

European Commission Communication (II), Agenda 2000. The Challenge of Enlargement (1997)

Caption: Volume II of the Communication Agenda 2000, presented on 16 July 1997 by the European Commission, relating to the reinforcement of the pre-accession strategy.

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Agenda 2000. The challenge of enlargement

REINFORCING THE PRE-ACCESSION STRATEGY CONTENTS

I. OBJECTIVES

II. METHOD

A. Focusing on enlargement priorities

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

2. Bringing enterprises into line with Community standards

B. Setting intermediate objectives

III. FINANCIAL RESOURCES

A. The PHARE programme

B. Pre-accession aid for agriculture

C. Structural assistance at regional level

D. Complementarity of assistance

IV. LEGAL INSTRUMENTS

1. The Accession Partnership

2. Europe Agreements

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

Reinforcing the pre-accession strategy

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

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

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

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

– extending the participation of applicant countries to Community programmes and mechanisms to apply the *acquis*.

I. Objectives

The general objective of the reinforced pre-accession strategy is to offer a coherent programme to prepare the Central and Eastern European applicant countries for accession to the European Union.

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

This strategy is aimed at solving the main problems identified by the Commission in each opinion on the

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

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

II. Method

To be effective, the pre-accession strategy must concentrate its efforts on the priorities for accession. The scope of certain problems will make it necessary, from 1998, to establish intermediate objectives with precise conditions attached.

A. Focusing on enlargement priorities

Adoption of the Community *acquis* forms the basis of any accession, and the pre-accession strategy will contribute towards solving the main problems identified in the opinions. In addition to those questions which are specific to each applicant, the analyses carried out at this stage have revealed two types of horizontal requirements:

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

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

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

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

2. Bringing enterprises into line with Community standards

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

In this connection, the pre-accession strategy will have to encourage the development of transport infrastructures, particularly TENs, which are essential to the smooth operation of the internal market and

common policies.

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

B. Setting intermediate objectives

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

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

The Commission will report periodically to the Council on the progress achieved by the applicant countries in the programme for adopting the *acquis*, particularly through the Accession Partnerships, with a view to fulfilling the Copenhagen criteria.

III. Financial resources

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

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

A. The PHARE programme

The new PHARE programme is, and will remain, the main instrument. On the basis of the new guidelines already adopted by the Commission, PHARE's prime objective is to prepare the applicant countries for accession by focusing the assistance it provides on the two key priorities involved in the adoption of the Community *acquis*: institution building and the financing of investment projects, which will account for 30% and 70% respectively of its budget for the applicant countries. With financial resources which will grow until the end of 1999 under the current financial perspective - and which should increase after the year 2000 - PHARE's effectiveness will be strengthened by reformed administrative methods:

- concentration of projects on the *acquis* implementation priorities programmed by the Accession

Partnerships;

- improved budgetary implementation;
- a radical increase in the size of projects;
- continued decentralization of management in favour of the recipient countries.

B. Pre-accession aid for agriculture

This aid, amounting to some ECU 500 million per year, will be granted from the year 2000. It should be provided in priority areas, such as the improvement of conversion structures, marketing channels, and food quality control. These measures will be implemented on the basis of national programmes. They should also ensure funding for specific integrated development projects designed to provide support for local initiatives, such as those covering local economic diversification, the supply of basic services and the improvement of local infrastructures.

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

C. Structural assistance at regional level

This assistance will be provided at two levels:

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

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

- the establishment of development strategies and priorities on the basis of the problems identified at regional level;
- administrative cooperation on the modernization of the administrative and budgetary procedures which will be used subsequently under the Structural Fund joint-financing arrangements. The Commission and Member States will have to work together to acquaint the competent authorities with the Union's structural policies;
- joint financing of projects in the transnational cooperation sphere. These projects would be selected for their "model" value and would help the applicant countries to familiarize themselves with the principles underlying the Structural Funds.

2. The other aspect concerns the beginning of direct funding by the Structural Funds of measures in the applicant countries, by way of pre-accession aid, from the year 2000. This assistance, to be granted at a constant rate of ECU 1 billion per year, would initially be granted to all the applicant countries and would subsequently be focused on countries joining the Union at a later stage. It would be primarily intended to help bring the applicant countries' infrastructures up to Community standards, particularly in the transport and environment fields, along the lines of existing Structural Fund operations. It would also enable the countries concerned to become familiar with the ways in which structural operations work.

This structural assistance will have to lead to the gradual establishment of a system, based on principles akin to those of cohesion policy, that will ensure step by step, particularly through its alignment on the principles

and procedures in force (complementarity, concentration of effort, programming, etc.), that the applicant countries are soon applying the Community's rules on financial management (public procurement, financial control, assessment, etc.).

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

D. Complementarity of assistance

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

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

Secondly, active steps will have to be taken whenever possible to secure external funding, particularly for the joint financing of investment linked to the *acquis* (loans from the EIB, the EBRD and the World Bank), including private sector funding, in sectors likely to generate profits, such as telecommunications, the TENs, etc. Framework agreements on the provision of funding connected with observance of Community standards will be concluded by the Commission with these institutions. PHARE will have to act as a **catalyst** for public and private international loans by providing grants.

Finally, in the **nuclear safety** sphere, this coordination between the various lenders will have to apply to all the operations (assistance, modernization, closure) which will be carried out to improve safety standards. The Union will contribute to this through PHARE and EURATOM lending and by ensuring that the timetables already laid down in the Nuclear Safety Account Agreements are observed.

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

IV. Legal instruments

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

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

1. The Accession Partnership

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

Accession Partnerships would involve:

- precise commitments on the part of the applicant country, relating in particular to democracy, macro-economic stabilisation, nuclear safety and a national programme for adopting the Community *acquis* within a precise timetable, focusing on the priority areas identified in each opinion;

- **mobilisation of all the resources available to the Community for preparing the applicant countries for accession.** This initially means PHARE but also any new forms of assistance that the Community could provide in the context of future financial perspectives (agricultural aid, Euratom loans and balance-of-payments loans; see above).

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

The Commission will report regularly to the European Council on progress made. It will submit its first report at the end of 1998 and will continue to report regularly thereafter. These reports will enable assessments to be made of the progress achieved by those applicant countries with which negotiations have not been opened. If one or more applicant countries are found to have met the required conditions, the Commission will recommend the Council to open negotiations with the country or countries in question.

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

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

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

2. Europe Agreements

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

The work carried out under the Agreements will help to implement the reinforced pre-accession strategy through the cooperation achieved in particular in the association subcommittees for monitoring progress on the approximation of laws and the exchange of information on the evolution of the *acquis*.

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

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

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

(a) Intensification of assistance for the approximation of laws means reinforcing and extending the brief given to **TAIEX (Technical Assistance Information Exchange Office)**, which was set up under the White

Paper on preparation of the associated countries of Central and Eastern Europe for integration into the internal market of the Union. Under the pre-accession strategy, TAIEX should provide information on the entire Community *acquis* (in particular on the environment and transport) and should also broaden the scope of its activities in the applicant countries, not only as regards governments but also firms, in order to prepare them for the disciplines of the single market.

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

The participation of the applicant countries in Community programmes, as provided for by the Europe Agreements, does not raise problems of principle, and the legal procedures for this purpose have been begun. As these programmes encompass most Community policies (education, training, research, culture, environment, SMEs, single market, etc.), they will provide a useful preparation for accession by familiarising the associated countries and their citizens with the Union's policies and working methods.

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

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

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

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

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

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

TABLE OF CONTENTS

Introduction

PART I. SUMMARY

1. The external dimension
2. Overall economic impact
3. Structural policies
4. Agriculture
5. Internal Market and EMU
6. Horizontal policies
7. Sectoral policies
8. Justice and Home Affairs

PART II. ANALYSIS

1. THE EXTERNAL DIMENSION

- 1.1. Political
- 1.2. Foreign economic relations
- 1.3. Selected particular areas

2. THE OVERALL ECONOMIC IMPACT

- 2.1. Potential economic benefits
- 2.2. Problem areas and risks
 - 2.2.1. Sectoral and regional issues
 - 2.2.2. Increased heterogeneity

3. STRUCTURAL POLICIES

- 3.1. The new situation created by an enlarged EU
- 3.2. Adoption of the *acquis* by the applicant countries
- 3.3. Cohesion policies in the enlarged Union
- 3.4. The adjustment phases
- 3.5. Conclusion

4. AGRICULTURE

- 4.1. Current Situation in the candidate countries and Medium Term Outlook
- 4.2. Enlargement under Status Quo: production projections and budgetary implications
- 4.3. Other implications of enlargement: adjustment pressures and adaptation to the *acquis*
- 4.4. Policy Implications

5. INTERNAL MARKET AND ECONOMIC AND MONETARY UNION

- 5.1. Internal Market
- 5.2. Economic and Monetary Union

6. HORIZONTAL POLICIES

- 6.1. Social Policy
- 6.2. Environment
- 6.3. Consumers
- 6.4. Science, Research and Development
- 6.5. Information Society
- 6.6. Culture, Education, Training, Youth

7. SECTORAL POLICIES

- 7.1. Transport
- 7.2. Energy
- 7.3. Industry
- 7.4. Telecommunications
- 7.5. Small- and Medium-sized Enterprises
- 7.6. Audio-visual policy

7.7. Fisheries

8. JUSTICE AND HOME AFFAIRS

PART III: CONCLUSIONS

1. Implications of benefits on EU policies
2. Adjustment strains and their implications
3. Direct budgetary and financial implications
4. Risks from possible late or inadequate adaptation to the Community *acquis*
5. Adjustment, reform and further development of EU policies
6. Impact of administrative strains in the Union's institutions
7. Importance of the pre-accession period

Statistical Table and Graph

Introduction

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

The Essen European Council in December 1994 requested the Commission "to submit as soon as possible the detailed analysis desired by the Council on the effects of enlargement in the context of the Union's current policies and their future development". An Interim report was presented by the Commission to the Madrid European Council in December 1995**. In it the Commission announced a subsequent report which would provide a more detailed analysis of the effects. The Madrid European Council called upon the Commission "to take its evaluation of the effects of enlargement on Community policies further, particularly with regard to agricultural and structural policies". The present report is the response to this request. It attempts to present a comprehensive assessment of the impact of enlargement on EU policies.

Enlargement to the associated states of Central and Eastern Europe is a great opportunity for both acceding countries and the European Union as a whole. It is expected to bring major political benefits to the Union and to peace and security in Europe. In the economic field too, important benefits are expected, but problems, related to adjustment strains from the developing integration process, will also have to be addressed, especially since acceding countries are at a lower level of economic development, while they are still undergoing transition towards market economy.

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

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

Assessing the impact of enlargement is an extremely complex and hazardous task. There is a great degree of uncertainty on a number of important factors which will directly determine that impact; indirect effects,

which could be as important as direct ones, are even more difficult to estimate. The impact of enlargement will very much depend on the economic performance of the present EU, itself depending to a large extent on the success of Economic and Monetary Union; on the economic performance of candidate countries; on largely exogenous factors, such as the international environment, world agricultural and energy prices; on the timely implementation of the Union's new institutional arrangements; and on the future form of the Union's policies, in particular the Common Agricultural and structural policies, but also of the Common Foreign and Security Policy and of policies in the area of Justice and Home Affairs. It will also depend on the date and possible sequence of accessions, the effort deployed during the pre-accession period, and the nature and duration of any transitional measures after accessions.

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

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

Part I - Summary

1. The External Dimension

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

2. Overall economic impact

Economic benefits from enlargement are expected to result from the expansion of the Single Market, from the overall integration process, as well as from the strengthening of the Union's position in global markets. The Union's human potential will be considerably enriched, not least in qualified and highly qualified labour. Acceding countries have significant natural resources (agricultural land, some minerals, biodiversity,

etc.). Their geographic position will be an asset with respect to transport, energy transit and communications. The integration of these countries into the Union will be a powerful stimulus to their economic development. Major investments related to the radical modernisation of the acceding countries' economies and their catching up with EU living standards will boost demand across the Union and strengthen competitiveness.

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

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

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

3. Structural Policies

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

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

Already now, a gradual two stage pre-accession strategy must start being implemented (1997-1999, 2000-accession dates), with Community support, to prepare candidate countries for the adoption of the *acquis* in this field. On accession, all dispositions in force concerning structural policies must be applied to the new members, including technical adjustments that would prove necessary and would justify the existence of a specific phase. Financial amounts to be allocated to new members will be determined so as to take into

account absorptive capacities, the necessary efficiency of structural spending, as well as a progressive increase of per capita support.

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

4. Agriculture

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

Extension of the Common Agricultural Policy (CAP) in its present form to the acceding countries would create difficulties. Given existing price gaps between candidate countries and generally substantially higher CAP prices, and despite prospects for some narrowing of these gaps by the dates of accession, even gradual introduction of CAP prices would tend to stimulate surplus production, in particular in the livestock sector, thus adding to projected surpluses. World Trade Organisation (WTO) constraints on subsidised exports would prevent the enlarged Union to sell its surpluses on third markets. Extension of the CAP would also entail an important budgetary charge, estimated at around 11 billion ECU per year, direct payments to farmers representing close to 2/3 of this sum.

