

# **EU Enlargement**

## **Research Paper 97/86**

**11 July 1997**



Over the next ten to twenty years the European Union is set to increase its membership from fifteen to at least twenty-five. There are currently twelve applicants: Cyprus, Turkey, seven central and eastern European countries and the three Baltic states. Accession negotiations with Cyprus are due to begin six months after the conclusion of the IGC, ie six months from now, under the UK Presidency of the EU which begins in January 1998. The EU has also promised that those other candidates who are thought ready to begin accession negotiations will do so at the same time. The Commission will provide a clue as to who these will be when it publishes its opinions on the applicant states on 16 July 1997. This paper sets out the progress that has been achieved so far in preparations for enlargement, reviews the applicant states and considers some of the implications of an enlarged Union. It complements Research Paper 97/83, *The Amsterdam Treaty*.  
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## I Introduction

Enlargement has successfully taken place under Article 237 of the Treaty of Rome on four successive occasions.<sup>1</sup> Before 1990, discussion of enlargement primarily focused on applicant states from the EU's southern periphery and northern European Free Trade Area (EFTA). With the fall of communism and the spread of democratization through central and eastern Europe, however, together with the collapse of the Soviet Union and the disintegration of the former Yugoslavia, the EU has become a pole of attraction to the former COMECON states, most of which have now submitted formal membership applications. The current applicants are Turkey, Cyprus, Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Bulgaria, Romania, Estonia, Latvia and Lithuania.

Enlargement of the European Union, particularly eastward, is seen as one of the key challenges currently facing Europe. It will have a profound effect on both the EU and the current twelve applicant states. One of the key challenges facing the EU is internal reform, since the established model of integration is not appropriate as the basis for incorporating up to twelve new states and possibly more. It has taken some time for the EU to develop an enlargement strategy due to differing views between member states about the future development of the Union, as well as differences as to the extent and speed of enlargement and associated institutional and policy change.

The EU has already intimated to the central and eastern European countries (CEECs) and the Baltic states that if they are deemed to be ready, they too can begin membership negotiations along with Malta and Cyprus, both of which have received the assurance that talks will begin six months after the conclusion of the IGC.<sup>2</sup> This means that negotiations with some or all of the associated countries of central and eastern Europe and the Baltic states are likely to start under the UK Presidency of the EU at the beginning of 1998.

In the past, the onus has been on the acceding states to adapt to the EC, rather than vice versa. Indeed the whole history of enlargement negotiations has been one of the EC imposing its *acquis*<sup>3</sup> on new members. While the conditions for entry for new members in the 1990s are stringent, this time around the EU also has had to shoulder some of the burden of adaptation. The European Council meeting in Copenhagen in June 1993 concluded that "the Union's capacity to absorb new members, while maintaining the momentum of European integration, is also an important consideration in the general interest of both the Union and the candidate countries."<sup>4</sup> As well as preparing the applicant countries so that they can meet the requisite political and economic conditions, there is also therefore the need for the Union to prepare itself so that a much larger and more heterogeneous Union can

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<sup>1</sup> The United Kingdom, Ireland and Denmark in 1973; Greece in 1981; Spain and Portugal in 1986; and Austria, Finland and Sweden in 1995.

<sup>2</sup> Although following the victory of the Labour Party in parliamentary elections in Malta in October 1996, Malta has suspended its application for the time being.

<sup>3</sup> The body of primary and secondary legislation making up the Community legal and policy framework

<sup>4</sup> *Copenhagen Presidency Conclusions*, June 1993

continue to act effectively. Given that it could take ten to twenty years for all of the current applicants to accede to the European Union, it is inevitable that the requisite change to absorb new members will be an extended process. In *Eastward Enlargement of the European Union*, it is suggested:

"The IGC may represent the beginning of some institutional reforms relevant to enlargement, but it would be surprising if it faced up to all the major changes required by a 25 or 30-member-state EU when even an initial expansion by 3 or 4 countries may be six to ten years away."<sup>5</sup>

The intergovernmental conference (IGC), which opened in Turin on 29 March 1996 and which concluded in Amsterdam on 17 June 1997 was tasked with preparing the way for enlargement. The Amsterdam summit did not, however, succeed in achieving consensus on the requisite institutional reforms to absorb new members. Many of the more detailed proposals in earlier drafts of the Treaty were dropped from the final version due to their controversial nature and, instead, a new Protocol on the institutions postpones changes to the size and composition of the Commission and to the voting weights in the Council to a later date.<sup>6</sup> The Presidency Conclusions of the Amsterdam summit instead noted that "...the way is now open for launching the enlargement process in accordance with the conclusions of the Madrid European Council."<sup>7</sup> This affirms that negotiations with the above-mentioned countries will begin six months from now, although it does not stipulate whether negotiations will begin with some of the association countries or all of them. The Commission will provide more details on 16 July when it is due to publish the opinions on the applicant states which remain outstanding, namely on the central and eastern European countries and the Baltic states. The Commission is also preparing three additional documents on the social, economic and political impact of an enlarged Union. It is expected that the European Council meeting in Luxembourg in December 1997 will name those countries with which accession negotiations will begin first.

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<sup>5</sup> *Eastward Enlargement of the European Union*, Heather Grabbe and Kirsty Hughes, Royal Institute of International Affairs, 1997

<sup>6</sup> For a more detailed discussion of institutional and procedural reform see Research Paper 97/83, *The Amsterdam Treaty*, pp. 33-42

<sup>7</sup> *Presidency Conclusions*, European Council meeting in Amsterdam 16 and 17 June 1997, p.5

## II Criteria for Accession

Conditions for membership were spelt out by the European Council meeting in Copenhagen in June 1993 as follows:

"... 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. Membership presupposes the candidate's ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union."<sup>8</sup>

As the EU's legal, economic and political framework has developed, the obligations of membership have become progressively more stringent and difficult to fulfil. A new factor which has impinged since the Maastricht Treaty created two pillars alongside the EC is that new members must also prove their political commitment to the *finalités politiques* (the ultimate goals) of the Union. The EU's view is that membership must be on the basis of acceptance of the whole *acquis* of the Union: the Treaties of Paris and Rome, the Single European Act, the Treaty on European Union and now the new treaty that has come out of Amsterdam, which states that the Schengen Agreement must also be part of the *acquis* for new members. In his statement at the ministerial meeting opening the accession negotiations of Austria, Sweden and Finland to the EU on 1 February 1993, President-in-office of the Council, Helveg Peterson, stressed that the acceptance of these rights and obligations may give rise to technical adjustments and exceptionally to temporary derogations and transitional arrangements to be defined during the accession negotiations, but can in no way involve amendments to existing rules.

Article O of the Treaty on European Union states that any European state may apply to become a member of the Union. The Amsterdam Treaty would supplement Article O with 'Any European State which respects the principles set out in Article F(1) may apply to become a member of the Union'. The Amsterdam Treaty would strengthen the European Union's commitment to what it calls "fundamental freedoms" and amend Article F of the Common Provisions to add that:

"The Union is founded on the principles of liberty, democracy, respect for human rights and fundamental freedoms, and the rule of law, principles which are common to the Member States."<sup>9</sup>

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<sup>8</sup> *Copenhagen Presidency Conclusions*, June 1993

<sup>9</sup> Article F(1)

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What was implicit would therefore become explicit in the new treaty. The new Amsterdam treaty would provide a safeguard against the possibility of any Member State reneging on its commitments to uphold the principles of fundamental rights laid out in Article F. The Treaty includes a new Article Fa(1) in the Common Provisions which introduces a procedure for determining instances of a serious and persistent breach of the fundamental principles. The Council would determine whether such a breach had occurred and where it had, the Council, acting by qualified majority, may decide to suspend "certain of the rights deriving from the application of this Treaty to the State in question, including the voting rights."

Since most of the central and eastern European applicant states have already achieved democratic and legal reforms, have ratified the European Convention on Human Rights on a national basis and have been admitted to the Council of Europe as functioning democracies, the assessment of their readiness for full membership of the European Union in terms of political systems and institutions now turns more on the extent to which these reforms have been firmly consolidated and are able to withstand future pressures.

### **III Eastern Enlargement**

#### **A. The motivation for eastern enlargement**

Following the collapse of communism in central and eastern Europe in 1989 it was clear that the EU was going to have to offer some form of economic and political outreach to the former eastern bloc countries in order to fill a political and security vacuum and create an increasingly unified economic area. There has been pressure for closer ties from both the CEECs themselves and from within the Union as it became clear that a failure to act could potentially intensify economic and political problems in central and eastern Europe and spark a return to nationalism or communism. The CEECs see membership of the EU and NATO as representing their 'return to Europe'. They also see it as a framework for the successful continuation of their transition to democracy and a market economy, which in the long term will bring comparative political stability and prosperity similar to that enjoyed by the countries of western Europe. The motivation for enlargement is therefore primarily driven by political and security considerations, although the impact that enlargement will have on these countries will be both political and economic.

The EU's strategy towards eastern enlargement has evolved slowly from the initial association agreements which contained no commitment to membership, to the political commitment to membership given to the CEECs by the European Council meeting in Copenhagen in June 1993 and the Commission's subsequent pre-accession strategy.

#### **B. The framework of relations between the EU and the countries of central and eastern Europe**

##### **(i) Europe Agreements**

Seven CEECs currently have association agreements, so-called Europe Agreements, with the European Union. Europe Agreements contain both political and economic provisions. The aim of the economic provisions is to establish over a period of ten years a bilateral free trade area between the EU and each CEEC, while retaining, for a while, some protection for a group of "sensitive" industrial products, including some textiles and some coal and steel products.<sup>10</sup> The political content of the agreements aims at consolidating political reform and promoting democratization in the CEECs. The Europe agreements are mixed agreements, covering Community and national spheres of competence, and must therefore be ratified by all the member states of the EU, the applicant's national parliament and finally the European Parliament. Although the full association agreements cannot come into

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<sup>10</sup> Agricultural trade is mostly excluded from liberalisation.

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force until the ratification process is complete, interim agreements were simultaneously agreed which incorporate the Europe Agreement's trade and trade-related provisions and which are in effect until the Europe Agreements can be implemented.

The states with Europe Agreements in force are Poland, Hungary, the Czech Republic, Slovakia (the 'Visegrad Four'), Bulgaria and Romania. Poland and Hungary were the first to sign Europe agreements in December 1991, which came into force on 1 February 1994. The association agreements with the Czech Republic, Slovakia, Bulgaria and Romania came into force on 1 February 1995. Slovenia belatedly signed an association agreement on 10 June 1996 following a dispute with Italy over property rights. This was ratified by the European Parliament in October 1996, but is still awaiting ratification by the Slovenian parliament and national parliaments of the EU member states. Europe Agreements were signed with the three Baltic states on 12 June 1995, which are also awaiting ratification by all EU member states.

The main instrument for economic and technical assistance under the Europe Agreements is the PHARE programme. PHARE's objective for the period 1993-97 has been to support economic reform and structural adjustment with an emphasis on consolidating reform. A background report published by the Commission in February 1993 stated that this would "help lay the foundations for a market economy with a modern public administration and a thriving civil society."<sup>11</sup>

The preamble to the agreements recognises that the ultimate objective of the associated countries is to become members of the European Union. They are signed on the condition that the respect for human rights, the maintenance of a pluralist democracy and the rule of law and a market economy will continue.<sup>12</sup> For the first time in the history of association agreements, as well as containing aspects of commercial and economic co-operation, the Europe agreements contain a political dialogue dimension and a cultural co-operation component, which includes support for institutions of civil society. Title IX of the Europe Agreements provides for an institutional framework of Association Councils and Committees at ministerial, parliamentary and official levels to encourage political dialogue on a wide range of issues of mutual interest, including the two intergovernmental pillars of the Treaty on European Union, common foreign and security policy (CFSP) and justice and home affairs (JHA).

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<sup>11</sup> Towards a Closer Association with the Countries of Central and Eastern Europe, *ISEC/B6/93*, p. 4

<sup>12</sup> European Commission Background Report: The Europe Agreements with Poland, Hungary, Bulgaria and the Czech and Slovak Republics, *EC/COM/PR/ISR*, September 1995.

