20

EU Enlargement

LEARNING OBJECTIVES

By the end of this chapter you should be able to understand:

- What measures were introduced by Western countries to assist the transition process and with what success;
- The differences between aid for transition and the Marshall Plan;
- The changing pattern of trade and investment in the Central and East European countries (CEECs);
- EU policy towards South-Eastern Europe;
- The difficulties encountered in trying to apply the Copenhagen criteria;
- The main steps involved in the pre-accession strategy;
- The difficulties of extending the CAP and the Structural Funds to the new member states;
- The links between Economic and Monetary Union and Enlargement;
- The issue of labour movement in an enlarged EU;
- How public opinion may react to the enlargement issue.

INTRODUCTION

In May 2004 10 new countries joined the EU, and Bulgaria and Romania could join in 2007. In April 2004 the European Commission published an Opinion favourable to opening negotiations for membership with Croatia. Turkey has also been declared a candidate, and a decision on whether to open negotiations with Turkey will be taken in December 2004. Table 20.1 presents some of the basic characteristics of these countries.

EU enlargement raises fundamental questions about the future of the Union. Will, for instance, an expansion in membership from 15 to 25 or more lead to a change in identity of the EU? Is widening on this scale compatible with deepening? Will the EU be condemned to endless arguing about the relative size of contributions to and receipts from the Community budget? Will some equitable solution be found to the problem of extending the CAP and Structural Funds to the new member states, or is the EU to be involved in a protracted debate about reform of these policies? Will the EU be able to develop an institutional framework that enables it to avoid deadlock in decision-making and at the same time increase its transparency and democratic accountability? The EU is committed to further enlargements, but where should its borders end?

Table 20.1 Basic data on the new member states and candidate countries

	Population in 2002 (millions)	GDP €billions PPP 2001	GDP per capita €/PPP 2002	GDP per capita as % of EU average (PPP) 2002	GDP growth in 2002 (%)
Bulgaria	7. 9	51.5	5900	25	4 8
Cyprus	0.8	14.1	17 400	72	2.2
Czech Republic	10.2	136.1	14 400	60	2.0
Estonia	1. 4	3.4	10 000	42	6.0
Hungary	10.2	121.3	13 600	57	3.3
Latvia	2.4	18.1	8500	35	6.1
Lithuania	3.5	30.3	9400	39	6.7
Malta	0.4	4.6 #	11 700 #	55 #	1. 2
Poland	38.6	355.5	9500	39	1.6
Romania	21.8	132.2	5900	25	4.9
Slovakia	5.4	59.7	11 400	47	4.4
Slovenia	2.0	31.9	17 700	74	3.2
Turkey	68.6	356.8	5500	23	7.8
Croatia	4.4	23.8	$(US) 8267	36	5.2

#1999
Source: European Commission: www.europa.eu.int/comm/enlargement.

A BRIEF CHRONOLOGY OF THE ENLARGEMENT PROCESS

Before dealing with the main aspects of enlargement in more detail, it is useful to provide a brief chronology of the main steps in the process.

As soon as the central planning system collapsed in 1989, many of the smaller Central and East European countries (CEECs) were anxious for tighter links with or membership of the European Community. The Community responded with a series of trade and aid measures, but a strategy with regard to enlargement emerged only gradually.

It was as late as 1993 that the Copenhagen European Council set out the conditions that applicant countries have to fulfil in order to join the EU. The 1994 Essen Summit established a 'pre-accession strategy' to help prepare the candidate countries for eventual membership.[1] As described below, this entailed the PHARE Programme of assistance, the Europe or Association Agreements and a 'structured dialogue', bringing together the EU and candidate countries to discuss questions of common interest.

[1] See Annex 20.1 for an outline of the main steps in the pre-accession process.

On the basis of the accession criteria, in July 1997 the EC Commission published 'Opinions' on the readiness of the applicant countries to join the EU. These Opinions were included in the document, Agenda 2000, which represents a milestone in the enlargement process. Agenda 2000 analysed the necessary steps to prepare both the EU and accession countries for enlargement and set out the Commission's proposals for the 2000–06 financial perspective.

Following the decision of the Luxembourg European Council in December 1999, accession negotiations started with Cyprus and with five of the 10 Central and East European countries in March 1998.[2] Each year the European Commission published Regular Reports on the progress made by applicant countries in preparing for EU membership.

At the 1999 Helsinki European Summit it was decided to extend negotiations to a further six countries.[3] Malta's application lapsed in 1993 but was subsequently resumed in 1998, and Malta was included in the Helsinki group. The Commission stressed that each country would be judged individually on the basis of its preparations for accession and that this could lead to some countries of the second 'Helsinki wave' overtaking those of the Luxembourg group.