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

In view of the growing market imbalances foreseen for the EU after 2000 (even without enlargement), further adjustments in the current support policies would probably be needed. A reorientation of the CAP with less focus on price support and more on direct income support as well as on rural development and environmental policy was already suggested in the Agricultural Strategy Paper of 1995. This would help to reduce the price gap and would provide support for the structural adjustment process of acceding countries. In the latter context, in place of direct payments to farmers, a significant amount of the money could be used, at least during a transitional period, for structural reforms and rural development in these countries.

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

5. Internal Market and Economic and Monetary Union

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

Economic and Monetary Union: Enlargement will take place during stage three of Economic and Monetary Union. This creates a major challenge for acceding members, since they will have to implement the *acquis communautaire* in this area, at least as non-participant countries if, as it can be expected, most or all of them will not initially participate in EMU. It will thus be important for acceding countries to undertake the necessary reforms permitting them to stabilise their economies in the long-run, as well as to avoid disruptive movements in nominal exchange rates and misalignments that could threaten the proper operation of the Single Market. Enlargement could shift the institutional balance between EMU participants and non-participants, but the impact on the dynamics of EMU is likely to be limited. Most candidate countries have adopted a positive approach towards EMU.

6. Horizontal Policies

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

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

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

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

Information Society: Candidate country interest in Information and Communication Technologies (ICTs) is

particularly high. These countries represent most promising opportunities for related industries and might well become leaders in some uses of ICTs. Enlargement could thus further increase overall EU focus on ICTs with likely positive repercussions on related policies. At the same time, proactive measures will be needed to ensure that acceding countries can really integrate themselves into the information society.

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

7. Sectoral Policies

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

Energy: Enlargement would not seem to create major problems for the Union and its policies in the energy sector, while it will bring accompanying benefits with respect to stability of energy supplies, research, and energy efficiency on a continental scale. These benefits should have a positive impact on security and peace in the region. Important investments will be necessary to ensure upgrading and adaptation to the EU *acquis*, and such investment will generate demand from related EU industries. However, lack of sufficient funds constitutes in certain countries a bottleneck, and, as in other sectors, preparation during the pre-accession period will be a critical factor. EU energy policy would have to take account of the realities of an enlarged Union, such as an increased dependency on Russia, or the economic and social consequences of mine restructuring in acceding countries. Achievement of its objectives (e.g. completion of the internal energy market) could prove more difficult in an enlarged Union. However, in several areas (including nuclear safety and environmental norms) problems for the Union and its policies would be even more serious without the effort related to accession. In some candidate countries, *nuclear safety* is a problem with a broader regional and European significance, causing serious concern throughout the continent. The solution of this problem in accordance with the Community *acquis* and by promoting a "nuclear safety culture" is thus a crucial and urgent task.

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

Telecommunications: No major problems are expected from enlargement for Community telecommunications policy, while the market for the telecommunications sector will expand. A considerable shortfall in investment is likely to generate demand for Community funding. No noteworthy impact is

expected from the adoption of the *acquis* by acceding countries, but enlargement might influence EU positions in international negotiations.

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

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

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

8. Justice and Home Affairs

The expansion of the Union will provide both a challenge and an opportunity to tackle common transnational problems in the fields of migration and asylum, police and customs co-operation and judicial co-operation affecting the current EU and the countries of Central and Eastern Europe. Just as any weaknesses in the defences of the applicant countries in these areas will represent a threat to the existing EU Member States, so also strong Justice and Home Affairs (JHA) performance in candidate countries will contribute positively to security and freedom of citizens in the present EU. It is also in the general interest to ensure that Justice and Home Affairs measures are applied according to common and high standards throughout the enlarged Union and that each acceding state is able to meet adequately EU requirements. Hence the importance of associating candidate countries to these measures as much as possible in advance of accession, and to provide the necessary technical assistance. The process is already under way. The more it is strengthened, the less spill-over of crime and fraud into the Union will occur and the fewer will the problems be upon accession.

Part II - Analysis

1. The external dimension

1.1. Political

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

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

and democratic traditions, could greatly contribute to this.

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

Although autonomous processes, there are important links between EU and NATO enlargement, particularly as the June 1996 NATO ministerial meeting in Berlin agreed on the establishment of an European Security and Defence Identity (ESDI) within the framework of the Atlantic Alliance. The progressive development of a common defence policy of the Union will also be affected by enlargement since the security interests and requirements of an enlarged EU will be more complex and heterogeneous. At the July 1997 summit in Madrid, NATO agreed to invite three countries to open negotiations, and also agreed new measures to deepen co-operation with other partner countries. The summit also made clear that there will be future enlargement negotiations with other partner countries. This means that the issue of congruence in membership of the EU, Western European Union (WEU) and NATO remains an open and delicate question, the outcome of which may also affect the objective of integrating the WEU into the EU.

1.2. Foreign Economic Relations

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

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

Enlargement is very likely to have a net trade-creating effect. The Common External Tariff, which will be applied by acceding countries, is on average lower than national tariffs presently applied. Developing countries, enjoying preferential access to the EU, will find new markets in the acceding countries, while the latter will also improve their access to the markets of the former (through economic and trade co-operation). Important remaining links of some candidate countries with their partners in the former Soviet Union and in certain developing countries should provide EU-based firms opportunities to channel increased trade with these countries. New trade creation effects will depend, however, on cost-price relative competitiveness. On the other hand, enlargement could also lead to some trade-diversion, and to erosion of preferential margins enjoyed by developing countries on the EU market, especially in certain agricultural goods.

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

adjusted to take the acceding Member States into account.

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

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

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

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

1.3. Selected particular areas

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

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

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

and transit routes.

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

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

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

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

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

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

2. Overall economic impact

The economic effects of enlargement will undoubtedly be beneficial for the Union in the longer run.

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

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

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

2.1. Potential Economic Benefits

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

Intensified competition in the labour market -- be it directly through migration or indirectly through the emergence of new competitors -- would probably contribute to wage moderation in Western Europe, thereby supporting job creation. Faster growth at moderately rising wages could also allow for further improved employment prospects, although there may continue to be a shortage of openings for unskilled workers. The potential integration of the (pan-European) labour force should alleviate constraints on growth potential.

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

2.2. Problem Areas and Risks

This enlargement is different from the previous one because the candidate countries are catching-up countries. Therefore, major challenges related to enlargement are (i) the low per-capita income of the applicants, (ii) the heavy bias of most of their economies towards agriculture and so-called sensitive sectors, (iii) inadequacy of transport, telecommunication and energy infrastructures and networks and (iv) their weak administrative capacity. Notwithstanding the rapid growth and pace of structural adjustment in some of the applicants, these features are likely to persist over the medium-term. Furthermore, (v) high unemployment

both in the EU and in most of the applicants' economies make it more difficult for potential 'losers' at the sectoral and regional level of the adjustment process to find new jobs. These problems might trigger sectoral and regional policy interventions and a conduct of fiscal and monetary policy not favourable for reaping the above-mentioned benefits of enlargement.

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

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

2.2.1 Sectoral and regional issues

Labour markets

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

Sectoral adjustment

Sectoral adjustment in the enlarged Union might be most marked in agriculture, coal and mining and traditional industries such as textiles. Additional employment and output opportunities will emerge in those sectors which benefit from the adjustment pressure in upstream sectors -- e.g., food processing and clothing --, and where the emergence of a new market in the East, and the privileged access to this market, will boost demand.

Enlargement would extend the market for European agricultural products. Under the Europe agreements, agricultural goods have remained more protected than industrial goods. Removing remaining barriers to trade would thus increase trade in primary products as well as in processed food and could improve economic welfare in the Union as a whole. although adjustment pressure from exposure to competition could be considerable in acceding countries, while, to a lesser extent, problems could arise as well for some products in the present Member States.

Enlargement may also improve the Union's access to the acceding countries' traditional markets in the countries of the former Soviet Union. However, extending the CAP in its present form to acceding countries would create a number of difficulties in terms of budgetary implications, the economies of acceding states, and international trade commitments of the EU (*see section II.4*).

Regional adjustment

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

The need to build up an adequate publicly and privately financed infrastructure, and to invest in human resources, in order to improve the growth potential of the joining economies will require substantial financial resources, which will only partly come from domestic savings. With respect to public infrastructure in particular, transfers from western countries, and especially from the Community, are of considerable importance.

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

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

The economic centre of gravity of the Community will shift eastward, which will have some implications for the locational decisions of firms, primarily as a result of access to new markets, but also in the form of relocation due to production cost considerations. In terms of their geographic position, the candidate countries are generally in favourable situation. They may thus be well-placed to profit from their comparative advantages, such as low unit labour costs, and low transport costs due to their proximity to the main Community markets, provided the necessary transport infrastructure is available.

The new theory of location emphasises that the consequences for the periphery are not necessarily adverse: elimination of trade barriers could induce concentration in clusters of industries because of economies of scale also to the benefit of peripheral regions, if improved market access were combined with competitive advantages such as low wages. However, only industries for which the sunk cost is low and which are faced with a sufficient reduction of transport costs would be inclined to relocate from current Member States to areas in the candidate countries in which real unit labour costs are even lower.

2.2.2 Increased heterogeneity

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

Extending Economic and Monetary Union to the new Member States will not be straightforward. The increased diversity of economic positions in the enlarged Union may complicate the co-ordination of economic policies. In addition, further fiscal reforms and experience in tax collection are necessary in the

candidate countries in order to meet EU fiscal discipline on a permanent basis. Also, the catching-up that is needed in the candidate states often goes hand in hand with higher inflationary pressure, which will complicate monetary and exchange rate policies. Large movements in nominal exchange rates could threaten the operation of the Single Market.

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

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

3. Structural policies

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

- reinforcement of economic and social cohesion is, and will remain, one of the fundamental pillars of the European Union, together with the single market and economic and monetary union;
- in the post-1999 context, cohesion policies will be reinforced in their current basic principles and will be adapted to become more exacting, particularly through measures required to improve concentration of effort, effectiveness, monitoring and simplification. These arrangements will have to apply both to the eligible regions of the present 15 Member States and to those of the future Member States.

3.1. The new situation created by an enlarged EU

A Union made up of 26 Member States ¹, would constitute a considerable change, since previous enlargements have involved three new Member States at most (in 1973 and 1995).

Table 1: Impact of successive enlargements of the EU

[...]

The scale of the changes which will be brought about by the next enlargement is illustrated (Table 1) by the area and population increases, which will be similar in size to those of the previous enlargements. But the most important feature is the **reduction in the average per capita GDP for the Community as a whole**, which is unprecedented and greater alone than that resulting from all the previous enlargements.

With an overall per capita GDP estimated at 32% of the Community average, the ten CEECs lag far behind the four least favoured countries of the present EU, which together stand at 74% of the Community average. Major differences separate the applicant countries, which range from 18% to 59% of the average for the EU of 15, i.e. a ratio of 1 to 3.2 between the two CEECs furthest apart (Latvia and Slovenia). For EUR 15, the range is 66% to 169%, i.e. a ratio of 1 to 2.6, between Greece and Luxembourg. Current growth rates suggest that these differences will widen, although it is not yet possible to pinpoint a group of countries that will consistently grow more rapidly than the others.

As in the case of the EU, the differences between applicant countries regarding unemployment are wider than for income. The unemployment rate in Bulgaria (13.7%) is four times higher than that in the Czech Republic (3.4%).

The applicant countries are also faced with a wide range of internal regional problems and with weaknesses in their human resource policies, largely as a result of past policies. But the reconstruction of a market economy inevitably brings to light major differences in the growth potential of the regions. The employment

trend and the distribution of foreign investment are already showing that regional disparities are tending to widen.

The need for a structural policy to be formulated now and applied as of the next accessions is therefore justified both by external factors (reduction of the gap between the CEECs and the Community average) and by the internal necessity of combating increasing disparities within the applicant countries.

The CEECs have been unable to mobilise sufficient administrative and budgetary resources to combat these disparities either under the centralised planning system or at the beginning of the economic transition process. Faced with the rise in unemployment and the realisation of the social and regional cost of the economic changes, they have recently created a number of instruments with an explicit or implicit regional dimension, including schemes for assisting SMEs, although the human resource instruments (vocational training, labour market, social solidarity systems) are still deficient.

To date, only one applicant country has adopted a law covering both regional policy and spatial planning, although similar laws are being prepared in three other countries. In the other applicant countries, non-binding guidelines have been issued. However, almost all the applicant countries have spatial planning policies, which occasionally extend to regional policy.

Over the next few years, and before the next accessions, it will therefore be necessary for policies tailored to the adoption of the *acquis* to be created and implemented in order to prevent discrepancies between national and Community instruments.

3.2. Adoption of the *acquis* by the applicant countries

3.2.1. The definition of an strategy for assistance

On the basis of the current eligibility criterion, the available data suggest that all the applicant countries would be eligible for assistance under Objective 1 of the Structural Funds in respect of the whole of their territory.

The definition of highly selective geographical priorities is not necessary in the medium term owing to the extent of the problem areas and the smallness of some countries.

The need to combat the increase in internal disparities must therefore be viewed as part of the priority aim of reducing the overall gap between the applicant countries and the Community average.

A distinction should be made in this connection between three geographical levels:

- **regional and local:** internal disparities, which are increasing and could create serious political tensions, can be reduced by methods tailored to the particular features of each country and to the actual capacity to act of the government departments at the regional level or of elected local authorities;
- **national:** structural assistance can be based on the strategies and instruments which have been most developed by the central authorities, through national regional development programmes of the Objective 1 type which will co-finance a limited number of economic priorities;
- **transnational:** the applicant countries are a specific group of interlocking countries and therefore have a frontier density not seen elsewhere. This peculiarity calls for a Community approach to the development of infrastructure based on strengthened cross-border and transnational co-operation.