**(ii) A political commitment to enlargement**

When the Commission launched its proposal to conclude association agreements with the countries of central and eastern Europe in 1990, it was not intended at the time that they would gradually evolve towards the main vehicle to prepare these countries for accession. An important shift in emphasis took place at the European Council meeting in Copenhagen in June 1993 when the EU gave its first political commitment to enlargement. The EC had originally been reluctant to make any reference to possible membership of the associated countries and only recognised that accession was the associated countries' ultimate objective, not a mutual one. At Copenhagen, accession became a common objective. It was decided that:

"...the associated countries in Central and Eastern Europe that so desire shall become members of the European Union. Accession will take place as soon as an associated country is able to assume the obligations of membership by satisfying the economic and political conditions required."<sup>13</sup>

The obligations of membership, as stipulated in Copenhagen, require 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. Membership presupposes the candidate's ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union."<sup>14</sup> The Copenhagen European Council proposed that the associated countries "...enter into a structured relationship with the Institutions of the Union within the framework of a reinforced and extended multilateral dialogue and concertation of matters of common interest. The arrangements.. include dialogue and concertation on a broad range of topics and in several fora."<sup>15</sup> At the same time the EU also imposed a condition on itself, namely the "capacity to absorb new members, while maintaining the momentum of European integration."<sup>16</sup> This goes to the heart of the debate on the conflict between deepening and widening.<sup>17</sup>

**(iii) Pre-accession strategy and the Commission White Paper**

The European Council meeting in June 1994 followed up the decision made at Copenhagen with a request for a strategy to prepare for the accession of the associated CEECs. The main thrust of the Commission's subsequent strategy was that the EU should build on the basis of the Europe Agreements to promote integration and regional co-operation. This pre-accession strategy was

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<sup>13</sup> *Copenhagen Presidency Conclusions*, 21-22 June 1993, p. 12

<sup>14</sup> *ibid.*

<sup>15</sup> *ibid.*

<sup>16</sup> *ibid.*

<sup>17</sup> For a discussion of the widening/deepening debate, see Chapter VI

presented to the EU at the European Council meeting in Essen in December 1994.<sup>18</sup> The key element of the strategy to narrow the gap is the preparation of the associated states for integration in the internal market of the Union. The Commission identified the goal for the pre-accession period as follows:

"The progressive integration of the political and economic systems as well as the foreign and security policies of the associated states and the Union, together with increasing co-operation in the fields of justice and home affairs, so as to create an increasingly unified area."<sup>19</sup>

The strategy is being politically implemented through the structured relationship (see below). Another element introduced at Essen was the necessity for the CEECs to co-operate at the intra-regional level among themselves. In this respect, the Central European Free Trade Association (CEFTA) established by Poland, Hungary, the Czech Republic and Slovakia and which entered into force on 1 March 1993 is a step in the right direction. Under the CEFTA arrangement, the parties undertake gradually to abolish trade barriers among themselves by means of a network of bilateral agreements. Increasingly, the EU has also tried to encourage political co-operation between the CEECs. This has had a measure of success in the bilateral agreements between various countries of central and eastern Europe that were concluded within the framework of the European stability pact. Article 6 of the agreement between Slovakia and Hungary of March 1995, for example, affirms that the parties' intention and endeavours are identical in relation to their integration in the EU.

In June 1995 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* was presented to the European Council meeting in Cannes. The white paper stipulated that the aspirant countries will have to prove that they qualify for membership, in political terms by developing and strengthening democracy and their constitutional legitimacy and in economic terms by establishing a market economy. It aimed at helping to set up a legal framework to accommodate the transformation of a state economy into a market economy. This help will be provided *inter alia* through a new technical assistance information exchange office management by the Commission and supported by the PHARE programme.

Secondly, the white paper was seen as a means to prepare the associated countries gradually for legal integration into the Community, beginning with the Community's internal market, by identifying the key sectors where integration is needed and by suggesting a sequence in which approximation could be achieved.<sup>20</sup> It also stressed that "equal importance is attached to the establishment of adequate structures for implementation and enforcement"<sup>21</sup>, ie the need to develop or reform administrative

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<sup>18</sup> COM(94)320 and COM(94)361

<sup>19</sup> COM(94)320, p. 1

<sup>20</sup> *Common Market Law Review*, Volume 32, Number 6, December 1995

<sup>21</sup> COM(95) 163

and legal systems to enable them to assume the obligations of membership. The fulfilment of the White Paper programme is not, as such, a legal requirement for accession and does not prejudice the outcome of the individual accession negotiations, although it cannot be denied that approximation creates an irreversible legal framework for integration.

Writing in the *Common Market Law Review*, Maresceau and Montaguti note:

"...what the EFTA countries achieved through a separate agreement with the Community, the European Economic Area Agreement (EEA), whereby the various aspects of the EC internal market had to be incorporated in the laws of the EFTA associated countries, is now to a large extent being proposed as a voluntary legislative programme to the associated countries in Eastern Europe for the coming years, but without taking the form of a separate and formal agreement. From the point of view of substantive law, the similarity with the EEA in many legislative areas is striking, with the notable exception of movement of persons. The main difference concerns the procedures and structures for settlement of disputes on interpretation and enforcement. As opposed to the EEA, no special institutions are set up and the White Paper only suggests establishing national control mechanisms to ensure the compatibility of national law with Community law in the associated countries and coordination in properly implementing the rules."<sup>22</sup>

Maresceau and Montaguti went on to question why the associated CEECs were reluctant to repeat the EEA precedent and advanced that the main reason was not a legal, but a political one, related to their fear that any intermediate agreement between a Europe Agreement and an act of accession would serve as an 'anti chamber' with no definite time limit.<sup>23</sup>

As a result of the political constraints imposed by diverging views about enlargement, the pre-accession strategy has been criticized for being developed relatively slowly, for focusing on criteria for the CEECs rather than on necessary changes on the EU side and for not setting out a clear timetable or sequence of priorities or milestones. As a result, the EU's approach has been seen as somewhat technical and *ad hoc*.<sup>24</sup>

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<sup>22</sup> *Common Market Law Review*, Volume 32, Number 6, December 1995

<sup>23</sup> *ibid.*

<sup>24</sup> *Eastward Enlargement of the European Union*, Heather Grabbe and Kirsty Hughes, Royal Institute of International Affairs, 1997

### (iv) The structured relationship

The purpose of the structured relationship is to involve the associated countries progressively in the European Union's work in areas of common interest, which is implemented through joint meetings at various levels, and to acquaint them with the procedures used within the EU. In its pre-accession strategy document, the Commission stresses the usefulness of the relationship as follows:

"The relationship will bring a double benefit. At the level of procedure, it will establish a close working relationship and habits of co-operation. At the level of substance, it will encourage the Union and the associated countries to work together in areas where solutions for pressing problems require action at the European level."<sup>25</sup>

The framework involves the holding of meetings between the Council and the associated CEECs on matters of common interest arising in the Union's areas of competence, namely Community areas, especially with a trans-European dimension, including energy, environment, transport, science and technology. There is also a structured dialogue in the second and third pillars of common foreign and security policy and justice and home affairs. The EU is particularly eager to achieve closer co-operation in areas such as immigration and asylum policy, combating drugs and judicial and police co-operation.

The structured relationship covering CFSP was seen as especially important as a means of overcoming the widespread sense of insecurity in central and eastern Europe. It was aimed at reinforcing efforts in the framework of the WEU, NATO and partnership for peace, the CSCE (now the OSCE) and the stability pact. The General Affairs Council of 7 March 1994 decided not only to further reinforce and broaden the dialogue at all levels, but also to open up the possibility for the associated countries to align themselves with certain CFSP activities: statements, démarches and joint actions.<sup>26</sup> Recently, for example, both Hungary and the Czech Republic have been associated with the EU's common position on Iran. The CEECs have, on the whole, complained that there is insufficient scope for preparation of joint EC-CEEC positions in international fora. However, there remains a continuing resistance to co-ordination between the CEECs in advance of multilateral meetings with the EU. This has been the stance that the CEECs have taken from the beginning, preferring to pursue their membership bids unilaterally, rather than multilaterally.

There has been a degree of frustration with the scope of the structured dialogue and a feeling that this needs to be put on a new footing. The idea of establishing a standing conference for applicant states and existing EU members, which would replace the structured dialogue (see p. ) is seen as a possible solution to this problem.

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<sup>25</sup> The Europe Agreements and Beyond: A Strategy to Prepare the Countries of Central and Eastern Europe for Accession, COM(94) 320, p. 2

<sup>26</sup> *Presidency Conclusions of the European Council meeting at Essen*, December 1994, Annex IV, p. 17

### C. Timetable for accession negotiations

The European Council meeting in Madrid on 15-16 December 1995 looked at the possibility of setting a timetable for starting negotiations with the applicant states of central and eastern Europe. The main dispute that emerged on this issue before the Madrid summit was whether the European Union should begin negotiations with all potential candidates simultaneously. The difficult nature of this decision has been highlighted by the fact that there are a variety of different sponsors for different applicant states. Chancellor Kohl, for example, stated Germany's preference for starting negotiations with Poland, Hungary and the Czech Republic first,<sup>27</sup> whereas the Danish Prime Minister, Niels Helveg Petersen, supported by most other EU leaders, insisted that the applicants should not be split into first and second divisions. Denmark and the other Scandinavian EU members, on the other hand, have consistently provided moral support for the Baltic states in their bid to join the EU, seeing enlargement to include these states as one of the best ways to guarantee European security.

The Conclusions of the European Council meeting in Madrid stated:

"The European Council hopes that the preliminary stage of negotiations (with the countries of central and eastern Europe) will coincide with the start of negotiations with Cyprus and Malta."

The European Council meeting in Amsterdam on 16-17 June 1997 concluded:

"The European Council welcomes the Commission's intention to present by mid-July its opinions on the accession applications as well as a comprehensive communication ("Agenda 2000") covering the development of Union policies including the agricultural and structural policies, the horizontal questions related to enlargement and finally the future financial framework beyond 1999.

The European Council notes that the Commission in its Agenda 2000 communication will draw the main conclusions and recommendations from the opinions and give its views on the launching of the accession process including proposals on reinforcing the pre-accession strategy and further developing pre-accession assistance building on ongoing reforms of PHARE.

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<sup>27</sup> Germany wanted to see the Madrid summit providing a clear pledge to Poland, Hungary and the Czech Republic that accession negotiations would begin six months after the end of the IGC (similar to the pledge given to Malta and Cyprus) in order to shore up economic reform, strengthen public support for EU membership and prevent a political vacuum arising in central Europe (*Financial Times*, 15 December 1995)

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The European Council invites the Council (General Affairs) to examine in depth the Commission's opinions as well as its Agenda 2000 communication and present a comprehensive report to the European Council at its December meeting in Luxembourg.

At that meeting, the European Council, with a view to enabling the actual opening of negotiations as soon as possible after December 1997, will take the necessary decisions on the overall enlargement process including practical arrangements for the initial phase of negotiations and the reinforcement of the Unions's pre-accession strategy as well as other possible means to strengthen co-operation between the EU and all applicant countries."<sup>28</sup>

The European Council meeting in Luxembourg will therefore announce which applicants will begin accession negotiations first, based on the findings of the Commission in its opinions. The Commission will not propose any order of priority for accession negotiations, although it is obvious that the contents of the opinions will make it clear which countries could be part of the first wave of accessions. It is likely that accession negotiations will begin first with the Czech Republic, Hungary and Poland, with the possibility that Slovenia and Estonia may also be in this first group.

The consensus among existing EU members appears to favour differentiation, ie that enlargement should proceed in phases, in line with the economic strength and political maturity of the candidates, rather than have a single leap to a Union of 26 members. At the meeting of EU foreign ministers in Apeldoorn, Commission President Jacques Santer said that the Commission "... will accept its responsibility by differentiating its opinion", recognising that in some countries the situation will make it possible to "...consider opening negotiations earlier than with others."<sup>29</sup> In a recent speech, the commissioner in charge of relations with the countries of central and eastern Europe, Hans van den Broek, also suggested that the Commission could seriously consider a differentiated start of accession negotiations, comprising several phases, stressing that differentiation in the timing of negotiations in no way implied discrimination.<sup>30</sup> Those CEECs most likely to be in the first wave are also in favour of a differentiated approach and have expressed fears that beginning accession talks with all applicants at the same time would slow their progress.<sup>31</sup> Those not likely to be in the first wave are clearly keen to begin negotiations simultaneously. This may also appear a diplomatically attractive option for the EU and the negotiating process itself could then sort out the order of admission. This approach would, however, test the Commission's resources, since it has only ever negotiated with a maximum of four applicants at once and would therefore appear to be an unlikely scenario.

