *acquis* would appear to be the only realistic path, given the complex character of the process, its cost, and the need to alleviate related adjustment strains. The bulk of this effort should be deployed during the period leading to accession, when progress could also be linked to the further gradual opening of the Community markets. If this were not to happen, the Union would be faced with difficult options: the need for transitional periods after accession would increase, to the detriment of the normal functioning of the internal market; the risks of inadequate implementation of the *acquis* would multiply. In areas where there are dangers of destabilization of the internal market or of serious prejudice to EU consumers and citizens, obstacles to accession could become prohibitive.

Thus a real link exists between the effort and means provided during the pre-accession

period, and the impact of enlargement on the Union and its policies, not least in terms of cost. A link also exists between the pre-accession effort, and the timetable of accession itself.

The effort required by acceding countries during the pre-accession period will be mainly shouldered by themselves. Candidate countries have already embarked on this road, within the framework of the pre-accession strategy, including the implementation of the White Paper. However, technical and financial assistance from the Union will be necessary, and indeed is already being provided. In view of the crucial importance of the preparation of enlargement, the Commission, in accordance with the conclusions of the European Council in Dublin, has formulated its proposals for the reinforcement of the pre-accession strategy.¹

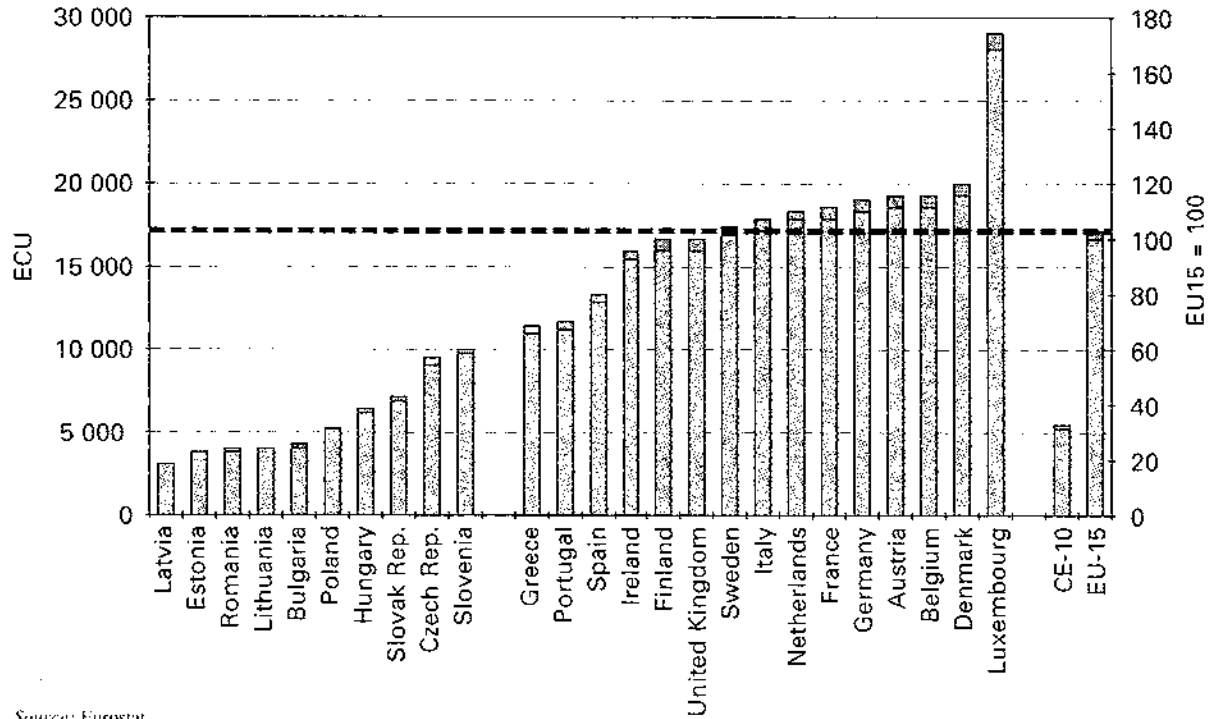
The period leading up to the accessions will be critical also for the implementation of necessary adaptations of Community policies and institutions, so that enlargement will be manageable. Indeed, the implementation of such reforms is essential for a successful enlargement.

Finally, the consent and support of European public opinion to enlargement is a clear prerequisite for the realization of the project. This will require, during the pre-accession period, a substantial public information effort in both the present and the acceding Member States.