3.2.2. The modernisation of aid instruments

Almost all the applicant countries have embarked on a process of *reform of the State*, which should lead to radical changes in the organisation of central government. From the viewpoint of the application of the Structural Funds, they do not yet have suitable instruments for:

- regional policies in the strict sense of the term (small or non-existent budgets, poorly developed instruments, skeletal administrations, etc.);
- appropriate interministerial co-ordination procedures for clarifying the possible role of the sectoral ministries which are involved in spatial development and can contribute to the co-financing of structural measures;
- action by the elected local authorities, which currently lack budgetary resources and technical experience.

In the budgetary sphere, two conditions will have to be met. The first is of a quantitative nature and concerns the mobilisation of funds to match those expected from the Structural and Cohesion Funds. The information available provides no indication as to when or how this co-financing will be provided. The other condition is qualitative and concerns the improvement of methods. As a result of the reforms being carried out, the countries should introduce monitoring procedures and systems comparable with those in operation in the current Member States.

It follows that the technical capacity to act will increase only gradually. The full effects of these reforms, which are crucial to the future management of the Structural and Cohesion Funds, will not be felt for a number of years. Past experience shows, as in the case of Spain and Portugal, that the central authorities are able to establish fairly rapidly a suitable structure for mobilising and co-ordinating the skills needed to manage the Structural Funds, provided that they have sufficient time for preparation and adequate technical assistance.

The aim should not be to establish a structural policy to replace the competent authorities but to give them the instruments necessary for the adoption of the Community *acquis* in this sphere based on the integrated approach adopted in the regions lagging behind in their development.

3.3. Cohesion policies in the enlarged EU

On the basis of the regulations in force and their application in 1993-94 (*see Table 2*), enlargement would lead to a sharp increase in the population eligible for assistance under Objective 1, which would rise from 94 million to 200 million. If no change were made to the other Objectives, the population of the eligible areas in the enlarged EU would amount to 60% of the total, which would be contrary to the principle of concentration of effort on which the effectiveness of assistance depends.

Table 2: changes in the population eligible for assistance under the Structural Funds

[...]

It is difficult to predict and measure the short- and medium-term impact of enlargement on the prosperity of the regions of the EU of 15. Both positive and negative effects could be felt. At all events, enlargement will not appreciably reduce the regional and social disparities in the current Member States. Cohesion policy, as the vehicle of Community solidarity, will therefore have to continue to target all the regions in difficulty in the EU.

Support, should therefore continue to be provided, through an integrated approach, for those present EU regions lagging behind in their development which strictly satisfy the Objective 1 eligibility criterion and for those areas undergoing change and conversion in the more prosperous Member States. Community support should be concentrated on those regions most in difficulty so as to increase its effectiveness. In order not to disrupt their economies, transitional arrangements should be applied to those other regions which no longer

strictly meet the eligibility criteria.

Support for regions lagging behind in their development will therefore have to remain the prime concern of cohesion policy. It will also have to be maintained for those regions and social groups that are in difficulty in the more prosperous Member States.

3.4. The adjustment phases

The important changes anticipated around the turn of the century call for new structural responses that are tailored to an enlarged EU. This process will necessitate phases of adjustment, both for the current 15 Member States and for the future members.

Although the applicant countries are in very different situations as regards the introduction of structural policies, it is generally accepted that they will all be able to adopt the rules introduced under those policies over a period of five to ten years depending on their level of preparation. That period should be divided into three phases:

- the pre-accession period covered by the current financial perspectives (1997-99);
- from the year 2000 to the date of accession and for the next programming period, a system as close as possible to structural assistance will have to be established in order to prepare for the management of the future programmes;
- on accession, the Structural Funds will have to be applied taking account of the programming period in force in the EU.

This will have to be accompanied by an increase in the participation of the recipient countries and by a generalisation of co-financing through contributions from national or local budgets and from the private sector. The programmes should be aligned on the same period as that for structural assistance.

Specific arrangements will have to be made in the area of management to help the recipient authorities adapt to a situation of increased discipline and responsibility and to prepare properly for the post-accession period.

In the transitional post-accession period (between accession and the future expiry of Structural Funds' programming), the new Member States will be entitled to assistance from the Structural and Cohesion Funds on the basis of their respective eligibility criteria, in continuation of the priorities already established and according to the results of the previous periods.

The allocation of financial resources will have to be determined so as to take account of their absorptive capacity, the required effectiveness of structural spending and the need to ensure a progressive rise in per capita support. The co-financing requirement for the new Member States will have to be progressively increased.

3.5. Conclusion

Owing to the unfavourable socio-economic situation in the applicant countries, their rapid transition to the market-economy system, and the scale of the action to be taken to enable them to participate in the single market, the successful integration of these countries will depend in part on the intensity of structural support that can be given them and, therefore, on their level of preparedness to adopt the *acquis*.

The handicaps suffered by the regions currently eligible for assistance (particularly under Objective 1) will not be reduced appreciably by the arrival of new Member States. It is therefore essential to continue to provide the Community assistance which is playing such a key role in the catching-up process within the EU

of 15.

Changes should be made to enhance effectiveness, monitoring and simplification in accordance with the four basic principles and the need for budgetary discipline, which calls for the cohesion effort in 1999 (0.46% of the GNP of the EU) to be maintained in relative terms. This threefold requirement applies both to the current Member States and to the applicant countries.

A pre-accession strategy should be introduced already now to provide for gradual change in two stages (from 1997 to 1999 on the basis of the current financial perspective and from the year 2000 to the dates of accession by applying the principles and operational arrangements of the Structural Funds). Accession will entail full application of all the arrangements in force under the structural policies, including any technical adjustment which might be necessary and which might justify a specific phase.

With the prospect of an enlarged Community territory, cohesion must also be taken into account in the formulation and implementation of each common policy in order to adapt to entirely new circumstances. This will have numerous implications for the shaping of policies with a marked regional or spatial dimension.

4. Agriculture

Agriculture is relatively more important in the candidate countries than in the EU in terms of area, contribution to GDP, and especially in terms of share in total employment. On average, over 22% of the work force is employed in agriculture, i.e. a total number 9.5 million, compared to 5% or 8.2 million in the EU. Agriculture still contributes 9% to GDP, compared to 2.4% in the EU.

With enlargement, the Union's agricultural area would be expanded by 60 million hectares to close to 200 million ha. Of the 60 million ha two thirds would be arable land, adding 55% to the EU's existing arable area of 77 million ha, but under quite diverse land quality and climatic conditions. The agricultural labour force projected at around 6.6 million in 2000 for the existing EU could be expected to at least double, with the average available agricultural area per person employed in the candidate countries being 9 ha compared to 21 ha in the existing EU.

Enlargement would add over 100 million food consumers to the internal market, if all associated countries were to join, but with on average a level of per capita purchasing power roughly only a third of that of the existing EU.

4.1. Current situation in the candidate countries and medium term outlook

Although there are signs of recovery, in particular in the crop sector, agricultural output in most candidate countries is generally still much below pre-transition levels. Output was affected by the fall in demand, as consumer subsidies were removed and the general economic situation deteriorated and by the price-cost squeeze agriculture faced (i.e. input prices rising much faster than output prices). The crop sector generally resisted better than the livestock sector. Most CEECs have become net importers of agricultural and food products in recent years. The EU is the most important agrofood trade partner for many candidate countries, and all of them except Hungary are increasingly net importers from the EU.

In the transition to a market economy the agricultural sector in most CEECs has been subjected to large scale restructuring starting with the privatisation of land and assets. The restructuring process can be expected to continue in the medium term and to include the linkages to the downstream sector, which is itself under pressure to rationalise to reduce overcapacity and to modernise to replace obsolete technology. The further restructuring can be expected to reduce the labour absorption capacity of agriculture, implying a need for diversification of rural economies.

The rate of structural reform will depend to a large extent on the emergence of functioning land markets,

which so far has been hindered by the delay in most countries of the definitive settlement of property rights. At the same time, a return to profitability of farming will largely depend on a competitive downstream sector and on a reorganisation of the farm sector itself, e.g. in bundling supply and strengthening its negotiating position vis-à-vis the food processing industry and distribution channels.

Agricultural prices in the candidate countries are in general substantially lower than those in the EU, although the differences vary considerably by country and by product. In 1995, farm gate prices in the candidate countries were in the range of 40-80% of the EU level, with a few exceptions in both directions. The highest prices were generally for cereals, oil seeds and protein crops, while the gap was larger in relative terms for beef, milk and dairy products, sugar beets and certain vegetables and fruit. For cereal based meat (pigmeat and poultry) prices differences were relatively small. When considering the generally low level of farm gate prices in the candidate countries, the downstream inefficiencies in many countries should be taken into account, e.g. for wheat a doubling or more of the farm gate price to get the product to the border is not exceptional. The low dairy and beef prices reflect the fact that the decrease in supply is only now matching the fall in demand and can also reflect quality differences.

Over time the price gap can be expected to be eroded to a certain extent by a relatively high inflation (not fully compensated by currency depreciation) and by a rise in domestic agricultural prices as food demand recovers somewhat more quickly than supply. In a situation of rising output, production costs will be more fully reflected. The price gap will also be influenced by the development of EU prices in the coming years (see I4.4 below).

In most candidate countries measures have been introduced to stabilise the agricultural sector, in the wake of the disruptions the early years of transition brought. Depending on the country, support to agriculture has taken various forms ranging from CAP like intervention and border measures, to administrative controls still close to those used under central planning. In view of the budgetary constraints in many countries, state support to agriculture is not expected to increase much above current levels, limiting the possibilities of market intervention and structural aid. Use of import protection within GATT limits can be expected to increase, although the scope for domestic price rises is limited by the still high share of household income spent on food and by the still excessive inflation rates in many countries.

4.2. Enlargement under status quo: production projections and budgetary impact

Taking into account the rate of restructuring in agriculture and the food industry which could reasonably be expected, a first assessment of the longer term development of the agricultural sector of the candidate countries was made in the country studies and the Agricultural Strategy Paper of 1995⁵. These long term projections for the main commodity sectors have in the meantime been partially revised to take into account the new information on the general economic situation and agricultural markets in the candidate countries, which has become available since the work was undertaken. In most candidate countries recovery in agriculture has been somewhat slower than expected as major structural handicaps continue to hamper progress (definitive settlement of property rights, capital constraints, inefficient downstream sector).

In the coming years, a number of factors will influence the gap in agricultural prices between the candidate countries and the EU, for the reasons explained above (4.1). Though it is difficult at this stage to foresee how significant the price gap will be at the time of accession, it is likely that significant price gaps will still exist, especially in dairy products, sugar and certain vegetable and fruits. For cereals and beef they may have largely disappeared if the reforms proposed by the Commission are carried out. If a significant price gap existed on accession, abrupt introduction of CAP price levels would raise food prices in countries where already a relatively large share of household budgets is spent on food. It would tend to stimulate agricultural production and to dampen domestic demand, while raising raw material prices for the food industry, which at the same time would be facing increased competitive pressures from the Community market.

The projections for production and consumption of the main crop and livestock products cover the period up until 2005. As a working hypothesis⁶ for the impact assessment it was assumed that all 10 candidate countries would join in 2002 and would start applying the CAP in its current form, i.e. including quantitative

restrictions such as set aside and production quotas for dairy and sugar, and would align their prices to EU levels gradually.

In the **crop sector**, when applying set aside the CEEC-10 would become net importers of *cereals* of around 1 million tonnes in 2005, compared to a projected EU-15 surplus of over 40 million t. Without set aside, a surplus of a few million tonnes could be expected. With crushing capacity assumed stable after 2000, export availability of *oilseeds* would increase to 0.9 million t. , even if some area has to be set aside, compared to an EU-15 import need of 16 million t. For *sugar* a surplus is projected for the CEFTA countries by 2005 (even though production would be stabilised under quotas). Given the still relatively high cost of sugar production and the continuing overcapacity in the processing sector in the CEFTA countries it is not clear if the rate of surplus production is sustainable over the projection period. The CEFTA surplus of around 750,000 t. in 2005 would be added to a growing EU-15 surplus of 3.5 million t.

In the **livestock sector** implementation of *milk* quotas (with some limited room for expansion on the level in preceding years) would stabilise production after 2002. The start of price alignment would however dampen the growth of domestic use in the candidate countries (the price gap for livestock products in general being more important than for crop products), leading to more or less a doubling of the projected milk surplus between 2000 and 2005 to 2 million t. , which would be added to a growing EU-15 surplus of 9.4 million t. For *beef* the price alignment starting in 2002 would stimulate production and negatively affect consumption, thereby rapidly increasing the surplus to 435,000 t. by 2005, which would be added to an EU-15 surplus of 0.5 million t. For *pigmeat* consumption would tend to stagnate after accession, while production would continue growing, leading to a surplus of 252,000 t. by 2005, compared to an EU-15 surplus of 0.7 million t. The *poultry* surplus is projected to remain relatively stable after 2000 between 170,000 and 194,000 t. , compared to an EU-15 surplus of 0.4 million t.