Although there have been hopes in the candidate countries that accession could be effected by the year 2000, by June 1996 the European Union had already identified 2002 as the earliest probably date for accession of the CEECs.<sup>32</sup> Even for this date to be realistic, the terms of admission for the

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<sup>28</sup> *Presidency Conclusions, European Council meeting in Amsterdam 16-17 Jun 1997*, pp. 5-6

<sup>29</sup> *Agence Europe*, 17/18 March 1997

<sup>30</sup> *Agence Europe*, 6 June 1997

<sup>31</sup> *Reuters*, 27 May 1997

<sup>32</sup> *Financial Times*, 17 June 1996

new members will have to include special arrangements to soften the impact of full-blown competition on their industrial and agricultural sectors, which means that a lengthy transition period before they are fully integrated into the single market is inevitable. The CEECs themselves view this rather protracted potential timetable as unnecessarily slow, but it may even turn out to be overly optimistic. Although the accession negotiations for the recent EFTA members took just over a year, as far as the CEECs are concerned there is a closer parallel with Spain and Portugal whose negotiations took almost eight years.<sup>33</sup>

Following the Amsterdam summit, Dutch Prime Minister Wim Kok said that the agreement reached to free up five Commission seats would not be allowed to dictate the size of the first wave of enlargement, although this has been viewed sceptically elsewhere.<sup>34</sup> The decision to postpone real institutional reform has been interpreted in some quarters as the clearest indication yet that the EU intends to admit only three or four new members in the next few years.<sup>35</sup>

Any delay in enlargement could potentially have negative repercussions in the applicant states: public opinion would be deeply affected after making many sacrifices for the sake of EU membership. Analysts have also warned that a delay or loss of momentum could cause economic problems. A member of the Centre for European Policy Studies has commented:

"European businesses need reassurance that enlargement is going ahead to a precise timetable. Without that they will be less certain to invest in the east and that in turn would damage the entrants' chances of qualifying for membership of the Union."<sup>36</sup>

### **D. A permanent conference on enlargement**

Several authors have identified the problem of how the EU is going to deal with those countries not in the first wave of accession. Former German Foreign Minister Hans-Dietrich Genscher, for example, has spoken of the 'double rejection shock' of some of the candidates who are also not in the first wave of NATO's enlargement to the east in 1999.<sup>37</sup> The concern is that the likely double exclusion of a number of countries from the EU and NATO could seriously threaten European stability and create new dividing lines between east and west. Slovak President Michal Kovac, for example, recently warned that indefinite exclusion from NATO and the EU could create a breeding ground for nationalism.<sup>38</sup>

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<sup>33</sup> See Annex I for a table of the rate of progress from application to accession for existing EU member states

<sup>34</sup> *The European*, 19 June 1997

<sup>35</sup> *ibid.*

<sup>36</sup> *ibid.*

<sup>37</sup> *Frankfurter Allgemeine Zeitung*, 19 June 1997

<sup>38</sup> *Reuters*, 7 June 1997

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Relations between the EU and those countries excluded from the first wave will therefore be critical. In order to contain the disappointment of those not likely to be in the first wave of accession, the meeting of EU foreign ministers in Apeldoorn in mid-March 1997 gave broad support to a French initiative to set up a standing European conference of member states and applicant countries. The objective of the permanent conference is for applicant countries not in the first wave to "realize that they are part of Europe, that they are eligible for admission in the short, medium or long term" and that the EU's thinking "is not in terms of 'ins' and outs".<sup>39</sup> In Apeldoorn, Jacques Santer said that the Commission views the idea of a permanent conference as a "visible element of the EU's political commitment to those who wish to join the European family."<sup>40</sup> Writing in the *Irish Times*, Patrick Smyth assessed the French proposal as "an elegant way round the problem by providing a formal forum for political dialogue with all of those waiting at the gates. It is likely to be complemented by a reinforcing of the pre-accession programmes of the EU, with better targeting of aid and trade concessions."<sup>41</sup> The idea received strong backing from the United Kingdom at the time and is likely to be launched at an enlargement summit under the British presidency of the EU which begins in January 1998.

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<sup>39</sup> *Agence Europe*, 17/18 March 1997

<sup>40</sup> *ibid.*

<sup>41</sup> *Irish Times*, 17 March 1997

## IV Initial Progress

The Commission is preparing its opinions on the applications from the countries of central and eastern Europe. The Madrid European Council asked that the Commission's opinions be published "as soon as possible after the conclusion of the Inter-governmental conference." and at Amsterdam the European Council announced that the opinions would be published by mid-July. It is these opinions that will evaluate each country's capacity to adopt and implement the community *acquis* in all areas of the EU's activities. In the preparation of its opinions, the Commission relies to a considerable extent on information provided by the applicant countries, while referring to other sources to evaluate and supplement this information. A technical questionnaire was sent to each applicant in April 1996 and this was returned by the end of July. On 30 July the European Commission published an information memo on the state of progress in preparing for enlargement presented to it by Commissioner Hans van den Broek.

The information memo examines the state of preparedness of the applicants. As far as *political conditions* are concerned, Hans van den Broek, judged:

"The performance of the applicant countries is on the whole satisfactory but some problems are apparent. In general, the applicant countries have established democratic forms of government broadly compatible with the requirements of Union membership. Free and fair elections have been held and their results respected.

Minority rights are, in general, protected, but tensions exist in some countries and some difficulties remain in the field of regional co-operation. There is cause for concern about the independence of television and radio in some applicant countries and, while independent judiciaries have been established, judges in some countries lack sufficient training and experience to cope with newly introduced constitutional and legal principles. Non-governmental organisations function independently although the EU has had to insist on occasion that they remain free from government interference.

It should be recalled that democracy, respect for human rights and the protection of minorities underpin the European Union Treaty. If such conditions are not satisfied by a candidate country, accession could not be envisaged and negotiations for accession should not even be commenced."<sup>42</sup>

It is, however, difficult to assess political transition and stability of democratic institutions in the emerging democracies in central and eastern Europe, since these countries are engaged in a complete transformation of political life. All of the CEECs have formal procedures in place for the main features of democratic government, from free and fair elections to the separation of powers, but not

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<sup>42</sup> Agence Europe, No. 2000, 9 August 1996

all of the procedures have been fully implemented and consolidated.<sup>43</sup> There is a huge gulf between having laws on the statute books and enforcing them in practice.<sup>44</sup>

As far as *economic conditions* are concerned, the Commission memo concluded:

"On the whole most applicant countries have established the foundations of a market economy and the conditions for stable economic growth. The situation, however, varies considerably from country to country. Growth in the applicant countries is recovering: some applicant countries now have real growth rates of around 5% a year. Average GDP per head, expressed in purchasing power parities, is about one third of the EU average, but there are wide differences.

Some underlying economic problems remain. Foreign investment, though increasing, is still relatively low and is distributed across the candidates unevenly. The privatisation process lacks transparency in some cases and is not always accompanied by necessary restructuring. Reform of the banking and financial sectors still remains weak and the implementation of competition policies of the type practised in the EU is only just beginning."<sup>45</sup>

As for the *ability of applicants to take on the obligations of membership*, the Commission believes:

"The Commission's opinions will assess the applicant countries' ability to implement the *acquis*, the capacity of their public administrations to implement and enforce Community rules and the extent to which their infrastructures are up to EU standards in fields such as environment, energy, nuclear safety, telecommunications, transport and health and safety at work.

Their ability to take on the obligations of membership can also be assessed through their approximation of internal market legislation. On the whole, reasonable progress is being made in their adoption of legislation. Enforcement through the courts could prove difficult in countries where judges have not been trained in economic law and related fields.

One of the other areas in which the applicant countries will be assessed is their respect of the provisions of the Europe agreements. A number of problems have arisen recently particularly in trade relations."<sup>46</sup>

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<sup>43</sup> See Annexes II and III and for a 'league' table of how the countries of central and eastern Europe rate as far as the main criteria of 'democracy' are concerned and a snapshot of the main features of democracy in these countries. These tables are taken from 'Democratization in central and eastern Europe', Mary Kaldor and Ivan Vejvoda, *International Affairs*, Vol. 73, No. 1, January 1997.

<sup>44</sup> See also Research Paper 96/47, *Democracy after Communism*

<sup>45</sup> *ibid.*

<sup>46</sup> *ibid.*

## V The applicants

### A. The Visegrad Four<sup>47</sup>

In *Monitoring Association and Beyond: The European Union and the Visegrad States* (Europa Union Verlag, 1995), Heinrich Schneider writes:

"All four "Visegrad states" meet, as far as the constitutional decisions about the political system are concerned, the requirements that are demanded of the member states of the European Union: they have democratic constitutions under the rule of law which make provisions for the guarantee of human and basic rights, the accountability of the government to the people or an elected representative body, the control of power (separation of power) and the independence of jurisdiction. The constitutions also make provisions for a multi-party-system and for social pluralism (especially the right to found clubs and associations). The systems of government have essential features of a parliamentary democracy, although they are organised differently."

The Visegrad Four, with the increasingly likely omission of Slovakia and the recent inclusion of Slovenia, are considered to be at the forefront of the central and eastern European countries seeking to gain admission to the European Union. With the earliest accession date of 2002, the countries in the first wave of accession will have had 13 years of democracy, about the same as Spain and Portugal when they acceded to the EU and longer than Greece.

#### (i) Poland

*Poland, alongside Hungary, was the first CEEC to submit its formal application for EU membership on 1 April 1994.*

Poland has fulfilled the political conditions for entry. In the table of democratic criteria drawn up by Kaldor and Vejvoda, Poland scores an 'A' in the categories of inclusive citizenship<sup>48</sup>; elected power-holders; free and fair elections; freedom of expression and alternative information sources; associational autonomy; and civilian control of the armed forces.<sup>49</sup> Poland has been unusual among the post-communist countries in successfully managing democratic transfers of power: a complete

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<sup>47</sup> See tables in Annexes II and II for individual country evaluations of democratic criteria. Also see Annex IV for a table of the basic statistics of EU enlargement

<sup>48</sup> Kaldor and Vejvoda maintain that exclusion from citizenship purely on the basis of race, ethnicity or gender is not permissible.

<sup>49</sup> Democratization in central and eastern European countries, Mary Kaldor and Ivan Vejvoda, *International Affairs*, Vol. 73, No. 1, January 1997

change of coalition government (from centre-right to left) took place following the 1993 parliamentary elections and the presidency changed hands (again from right to left) at the end of 1995 following elections. On both occasions the transfers were smooth and peaceful. Recent developments suggest a further gradual consolidation: a long-debated new constitution was approved by referendum in May 1997. There will be a further opportunity to observe the stability of Polish democracy with the Sejm elections due in September 1997.

The existing arrangements therefore seem to be sufficient to sustain a working democracy, albeit with some tensions between presidential and parliamentary democracy. As president from 1990-95 Lech Walesa insisted on exercising his constitutional responsibilities for foreign and defence policy, for example by personally appointing the relevant ministers, even when faced with a hostile majority in the Sejm after 1993, but few decisions of real substance could be made without the consent of the parliamentary majority. Poland also received a 'B' rating from Kaldor and Vejvoda in the areas of the rule of law and the separation of powers, which means that formal procedures are in place, but that there is incomplete implementation.

Poland joined the Council of Europe in November 1991 and ratified the European Convention on Human Rights in 1993. The mechanisms of the European Convention on Human Rights have now begun to operate in respect of Poland and the European Court of Human Rights will examine its first case against Poland, a complaint concerning prolonged procedures in Polish courts, in August 1997.<sup>50</sup> There has been an increasing number of complaints against Poland directed to the European Human Rights Commission, which reviews the cases before passing them to the Court. In 1993 there were 545 complaints and this number had risen to over 2,500 by 1996.<sup>51</sup>

Poland has an integration committee in the Sejm and a sub-committee for European integration in the Senate. On 28 January 1997 Poland adopted a national strategy for integration with a timetable for implementation and created a committee for European integration under the authority of the Prime Minister. At the last Association Council between Poland and the EU at the end of April 1997, the latter's position was that extra efforts were needed in areas stretching from agriculture, to regional policy, banking, privatisation and the environment.<sup>52</sup> Agriculture will prove a particularly thorny issue in the accession negotiations.<sup>53</sup>

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<sup>50</sup> *BBC Summary of World Broadcasts*, 28 June 1997

<sup>51</sup> They chiefly concern non-humanitarian treatment and punishment, violation of the right to security and freedom and the right to a fair trial in a 'reasonable time' (*ibid.*)

<sup>52</sup> *Agence Europe*, 2-3 May 1997

<sup>53</sup> For a discussion of agricultural reform in an enlarged EU, see Chapter V, Section C.