¹ See 'Reinforcing the pre-accession strategy'.

Statistical table and graph

*Applicant countries of Central and Eastern Europe and EU Member States
GDP per capita (at purchasing power standards), 1995*



Source: Eurostat.

Applicant countries of Central and Eastern Europe and EU Member States
Basic data (Year 1995)

	Area		Population		GDP at current market prices			GDP at purchasing power standards			Agriculture	
	(1 000 km ²)	(millions)	density (inh./km ²)	(billion ECU)	(in ECU per head)	(in ECU per head as % of EU average)	(billion ECU at PPP rates)	(in ECU per head at PPP rates)	(in ECU per head as % of EU average)	(% of total gross value added)	(% of empl.)	
	1	2	3	4	5	6	7	8	9	10	11	
Hungary	93	10.2	110	33.4	3 340	19	64.6	6 310	37	6.2	8.0	
Poland	313	38.6	123	90.2	2 360	14	203.3	5 320	31	7.6	26.9	
Romania	238	22.7	95	27.3	1 200	7	94.3	4 060	23	20.5	34.4	
Slovak Republic	49	5.4	110	13.3	2 470	14	38.0	7 120	41	6.3	9.7	
Latvia	65	2.5	38	3.4	1 370	8	7.9	3 160	18	9.9	18.5	
Estonia	45	1.5	33	2.8	1 850	11	5.9	3 920	23	8.1	13.1	
Lithuania	65	3.7	57	3.5	930	5	15.3	4 130	24	9.3	23.8	
Bulgaria	111	8.4	76	9.9	1 180	7	35.4	4 210	24	13.9	23.2 ¹	
Czech Republic	79	10.3	130	36.1	3 490	20	97.2	9 410	55	5.2	6.3	
Slovenia	20	2.0	100	14.2	7 240	42	20.1	10 110	59	5.0	7.1	
CE 10	1 078	105.3	98	234	2 220	13	582.0	5 530	32	8.6	22.5	
— in % of EU 15	33	28	85	4	13		9	32		358	425	
Belgium	31	10.1	332	205.9	20 310	118	196.0	19 340	112	1.7 ¹	2.7	
Denmark	43	5.2	121	132.1	25 260	146	104.4	19 960	116	3.7 ¹	4.4	
Germany	357	81.5	228	1 845.2	22 600	131	1 586.8	19 070	110	1.0 ¹	3.2	
Greece	132	10.4	79	87.4	8 360	48	118.4	11 320	66	14.7 ¹	20.4	
Spain	506	39.2	77	428.1	10 920	63	518.8	13 230	77	3.7 ¹	9.3	
France	544	58.0	107	1 174.3	20 200	117	1 076.5	18 520	107	2.5 ¹	4.9	
Ireland	70	3.6	51	49.2	13 740	80	57.4	16 020	93	7.5 ¹	12.0	
Italy	301	57.3	190	831.4	14 250	83	1 036.8	17 770	103	2.9 ¹	7.5	
Luxembourg	3	0.4	157	13.3	32 370	187	11.9	29 140	169	1.5 ¹	3.9	
Netherlands	42	15.4	371	302.5	19 570	113	284.3	18 390	107	3.6 ¹	3.8	
Austria	84	8.0	96	178.4	22 180	128	155.5	19 320	112	2.4 ¹	7.3	
Portugal	92	9.9	108	77.1	7 770	45	115.2	11 620	67	5.1 ¹	11.5	
Finland	338	5.1	15	95.6	18 720	108	84.5	16 550	96	5.2 ¹	7.8	
Sweden	450	8.8	20	176.3	19 970	116	153.5	17 390	101	2.1 ¹	3.3	
United Kingdom	244	58.5	240	844.8	14 410	83	971.7	16 580	96	1.6 ¹	2.1	
EU 15	3 236	371.6	115	6 441.5	17 260	100	6 441.5	17 260	100	2.4 ¹	5.3	

1994.

Notes: Exact compatibility of CEEC statistical institutes data with EU standards on statistics and thus the comparability with EU figures can still not be guaranteed. Major changes to these data are still possible. For calculating the per capita GDP data, the populations according to national account definition are used.

Purchasing power parity (PPP) exchange rates are commonly used in place of official exchange rates to estimate relative standards of living. They therefore take into account cost differences between countries.

Sources: CEECs: Col. 1-10; Eurostat, based on data from the CEEC Statistical Institutes. Col. 11: Statistical Yearbooks from the CEEC statistical institutes. EU Member States: Eurostat.

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