Some market imbalances could also occur in *table wines*, as well as in certain *vegetables and fruit*.

Following the hypothetical scenario of all ten associated countries joining in 2002 and fully applying the CAP in its current form, the **budgetary impact** of enlargement would be an additional cost to the EAGGF Guarantee section in the order of 11 billion ECU per year by 2005, of which the direct payments (i.e. arable payments and animal premia) would make out close to 7 billion ECU and the accompanying measures (agri-environmental action programme, afforestation and early retirement) 1.5 billion ECU. Market support measures (essentially intervention and export refunds) for the CEEC-10 would cost up to 2.5 billion ECU, largely absorbed by the dairy sector.

4.3. Other implications of enlargement: adjustment pressures and adaptation to the *acquis*

Enlargement will entail full liberalisation of trade in agricultural and agro-industrial products between present and acceding members (as well as between the acceding members themselves). Since this sector has remained relatively protected under the European Agreements, considerable further adjustment pressure on the primary sector as well as the food processing industry could be expected as the CEEC economies are exposed to the Community market. The restructuring can be expected to be accompanied by a significant shedding of surplus labour. Vice-versa, for some sectors in the existing Union, in particular for certain fruit and vegetables, increased competitive pressure from the enlarged market can be expected.

The coherence of the Internal Market, which includes the maintenance of a high level of consumer protection, requires the adoption by new Member States of the *acquis communautaire* in the area of the free movement of animals and agricultural products within the Union⁸. Full implementation of the *acquis*, leading to the abolishment of internal borders, would require not only the harmonisation of legislation, but also an adequate control and inspection infrastructure in the candidate countries to enforce the *acquis* both domestically and at the external borders.

Adequate implementation and enforcement of these requirements in the candidate countries is essential for the protection of plant, animal and public health in an enlarged Union as a whole and must be accomplished

before free movement of agricultural products without border control can be established. The implementation of these measures will require additional investment in inspection and testing facilities in the public sector, as well as substantial investment in the private sector for upgrading of establishments in the food industry to meet EU requirements and standards.

4.4. Policy implications

As far as market policy is concerned, it can be seen from the projections for the main commodity markets that adoption of the *acquis* in its current form would tend to increase surpluses in most sectors in the candidate countries, which would be added to the growing market imbalances foreseen after 2000 for the existing EU. Although in general a favourable development of world market prices for agricultural commodities is expected over the next decade, the gap between the domestic EU price level and the world market would remain significant for most commodity sectors. The WTO constraints on subsidised exports would prevent the enlarged Union to sell its surpluses on third markets.

Adjustments in present support policies would therefore probably be needed. In general a reorientation of the CAP with less focus on price support and more on direct income support as well as rural development and environmental policy can be expected in the medium term as has been suggested in the Agricultural Strategy Paper of 1995. Such a reorientation of the CAP would fit well with the needs of the candidate countries, by reducing the price gap and providing support for their structural adjustment process.

In the context of acceding CEECs and during a transitional period, instead of applying the regime of direct payments to farmers, it seems more constructive to spend a significant amount of money for structural reforms and rural development. Indeed, in the 1992 reform, payments per hectare or animal were meant as compensation for the reduction in price support in these sectors. When joining the CAP producers in the acceding countries will most likely experience price increases. Adding the direct payments would for many of them represent an inordinate cash injection. A strong increase in incomes for farmers alone through direct payments would risk to create income disparities that could rapidly lead to social tension in the countries and regions concerned. On the other hand, candidate countries are in great need of structural improvement programmes in agriculture and in the downstream sectors directly linked to it, in view of the structural handicaps still to be overcome, as well as of rural development in general, in view of the economic diversification needs in their rural areas.

Concerning the adoption of the Internal Market *acquis* in the agricultural sector, efforts are being made by the candidate countries to align their legislation with that of the Union and to set up the required administrative infrastructure. Large differences, however, exist between the candidate countries in the level of approximation of legislation and of implementation of Internal Market requirements, which would make it difficult for a number of countries to apply the *acquis communautaire* from day one without transitional measures.

5. Internal Market and Economic and Monetary Union

5.1. Internal Market

Achieving free movement as provided for in the Treaty, requires effective application of Community rules for approximation of Member state legislation and administrative practices in the fields of health, safety, environment and consumer protection and combined with mutual recognition of national legislation. Equally important is the establishment or co-ordination of regulatory certification and surveillance mechanisms, where appropriate. The creation of a climate of mutual confidence is also indispensable for the proper functioning of the Internal Market. Though the major part of the Internal Market is already in place, a number of horizontal and sectoral measures aiming at its completion and consolidation are expected to be adopted during the next years. Major benefits are expected from the functioning of the Internal Market in an enlarged Union: expansion of economic activity, broader choice for consumers, increased competition, more efficient allocation of factors of production. However, sectoral and regional tensions are likely to result from the adjustment process (see section II.2). While the existence of tangible benefits from enlargement would have positive effects on the

Internal Market by strengthening confidence in its principles, adjustment tensions could generate protectionist reaction in both acceding and present members. Inadequacy of transport and telecommunication networks could affect the functioning of the Internal Market and reduce the benefits from its enlargement. Also, if there were inadequate implementation of the Community *acquis* by administrations and operators in acceding countries, this could distort the functioning of the Internal Market and harm consumers throughout the Union. This in its turn could provoke reaction. Therefore, it is of the utmost importance that such essential provisions as those concerning conformity assessment, product liability and general product safety be in place as soon as possible.

Free movement of goods:

Adjustment strains resulting from the free movement of goods could be important in both acceding and present members, particularly in sectors where liberalisation under the Europe Agreements is limited, and where considerable shifts are expected (*see section II.2*).

Implementation of common or minimal norms and standards, as prescribed by Community legislation is likely to require a very significant administrative and financial effort on the part of acceding states (*see following sections*). On the other hand, deficient implementation by one State, could cause serious prejudice to public health, consumers, or to the environment, in other Member States as well. It could also distort competition to the detriment of operators in Member States which abide by such standards and norms.

Under these conditions, mutual confidence would be undermined, and Member States could be tempted to react by resorting to restrictive measures. Such measures would risk being applied not only against the new member concerned, but also against other Member States. Situations as those described above could also serve as a pretext for protectionism leading to a partitioning of the Internal Market.

Free movement of capital:

Full liberalisation of capital movements, presupposes the existence of a solid financial system and lasting progress in economic stabilisation and in achieving sustainable external financial positions. Without these prerequisites, liberalisation risks causing serious strains to the acceding countries' external balance and could lead to at least partial reintroduction of restrictions. However, the Treaty itself allows for preventive mechanisms (e.g., balance of payment assistance), as well as for provisional safeguard measures. Use of these provisions should provide sufficient protection to acceding members without affecting the overall functioning of the Internal Market. Furthermore serious problems could arise from eventual defaults of financial institutions in candidate countries and ensuing loss of confidence by the public and by institutional investors, which could turn into a currency crisis. Here too, however, given the limited relative size of financial sectors in those countries, spill-over effects on the rest of the Union would probably be manageable. A solid financial system and durable progress in economic stabilisation and reform in acceding countries could enhance the beneficial effects of capital mobility and limit potential adverse effects.

Free movement of services:

The impact of enlargement on free movement of services is particularly difficult to assess, given the great number and extreme variety of areas concerned. Issues related to transport, energy and telecommunications are addressed in following sections. Certain types of services presuppose the adoption of Community legislation before free movement is fully implemented. If these prerequisites are not met, there would be a danger of partitioning of the Internal Market, as in the case of goods. In the case of **financial services** in particular, strengthening the solidity and efficiency of the financial system in all candidate countries seems indispensable. Financial supervising authorities must acquire the qualifications and capacity to implement fully relevant Community legislation (level of equity, technical ratios, quality of management and shareholders of financial institutions, etc.). If extended to financial institutions of acceding countries without such implementation, liberty of establishment and the European passport could be undermined.

Free movement of persons:

Free movement of *workers*, is one of the fundamental freedoms under the Treaty. As explained above (section II.2), migration flows are likely to increase, both from acceding to present members and among the acceding members themselves, given the importance of wage differentials, and the limited freedom of movement before accession. However, fears that mass migration would "flood" the labour markets of present states do not seem justified, also in the light of experience from previous enlargements which would suggest that migration flows are affected by economic conditions and prospects, more than by the right of free movement. Measures to alleviate adjustment strains will evidently be critical in ensuring that this freedom will not be exposed to pressure.

No major problems are expected from the application upon accession of the Community *acquis* on freedom of movement to *other categories of persons*. Existing regulations would probably suffice to limit adjustment strains: issuance of residence permits to students, retired and other economically inactive persons is subject to certain conditions (proof of sufficient resources, social security coverage); the right to exercise liberal professions is also conditional upon fulfilment of certain requirements, including possession of recognised diplomas with a minimum duration of studies; in certain health-related professions, safeguard mechanisms against excessive migration exist. Family reunification of all categories of citizens from acceding countries presently residing in the Union could put some strain on the social security schemes and infrastructure as well as on the labour market. Lastly, strict implementation by acceding countries of Community requirements concerning company and accounting legislation will be necessary, lest the right of establishment of firms (assimilated to physical persons in terms of free movement) result in insecurity for third parties beyond the acceding countries.

Competition policy:

Competition policy should not be profoundly affected by enlargement. Its direct and uniform implementation over a wider economic area by a single authority should increase its efficiency. However, enlargement could create some problems in the efficient enforcement of competition policy. In particular, the heavier and more complex administrative burden for the management of competition policy will be a challenge for the Commission.

In the field of *anti-trust*, approximation of legislation in most candidate countries is progressing satisfactorily and competition authorities have been set up to enforce the law. However, beyond approximation, a "competition culture" is necessary. In the likely event that such a "competition culture" will not have been fully achieved upon accession, problems could arise in enforcement. Also, enlargement may prove a challenge to the Commission's attempt to further decentralise competition policy enforcement to the Member States while ensuring uniform enforcement.

In the field of *state aids*, efforts within the framework of the pre-accession strategy should be intensified, and political resistance to alignment with the Community *acquis* will have to be overcome, or else enlargement would risk to create distortions in the functioning of the Internal Market. Current rules seem to provide the flexibility needed to take account of any specificities of acceding countries. The ability of the relevant administrations to implement properly the competition rules in this field should also be ensured. In particular, if monitoring authorities in acceding states were not to have the powers, skills and necessary political support to create a sufficient degree of transparency in the granting of state aids, this would considerably increase the workload and difficulties of the Commission in dealing with these matters. Enlargement will also have an impact on regional aid policy: with present rules unchanged, some assisted areas in present Member States could be crowded-out as a result of the overall increase in eligible areas, and as a consequence of the mechanical effect of enlargement on average EU per capita GDP.

As regards *state monopolies* of a commercial character, public undertakings and undertakings enjoying exclusive or special rights, some problems related to the specific character of economies of transition could arise; however, they could be met through the flexibility provided for in the Treaty, and through an elaboration of suitable transitional integration procedures for state monopolies.

Customs and indirect taxation:

The functioning of the Internal Market as a whole is highly dependent on the effective and efficient protection and control of the EU's external borders, for the implementation and enforcement of the Community's common commercial, agricultural, fisheries and other policies. The capacity of candidate countries to ensure such protection and control by the date of accession is a clear prerequisite for the latter. Increasing computerisation in Community customs services (e.g. tariffs, transit system, mutual assistance) could prove an additional challenge for acceding countries.

Regimes of indirect taxation as applied since 1993, and in particular in the field of intra-Community Value Added Tax (VAT), require a high degree of co-operation between Member States, including an adequate administrative infrastructure and sophisticated administrative co-operation methods. Were acceding countries to implement inadequately the required administrative co-operation, problems could ensue, including tax evasion and fraud which would distort competition in the Internal Market. Such difficulties could be further intensified in the context of the introduction of the future new common VAT system. Similar problems could also affect the collection and the level of own resources.

5.2. Economic and Monetary Union

Enlargement is expected to take place in stage 3 of Economic and Monetary Union. All Member States must endorse the aim of EMU, and thus should be able to participate in time in the euro area. While it is unlikely that at the time of their entry, the new Member states will be in a position to participate fully in the euro area, the major challenge for them will not be to enter the euro area, but to adopt the Community *acquis* in the area of EMU even as non-participating countries.

The *acquis* has changed since the conclusion of the TEU, and will change further as the Union enters Stage 3. EMU has changed the institutional framework with which all Member states, including the non-participating countries, will operate. All Member States participate in EMU: they are involved in the procedures of co-ordination of economic policies, they are required to follow the rules disciplining fiscal policy, except those related to sanctions, and they shall have completed liberalisation of their capital movements. Non-participating countries will be able to conduct their own monetary policy and will participate in the European System of Central Banks (ESCB) on a restricted basis; they will not have to participate in the pooling of reserves of the European Central Bank (ECB), nor to comply with guidelines and instructions of the latter. However, their central banks will have to be independent and to follow an objective of price stability. Finally, all Member states shall treat their exchange rate policy as a matter of common interest and the new Member states may be expected to participate in a new exchange rate mechanism linking their currencies with the euro.

During the catching-up process in transition economies, a trade-off between exchange rate stability and price stability cannot be avoided. Exchange rate stability and the loss of the exchange rate instrument may therefore be too constraining for some of the acceding countries. Likewise, certain aspects of the liberalisation of capital movements might require closer scrutiny.