**(ii) Hungary**

*Hungary, alongside Poland, was the first central or eastern European country to deposit a formal application for EU membership, on 1 April 1994.*

Hungary has fulfilled the EU's political conditions for entry. Hungary received an 'A' rating in every category of Kaldor and Vejvoda's table, except of the rule of law where it scored a 'B'.<sup>54</sup> Hungary has seen a stability of institutions guaranteeing democracy: in 1994 there was a smooth and peaceful transfer of power from the outgoing Hungarian Democratic Forum coalition to the Hungarian Socialist party, which formed a coalition with the Alliance of Free Democrats. There was continuity of power in the form of the presidency when Arpad Goncz was re-elected in July 1995. Hungary has also taken steps to ensure the protection of human and minority rights within its territory. It has been a member of the Council of Europe since 1990 and has ratified the European Convention on Human Rights. Within the framework of the European Stability Pact, Hungary and Slovakia signed a 'Treaty on good neighbourliness and friendly co-operation' on 20 March 1995, which was designed to help guarantee both countries' borders and protect ethnic minorities. In September 1995 Hungary ratified a Council of Europe convention protecting ethnic minorities and in September 1996 it signed a treaty of friendship with Romania.

Hungary has diligently set about implementing the EC acquis in Hungarian law. In 1993 it established an all-party standing committee on European integration which monitors government activity on EU affairs and it also established various other standing committees which deal with the harmonisation of domestic legislation with that of the EU. In December 1995 Hungary adopted a national strategy on accession preparation, which has made good progress: approximately 70% of domestic legislation had been harmonised with EU legislation by the end of 1996 and Hungary hopes that this figure will rise by the time of accession. Prime Minister Gyula Horn told President Jacques Santer in April 1996 that Hungary was proceeding with additional reforms needed to meet EU requirements, but said that by the end of 1997, '90 percent of EU regulations would be adopted by the Hungarian system'.<sup>55</sup>

The fourth Association Council between the European Union and Hungary was held in Luxembourg at the end of April 1997. The final press release noted that bilateral relations under the Europe Agreement had developed well. Assessing the results of Hungary's preparations for accession, the Association Council noted that Hungary has made good progress in the implementation of its national strategy. Particular areas of progress included rules of origin,<sup>56</sup> competition and state aid policy, import surcharges, farm trade and participation in EU educational programmes. The joint press release issued by the Association Council noted:

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<sup>54</sup> Democratization in central and eastern European countries, Mary Kaldor and Ivan Vejvoda, *International Affairs*, Vol. 73, No. 1, January 1997

<sup>55</sup> *Reuters*, 5 April 1996

<sup>56</sup> Hungary will be applying a new protocol on cumulation of rules of origin from the beginning of July 1997

"... the importance of institution building in the pre-accession process and that efforts still are to be accomplished regarding the approximation of legislation with a view to the full taking on of the *acquis*, including the administrative capacity needed to deal properly with the new tasks resulting from accession."<sup>57</sup>

As far as the economic situation is concerned, the Association Council welcomed the efforts undertaken since March 1995 to correct macro-economic imbalances and reported that this policy is currently having encouraging results. It stressed the importance of continuing efforts in this area, in particular the importance of increasing the competitiveness of the Hungarian economy, making further progress with economic reform by finalising the privatisation process and completing agricultural and financial reform.

### (iii) Czech Republic

*The Czech Republic submitted its formal application for EU membership on 22 January 1996.*

The Czech Republic has fulfilled the EU's political conditions for entry. In the wake of the velvet revolution of 1989 Czechoslovakia was often identified as one of the most promising central European parliamentary democracies. After the split in January 1993, which was done in a highly legalistic and peaceful manner, this remains true of the Czech Republic.<sup>58</sup> In Kaldor and Vejvoda's league table, the Czech Republic scores an 'A' rating in all categories except inclusive citizenship and the rule of law, where it scores a 'B'.<sup>59</sup> There has been stability of institutions guaranteeing democracy and measures taken to ensure the rule of law and protection of minorities. The Czech Republic has also introduced successful economic reforms. Between 1990 and 1993 the requisite legislation was passed in what was then Czechoslovakia which opened the way for the transformation of the Czech economy based on market principles.

In October 1991 the federal government decided to ensure the compatibility of Czech legislation with EC laws. The mechanism of harmonization is guaranteed by the relevant government departments. Within the process of drafting acts and other legal regulations of equal status, these authorities study and evaluate relevant drafts and submit comments on the compatibility with EC regulations. The drafts are then considered by the government's Legislative Council. Now all domestic legislation is prepared from the outset with the *acquis communautaire* in mind. A co-ordination body in the Ministry of Justice controls this process.

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<sup>57</sup> *Agence Europe*, 5/6 May 1997

<sup>58</sup> *The New Democracies in Eastern Europe*, edited by Sten Berglund and Jan Ake Dellenbrant, Edward Elgar, 1994

<sup>59</sup> Democratization in central and eastern European countries, Mary Kaldoro and Ivan Vejvoda, *International Affairs*, Vol. 73, No. 1, January 1997

In *Monitoring Association and Beyond: The European Union and the Visegrad States* (Europa Union Verlag, 1995), Vladislav Cihlar and Jan Hrich write:

"The steps that have been taken so far with a view to the incorporation of the Czech Republic...into the European integration structures comply with the requirements stipulated by the Copenhagen summit: the measures taken are transparent, based on liberal principles and compatible with European standards."

**(iv) Slovakia**

*Slovakia submitted its application for EU membership on 27 June 1995.*

Although Slovakia was initially viewed as a potential first entrant, this prospect has now slipped due to concerns about the consolidation of democracy in the country. In *The New Democracies in Eastern Europe*, Marek Bankowicz wrote:

"The statement<sup>60</sup> still holds true, but with the important proviso that it applies primarily to the newly formed Czech Republic. It is the more modern, the more economically dynamic part of the former Czechoslovakia; and in a historical perspective, it is less prone to authoritarian solutions than Slovakia.

Though deliberately sweeping, this generalization would seem to be borne out by the modern political history of Czechoslovakia. The strongly nationalistic political culture promoted by Vladimir Meciar in Slovakia is clearly different from the kind of liberalism and tolerance preached by Vaclav Havel, former President of Czechoslovakia and current President of the Czech Republic."

There are concerns about internal political developments in Slovakia and minority rights concerns. Both the European Union and the United States have had cause to deliver diplomatic notes formally expressing concern about shortcomings in political reforms and human rights in the country. Apart from the power struggle between Prime Minister Vladimir Meciar and President Michal Kovac, Slovakia has also been criticised for a number of controversial new laws including one making Slovak the only official language even in areas predominantly inhabited by Slovakia's Hungarian minority. This represents a violation of Slovakia's treaty with Hungary, which the Slovak parliament has yet to ratify. There are also concerns about recent amendments to legislation cracking down on political dissent and freedom of expression. This in effect means that Slovakia will not be in the first wave of accession.

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<sup>60</sup> On identifying Czechoslovakia as one of the potentially successful eastern European parliamentary democracies

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In June 1996 Hans van den Broek had told Slovakia that it had fallen behind schedule in its preparations for accession. A year later, Hans van den Broek told the Slovak authorities that, unlike the country's general economic development, which is doing rather well despite the still too low level of foreign direct investment, the lack of stability in political institutions is a matter of "deep concern" for the EU.<sup>61</sup> He went on to convey that the EU is concerned that democracy and the rule of law do not yet appear to be sufficiently deeply rooted in Slovakia. He went on to say:

"Countries which wish to become members of the European Union are expected not just to subscribe to the broad principles of democracy but actually to put them into practice in daily political life. This requires an atmosphere of openness to opposing views, the proper functioning of institutions and respect for their individual roles in the constitutional order."<sup>62</sup>

This was with particular reference to the invalidation by the government of the referendum on NATO membership and direct presidential elections that had been held in Slovakia on 23 May 1997. Hans van den Broek completed his visit to Bratislava by unequivocally telling the Slovak authorities:

"The European Union is looking for clear and unambiguous signals from the Slovak Government concerning its intention to strengthen the rule of law and the democratic process in this country, followed by the necessary practical steps."<sup>63</sup>

## B. Slovenia

*Slovenia submitted its formal membership application on 10 June 1996.*

Slovenia's association agreement had been blocked by Italy in a dispute over property rights for ethnic Italians who fled Slovenia after World War II. This was finally resolved in May 1996 after Slovenia pledged to bring in legislation to allow foreigners to own real estate within four years of an association agreement taking effect. Slovenia duly signed its association agreement with the EU on 10 June 1996 and immediately submitted its application for membership. At the time, Prime Minister Janez Drnovsek said he believed Slovenia was on course to meet all the criteria for full membership. Slovenian officials have also said that the country already met two of five criteria set in the Maastricht Treaty for taking part in EMU and had also received 'A' ratings from three major credit agencies.

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<sup>61</sup> *Agence Europe*, 31 May 1997

<sup>62</sup> *ibid.*

<sup>63</sup> *ibid.*

Foreign Minister Davorin Kracun has said that "(Slovenian) independence enabled the process of transition and integration into Europe not only to continue but to expand further...This allowed Slovenia to become after five years one of the most successful transition countries of central and eastern Europe...In a short period of time Slovenia managed to introduce a modern system of political democracy, based on respect for human rights and freedoms and a functioning market economy...Slovenia is nevertheless aware that it has to continue its economic reforms and approximation of its legislation with the "acquis communautaire" of the Union, both needed for successful accession. By implementing the provisions of the Europe Agreement and through a regular political and technical dialogue on the matters related to the pre-accession strategy, Slovenia shall meet the criteria for membership with less problems, thus securing the success of its accession."<sup>64</sup>

The Slovenian parliament, alongside the majority of EU member states, has still not ratified the Europe Agreement.<sup>65</sup> Ratification has been held up after inconclusive elections in November 1996 were followed by lengthy negotiations on forming a government. A coalition led by Prime Minister Janez Drnovsek was finally approved by parliament in late February. Jacques Santer said in April that ratification of the Europe Agreement was a pre-condition for further talks between the European Union and Slovenia on full membership. None of the parliamentary parties oppose the aim of joining the EU, but the Slovene constitution has to be amended in order to fulfil the terms of the association accord: Article 68 of the constitution bans the purchase of land in Slovenia by foreigners, but the association agreement stipulates that all EU citizens who have lived in Slovenia for three years should be able to buy land once the agreement takes effect.

### C. Romania

*Romania submitted its formal application for membership of the European Union on 22 June 1995.*

Romania is not as far advanced as the Visegrad states in its preparations for accession to the EU due to the lack of the requisite political and economic reform. The new Romanian government which came to power in November 1996, however, appears to have made an encouraging start in rectifying this situation. It has brought about a shift in Romania's foreign policy stance, with a great improvement in relations with Hungary. The United States Ambassador to Romania, Alfred Moses, has noted that Romania is now making a very concerted effort to be a leader in promoting regional stability. Part of this includes the recent initialling of a basic treaty with Ukraine on 3 May 1997. Some western leaders have said that such an agreement could improve Romania's chances for early NATO membership, although Severin has denied that Romania wants to use the treaty with Ukraine as a 'bargaining chip'.<sup>66</sup>

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<sup>64</sup> *Associated Press*, 15 June 1996

<sup>65</sup> Denmark and Finland are the only member states to have ratified the Europe Agreement with Slovenia.

<sup>66</sup> *Reuters*, 4 May 1997

The new government has also introduced an economic reform package, which has triggered the European Union to signal that it is willing to unblock the ECU 70 million in financial assistance that it had agreed in December 1994 but which has remained blocked until now because of Romania's failure to reach agreement with the IMF. As soon as the new Romanian Prime Minister, Viktor Ciorbea announced the government's reform package, the Commission convened a meeting of the G-24<sup>67</sup>, recognising that any programme agreed with the IMF requires a certain level of external financing. The G-24 pledged \$140 million. As part of this effort, the European Union is ready to provide support, in particular in the form of macro-economic assistance, but also through other instruments. Romania is also eligible to receive more than 330 MECU from Phare in the period up to the end of 1999.