The new Member States' participation in the euro area will be judged on an equal basis with other Members, i.e., on the basis of the TEU convergence criteria. It should be noted, however, that these are not accession criteria, and early emphasis on the former might be inappropriate for transition economies. Indeed, in these economies concepts such as long term interest rates and budget deficits are not yet fully compatible with those of more mature market economies.

Also, it is important that the new members undertake the necessary reforms permitting them to stabilise their economy in the long-run. Even as non-participating members, acceding countries should be able to avoid disruptive movements in nominal exchange rates and misalignments; they should also be able to pursue disciplined and responsible monetary policies so as not to put at risk the objective of price stability.

Failure of acceding countries to meet the requirements of non-participant members in EMU could generate spill-over effects which would endanger stability within the euro area and the normal functioning of the Single Market. However, as the economic weight of candidate CEECs relative to the present EU will be small, these effects should remain limited, although the risk of some political tensions cannot be excluded (e.g., if large shifts in market shares were to occur between acceding and present members)

Enlargement is likely to modify the institutional and economic balance between participants and non-

participants in the euro area, but the impact on the dynamics of the EMU should be limited.

6. Horizontal policies

6.1. Social Policy

Community social policy covers a wide range of subjects: living and working conditions of workers, their health and safety, equal opportunities for men and women, dialogue between social partners, human resources, employment, social protection, social exclusion. Social policy has been developed through a variety of instruments, including legal provisions, the European Social Fund, and also by action focused on specific issues, such as public health, poverty and the role of the disabled. Social progress, aiming at high levels of employment and of social protection, the raising of the standard of living and quality of life and economic and social cohesion, is a key element of the European model of society, characterised by a balance between social justice and economic efficiency.

The history and development of social policy in the candidate countries has been quite different from those of the Union. While such policies were highly developed in some areas under the previous regimes, an important deterioration accompanied the transition process of recent years, and policies are generally not adapted to conditions of market economies. Adoption by these countries of the Community social *acquis* and, more generally, of the European social model will be affected by the large number of citizens having living standards far below the EU average, by their acute social problems, by low efficiency of public administrations, and by still underdeveloped systems of industrial relations.

Social policy in a Union enlarged with several countries presenting the above mentioned characteristics will have to address their acute social problems, including unemployment and public health issues. Additional important social problems could result in both new and old members from the adjustment processes triggered by enlargement (*see sections II.2 and II.3*). Those adjustments would necessitate considerable investments in human resources in order to alleviate the strains in economic and social cohesion, and could subject Community social policies and their funding to strain. A revival of the discussion on the role and functioning of Community Funds could also result.

Adoption of the Community *acquis* will require considerable financial and administrative efforts from the candidate countries especially in the area of *health and safety at work*, but too slow or inadequate adaptation could undermine the unitary character of the *acquis* and distort the functioning of the Internal Market.

Long-term development strategies based on competitive advantages from observance of low health and safety norms, would be unacceptable within the Union. Similar, though less severe problems could arise in the fields of *equal treatment of men and women*, where adequate legislation is already in place, but its enforcement is severely hampered by the unequal way in which present economic difficulties affect women and men; of *social dialogue and labour law*, where adaptation is often hampered by the lack or low level of development of employer and employee organisations, and by reluctance of certain governments to accept an autonomous role of social partners, trade unions in particular.

Enlargement carries a risk that support for a broad social policy would become weaker in the Union as a whole, especially if adaptation of acceding countries to the *acquis* were inadequate. Further development of Community policies (equal opportunities for women, labour law, co-ordination of social security schemes) could be hampered, in particular when unanimity will be required for decisions. Achievement of the aims of recommendations for social protection could be retarded. On the other hand, enlargement will unavoidably highlight the importance for the Union of social cohesion and hence of social policy. In the long run, acceding Member States are likely to broadly support policies and principles which are crucial for the development of their peoples.

6.2. Environment

Departing from an initial reactive approach to environmental issues, present Community policy has adopted an approach towards sustainability based on the integration of the environment into sectoral policies and the reshaping of social and economic behaviour through the use of a broader range of instruments and by promoting the principle of shared responsibility. Moving from "pollution reduction" to "pollution management" also requires in-depth research and policy co-operation.

Candidate countries are facing on the whole more acute environmental problems than the EU-15, particularly in water and air pollution and in waste management. In certain highly industrialised areas, environmental degradation has resulted in severe damage, and effects on human health. Most of these problems are legacies from the past (insufficient controls of industrial emissions and waste, underpricing of energy), but some have intensified during the rapid transition process. CEEC actions in the environmental field tend to take the form of "end-of-the-pipe" solutions, whereas the EU has entered into a phase where the objective is to deal with mitigation of the effects of diffuse, hard to control, sources in sectors such as agriculture, transport, energy, tourism and specific industrial branches.

The ongoing adaptation to the principles of market economy has already led to the closing down or upgrading of many of the most energy intensive and polluting installations, and adaptation to world market prices for energy will further accelerate this trend. Candidate CEEC's are already addressing their environmental problems, with EU and other international assistance. Further substantial efforts during the pre-accession period should diminish the actual gap in terms of the level of protection. Nevertheless, the difference is most likely to remain significant over a long period.

A very important effort, including considerable EU technical and financial assistance, would appear indispensable for a rapid progress of acceding countries towards alignment to the EU environmental *acquis*, especially in the areas of water and energy related issues. Investment will also be needed to address problems which have a direct health impact on the population, and to improve situations linked to past environmental liabilities (contaminated soil, hazardous waste, etc.). Most burning industrial related environmental problems should be mainly addressed through modernising production technology. Although the bulk of financing here would need to come from the private sector, substantial amounts of funding by the Union might prove necessary, especially during an initial period marked by underdevelopment of capital markets and lack of fully cost-based tariffs.

Given the significantly higher marginal environmental benefits of investments in the acceding countries compared to EU-15, focusing investment in environmental infrastructure in the former should bring about higher social benefit and thus higher protection for all European citizens. Indeed, evidence is emerging to show that investments in certain CEEC's to address transboundary problems would result in cost savings for the EU, compared to trying to solve these problems within the present Member States. Moreover, investments required for improving environmental protection in acceding countries could develop important markets for EU industries in the environmental and other sectors; this in turn could improve their competitive position in fast-growing high tech world markets. On the other hand, allocation of large amounts of funding and attention over an extended period of time to problems of new members could have an inward-looking effect on Community environmental policies; member state governments could find it more difficult to shoulder the wider international burden of promoting sustainable development (e.g., in global issues such as the green house gases and ozone depleting substances). This would affect the Union's political position on the world scene and should be prevented.

Persistence of the gap between acceding and present members for a long time after accession would put a strain on the cohesion of an enlarged Union and would distort competition within the Internal Market. As in social policy, national long term development strategies based on the competitive advantages of low environmental standards would be unacceptable within the Union. A gradual but steady process of alignment, starting already before accession, would seem the most appropriate. Enlargement with countries enjoying lower environmental standards could also affect the capability of the Union to keep a satisfactory rhythm of continuously developing higher standards. At the same time, however, it is likely to further strengthen a more flexible approach to EU environmental legislation, with a stronger emphasis on implementation and enforcement of adopted legislation.

Candidate countries have sometimes different, but still efficient approaches to certain environmental issues. This could enrich future EU policy orientations and legislation. In particular, many candidate countries have a long tradition in preserving biodiversity and promoting nature conservation. It would be important to ensure that policies in these areas will be maintained.

6.3. Consumers

The Community *acquis* covers protection of economic interests of consumers (including control of misleading advertising and of

other abusive commercial practices), consumer safety and health, consumer information and education, consumer representation, and consumer access to justice. It mainly consists of directives for minimal harmonisation. The *acquis* is developing, with a number of new directive proposals at various stages of the decision process. In coming years an increased emphasis on food products can be expected.

Candidate CEEC market economies are at different levels of development, and, hence, have adopted at varying degrees consumption modes similar to the ones in EU countries. On the whole, CEECs lag considerably behind EU standards in ensuring an efficient protection of consumers, particularly against problems resulting from the newly introduced economic system. This holds true for most areas covered by Community consumer policy.

In a number of cases, candidate country consumer legislation is relatively advanced, but frequently lacks the precision necessary for its efficient implementation. In some areas (advertising, product liability, product safety), some candidate country legislations even provide for a higher level of consumer protection than in the EU. Generally, however, the main problem in candidate countries lies in the lack of adequate structures to ensure effective implementation of Community legislation: weakness of the consumer movement, insufficiency of administrative means for necessary market controls (e.g., for dangerous products), etc. An important difference is also that CEECs tend to concentrate on "a priori" product controls before commercialisation, while EU legislation uses "a posteriori" controls on the market. Expected developments in the Community *acquis* are likely to intensify the problems of adaptation.

Enlargement should have positive effects on EU consumers, e.g., by increasing flows of goods and services and hence consumer choice opportunities, and by improving on the whole the level of protection for citizens in acceding countries.

Consumer policy at the Community level, as well as work for approximation of national legislations would have to be strengthened, since disparities among Member States may tend to increase. Policies and legislative techniques would eventually have to be adapted so as to better cover specificities of acceding countries, and this could include reflection on the significance of the term "high level of protection" endorsed by the Treaty. Enlargement will necessitate the allocation of more means to consumer information and education, access to justice, to the development and activities of consumer associations, and to the establishment of new forms of partnership and collaboration both among acceding countries, and between these countries and present members.

A critical element in the adaptation process will be to ensure in practice the implementation of Community law. Without efficient control structures and adequate business ethics in the field of consumer protection, acceding countries would risk becoming turn-tables for non-secure or otherwise "doubtful" products and services, with serious consequences for citizens in the whole of the enlarged Union. They could also become the seat of firms which would abuse the freedoms of the Internal Market and use aggressive and misleading commercial practices throughout the Union. Transition from a system of "a priori" to one of "a posteriori" controls could have a temporary negative impact on the level of consumer protection in acceding countries. It is also uncertain whether "self-responsibility" of firms in acceding countries will be at a level with EU standards.

6.4. Science, Research & Development

RTD activities at Community level, as provided for by the Treaty and in the Framework Programme, aim at improving the competitiveness of European industry, the quality of life, as well as at supporting sustainable development, environmental protection, sustainable mobility for the transport system and other common policies. The Fifth Framework Programme for the period 1998-2002 is presently in the process of being adopted

Though candidate CEECs had relatively high levels of R&D activities under the previous regimes, R&D resources faced serious decline during the transition period. This trend has lately tended to be reverted, especially in the most advanced countries; however, most indicators of R&D/S&T activities are still low if compared to most EU countries, while such activities are still not sufficiently adapted to the needs of modern market economy societies: candidate countries generally have a low profile of R&D in national agendas, an oversupply of researchers, and lack of research laboratories in private industry.

Community R&D programmes have been opened to CEEC participation within the framework of the pre-accession strategy, and limited financial support is also provided by the Community. Some candidate countries are already prepared to play an active role in European RTD activity and to allocate the necessary funds, but financial and organisational constraints subsist in most of them. Reforms in S&T are closely related to broader framework conditions (privatisation, reform of financial, tax and banking systems). Further efforts have to be made in adaptation of standards, patent regime, promotion of industrial research, innovation in industry, in particular in SMEs, and technology transfer.

Enlargement will enrich the Union's scientific potential; new and original approaches can be expected from closer co-operation with scientists in acceding countries, which have high standards of research. Existing scientific links of candidate countries with Russia and other NIS could benefit the Union as a whole by increasing the possibilities of co-operation.

Upon accession, CEECs will participate in all decisions concerning RTD policy and will influence policy orientations in this area. A problem could arise if participation and hence benefits of new members from Community programmes remained lower than their fixed financial contribution to the same (based on the GDP). Adjustments in research priorities and certain re-orientation of S&T systems will have to take place to ensure a competitive, single market environment, but also programmes reflecting needs of acceding members. Such changes should not affect adversely advanced activities with other partners. Adaptation could best be brought about through gradual involvement of CEECs in the R&D decision process, starting before accession. After accession, structural fund support in the areas of R&D could also facilitate adaptation of new members.

6.5. Information Society

Enlargement is approaching at a time when West European economies are subject to a rapid rate of actual and potential change arising partly from the combined properties of information and communication technologies (ICTs). This trend has been taken into account by the Community through the launching of an *Information Society Action Plan*, giving coherence to its impact on all sectors viz. R&D, telecommunications, education, audio-visual, intellectual property, data security and privacy protection, electronic commerce, etc. In the next years, this plan is likely to develop an important new *acquis*. The implementation of the action plan is proceeding on the basis of several Communications from the European Commission to the Council and the European Parliament and a Green Paper entitled "Living and Working in the Information Society, People First".

In the CEECs most economic sectors were largely insulated from the influence of new ICTs until quite recently. Public information sectors were closely controlled and grossly under-developed. In addition, economic decline created a vicious circle in which low demand and lack of infrastructure reinforced each other. However, over the last five years spending on information and communication technologies has grown remarkably. Still, availability of telecommunications in the CEECs is at about 40% of the level within the EU, and of poorer quality. Availability of Internet host computers (i.e. those providing a service to others) is at about 20% of the level within the EU. CEE governments are showing great interest in the Information Society and in its implications for their policy making.