On 12 April 1997 Romania signed an agreement with the Central European Free Trade Association (CEFTA) which will enter into force in July 1997. This is seen as boosting Romania's chances of membership of the European Union. The EU has been encouraging candidate countries in central and eastern Europe to further their regional links as part of their preparations for EU membership. Nevertheless, Romania is not as far advanced in its preparations for accession as other central and eastern European countries and is unlikely to be in the first wave of accession. During a visit to Romania on 6-7 March 1997, EU External Relations Commissioner, Hans van den Broek, listed the key points that still need attention, namely the need for legal approximation, restructuring, privatisation, bank reform, strengthening of central and local administrations and the judicial system and the establishment of bodies to implement and oversee the operation of the new legislation. He also drew attention to a wide range of justice and home affairs matters, the importance of making improvements in environmental protection and the need for urgent work on upgrading infrastructure in transport, energy, and communications.

### **D. Bulgaria**

*Bulgaria submitted its formal membership application on 16 December 1995.*

Bulgaria, like Romania, is not as advanced as other central and eastern European countries in its preparation for membership of the EU and will not be one of the 'first-priority' candidates. Bulgaria's application suffered a setback at the beginning of 1997 when there were mass protests against the socialist government and the economic crisis. Prime Minister Jan Videnov and his cabinet had been forced to resign at the end of December 1996 due to economic mismanagement.

The origins of the economic crisis lie in the failure of successive governments to restructure the Soviet-style Bulgarian economy, which did 80% of its trade with Comecon. In the three terms of office that the Socialists have had, they have not succeeded in managing the transition to a market

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<sup>67</sup> A group of industrialised countries which supports economic stabilisation and structural reform in transition countries

economy. Neither was the UDF, during its term of office from 1991-1994, able to manage the economy. Although there was a change of power from the Socialists to the opposition UDF in 1991, the Socialists have had three terms of office in post-communist Bulgaria. The Socialists are the former Communists and most commentators see that there has been a change of name, but not of beliefs. This has resulted in an inability to create a secure institutional base either for democracy or a market economy.

As a result, the banking system is on the brink of bankruptcy, restructuring and privatisation plans have been constantly postponed, industrial production will fall by at least 5% in 1997 and GDP will also fall by 8-10%. The lev has depreciated by 560% and inflation will be ten times more than the average in other former communist countries.<sup>68</sup> The IMF has demanded that Bulgaria implement a severe austerity plan and also recommended that Bulgaria introduce a currency board exchange system, to which Bulgaria has agreed. The introduction of a currency board, which replaces the central bank and ties domestic money supply to the level of hard currency reserves at a fixed exchange rate, is now accepted by all political parties as the only way to restore confidence in the lev. A currency board is also seen as a precondition for help from international financial institutions and an inflow of foreign direct investment into the hundreds of state enterprises now up for privatisation.

Shortly after assuming office in January 1997, Bulgaria's new President, Petar Stoyanov (UDF), made an emergency visit to Brussels to appeal for help from the European Union to prevent Bulgaria defaulting on its debts. Jacques Santer promised help but only on the condition that Bulgaria forms a stable government to overcome the crisis. In February 1997 the EU told Bulgaria that it was still keen to have it join the EU despite its desperate economic shape and urged the government in Sofia to pursue drastic market reforms.<sup>69</sup>

## **E. The Baltic States**

*Latvia applied for membership on 13 October 1995; Estonia applied on 24 November 1995 and Lithuania applied on 7 December 1995.*

On 12 June 1997 the prime ministers of the three Baltic states jointly declared their readiness to start accession negotiations with the EU. After regaining independence from the former Soviet Union in 1991, all three have made good progress in their transformation to a market economy and rebuilding ties with the west. They have presented promising economic figures, stressing reform, growth, privatisation and the battle against unemployment and inflation and maintain that they are among the most developed of the EU applicant countries.<sup>70</sup> They are, however, worried that they will not be

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<sup>68</sup> *Le Monde*, 12-13 January 1997

<sup>69</sup> *Associated Press*, 25 February 1997

<sup>70</sup> *Agence France Presse International*, 2 June 1997

judged on economic success along when the EU starts admitting new members. Estonia and Latvia have border disputes with Russia and large ethnic Russian minorities on their soil.<sup>71</sup> Some analysts say that the EU should admit at least one Baltic state as a reward for their commitment to reform and that that one should be Estonia, which is seen as the economic and reform leader of the Baltic states.<sup>72</sup> Estonia has restructured its economy and recreated democratic institutions. It has no trade barriers, a flat tax rate of 26% for both companies and individuals, no restrictions on foreign ownership and a currency board which has linked the kroon to the D-Mark at a rate of 8:1 for almost five years.<sup>73</sup> Although they would be disappointed, Latvia and Lithuania have reportedly stated that they would accept Estonia's admission ahead of themselves, provided the EU fully explained its decision and left the door open for them to join later.<sup>74</sup> Nordic EU members, particularly Sweden, are the main sponsors of the Baltic states, but Germany and France appear more concerned to secure entry for the CEECs.

The Baltic states' Europe Agreements have still not been ratified by all EU member states, however. By the end of April 1997, Belgium, Greece, France, Italy and Portugal had still not completed the ratification procedure.<sup>75</sup>

### F. Cyprus

*The internationally recognised government of Cyprus<sup>76</sup> submitted its formal application for EC membership at the same time as Malta, in July 1990.*

In its Opinion of June 1993, the Commission noted that the adoption of the community acquis would present no insurmountable problems, but that the division of Cyprus meant that the freedoms provided for under the Treaty of Rome could not be exercised throughout the island. The Opinion went on to outline the Commission's support for reunification on terms agreed by both communities. The EC reassessed the question of Cypriot accession at the beginning of 1995. In February 1995 the EU decided to open membership talks with Cyprus six months after the conclusion of the IGC, which Cypriot President Clerides said would act as a catalyst for reunification of the island.

The leaders of the Turkish Cypriot community are opposed to EU membership, maintaining that the Cypriot government's application was illegal because it cannot act on behalf of the Turkish Cypriots. Whereas the Greek Cypriots see EU membership as a catalyst for a political settlement and

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<sup>71</sup> Although both countries intend to sign a border treaty with Russia before the end of 1997 which is aimed at guaranteeing their territorial integrity and independence (*Agence France Presse International*, 2 June 1997)

<sup>72</sup> *Reuters*, 12 June 1997

<sup>73</sup> *Financial Times*, 5 June 1997

<sup>74</sup> *ibid.*

<sup>75</sup> *European Report*, No. 2220, April 1997

<sup>76</sup> *ie the government which de facto controls approximately two-thirds of the island territory and represents the Greek Cypriot community.*

reunification of the island, the Turkish Cypriots rule out EU membership before Turkey joins the EU. Turkey has said that if Cyprus joins the EU while the island is still divided, northern Cyprus will be joined to Turkey.<sup>77</sup> On 10 October, Turkish Cypriot leader Rauf Denktaş said that war could break out if the Greek Cypriot part of the island joined the European Union.

The Greek representative at the IGC, Yannis Kranidiotis, is anxious to point out to Turkish Cypriots that through EU membership for the whole of the island, they would gain economically and see an end to their isolation. He has also intimated that with a Turkish contribution to a settlement, Greece could facilitate closer relations for Turkey with the EU.<sup>78</sup>

At a Foreign Affairs Council on 24 February 1997, European Union foreign ministers signalled to Greece that talks on Cyprus's membership of the EU must involve the Turkish Cypriot community. This is seen as a reflection of pressure for a more even-handed approach to membership talks, to tie EU accession unequivocally to a peace settlement. It was also fuelled partly by US demands to do more to avoid alienating Turkey, which has threatened to block NATO enlargement if it does not obtain satisfaction on the Cyprus issue. Malcolm Rifkind stressed that accession negotiations would begin on time with the government of Cyprus and that Turkey had no veto over enlargement negotiations. He added, however, that it would be useful to involve all Cypriots in accession talks.<sup>79</sup> Mr. Rifkind also made clear, however, that there was no question of admitting only the Greek Cypriot part of the island.<sup>80</sup> Greece reacted to the move by blocking the text at the Foreign Affairs council, effectively curtailing plans for the EU to reach a joint position on Cyprus. Greek foreign minister, Theodoros Pangalos called the EU initiative "hostile and deceitful" and denounced the UK, France and Germany, its chief sponsors. Greece has also warned that it might veto the accession of the central and eastern European countries if the EU insisted on including Turkish Cypriots in the accession negotiations. This stand-off could also threaten the EU's custom union with Turkey. Greece is already blocking EU funds aimed at offsetting Turkey's loss of revenue from tariffs lifted under the customs union. Turkey has threatened to veto NATO expansion if the funds continue to be blocked, claiming that there is a clear link between economic and security issues.

### G. Turkey

*Turkey submitted its formal application for membership on 14 April 1987.*

Turkey has been as associate member of the EC since 1963 under Article 238 of the Treaty of Rome, which states that:

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<sup>77</sup> *Associated Press*, 28 November 1996

<sup>78</sup> *Associated Press*, 27 November 1996

<sup>79</sup> *Financial Times*, 25 February 1997

<sup>80</sup> *Times*, 28 February 1997

"The Community may conclude with a third State, a union of States or an international organization agreements establishing an association involving reciprocal rights and obligations, common action and special procedures. "

Turkey's membership application is in abeyance. In its Opinion of 18 December 1989 the Commission noted that accession was not a realistic option for the immediate future. Among the reasons given for the Commission's rejection included Turkey's still fragile democracy, its occupation of northern Cyprus and its poor economy. Turkey's human rights record is another main stumbling block to accession, since the principles of democracy and the respect of fundamental human rights are enshrined in the Maastricht Treaty (Article F).

A customs union was provided in the 1963 Association Agreement and in the 1974 Additional Protocol, EC and Turkish parties agreed the conditions of a customs union to be operative in 1995. The customs union entails Turkey lowering import tariffs to zero and adopting the EC's common external tariff for third countries. The customs union, which came into effect on 31 December 1995, constitutes the biggest change in economic relations between the EU and Turkey since the conclusion of the Association Agreement and the first such union between the EU and a non-member state.

It was hoped that the customs union would go some way to assuaging Turkish anger over the fact that the EU has committed itself to opening accession negotiations with Cyprus and the central and eastern European countries six months after the conclusion of the IGC. Analysts say, however, that the customs union has been a huge disappointment. Greece also continues to block the dispersal of funds under the customs union. The EU envoy in Ankara, Michael Lake, has said, "The customs union created misconceptions on both sides. The European side felt that Turkey would be preoccupied with making it work and not press for full membership for some time. Turkey had the misconception that the customs union was a stepping-stone towards full membership in the next year or two. This led to a drifting apart, which both sides are now determined to reverse."<sup>81</sup> Mr. Lake went on to say that if the issue of Turkish membership were to arise naturally in the fullness of time, he did not feel that the EU could sustain a veto on the basis of religion or culture, since "That would undermine the importance we place on democracy. Turkey is the only fully democratic Muslim country in the world. To keep Turkey out on this basis would send the wrong signal to the whole Mediterranean basin and the world at large."<sup>82</sup> Another European ambassador in Ankara has, however, said that the human rights situation is a 'disaster': "Turkey is far, far away from what the European Parliament will insist on."<sup>83</sup>

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<sup>81</sup> *International Herald Tribune*, 24 February 1997

<sup>82</sup> *ibid.*

<sup>83</sup> *ibid.*

There has recently been renewed controversy over Turkey's membership application. A meeting of the European People's Party (EPP) at the beginning of March 1997, which included Helmut Kohl's Christian Democratic Party, decided that Turkey should be content with a special relationship with the European Union, rather than full membership. The EPP agreed unanimously that Turkey's human rights record, its size and its Muslim religion disqualified it from joining the EU. This led to speculation that several countries, led by Germany, want to block Turkish membership for ever.<sup>84</sup> The Centre for European Policy Studies warned that this could have a negative impact and dishearten pro-Western elements in Turkey, adding that with all hope of EU membership gone, there was less need for restraint.<sup>85</sup> Other analysts believe that if Turkey feels that it is being snubbed by the EU, it may well turn in another direction. The US was reportedly concerned by this latest move, fearing that it could further poison relations with Greece and damage attempts to find a political settlement for the division of Cyprus. The US in general is concerned about the security implications of isolating Turkey and is lobbying EU governments to persuade them to admit Turkey.

The meeting of EU foreign ministers in Apeldoorn in mid-March 1997 confirmed the prospect of Turkey's accession to the EU contained in the 1963 association agreement.<sup>86</sup> The EU affirmed that Turkey has a European vocation, but that some time would be needed before it can actually join the EU. Jacques Santer said that the Commission would be submitting proposals aimed at helping Turkey realize that its relations with the EU are becoming stronger and that this was in now way an attempt to substitute something else for Turkey's accession prospects.<sup>87</sup> One of the areas of action to be explored include a reflection paper of the Union's economic ties with Turkey.

On 27 June Turkish Foreign Minister, Tansu Ciller, told the outgoing Dutch Presidency that Turkey should be included when membership negotiations begin in six months' time. Despite reassurances that EU membership has not been ruled out indefinitely, however, the EU made it clear that Turkey's inclusion at the start of negotiations had been ruled out. Ciller stressed that membership of the EU would facilitate a settlement for Cyprus, defuse tension with Greece over the Aegean encourage those who support reform. The EU, however, believes that Turkey must settle its regional problems as a precondition of membership talks.

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<sup>84</sup> *Independent*, 17 March 1997

<sup>85</sup> *ibid.*

<sup>86</sup> *Agence Europe*, 17/18 March 1997

<sup>87</sup> *ibid.*

## VI The Implications of Enlargement

### A. The deepening/widening debate

'Deepening' of the EU means expanding the Union's competence to areas hitherto in the domain of the individual member states and improving the decision-making process by redefining the rights and duties of the institutions.

Deepening is not a new phenomenon, but rather part of an evolving process. Since its inception there has been a cumulative strengthening of the EU's institutions and an amplification of policy scope. In the 1970s, for example, there was the establishment of co-operation in the field of foreign policy through the mechanism of European Political Co-operation (EPC) and the construction of the European Monetary System (EMS). There was also deepening on the institutional front with the creation of the European Council and the decision to introduce direct elections to the European Parliament.

Improvements in institutional efficiency have mainly been associated with the increased use of majority voting in the Council of Ministers, which was needed to break the deadlock on many of the existing policy proposals. This process began in the early 1980s and received a major boost in 1987 by the entry into force of the Single European Act (SEA), which extended the number of policy areas in which majority voting was constitutionally permissible, and by changes in the Council's Rules of Procedure, which made it easier for votes to be taken. In those policy areas where the SEA made provision for majority voting, there was a considerable speeding-up in decision-making processes.<sup>88</sup>

The pace of deepening speeded up considerably from the mid 1980s in response to a diverse range of pressures, including the international trade challenge from the US, Japan and the newly industrializing countries (NICs) and the increasing impracticability of dealing with matters as diverse as the environment and terrorism on a purely national basis. One response to these pressures was the Commission's White Paper, *Completing the Internal Market*, which was accepted by the European Council meeting in Milan in June 1985 and the subsequent incorporation of the internal market goal into the EEC Treaty via the Single European Act. This marked a major step forward for deepening and, indeed, produced pressures for more deepening.

In 1990 a further pressure appeared which proved a further major stimulus to policy integration: German unification created anxieties in some member states, especially France, about the possible future direction of German interests and made them anxious to tie Germany into a tighter policy framework. It was mainly on the basis of these fears that the two intergovernmental conferences

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<sup>88</sup> *Journal of Common Market Studies*, Volume XXX, No. 3, September 1992

(IGCs) in Maastricht were convened in December 1991. These IGCs were given specific instructions to take institutional deepening further before issues of widening were tackled.

The ensuing Treaty on European Union (the Maastricht Treaty) provided for a certain amount of institutional deepening, including the enhancement of the powers of the European Parliament, the increased use of qualified majority voting in the Council of Ministers and the empowering of the Court of Justice to impose fines on member states who fail to implement Community law. The Treaty on European Union also provided for policy deepening, including the definition of the principle features of Economic and Monetary Union (EMU) and the potentially far-reaching implications of the two intergovernmental pillars of the European Union - Common Foreign and Security Policy (CFSP) and co-operation in the fields of justice and home affairs.

It is clear that the next round of enlargement cannot be dissociated from the question of institutional reform, since the current structure will not be able to operate effectively with as many extra members as are currently waiting to accede. In addition the EU will also have to address the contents and direction of some of its common policies in order to accommodate additional members, particularly the Common Agricultural Policy, structural policies and the budget.

### **B. Institutional reform<sup>89</sup>**

For the four previous rounds of enlargement, the composition of the institutions was simply increased to give the new members a commissioner, an ECJ judge and MEPs. The allocation of votes under qualified majority voting (QMV) was calculated on the same basis as for existing member states and the blocking minority was adjusted accordingly. It was widely argued that this 'arithmetical adjustment' reached its limits with the EFTA enlargement and that further accession would require fundamental reform if the EU was to avoid decision-making paralysis and maintain its capacity to act effectively. Proposals for institutional reform include restricting the number of commissioners; changing the Presidency system; limiting the size of the European Parliament; reforming the weighting of votes for QMV and greater use of QMV in the Council. Institutional reform has proved controversial because the proposed reforms touch on two sensitive issues, namely the balance between the rights of small and large states<sup>90</sup> and the deepening of integration, focussed on an increased use of QMV in the Council.

The European Parliament met to consider the Amsterdam Treaty at a special parliamentary session in Brussels on 25-26 June. The EP views the Amsterdam Treaty as being insufficient in its institutional provisions for the planned eastward enlargement of the Union, although a report in the German

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<sup>89</sup> For a more detailed discussion of institutional reform see Research Paper 97/83, *The Amsterdam Treaty*, pp. 33-42

<sup>90</sup> All the candidate countries except Poland are small and Cyprus is considered to be a "micro state"

*Frankfurter Allgemeine Zeitung* said that the EP does not anticipate that it will block ratification.<sup>91</sup> A more downbeat article which appeared in the *Irish Times* on 21 June, however, maintained that support was mounting in the EP to block any further enlargement until wholesale institutional reforms are undertaken to enable a much larger Union to operate efficiently. At a session in the week before the Amsterdam Summit, MEPs voted 298 to 76 with 86 abstentions in favour of a resolution which trusts that no enlargement negotiations will be concluded in practice before the necessary institutional reforms have been introduced.<sup>92</sup>

### C. Enlargement and the Common Agricultural Policy<sup>93</sup>

In the UK it has looked for the past few years as if enlargement of the EU to the East might be the mechanism to force CAP reform on a reluctant Europe. The argument is that the current cost is easily bearable and the criticisms are much more common in the UK than on the Continent. There is currently no support for reform unless farmers are so well compensated that nothing really changes, as was the case in 1992. Extension to the East might change all that, partly by dramatically increasing the cost of the CAP to compensate Eastern (principally Polish) farmers and partly because the policy would have harmful side-effects in the East European countries. Yet, so the argument goes, enlargement is unstoppable because of its political impetus and is particularly important to Germany.

As so often, the debate looks rather different on the Continent, although that does not necessarily mean that yet another opportunity for CAP reform will be missed. Agriculture Commissioner Franz Fischler, in particular, has consistently argued that the issues need to be separated. He argues that there are many non-agricultural problems in admitting the CEECs so that agriculture should not be singled out. In a speech in March 1997 he pointed out the large capacity for agricultural production in Eastern Europe.<sup>94</sup> He continued :

However, enlargement towards the east must not be taken as a pretext for sweeping away our Common Agricultural Policy. Agricultural policy in the union will have to be adapted step by step to changing conditions and we have to accept that eastward enlargement of the union will happen in the context of a far more rigorous international framework of rules and obligations, compared with when earlier enlargements took place.

Yet Fischler is not against reform of the CAP. On the contrary, he is currently involved in the complex preliminaries of presenting new reform proposals. His justification is that the current

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<sup>91</sup> *Frankfurter Allgemeine Zeitung*, 27 June 1997

<sup>92</sup> *EP Minutes*, 11 June 1997

<sup>93</sup> This section has been written by Christopher Barclay

<sup>94</sup> "EU Common Agricultural Policy Achievements and Challenges Ahead," 10 March 1997, <http://europa.eu.int/en/comm/dg06/spe/970310.htm>

system will result in overproduction. The consequence will not only be huge costs but also a failure to satisfy the conditions laid down in the settlement of the Uruguay Round of the Gatt. Recent Commission studies show the current CAP collapsing, even without enlargement, with cereal intervention stocks perhaps reaching as high as 58 million tonnes by 2005 and beef stocks rising to 1.5 m tonnes.<sup>95</sup> The Director General of DGVI, Guy Legras, said that the studies showed that the eastwards enlargement of the EU did not represent a major problem for the EU's supply balances, because production in the CEECs was taking longer to recover than expected. The Commission was optimistic about world markets, expecting demand to rise through world population growth and increased incomes in Asia.

It is possible, of course, that Fischler is purposely playing down the influence of enlargement because he believes that the EU will refuse to reform under external pressure, and will only consider it as a solution to internal problems. Some such considerations persuaded Commissioner Ray MacSharry five years ago to stress that reform of the CAP was not being undertaken in order to allow the EU to conform to Gatt requirements to conclude the Uruguay Round. Yet that is really what happened.

The European Commission's Agricultural Strategy Document of 1995 described the progress of East European countries in general terms, and noted the relative importance of agriculture to these countries, accounting for 25% of the workforce, compared to 6% in the EU.<sup>96</sup> The study was based on the illustrative working hypothesis that the ten associated countries would enter the EU in 2000 and would gradually align their price levels to those in the Union over a 5-year transition period, followed by further moves towards a hypothetical 2010 by which time they would be fully integrated, having completely taken on the CAP in its 1995 form, including animal and arable payments, set-aside and production quotas for milk and sugar. Current thinking, however, is that enlargement will not take place before 2002 or 2003, and then only of the more advanced countries.

Various estimates have been made of the cost of allowing the CEECs to enter the EU, but they depend upon several facts which are uncertain, including the level of world prices and the CAP support system in force in 5-10 years time. Many people would probably agree with a view expressed in a recent conference on CAP reform, that the CEECs should concentrate on developing structural and infrastructural programmes which are compatible with those in the EU, rather than on imitating the EU's agricultural market support systems. Otherwise they would impose a large burden on their taxpayers and delay structural reform by over-rewarding small farmers who should be encouraged to consolidate their holdings. Doubt was also expressed whether sophisticated supply management policies such as milk quotas could be effectively operated in the CEECs, especially considering that it took ten years before Italy was able to apply milk quotas properly.<sup>97</sup>

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<sup>95</sup> *Agra Europe*, 25 April 1997 E/1

<sup>96</sup> 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, *Cons Doc 12,503/95*

<sup>97</sup> 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, *Cons Doc 12,503/95*

## Research Paper 97/86

Commissioner Fischler has made it clear that he does not see agriculture as the issue that would delay enlargement, partly because he does not see it as a problem and partly because he feels that other problems would be more serious. His view is based on the assumption that compensatory payments would not be made to farmers in the new entrant countries, because they have not suffered the price cuts for which the compensation is being paid. In many cases, indeed, they would see price increases. That argument is logical, but would result in anomalies.

It is true that there is less requirement for income support payments in different Member States to be equalised than there would be for support prices. You cannot very well have an agricultural policy within a single market without support prices being equalised. It is possible to have a single market within which producers in some countries receive more income support than in others, yet all can trade freely. However, it would be strange for relatively rich farmers in France, Germany and other established Members to be paid a higher level of income support than poor farmers in Poland. That might make sense if the policy were to be repatriated, so that each country took full responsibility for its agricultural subsidies, but would be anomalous in an EU-wide policy. Yet nobody (including even the UK Government) yet supports repatriation. Also, one reason why western European agriculture is so prosperous at the moment is that farmers in many sectors have received compensation without actually seeing their prices fall, because of the buoyancy of world prices in 1995 and much of 1996. The CEEC farmers may therefore not appreciate missing this benefit.

On the other hand, the payment of large support to farmers in CEECs would distort their economies in an undesirable way. For western Europe the farming sector is very small so that subsidies paid to it can be seen as reasonable assistance to a small group in the economy, as well as containing an element of insurance. In eastern Europe, however, the share of agriculture in the economy is relatively large, so that any large subsidies paid to agriculture would have more effect. That might be justified if they were to offer employment on the land to those who would otherwise be unemployed in the cities. However, that would not necessarily be the effect, and they might bring about a combination of inefficient agriculture with a movement of surplus labour to the cities.