Possibilities offered by ICTs are likely to seem even more significant in CEECs than they do within the EU, being closely associated both to ongoing economic reform, and to increased freedom of communication resulting from the liberalisation process. Recent spending indicates that these countries represent one of the largest ICT industry opportunities in the world. CEECs helped by their highly educated populations may well become leaders in some uses of ICTs.

Enlargement will thus increase overall EU interest in ICTs with positive repercussions on related policies. At the same time, proactive measures will be needed to ensure that CEECs can really integrate themselves into the information society: support for the development of advanced infrastructure, promotion of private investments by removing obstacles of a regulatory nature, promotion of participation in networks for services, help for the informatisation of industry, commerce, administration, education, organisation of awareness actions concerning effective uses of ICTs. The EU/CEEC Information Society Action Plan contains many projects of this sort. Specific measures to help CEECs join the EU Information Society have already been promoted, in particular through the EU/CEEC ministerial forums which took place in 1995 and 1996.

6.6 Culture, education, training, youth

In accordance with the TEU, the Community shall contribute to the flowering of the cultures of the Member States, while respecting their national and regional diversity and at the same time bringing to the fore the common cultural heritage. The Community shall also contribute to the development of education, and implement a vocational training policy, while fully respecting the responsibility of Member states for their content and organisation, as well as their cultural and linguistic diversity. Community actions in the above mentioned fields are carried out in respect of the subsidiarity principle and are aimed at encouraging co-operation among member

States and, if necessary, supporting and supplementing their action in certain areas (e.g., with programmes such as SOCRATES, LEONARDO DA VINCI, YOUTH FOR EUROPE and KALEIDOSCOPE). Moreover, an important part of Community structural funds is allocated to training and education activities.

In general, education and in particular higher education, attains a relatively high level in the candidate countries, though prolonged budgetary constraints have had important negative effects. Vocational training and youth policies face important needs of modernisation and adaptation in order to be able to cope with the requirements of democratic market societies.

Enlargement will enrich both the diversity and the common heritage of the cultures in the European Union, thus widening the scope of Community cultural policy. Participation of acceding countries in Community cultural, educational and training activities will help to build closer links with these countries and will provide an enriched experience for all parties involved.

Since participation in Community programmes by citizens, firms and institutions of EU Member states is voluntary, enlargement should not create specific problems and no transitional measures would seem necessary. Acceding countries will have acquired valuable experience from their participation in the programmes within the framework of the pre-accession strategy. Given the existence of a considerable gap between these countries' overall wealth on the one hand, and their potential and needs in the fields of education, training and culture on the other, it is likely they will have an absorptive capacity in excess of their contribution to the programmes. In the absence of a proportional increase of financial resources, this could result in a certain dilution, or in a reduction of the intensity of activities presently developed in the Union. After accession, the CEEC's are also likely to draw considerable amounts from the structural funds to modernise and adapt their educational and training systems.

7. Sectoral policies

7.1. Transport

Community transport policy presently concerns application of the Internal Market to the sector, harmonisation of conditions of competition, and development of infrastructure projects contributing to Trans-European Networks. Future developments will aim at achieving sustainable mobility, allowing for optimal use of existing and planned transport resources. Policies and initiatives will seek to improve the quality of transport services, the functioning of the Single Market, and to achieve an allocation of costs, based on real cost advantage; they will also aim at broadening the external dimension by improving transport links with third countries and fostering the access of EU operators to other transport markets.

Despite recent developments in candidate countries, there remains an important gap in the level of development as well as a number of other differences between their transport sectors and that of the EU: the level and characteristics of transport demand as well as availability of financial resources for investment reflect lower economic development; the modal split, initially much more in favour of non-road transport, is moving quickly towards road which runs counter to the policy the Union seeks to develop; quality of transport fleets, despite improvements, generally does not comply with EU standards, notably in safety and environment; missing links in infrastructure persist, notably between the EU and the candidate countries. The structure of the markets, including the important role of surviving state monopolies in road transport, the legal status of transport companies, the current gap between EU safety requirements and existing conditions in the candidate countries, and wide differences in the taxation systems for road transport, often reflect a transition still in process. There is a lack of adequately trained and motivated staff to administer efficiently the application of common transport rules; transport statistics are often poor.

Urgent needs for development and upgrading of **transport infrastructure** are already apparent, especially in road, combined rail-road transport and airports; they are bound to increase with the expected further important rise of flows. All modes will in due course need major investment, in particular those parts which carry Trans-European traffic. The relevant Community policies will be burdened accordingly. Without such investment, severe problems of traffic congestion are likely to arise, affecting the Union's overall traffic and policies. Given the increase in flows resulting from the implementation of the European Agreements and the long lead time inherent in infrastructure development, these problems should be dealt with already before accession, with specific attention being given to the improvement of border-crossing facilities.

Candidate countries will face problems in adopting the Community *acquis* concerning **social, safety and other technical requirements** (in all transport modes), as well as access to the market and to the profession (mainly in road transport, and, to a lesser extent, in air and rail transport). The planned development of the

acquis in these areas during the coming years is likely to aggravate these problems. Adaptation will be a lengthy and costly process, especially since it is likely to involve considerable renovation and restructuring of transport fleets and infrastructure. It should prove faster in international than in domestic services. In order to avoid excessive strain on the transport sectors and the economies of acceding countries, measures to ensure compliance should be introduced progressively, starting preferably before accession in a step-by-step approach linked to market opening (though in air transport, full access to the market will have to be achieved by the date of accession, and the harmonisation process should not become an obstacle to the achievement of this goal). Failure to take necessary measures already during the pre-accession period could endanger the normal functioning of the Internal Market, lead to difficult options on accession, and could significantly slow down the development of the Common Transport Policy.

Enlargement could create adjustment problems in the transport sectors of both acceding and present members; these in their turn could generate political pressure, especially from the EU transport sector and from regions with heavy transit traffic. Such pressure would only increase if by accession the new members did not effectively comply to safety, social and technical requirements.

Once compliance with the Community *acquis* has been achieved, enlargement could be an incentive for the development of the Common Transport Policy, since elimination of borders over a wider area is bound to give a new impulse to the transport sector. At the same time, it is also likely to create a need for restructuring, either as a direct effect (e.g., rail transport), or as a consequence of some degree of overcapacity (e.g., inland waterways, air transport). Infrastructure development and re-equipment of the transport sector in the acceding countries should create real opportunities for construction firms and related industries, as well as for transport equipment manufacturers.

7.2. Energy

EU energy policy has been developed under various provisions of the Treaties (EU, EC, ECSC and EAEC). The ECSC Treaty expires in 2002 and reflections have started on the consequences. Main EU energy policy objectives, as reflected in the Commission White Paper "An energy policy for the EU" (December 1995), include enhancement of competitiveness (with relation to the internal market and market based prices), security of energy supplies, and protection of the environment. Key elements of the "energy *acquis*" comprise Treaty provisions and secondary legislation particularly concerning competition and state aids, internal energy market (including directives on electricity, price transparency, gas and electricity transit, hydrocarbons licensing, emergency response including security stock obligations, etc.), nuclear energy, as well as energy efficiency and environmental rules.

Development of Trans European Energy Networks and support for energy R&D are other important elements of energy policy. Ongoing developments include liberalisation of the gas sector, energy efficiency *acquis* and the auto-oil programme.

In the field of nuclear energy, the Community *acquis* has evolved substantially from the original EAEC Treaty to a framework of legal and political instruments, including international agreements. At present, it addresses issues of health and safety, including radiation protection, safety of nuclear installations, management of radioactive waste; investment, including EURATOM financial instruments; promotion of research, nuclear common market, supplies, safeguards, and international relations.

The energy sector, due to its strategic importance and as a production factor for industry, is crucial for the economic (and social) restructuring of the CEECs. Candidate CEECs constitute, like the EU, a net energy importing region, despite the existence of significant resources in some of them (e.g., coal in Poland, oil in Romania, etc.). A number of these countries depend heavily on nuclear power. However, there are important differences with the EU in the energy sector, usually related to a difficult legacy from the past: high dependence on Russia and other NIS for oil, gas, nuclear technology, fuel fabrication and enrichment, and, to a certain extent, for uranium; low efficiencies in production, transmission, distribution and consumption, due to non market related prices, obsolete technologies, lack of investment and inadequate legal and regulatory frameworks; severe environmental damage, nuclear safety problems, and problems related to the disposal or treatment of nuclear waste and spent fuel.

Very important investment will be necessary in the candidate countries' energy sectors for network development, upgrading nuclear safety (by improving existing nuclear or constructing replacement plants), disposing of nuclear wastes, improving energy efficiency and implementing environmental standards (including adaptation of refineries, power plants and the coal sector), building up of oil security stocks and gas storage facilities, restructuring the electricity and gas sectors, and addressing the social and regional consequences of the closing of coal, oil shale and uranium mines. The bulk of investment will have to come from private, as well as from national and other international public sources. Hence the importance of a

political and economic environment in candidate countries favourable to investment. However, the EU too will have to contribute to the effort, both before and after accession. Investment in acceding countries will boost demand in Community energy-related industries.

Lack of sufficient funds could hamper for example a timely adoption by certain candidate countries of energy efficiency (e.g. minimum efficiency norms, labelling appliances) and environmental norms (fuel quality standards), and could thus impede the normal functioning of the Internal Market after accession. It could also delay the fulfilment of requirements on oil stocks, which are important because of their direct link to the principle of EU-solidarity in the event of crises. Restructuring of the solid fuel sector in many countries could pose problems with respect to state aids. Finally, lack of adequate energy data collection systems in the acceding countries could also pose problems to EU energy policy.

The problems of *nuclear safety* in some candidate countries cause serious concern to the EU, even independently of enlargement, and should be urgently and effectively addressed. It is imperative that solutions, including closure where required, be found to these issues in accordance with the Community nuclear *acquis* and a "nuclear safety culture" as established in the western world as soon as possible and even before accession. Public opinion is likely to be increasingly sensitive to nuclear safety as a consequence of some nuclear power plant problems in acceding countries, and this could affect major Community policy developments in the field.

Efforts by candidate countries to remedy deficiencies of their energy sectors and to adapt their policies to the EU *acquis* are already under way, though results vary by country. The Europe Agreements, the White Paper, the opening of Community programmes in this sector, and the European Energy Charter provide important frameworks for these efforts. It is highly desirable that problems be addressed as far as possible during the pre-accession period. In all cases, steady and rapid progress towards full implementation of Community norms and rules should be ensured. In general terms, there are no major difficulties expected for the energy sector in the enlargement process, although the nuclear sector (particularly safety concerns in certain countries such as Lithuania and Bulgaria) will certainly be an important issue.

Future EU energy policies will have to take account of and tackle the realities of an enlarged Union, i.e., of increased dependency on Russia, important nuclear safety problems, costs to improve energy efficiency, environment problems, security of supply, and social and regional consequences of necessary restructuring. Increased use of EURATOM loans and a consequent increase in its ceiling could prove necessary. Intervention under structural policies may also be necessary. Completion of the Internal Energy Market could prove more difficult in an enlarged EU.

Enlargement will also entail accompanying benefits in the energy sector: improved links to EU suppliers (Russia, Central Asia, Middle East) and inclusion in the Union territory of large sections of major transit routes (e.g., pipelines in Slovakia, etc.); synergies of energy research and technology development. Convergence of acceding countries with EU standards will improve rational use of energy and the environmental situation on an all-European scale; it should also offer markets for the energy industry. Accrued stability in energy supplies has positive effects on peace and security in the region.

7.3. Industry

EU industrial policy seeks to enhance competitiveness of EU industry, thus achieving rising living standards and high rates of employment. Community action aims at speeding up adjustment to structural change, encouraging an environment favourable to initiative, to the development of undertakings throughout the Community, and to industrial co-operation, and fostering better exploitation of the industrial potential of policies of innovation, research and technological development. EU industrial policy is horizontal by nature. Sectoral communications aim at transposing horizontal concepts into specific sectors. EU industrial policy results from an articulation of instruments from a number of Community policies; it includes both instruments related to the operation of markets (product specification and market access, trade policy, state aids and competition policy) and measures related to industry's capacity to adapt to change (stable macro-economic environment, technology, training, etc.).

Industry in candidate countries presents both strengths and weaknesses: very low labour costs and a good level of technical qualification in a number of sectors (steel, ceramics, glass, cement, mechanical production) are its main strengths. On the other hand,

problems include: an extensive overcapacity in some sectors compared to still insufficient domestic demand; outdated production set-up and lack of knowledge of modern production techniques, which result in low productivity and low-standard and polluting products. Industrial production in CEEC's is emerging from an unprecedented contraction during the period 1990-93.

Priorities of industrial policies in candidate countries include privatisation, investment, enterprise development, productivity and job creation. Far reaching adaptation needs are evident in sectors such as steel, chemicals, textiles, foodstuffs, automobiles, shipbuilding and electronics. Privatisation and restructuring are progressing at varying degrees, but, on the whole are far from completed. The capacity of the administration to conduct a well co-ordinated horizontal policy in at least some of the candidate countries is limited.