In a sense, the problem of CEEC entry is an income problem, not an agricultural one. If they enter without gaining much benefit from the CAP, then there will still be the major problem of deciding how much financial assistance to give them, for example by the European regional development fund. Fischler may be right in considering that the CAP is not the way to make such payments.

A study by the Economic Research Service (ERS) of the US Department of Agriculture in 1997 argued that the cost of enlargement had been underestimated.<sup>98</sup> The study considered two scenarios : application of the current CAP largely unchanged and a reformed policy with the alignment of EU cereals prices to world prices and the elimination of compensatory payments. *Agra Europe* noted that the cost estimates exceed those of the European Commission :

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<sup>98</sup> *Agra Europe*, 7 February 1997 P/1

On the basis of the CAP unchanged scenario, the ERS estimates an annual bill of \$3 billion a year for compensatory payments, intervention and export subsidisation in the Visegrad-4. To this would have to be added an annual charge of \$7bn for structural improvement programmes for the rural sector in the four new member countries.

In addition, the ERS study concluded unequivocally that enlargement under the status quo would add to existing EU market imbalances and make it impossible for production and exports to be held below the Gatt Uruguay Round limits.

It is always difficult to decide between such studies, because there are so many uncertainties and different conclusions result from plausible assumptions about future production levels, world prices and so on. The history of the CAP is a history of apparently irresistible pressures for reform turning out to be resisted when the time comes. It remains to be seen whether the current pressure will turn out any differently. One benefit of the Commission approach is that it should remove any opposition to enlargement based on concern about the CAP. The Commission is determined to tackle CAP reform separately. The more that the CAP is reformed, the less financial problem will result from enlargement.

### **D. Structural Funds<sup>99</sup>**

The inclusion into the EU of relatively less prosperous countries of central and eastern Europe such as Poland, Hungary, Slovak and Czech Republics is likely to affect significantly the size and allocation of EU regional assistance.

The EU spends substantial sums on regional assistance. In 1997 structural operations amounted to ecu 28 billion from a total EU budget of ecu 82.5 billion. The rapid growth in spending since 1988 means that around a third of the EU's total budget will be spent helping the disadvantaged areas up to 1999. The cumulative amount allocated for structural purposes throughout the EU over the period from 1989 to 1999 is equivalent to some 6.5% EU15 GDP for one year. This compares favourably with the cumulative amount that was provided under the Marshall plan to post-war Europe in the period 1948-1951. At that time Marshall aid amounted to the equivalent of some 4% of the US GDP for one year.<sup>100</sup>

Before considering the possible implications for structural funds of EU enlargement, it is useful to set out some general material on the EU's regional policy.

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<sup>99</sup> Sections (d) to (g) are contributed by Mick Hillyard

<sup>100</sup> Re-drawing the map of Europe, 19 November, CEPR, (LSE)

Four structural funds lie at the heart of EU regional assistance. The four Structural Funds are the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Guidance and Guarantee Fund (EAGGF) Guidance Section and the Financial Instrument for Fisheries Guidance (FIFG).<sup>101</sup>

Resources of ERDF amount to ecu 80.5 bn for 1994-99, as against ecu 35.4 bn in the period 1989-93. ERDF is some 48% of the four Structural Funds. Spain (24.1% of ERDF resources), Italy (15.2%), Greece (12.4%), Germany (12.2%) and Portugal (12.4%) are currently the largest recipients.<sup>102</sup>

The Guidance Section of the EAGGF accounts for ecu 23.7 bn or 15.4% of Community Funds in the current period. Spain, Italy, France and Portugal are the principal beneficiaries, sharing 69% of the available funds. Although not strictly a regional fund, the ESF will by its nature have a regional effect in that it will help disadvantaged regions. The ESF accounts for 30% of Community interventions in the current period (1994-99). Spain (20%) and Germany (15.9%) are the largest recipients.

### E. EU Budgetary Costs

The best known early estimate of the cost of extra cohesion spending arising from EU enlargement was made by Courchene et al, (1993). They estimated that the cost of admitting the Visegrad 5 could be some ecu 26 billion. This estimate is reached by extrapolating the then current level of per capita structural funds receipts in the two poorest members (Greece and Portugal). Courchene used a rounded figure for Greek and Portuguese receipts of ecu 200 per person, which was doubled to reflect the Edinburgh summit agreement in 1992 to double the structural funds by 1999. Hence a figure of ecu 400 per person was reached. If the same per capita figure is extended to the Visegrad 5, with its population of 64 million people, the cost of admitting the Visegrad 5 in terms of structural funds amounts to ecu 26 billion. This figure has been criticised by the European Commission in its Interim Report on eastern enlargement (1995a) and also by others.<sup>103</sup> One major criticism of the estimate is the suspicion that Visegrad countries would have difficulty absorbing such large amounts of funding, especially when the EU funds would require matching funds. Funding on the scale of ecu 400 per person would represent 10-15% of the countries GNP in 2000, assuming growth of 5% per annum<sup>104</sup>.

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<sup>101</sup> FIFG is concerned solely with programmes under Objective 5(a). The Cohesion Fund is only applicable to the "poor four": Greece, Spain, Ireland and Portugal under the provisions of the Maastricht Treaty, but cannot be used to finance projects which receive support from the ERDF, the ESF or the guidance section of the EAGGF.

<sup>102</sup> *First Cohesion Report*, Commission, Com(96) 542 final, November 1996.

<sup>103</sup> The impact of Enlargement on EU trade and industrial policy, Grabbe and Hughes, 1996

<sup>104</sup> The costs and benefits of EU enlargement, Economic Policy, April 1997.

In terms of the EU budgetary costs overall that would be associated with EU enlargement, Baldwin et al surveyed the literature of the likely costs in terms of CAP, structural funds and contributions to the EU. The consensus estimate to emerge from the survey was that the Visegrad 5 enlargement in 2000 would involve a net budgetary cost of ecu 23 billion. A more recent estimate by Portes reduced this estimate to ecu 17 billion.<sup>105</sup> An alternative method of estimating the likely net budgetary costs was also used by Baldwin et al. This alternative method used some data that related each member states' EU budgetary receipts to its voting power in the Council of Ministers and each members' per capita contributions to its income per capita. These figures were then extended to the countries of central Europe and gave a budgetary net cost of ecu 10 billion to 18 billion. A more recent estimate by Portes is ecu 15 billion for the Visegrad 5. Both methods delivered figures that were broadly similar.

## F. Economic Benefits and Net Costs

EU enlargement is likely to generate economic effects that go beyond the narrow confines of the EU budget. In terms of the benefits, the Baldwin et al argue that in addition to the positive trade effects which EU membership provides, the eastern countries could also benefit from reductions in their country risk premium. This lower country risk premium, so the argument continues, leads to lower costs of borrowing, which in turn induce an increase in the capital stock. The countries in transition also benefit from so-called accumulation effects as yet more capital spending is engendered. The economic benefit of EU enlargement is increased considerably by this virtuous cycle.

By putting together the budgetary costs and economic benefits, Baldwin et al reach an estimate for the net cost of EU enlargement of between zero and eight billion ecu. A more recent estimate by Portes puts the estimate at five billion ecu and seven billion ecu. Essentially the net cost is estimated at less than one-tenth of one per cent of EU15's GDP. Baldwin et al conclude that this is an extraordinarily favourable bargain given the challenge in central Europe. At the same time, they estimate that EU membership would be enormously beneficial to the Central and East European economies in the long run.

It should be pointed out that the estimates in the study have been criticised, especially the estimates for the economic benefits. For example the estimates for the economic benefits assumes that the risk premium falls in all central countries and investment in those countries rises by 68%.<sup>106</sup> The figure for net costs is likely to be further increased by discounting the net values back into present day values since the economic benefits are likely to be realised sometime after the costs start to be met.

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<sup>105</sup> Bigger is better, The Positive economics of EU enlargement, Lecture, Portes, FCO 30 June 1997.

<sup>106</sup> Dani Rodrik, Harvard University, Economic Policy, April 1997. p170-173.

### G. Reform of EU Structural Funds and EU enlargement

The present round of funding from the Structural Funds is due to expire in 1999. Since EU enlargement is likely to occur sometime around the start of the next century, any reform to structural funds will need to accommodate future EU enlargement. In the past there has been a connection between the growth of EU regional spending and the accession of new members. For example, the ERDF was created in 1975, in the wake of the accession of Britain, Ireland and Denmark. At the Edinburgh summit in 1992 it was agreed to double spending on structural and cohesion policies. In the following year, negotiations were started between Austria, Finland and Sweden and the EU. Although further EU enlargement will generate more demands for increased spending, there are calls for some reallocation of spending.

All the present members of the EU are likely to be affected by EU enlargement, but the biggest current beneficiaries, Spain, Greece, Portugal and Ireland, clearly stand to lose most if structural funds are diverted towards the newly acceding countries. For example nine of the ten potential applicants would probably qualify for objective 1 status on present criteria. One estimate is that some 45 million people who currently benefit would lose objective 1 designation if the ten CEECs were admitted. Spain could also lose its Cohesion Fund status. Of course, the eligibility rules may be changed to mitigate some of these changes. A limit of something in the region of 5% of GNP on the amount that each member could receive may be also be adopted. This limit would also have the advantage of limiting the budgetary cost to some ecu 13 billion for the Visegrad 5.

In a speech to the European Committee of the Bundestag on June 19th 1996 Monika Wulf-Mathies, the Commissioner for Regional Policy and Cohesion, outlined some implications of EU enlargement.

The Commissioner underlined that the enlargement of the Union towards the East necessitates the pursuit of the policy of cohesion in the present Member States, but equally implies, in due course, the application of this policy in future Member States. She presented a concrete hypothesis that would permit the reconciliation of these two requirements.

The budget of the Structural and Cohesion Funds up to 1999 is actually 0.46% of the European Union's GDP. On this basis, for the period 2000 to 2006, there would be 260 billion ECUs available, that is to say 37 billion per year, instead of the present 28 billion. Up to 50 billion ECUs would be available for the new Member States over the 6 years, in place of the billion made available annually under the PHARE programme. Sufficient would remain for the pursuit of the policy of cohesion of the Fifteen States, especially since Objective 1 will have been achieved in several regions which would clearly allow for the concentration of aid to be reinforced.<sup>107</sup>

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<sup>107</sup> EC Commission DG16 website (<http://europa.eu.int/en/comm/dg16/key/synopsis.ham#1996>)

In short, cohesion policies will need to be applied throughout the EU, including the newly acceding countries. Of the ecu 260 billion that could be available for structural funds between 2000-2006, some ecu 210 billion could be made available to the existing 15 members and the remaining ecu 50 billion could be made available to the newly acceding countries. Michael Emerson of the LSE, for example, commented that contributions should not exceed 10% of the GDP of any beneficiary.

The newly acceding countries to the East would receive a total allocation of ecu 50 billion for 2000-2006, not exceeding however 10% of the GDP of any beneficiary, as would be the case if today's criteria were mechanically applied. These calculations point out how a modest budgetary investment by the EU could have an enormous impact on the presently very unproductive economies of the East. Put another way, this can be seen as a small economic investment by the EU that could generate very high economic and political benefits.<sup>108</sup>

A limit on the level of EU support of 4 per cent of GNP of any beneficiary was recommended by the House of Lords Select Committee.<sup>109</sup>

Following the publication of the *First Cohesion Report*,<sup>110</sup> a conference was held in Brussels in April 1997 entitled "European Cohesion Forum". Monika Wulf-Mathies, the Commissioner for Regional Policy and Cohesion, gave some hints as to the possible future direction of regional assistance in the EU. She suggested that there would be a streamlining of the number of objectives - she favoured just three: one for reducing development disparities and confined to the least prosperous regions. These would be defined according to a strict application of statistical criteria (where GDP per capita is less than 75% of the EU average); one concentrating on assisting structural change in rural and urban areas, and one focusing on human resources (to complement other training and employment policies).

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<sup>108</sup> Re-drawing the map of Europe, 19 November, CEPR, (LSE).

<sup>109</sup> Reducing Disparities within the European Union: the Effectiveness of the Structural and Cohesion Funds, Select Committee on the European Communities, 11 report, 1996-97, HL 64, (para 110).

<sup>110</sup> First Cohesion report on the progress made towards achieving economic and social cohesion.