Enlargement to Central and Eastern Europe should benefit EU industry as a result of the expected increase in economic activity (*see section 2*). Better allocation of resources will strengthen its competitiveness in the global economy. Integrating the industry of acceding countries with that of the current Member States will be a major common challenge. At least during an initial period, a crucial issue will be the use of acceding countries as low cost production sites for industrial activities that cannot be carried out with the same advantages elsewhere in the Union. In this process, due account would have to be taken of sectoral and regional adjustment strains in both present and acceding members, as well as of the imperative for gradual but steady alignment of acceding countries to EU environmental and social norms. Integration is already under way within the framework of the Europe agreements and the pre-accession strategy; the more fully this framework is exploited, the less painful will the strains be on accession. Industrial co-operation is one of the main mechanisms for achieving integration, and for alleviating sectoral strains. Industry-to-industry contacts will have to be promoted increasingly with available instruments, including industry-led programmes financed by the EU.

Enlargement should not modify the objectives of EU industrial policy; rather, it will highlight their importance. The horizontal approach would best serve the generally low level of competitiveness in the candidate countries, but it could come under challenge, as sectoral and regional aspects will probably receive high political attention. In the context of industrial policy, it is expected that the whole of the Internal Market *acquis* will be taken over by acceding countries by the end of any transition periods. However, its implementation in practice is likely to need more attention, because of probable protracted shortcomings in the public administrations of acceding members. Thus, the topic of "modernisation of the role of public administration with regard to industry" highlighted in the Commission communication on "An Industrial Competitiveness Policy for the European Union" (1994) may well have to become more important.

7.4. Telecommunications

The objectives of EU telecommunications policy are the harmonisation of the standards and conditions for service offerings as well as the liberalisation of the markets for terminals, services and networks. The markets for public voice telephony and infrastructure will be opened in 1998 with transition periods up to the year 2000 for three Member States have been adopted. The introduction of full competition in the sector will be accompanied by regulation aiming at the maintenance and development of universal service guarantees, and other harmonisation measures (licensing, numbering, data protection, connected telecommunications equipment, convergence).

CEEC telecommunications networks have suffered from decades of general neglect, under-investment, insufficient maintenance and lack of modernisation. They thus lag considerably behind EU levels. Public operators are under pressure to rapidly upgrade and extend their networks, to improve the quality of telephony and to introduce new services. However, up to now, actual investment falls substantially short of estimated needs. Recent years have witnessed important liberalisation, though progress has been more uneven than in the EU. Mobile telephony, data communications and value added services are already competitively organised in the majority of candidate countries, mostly with strong Western participation.

Enlargement will benefit the Union telecommunication sector as a whole by providing a larger market for products and services, and by the possibility of acceding countries to act as "disseminators" for further extension of the market.

Enlargement should have no noteworthy impact on EU policy concerning *liberalisation* of the telecommunication markets. Adoption of the Community *acquis* should be feasible for most candidate countries by 2000-2003, while for the others a reasonable additional period should suffice. The preparation of enlargement might also have a positive effect on the efforts of the European Commission to speed up

liberalisation of the voice telephony and infrastructure market, as well as harmonisation of telecommunications regulation. Concerning *investment*, a considerable shortfall should be expected also in the next years.

The capacity of larger operating companies from the EU to invest in CEECs will be limited because of demand in domestic markets, and IFI funding cannot be expected to rise dramatically in the near future. Demand for Community funding through the TEN-Telecoms Programme and structural policies will thus be important after enlargement in order to ensure the continuity of networks and services modernisation.

Enlargement will have to be taken into account by the Union in international negotiations in the telecommunications sector (*WTO/General Agreement on Trade in Services -GATS*), since some candidate countries do not participate actively in these negotiations, while offers by some others would need considerable improvement to be compatible with that of the Community. Some progress in this field has already been accomplished.

7.5. Small- and Medium-Sized Enterprises

The Community's Enterprise Policy aims at encouraging an environment favourable for the development of SMEs throughout the EU, at improving the competitiveness of European SMEs and at encouraging their Europeanisation and internationalisation. Enterprise policy in the EU is characterised by a high degree of subsidiarity, and the complementary role of the Community is defined and implemented through a Multiannual SME Programme (presently the 3rd MP, covering the period 1997-2000). The *acquis communautaire* is limited to Recommendations on specific areas (e.g., late payments), though legislation in other sectors also affects SME's (competition, environment, company law, etc.). Community Structural Funds provide significant financial assistance to support mechanisms in the EU.

Small and medium-sized enterprises are a growing sector in the transition process in Central and Eastern Europe. The new governments have begun to recognise the political and economic importance of supporting SME's and, on the whole, policies to that effect have become a significant part of the transition process. Nevertheless, SME's in candidate countries still represent a smaller share of GDP and employment than in the EU. Despite considerable progress, SME's in candidate countries are still a long way from having the level of support and resources that exist in the EU, e.g., in support services, policy co-ordination, or in development of appropriate legal and regulatory frameworks. Access to finance remains a key bottleneck. Despite reliance on low wages, application of sub-standard social and environmental norms, as well as frequent involvement in the grey economy, international competitiveness of SMEs in candidate countries is generally low due to lack of full exposure to competitive pressures.

EU membership is likely to put considerable pressure on many SME's in acceding countries, by exposing them to international competition. This could have an adverse impact on employment. The problem will be less severe, provided the candidate states adopt comprehensive and effective policies to support the emergence and sustainability of SMEs. The Union will have to focus on support to SME's in acceding countries, both before and after accession. At the same time, SME's in the Union should benefit from the increased economic activity expected as a result of enlargement, both in terms of trade and investment opportunities.

No significant problems are foreseen in integrating the acceding countries in the relevant Community policies, and the latter should not be adversely affected. Future Multiannual SME Programmes would have to take into account possible specific needs of SMEs in acceding countries. Candidate CEECs are already satisfactorily participating in some parts of operational SME programmes and they are currently offered the opportunity to participate in the present (Third) Multiannual Programme, in accordance with the Additional Protocols to the Europe Agreements regarding participation in Community programmes. Some problems related to lack of experience are expected to be overcome before accession. However, existing EU policies presuppose the effective functioning of a number of legislative and organisational dispositions in Member States (e.g., basic bankruptcy rules, Chambers of Commerce, etc.). Since many of these are currently lacking in candidate countries, it would be advisable to continue to ensure their development; *inter alia* through channelling of Community funding to this end.

7.6. Audio-visual policy

Community audio-visual policy is designed to encourage the provision and free movement of audio-visual services within the Union, to develop a modern European communications infrastructure, to promote the development of the market for television programmes, to increase the production of European audio-visual works and to offer jobs and new outlets for the creativity of professionals. These objectives are implemented by a number of interrelated policy initiatives, including both regulatory measures (e.g., the "Television without frontiers" directive) and financial support programmes (e.g., MEDIA).

Broadcasting legislation in some candidate countries differs considerably from Community standards. Audio-visual sectors in candidate countries have suffered from the unfavourable economic conditions during the transition process, and in a number of cases have almost ceased to exist.

Enlargement will increase the scope of European audio-visual policy to cover new territory and should benefit the whole sector, as markets become larger and possibilities of economies of scale increase. However, alignment of broadcasting legislation will be necessary, in order to avoid possible distortions of competition between broadcasters established in present and in acceding Member States. Such alignment has to be addressed already during the pre-accession period.

Further opening up of national audio-visual sectors to competition could cause additional strains to acceding countries on accession. Thus, specific provisions might prove necessary in financial support programmes, in order to take account of particular characteristics of candidate countries. These provisions could require some additional funding.

7.7. Fisheries

The Common Fisheries Policy comprises common market organisations, structural policy, agreements with third countries, and management and conservation of fish resources in waters under the jurisdiction and sovereignty of the Member States. Being ruled by the same Treaty articles as the CAP, it is an area of exclusive Community competence. The CFP aims at the establishment of a sustainable balance between available resources and the capacity of the Community fishing fleets and improvement of the competitiveness of the fish processing industry.

Seven out of the ten candidate countries have a seacoast, on the Baltic, the Adriatic or the Black Seas. Just like the EU, candidate countries face serious problems of over-capacity. They will also have to cope with the obsolete character of their fishing fleet in terms of technical development, as well as with changes in the legal structure of their firms, related to the transition process. In recent years, the fishing industry of most candidate countries is in deep recession.

Enlargement should not pose serious problems to the CFP and acceding countries should be able to adopt it without difficulty. Nevertheless, the effective implementation of the *acquis* might pose some problems with regard to the adequacy of specialised administrative structures of some candidate countries, in particular in necessary basic data collection. This could have some spill-over effects on the overall functioning and management of the CFP. In the Baltic Sea integration of candidate countries will be facilitated by co-operation already under way, both multilaterally within the International Baltic Sea Fishery Commission, and bilaterally in the framework of fisheries agreements. As regards the Black Sea, the Community does not presently have any fishing activity, and thus the Community *acquis* would have to be completed. Given that pollution is one of the main problems for the rebuilding of stocks in the Black Sea, policies other than the CFP would also be involved in this area.

Enlargement will not significantly increase the overall fisheries resources of the Union. Liberalisation of trade should not pose serious problems to the fishing sector in present members, while some export opportunities could emerge, in particular in the markets of land-locked acceding members. In the context of structural adjustment, account will have to be taken of the fact that the fisheries sector is very important for certain coastal states and regions. In particular, the social and economic impact of the likely lack of competitiveness of the sector in acceding countries should not be neglected. Technical assistance provided by the Union during the pre-accession period will facilitate the establishment of appropriate structures in the candidate countries.

8. Justice and home affairs

In matters related to justice and home affairs, the TEU creates a framework of co-operation for the purposes of achieving the objectives of the Union, in particular the free movement of persons. Areas concerned include crossing of the external borders,

asylum, immigration, judicial co-operation in criminal and civil matters, and customs and police co-operation, (the latter in particular for combating drug traffic and other forms of serious crime). This framework is recent and has only produced a limited number of instruments: conventions whose entry into force depend on national ratification procedures; joint actions and joint positions and non-binding acts (recommendations, resolutions and declarations). Decision making in the JHA area takes place by unanimity.

The Union has a vital interest in developing a full fledged *acquis* in Justice and Home Affairs on which candidate countries could align themselves. The new Treaty agreed upon at Amsterdam provides for improvements of this institutional framework. Therefore, after entry into force of these new provisions, progress towards the establishment of an area of freedom, security and justice should be more rapid. But even before that, a major development will be achieved with the integration of Schengen conventions in the Union's *acquis*.

A number of relevant conventions have been adopted outside the EU framework (mainly in the Council of Europe). The Union *acquis* in this field is in a process of constant development and it is difficult to foresee accurately what it will consist of at the time of enlargement. Practical co-operation measures between Member states in the various JHA fields are as important as the legal *acquis*.

In general terms, the accession of candidate countries will create substantial challenges for the EU in the field of Justice and Home Affairs. The new members will as a rule be inexperienced in practical co-operation on the range of issues dealt with in this area, and their integration into existing activities, programmes and institutions will be time consuming and difficult. The JHA institutions of the new Member States are all in the process of reform and will need to develop the confidence of their existing EU counterparts before in depth co-operation will be possible.

At the same time, many of the existing challenges facing the EU are transnational in nature and are influenced to varying degrees by the situation in the candidate countries. Their accession will allow the response of the enlarged EU to be more comprehensive in character and consequently more liable to be effective. However, enlargement will not serve to encompass the whole European area in which such transnational challenges exist; indeed the expansion of the EU to the east will bring closer to the EU itself the NIS and former Yugoslavia where such challenges are at their most acute.

Given the risks inherent in applying Justice and Home Affairs measures throughout the enlarged Union, it is important for candidate countries to adopt these measures at an early stage before accession and to be provided with the necessary technical assistance. The process is already under way and the more it is strengthened, the less spill-over of crime and fraud into the present Union will occur and the fewer problems will be upon accession.

The intensity and origin of problems will evidently also depend upon whether enlargement will take place simultaneously with all candidate countries or if a differentiated process will be adopted. At the same time, the aspiration and prospect of enlargement provides a crucial stimulus for the advancement of reform in Justice and Home Affairs in candidate countries.

Asylum and refugee matters: The applicants are transit countries for asylum seekers wishing to reach the EU and sometimes still countries of origin of asylum seekers, while they are becoming target countries also in their own right. Adoption in the new Member States of the Geneva Convention and its necessary implementing machinery, followed by the Convention of Dublin (on the state responsible for determining asylum applications) and of the related measures in the EU *acquis* to approximate asylum measures, will expand the area in which a common approach to asylum issues is taken. This will have the benefit (for existing Member States) of increasing the pool of states who meet common criteria to act as potential recipients for asylum applicants. There may, however be an overall cost, in that to perform this function effectively the new Member States will have to devote a higher level of resources to asylum issues than they do at present.

Immigration policy and border management: The main JHA impact which might result from the new Member States (after any period of transition) will be that the nationals of the new Member States will no more be subject to the restrictive residence and establishment rules. This could lead to an increase of nationals of these Member States residing in another. Furthermore, in line with Treaty provisions, no visa will be required for nationals of these Member States.

Within the enlarged Union the burden of controlling the Union's external frontiers, both new and existing,

will largely rely on the new Member States too. If such controls are not effective this will result in increased problems of illegal immigration and illegal activities within the enlarged Union. To carry out such management effectively will require resource inputs on a substantial scale by the countries concerned, reflecting the length of their frontiers and the volume of traffic.

Organised and other serious crime: While organised and other serious crime are problems to various degrees throughout the existing Union, the nature of such crime in the candidate countries represents a new challenge which will require effective and continuing action lest it exacerbate the existing problems in this field within the Union. Crime may have a destabilising effect and after enlargement this could have serious political consequences for the wider Union. On the other hand as yet there is no evidence of indigenous terrorist activities inside these states. The enlargement process will have the potential benefit of giving a real impetus to the nature of co-operation between EU members and candidate countries to tackle joint problems as from today. But the effective implementation of such measures will require substantial resource input over and above current spending by the candidate countries, which is presently in any case insufficient to meet current problems. The streamlined and increased transmission of information between police authorities will provide valuable support in combating organised crime. But control systems must be developed to secure data protection and to avoid penetration by organised crime elements.

Judicial co-operation: Involvement of new Member States in the enhanced provisions for judicial co-operation will offer for the most part advantages to present EU Member States. As far as criminal matters are concerned, the extension of existing and planned measures such as the extradition convention and the future mutual assistance convention will allow more effective transnational action by investigative and prosecution authorities. If difficulties arise on this front they are most likely to be of a political nature, given the sensitivity of extradition issues on matters such as human rights and "political crimes" as well as the extradition of nationals to other countries. In the civil field there will also be benefits for matters such as the effective operation of contracts in the new states. The effective integration of new Member States into EU judicial co-operation may be constrained by the difficulties encountered by some of them to ratify certain international conventions and the inexperience of the judiciary in implementing them.

Part III: Conclusions

1. Benefits from enlargement and their impact on EU policies:

When the "cost of enlargement" is assessed, the net economic benefit expected overall should be a central consideration. Political benefits, such as promotion of regional stability, should equally be taken into account, not least because of their indirect economic and even budgetary implications. Enlargement is an investment in peace, stability and prosperity for the people of Europe. The overall economic gains from enlargement will be beneficial to Community policies. When integration brings benefits to economic operators and citizens, confidence in the Internal Market and its principles strengthens. Community policies will be enriched by the experience and potential of acceding members, for instance in R&D, culture, education and training, but also in energy and in some industrial and agricultural sectors. Lastly, the more the benefits of enlargement are tangible, the less difficult it should be to address adjustment strains and resulting burdens on Community policies, including their financial dimension.

2. Adjustment strains and their implications:

Sectoral and regional strains generated by enlargement in both acceding and present members will burden Community policies. They are also likely to have budgetary implications. Community funding would be required to address social problems, regional imbalances, the inadequacy of basic infrastructure, implementation of industrial and rural restructuring in both present and acceding states. If such problems were to become acute, political pressure could develop in favour of protectionist measures. However, in some fields, such as free movement of capital (within the framework of the discipline for non-participants in the EMU), and competition policy (state monopolies), application of the appropriate rules provided for by the Treaty could contribute to alleviate strains for acceding countries.

3. Direct budgetary and financial implications:

Enlargement will have important budgetary implications. However, under certain conditions described below and developed in more detail in the Commission's proposals for a new financial framework *, the financing of enlargement can be achieved within an unchanged ceiling of own resources as a percentage of Union GDP. At such an unchanged ceiling, and given the limited contributive capacity of acceding countries, the evolution in real terms of means available for the present Member States will inevitably lag behind Union GDP rates of change after enlargement.

In the *agricultural* sector, extension of the CAP in its present form to the acceding countries, would imply an important additional yearly cost (*see section II.4*). However, provided that new Member States are not eligible for compensatory aids (which would otherwise represent around 2/3 of additional expenditure), at least during a period after accession, the agricultural guideline should suffice to finance additional expenses induced by enlargement (i.e. intervention measures on markets and accompanying measures), taking account also of the envisaged reforms of the CAP.

In the field of *structural* actions (*see section II.3*), a redeployment of allocations must be progressively organised in favour of the new Member States, whose level of prosperity is much lower than the average level in the present Union. Full application of presently valid criteria for payment of aids to the acceding countries would require very important sums. But new Member States could only gradually be integrated into the structural aid system, while account has also to be taken of their absorptive capacity. Moreover, additional funds which would have to be paid in the medium term would be reduced, if accession of all the candidate countries were not to occur simultaneously. Under these circumstances, the additional payments for acceding countries can be sustained within the ceiling of a constant overall cohesion effort in relative terms after 1999, while the total level of structural interventions to present Member States will only be slightly affected.

Concerning the other *internal policies* (e.g. R&D, education and training, Trans European Networks [TENs], social operations, environment, etc.), in an enlarged Union it will be more necessary than ever to avoid dispersing funds into too wide a range of actions, whose dimensions would not allow them to have a significant impact and whose management costs would be too high. Available financial means should thus be concentrated in a reduced number of programmes where the added-value brought by Community intervention will be proven. Even under these conditions, accession of new members would entail in these sectors probably more than proportional increases in expenditure, with respect to their relative weight in the Community GDP. Indeed, for many of these policies, the cost of implementation is also a function of the target population, of the geographic area, or of the number of participant Member States.

Enlargement will also entail additional *administrative* expenditure for the institutions, as a result of the introduction of new languages, of the expansion and diversification of tasks, and of the integration of citizens of the new member States.

Conversely, enlargement should not imply an overall increase in expenditure for the Union's *external* actions.

Acceding countries will be eligible for loans by the European Investment Bank (EIB), EURATOM, and the European Investment Fund on equal terms with existing member states.

4. Risks from possible late or inadequate adaptation to the Community *acquis*:

Full adaptation of candidate countries to the Community *acquis* will be a lengthy and costly process. Important investment will be necessary to adopt Community *acquis*, especially in the fields of environment, health and safety at work, nuclear safety, energy security stock obligations, public health. In a number of sectors substantial restructuring or upgrading will be necessary (polluting industries, nuclear plants, transport and fishing fleets, energy companies, etc.). Ensuring efficient administrative structures for implementing Community regulations in the above fields, as well as for consumer protection, phyto-sanitary

and veterinary care, management of the external borders and indirect taxation, will also require considerable effort .

A basic principle for the accession of new members to the European Union is that they will have to adopt the totality of the Community *acquis*, and that thus all Community policies will be applied to the enlarged Union, subject to such adaptations or transitional arrangements as may be agreed in the accession negotiations. On the other hand, availability of necessary resources for adoption of the *acquis* is a major bottleneck. Also, costly adaptation of candidate countries in some areas could be delayed by considerations on competitive advantages and protection of domestic industries.

It is nevertheless imperative that full adaptation to the EU *acquis* by candidate countries be realised the soonest possible. Indeed, too slow or inadequate adoption of the *acquis* could create serious problems after accession:

- The Union could not endorse permanent differentiation between new and old member states or their citizens. Such a differentiation would undermine the Union's cohesion and confidence in its finality and policies.
- In a number of areas, inadequate adoption of Community regulations could result in distortions of competition at the expense of operators in countries which abide by these regulations (environmental and social norms, state aids, audio-visual policy, etc.).
- In certain cases, inadequate implementation of the Community *acquis* would risk having a destabilising impact on the functioning of the Internal Market or dangerous effects on the protection of consumers and the health and safety of Community citizens. Such would be the case if protection and control of external borders could not be satisfactorily ensured by acceding members, or if these countries became "weak-links" for the marketing of non-secure products or for recourse to abusive commercial practices throughout the Union. Issues related to phyto-sanitary and veterinary protection would be particularly sensitive in this respect, while "weak links" could also be exploited by organised crime and by traffickers in drugs and in human beings.
- Distortions of competition and the Internal Market, and, even more so, situations where the protection of consumers, or the health and safety of citizens were endangered, would generate strong political reactions and protectionist measures, thereby undermining the functioning of the Internal Market and the Union itself. This would detract from the legitimacy of the Union and of its institutions in the eyes of European public opinion.

5. Adjustment, reform and further development of Community policies:

Community policies may sometimes have to undergo certain readjustments or shifts of focus, in order better to meet the needs and problems of new members. This could prove necessary for some Community programmes in R&D, training, energy, environment.

Modification of present Community policies will become a major issue in areas where enlargement has important budgetary implications. The Commission has already expressed the view that the CAP and structural policies would have had to be adapted, even without enlargement (*see sections II.4 and II.3, respectively*).

Considering the likely scarcity of financial resources, the focus on enlargement could risk diverting the Union away from other important policy priorities: external policies, including development assistance, in particular in relation to Mediterranean, ACP and NIS countries, global environmental issues, advanced R&D. Such a development would be highly undesirable, and appropriate measures will have to be taken to prevent it.

Increased heterogeneity of situations, interests, perceptions and positions in the Union could lead to

considerable difficulties in managing and further developing the Union's policies, especially in areas where unanimity is still required for decisions. In the development of EU policies, the fact that acceding members have lower levels of economic development and might find it thus difficult to adopt and finance higher levels of protection for their consumers and citizens, could prove an additional obstacle. The development of the CFSP, of JHA policies, as well as of Community policies in environment, social issues, consumer protection and the audio-visual sector could be impeded. The same could be true for further liberalisation of the energy sector.

This problem highlights the need to prepare adequately the forthcoming enlargement, in order to maintain the Union's capacity to function effectively while preserving the overall institutional balance. Possible difficulties in developing the *acquis* in an enlarged Union also underline the importance of implementing further steps in a number of policies (e.g., in the liberalisation of the energy market) during the run up period to enlargement.

However, difficulties should not be exaggerated: on the whole, acceding members are likely to prove firm supporters of the finality and policies of the EU, including the CFSP, economic and social cohesion, and JHA, while also recognising the fundamental importance of economic integration through the Single Market, the EMU and an open attitude towards the rest of the world. In all these basic matters, accession of the CEEC's is not likely to increase the range of diverse positions within the Union.

6. Impact of administrative strains in the Union's institutions:

Accession of a large number of new members will put a serious strain on the administrations of European institutions. The problems which are likely to be created by the doubling of the number of official languages of the Union should not be underestimated. These issues are not directly covered in the present report. However, they are bound to have a considerable impact on the management and development of the Union's policies, as well as on the budgetary implications of enlargement. The Commission has already initiated important work in this area within the framework of the SEM 2000 and MAP 2000 exercises. The problems related to enlargement will have to be further addressed in due course.

7. The importance of the pre-accession period:

A basic conclusion of the present report is that the impact of enlargement on the Union and its policies, and especially the scale of possible problems, will depend to a very large extent on the preparation of candidate countries during the pre-accession period.

In most cases, a gradual process of adaptation of candidate countries to the *acquis* would appear to be the only realistic path, given the complex character of the process, its cost, and the need to alleviate related adjustment strains. The bulk of this effort should be deployed during the period leading to accession, when progress could also be linked to the further gradual opening of the Community markets. If this were not to happen, the Union would be faced with difficult options: the need for transitional periods after accession would increase, to the detriment of the normal functioning of the Internal Market; the risks of inadequate implementation of the *acquis* would multiply. In areas where there are dangers of destabilisation of the internal market or of serious prejudice to EU consumers and citizens, obstacles to accession could become prohibitive.

Thus a real link exists between the effort and means provided during the pre-accession period, and the impact of enlargement on the Union and its policies, not least in terms of cost. A link also exists between the pre-accession effort, and the timetable of accession itself.

The effort required by acceding countries during the pre-accession period will be mainly shouldered by themselves. Candidate countries have already embarked on this road, within the framework of the pre-accession strategy, including the implementation of the White Paper. However, technical and financial assistance from the Union will be necessary, and indeed is already being provided. In view of the crucial importance of the preparation of enlargement, the Commission, in accordance with the conclusions of the

European Council in Dublin, has formulated its proposals for the reinforcement of the pre-accession strategy **.

The period leading up to the accessions will be critical also for the implementation of necessary adaptations of Community policies and institutions, so that enlargement will be manageable. Indeed, the implementation of such reforms is essential for a successful enlargement.

Finally, the consent and support of European public opinion to enlargement is a clear prerequisite for the realisation of the project. This will require, during the pre-accession period, a substantial public information effort in both the present and the acceding Member States.

Applicant countries of Central and Eastern Europe and EU Member States GDP per capita (at Purchasing Power Standards). 1995

[...]

Applicant countries of Central and Eastern Europe and EU Member States Basic data (Year 1995)

[...]

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

** "Interim Report from the Commission to the European Council on the effects on the policies of the European Union of enlargement to the associated countries of central and eastern Europe", CSE(95)605, 5.12.95.

1. Including Cyprus, which is not covered in this study.

[...]

5. "Agricultural Situation and Prospects in the Central and Eastern European Countries", 10 country studies and a summary report published as working documents by DG VI in July 1995; "Study on alternative strategies for the development of relations in the field of agriculture between the EU and the associated countries with a view to future accession of these countries" (Agricultural Strategy Paper), a communication (CSE(95)607 of 29.11.1995) presented by the Commission to the Madrid European Council in December 1995.

6. The example taken here is purely hypothetical and only for illustrative purposes. It does not prejudice the effective entry date, the number of entrants, nor the modalities of any transition period, which will be the subject of future accession negotiations.

7. Central European Free Trade Area of which Poland, Hungary, the Czech Republic, the Slovak Republic and Slovenia are members.

8. An analysis of the approximation of veterinary, plant health and animal nutrition legislation and marketing standards relating to the Internal Market was included in the Commission's White Paper on the "Preparation of the Associated Countries of Central and Eastern Europe for Integration into the Internal Market of the Union"

* Part III of Volume I of the "Agenda 2000" Communication.

** "Reinforced pre-accession strategy" document in the present Communication.