## VII Conclusion

Enlargement negotiations are set to begin under the UK presidency of the European Union in the first half of 1998 with Cyprus and those central and eastern European countries the the Commission identifies in its' opinions as ready to commence accession negotiations at the same time. Many difficult issues remain to be resolved in the accession negotiations. Of equal importance will be the manner in which the EU deals with those countries not in the first wave of accession and in this respect the elaboration of plans for a standing European conference will prove crucial. Since the IGC postponed some of the more important decisions on internal and policy reform to a later date, efforts will have to be concentrated on these in the future. Since it could take ten to twenty years for all the applicants to join, however, institutional change can afford to be a continuing process. Policy reform will be nudged along by the imminent publication of the Commission's Agenda 2000 papers on the impact of an enlarged Union on internal policies.

While the final decisions on all these matters will have to be reached by consensus among all 15 existing EU member states, the UK is likely to exercise some significant influence over the process, partly because it will hold the presidency during the opening phase of negotiations, but also because it has been a consistent champion of enlargement hitherto and has special political connections with several of the applicants.

The overall process of enlargement is likely to be very slow, with some of the current applicants possibly not joining for fifteen or twenty years. In *Eastward Enlargement of the European Union*, Heather Grabbe and Kirsty Hughes argue:

"This slow pace presents twin dangers: EU institutional and policy reform could be piecemeal and inappropriate to the needs of an enlarged Union; and enlargement might undermine stability and a badly managed transition in those CEECs left out of the first group of entrants. Yet a successful enlargement offers the prospect of achieving a transformed EU and would make a major contribution to the promotion of European cohesion and stability in the twenty-first century."<sup>111</sup>

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<sup>111</sup> *Eastward Enlargement of the European Union*, Heather Grabbe and Kirsty Hughes, The Royal Institute of International Affairs, 1997

**Appendix 1: From Application to Accession**

**From Application to Accession**

Country	Associate Membership	Application	Opinion	Start of negotiations	Treaty of Accession	Accession
Denmark		May 1967	Sept 1967	June 1970	Jan 1972	Jan 1973
Ireland		May 1967	Sept 1967	June 1970	Jan 1972	Jan 1973
UK		May 1967	Sept 1967	Dec 1969	Jan 1972	Jan 1973
Greece	1962	June 1975	Jan 1976	Jul 1976	May 1979	Jan 1981
Portugal	**	March 1977	April 1978	Oct 1978	June 1985	Jan 1986
Spain	**	July 1977	April 1978	Feb 1979	June 1985	Jan 1986
Turkey	1964	April 1987	Dec 1989			
Austria	1994*	July 1989	Aug 1991	Feb 1993	June 1994	Jan 1995
Cyprus	1973	July 1990	June 1993			
Malta	1972	July 1990	June 1993			
Sweden	1994*	July 1991	Aug 1992	Feb 1993	June 1994	Jan 1995
Finland	1994 *	March 1992	Nov 1992	Feb 1993	June 1994	Jan 1995
Norway	1994 *	Nov 1992	March 1993	April 1993	June 1994	
Hungary	1992	April 1994				
Poland	1992	April 1994				
Latvia	***	Oct 1994				
Romania	1993	June 1995				
Slovakia	1992	June 1995				
Estonia	***	Nov 1995				
Lithuania	***	Dec 1995				
Bulgaria	1993	Dec 1995				
Czech Republic	1992	Jan 1996				
Slovenia		June 1996				

Notes:

\* EEA (1994) free trade agreement since 1970s (Norway, Finland, Austria since 1973, Sweden since 1972).

\*\* preferential trade agreement since 1970 for Spain and since 1972 for Portugal

\*\*\* free trade agreements since 1994

Source: P. Nicolaidis and S.R Boean, EIPA

**Appendix 2: Formal democracy: main criteria**

	Bulgaria	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia
Inclusive citizenship	A	B	C	A	C	A	A	A	A	A
Rule of law	B/C	B	B/C	B	B	B/C	B	C	B	A/B
Separation of powers	A	A	A	A	A	A	B	B/C	B	A
Elected power-holders	A	A	A	A	A	A	A	A	A	A
Free and fair elections	A	A	B	A	B	A	A	A	A	A
Freedom of expression and alternative information sources	A	A	A	A	A	A	A	B	A	A
Associational autonomy	B	A	A	A	A	A	A	A	A	A
Civilian control of the armed forces/security services	A	A	A	A	A	A	A	B	B	A

A = Formal procedures are in place and mostly implemented      C = Formal procedures are in place but hindrances to implementation

B = Formal procedures are in place but incomplete to implementation      D = Formal procedures are not in place

Source: Country reports

**Table source:** Democratization in central and eastern European countries, Mary Kaldor and Ivan Vejvoda, *International Affairs*, Vol. 73, No. 1, January 1997

### Appendix 3: Substantive democracy: A snapshot of the main features

	Bulgaria	Czech Rep.	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia
Constitutional issues and legality	Constitutional court strong acting as a quasi-second chamber	Constitutional stability. Lack of will on part of govt to implement all provisions	Supreme Court is also constitutional court. Lack of effective law enforcement.	Constitutional strong court	Concentration of power in the legislative branch. Lack of effective law enforcement	Negative image of parliament. Weak judiciary.	Presidential interference has occurred under previous mandate	Dispute over constitutional interpretation of presidential mandate	Concentration of powers in the executive branch. Important role of the constitutional court	Pending constitutional debate on foreign ownership. Forthcoming referendum on electoral law
Human rights and minority rights	Roma and Turkish minorities encountering some difficulties	Roma encountering difficulties in acquiring citizenship. Lack of active human rights policy	Limited access to citizenship for ethnic minorities	Record is on the whole positive. Problems with guarantees for Roma	Limited access to citizenship for ethnic minorities	Citizenship law is liberal	Record is positive over past period. Periodic appearance of 'anti Semitism without Jews'	Problems with guarantees of minority rights for Hungarians and Roma. Homosexuality is a criminal offence	Disputes over Hungarian minority rights. Tensions between Roma and non-Roma population	Attempts by right wing to reform citizenship of non-Slovenes. Positive human rights policy
Political Parties	Former Communists in power. Consolidation of opposition	Centre-right coalition in power. Opposition social democrats are balancing factor	Centre right coalition in power. Polarization along ethnic v. Westem-orientated lines	Grand coalition post-communist and liberal. Weak opposition	Grand coalition of right and left-wing parties	Former communists. Polarization of political life. Confrontational politics	Former communists in coalition government. Polarization of political life	Defeat of post-Communists in November 1996	Coalition of right/left authoritarian populism. Vibrant but fragmented left-centre-right non-authoritarian opposition	Grand coalition until November 1996. Christian Democrats and Liberals
Media	Media law contested by opposition. Plurality of media	Independent media	State-owned and private media. Right orientated print and broadcast media prevail	Independent media. State TV at times 'too loyal' to govt. Media law 1995 not yet implemented	Independent media along with State run. Media law - 1993	Independent media strong but much partiality and prejudice in editorial reporting	Independent media (electronic and printed)	Govt dominated public TV with a number of private independent networks	Govt dominated over public TV. First commercial TV went on air Sept. 1996. Most private radios and print media independent.	Independent media with attempts by parties to gain control over national TV network
Administration	Politicized civil service insufficiently financed. Clientelism	Certain levels of politicization and party allegiance persists	Ethnic exclusiveness in higher ranks of civil service	Politicization of civil service	Politicization of civil service. Legacy of past strong	Professionalism of civil servants hindered by clientelism but improving	Attempts at professionalism. Burden of past legacy apparent	High degree of politicization and clientelism	High degree of politicization	Civil service with a certain tradition of expense
Local government	Democratically functioning local govt, but lacking financial autonomy	Regional tier of govt to be set up. Opposition balancing role at local level	Non-citizens can vote in local elections	Developed for local government	Scarce financial means at local govt level	Regional governor appointed by prime minister. Little devolution of power to municipalities	Decentralization of power largely fictitious. Authority has local power but not financial means	Drastic underfunding. Dependence on govt	Pluralist elected local govt restricted by centralizing tendencies of govt	Centralization. Little devolution of power to local govt
Civil society	Numerous NGOs in a variety of areas	Active NGOs. Low membership. Govt unhelpful	Few civic initiatives and NGOs	Numerous and active NGOs	Civic initiatives are slowly developing mainly in human rights	Rare civic initiatives (lack of tradition and pervasive apathy)	NGOs very active and numerous	NGOs largely confined to closed circle of intellectuals	Numerous and active NGOs in a variety of areas	Growth of humanitarian NGOs

**Table source:** Democratization in central and east European countries

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### Appendix 4: EU Enlargement: Basic Statistics

Table 1

	GNP at market rates (\$billions)	Population (000s)	GNP per capita (\$)	GNP per capita (PPP in \$)	Agriculture (%) (gdp)	Investment (% of gdp)	
	1995	1995	1995	1995	1994	1992	1994
<b>Existing Members</b>							
Luxembourg	17	410	41,210	37,930	1	3	26
Germany, Federal Republic	2,252	81,869	27,510	20,070	1	3	22
France	1,355	58,060	23,470	19,820	2	5	18
Belgium	250	10,146	24,710	21,660	2	2	18
Italy	1,088	57,204	19,020	19,870	3	8	17
Netherlands	371	15,460	24,000	19,950	3	4	19
Denmark	156	5,220	29,890	21,230	4	5	14
United Kingdom	1,095	58,533	18,700	19,260	2	2	15
Spain	532	39,199	13,580	14,520	3	3	20
Ireland	53	3,586	14,710	15,680	8	14	14
Portugal	97	9,927	9,740	12,670	3	12	26
Greece	85	10,467	8,210	11,710	16	21	18
<b>EU12</b>	<b>7,350</b>	<b>350,081</b>	<b>20,996</b>	<b>18,169</b>	<b>2.2</b>	<b>6</b>	<b>18.8</b>
Austria	217	8,054	26,890	21,250	2	n/a	25
Sweden	210	8,830	23,750	18,540	2	n/a	13
Finland	105	5,110	20,580	17,760	5	n/a	14
<b>EU3</b>	<b>531</b>	<b>21,994</b>	<b>24,152</b>	<b>17,473</b>	<b>2.6</b>	<b>n/a</b>	<b>18.1</b>
<b>EU15</b>	<b>7,881</b>	<b>372,075</b>	<b>21,182</b>	<b>18,128</b>	<b>2.2</b>	<b>2.5</b>	<b>18.8</b>
<b>POTENTIAL ENTRANTS</b>							
Cyprus (a)	8	734	(b)	15,470	6	n/a	24
Malta (a)	8	372	(c)	n/a	3	n/a	29
<b>MED2</b>	<b>16</b>	<b>1,106</b>	<b>n/a</b>	<b>15,470</b>	<b>4.5</b>	<b>n/a</b>	<b>26.6</b>
Czech Republic	40	10,332	3,870	9,770	6	6	18
Slovak Republic	16	5,369	2,950	3,610	7	8	17
Hungary	42	10,229	4,120	6,410	7	10	22
Poland	108	38,612	2,790	5,400	6	26	15
<b>"Visegrad 4" (V4)</b>	<b>205</b>	<b>64,542</b>	<b>3,184</b>	<b>6,039</b>	<b>6.3</b>	<b>n/a</b>	<b>17.2</b>
Romania	33	22,692	1,480	4,360	20	35	27
Bulgaria	11	8,409	1,330	4,480	12	21	20
<b>"Balkan 2" (BK2)</b>	<b>45</b>	<b>31,101</b>	<b>1,437</b>	<b>3,274</b>	<b>18</b>	<b>n/a</b>	<b>25.2</b>
<b>Slovenia</b>	<b>16</b>	<b>1,992</b>	<b>8,200</b>	<b>n/a</b>	<b>5</b>	<b>11</b>	<b>21</b>
Estonia	4	1,487	2,860	4,220	10	8	32
Latvia	6	2,516	2,270	3,370	15	18	9
Lithuania	7	3,715	1,900	4,120	21	22	18
<b>"Baltic 3" (B3)</b>	<b>17</b>	<b>7,718</b>	<b>2,229</b>	<b>4,567</b>	<b>16.2</b>	<b>n/a</b>	<b>18.4</b>
<b>CEEC(10)</b>	<b>284</b>	<b>105,353</b>	<b>2,693</b>			<b>26.7</b>	

(a) Estimated from 1993 (b) Estimated to be \$8,956 or more; (c) Estimated to be upper middle \$2,896 to \$8,955. (c) Excluding Slov,

(d) Excluding Malta

Source: The World Bank Atlas, 1997

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