Turkey applied for EU membership in 1987. In December 1997 it was decided to establish the European Conference that would entail an annual meeting of the EU member States and the 'European States aspiring to accede to it and sharing its values and internal and external objectives'.[4] The aim was to reassure those countries not included in the first wave of negotiations and, in particular, Turkey. However, Turkey was offended by the fact that it had been overtaken by so many countries in the accession queue, and refused to attend the first two meetings of the European Conference. At the Helsinki Summit Turkey was declared a candidate, and Turkey began to participate in a reinforced pre-accession strategy similar to that of the other candidate countries.[5]

At the Berlin European Council of March 1999 agreement was reached on the Agenda 2000 package, including the financial perspective for the 2000–06 period and reform of the Common Agricultural Policy and Structural Funds.[6] The financial package for the new member states was subsequently amended at the 2002 Copenhagen European Council. Following the rather disappointing results of the Amsterdam and Nice treaties, the Constitutional Treaty set out further proposals for reform of EU decision-making, also with a view to enlargement.

The 2001 Gothenburg Summit confirmed the 'road map' for enlargement set out at Nice and fixed the objective of completion of negotiations with the first applicant countries by the end of 2002 so that they could participate in the elections to the European Parliament of 2004. At the Copenhagen European Council of December 2002 the deadline of May 2004 was confirmed for 10 of the applicant countries, with 2007 being indicated as a possible date for the accession of Bulgaria and Romania. In a referendum on 24 April the Greek Cypriots voted against a UN proposal for settlement and, as a result, in May 2004 only the Greek Cypriot part of the island joined the EU.[7]

TRADE AND AID ARRANGEMENTS BETWEEN THE EU AND CEECS: THE 'FIRST GENERATION' TRADE AND CO-OPERATION AGREEMENTS

After a long history of stormy relations between the European Community and the Eastern integration bloc, the CMEA (Council for Mutual Economic Assistance), in June 1988 a Joint

[2] The Czech Republic, Estonia, Hungary, Poland and Slovenia.
[3] Bulgaria, Latvia, Lithuania, Romania, Slovakia and Malta.
[4] Conclusions of the European Council, Luxembourg, December 1997, where the decision to establish the European Conference was taken.
[5] See Annex 20.2 for a summary of the main events in EU–Turkish relations.
[6] The Berlin Agreement is discussed in Chapter 9 on the EU budget, though some aspects are taken up in the sections on the CAP and Structural Funds here.
[7] See Senior Nello (2004) and Annex 20.3 for a summary of the main events in EU–Cypriot relations.

Declaration of Mutual Recognition was signed.[8] This opened the way for tighter links between the EC and individual Central-East European countries.

In September 1988 Hungary signed a trade and co-operation agreement with the Community, and similar 'first generation agreements' with the other CEECs and the USSR soon followed. The agreements related to trade and to commercial and economic co-operation. The first generation agreements were soon overtaken by events, but remain important as a milestone in EC–CEEC relations.

WESTERN AID MEASURES TO ASSIST TRANSITION

The question of whether to aid transition was decided in July 1989 when, encouraged by President Bush, the EC Commission chaired a meeting of the then 24 OECD countries (the G–24) to seek ways of facilitating the process of moving towards democracy and market-orientated economies. Also involved in the programme were the EIB (European Investment Bank), the World Bank, the IMF and the OECD.

The main argument advanced in favour of giving aid to the CEECs and former Soviet Republics was Western self-interest. Despite the low levels of East–West trade at the end of the 1980s, and the difficulties of transition, the CMEA countries represented a potential market of some 450 million consumers. For generations the objective of ensuring Western security *vis-à-vis* the Eastern bloc had entailed huge defence budgets, and now a different type of effort was needed to further peace and prosperity. If transition failed, the West could risk experiencing external costs in the form of migratory pressures and/or spillover of ethnic and nationalistic tensions.

The term 'PHARE' (Economic Reconstruction Aid for Poland and Hungary) was adopted for the Community's programme, though this soon became something of a misnomer as aid was soon extended to the other CEECs. After a heated debate on possible political and economic consequences, assistance was also extended to the Soviet Union and, subsequently, to former Soviet Republics through the TACIS Programme (Technical Assistance for the Commonwealth of Independent States).

The PHARE Programme came into operation from 1990 and was initially demand-driven and based on the requests of the recipient countries (see Tables 20.2 and 20.3, and Figure 20.1). The measures included:

- Food aid to Poland, Romania, Bulgaria and the USSR;
- Agricultural assistance;
- Training and human resources;
- Energy and the environment;
- Improved market access;
- Assistance for privatization and restructuring (for small and medium enterprises, the financial system, technical assistance, investment guarantees etc.);
- Medical aid.

In addition loans were granted for stabilization and to cover balance-of-payments difficulties, and debt relief was extended to countries such as Poland and Bulgaria.

The European Bank for Reconstruction and Development (EBRD) was established in 1991 to

[8] Also known as the Comecon, the CMEA was founded in 1949 and formally dissolved in 1991. It was composed of the USSR, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Romania, Cuba, Mongolia and Vietnam. Angola, Ethiopia, Laos and North Korea had observer status, while Yugoslavia only participated with regard to certain sectors. For a more detailed account of EC–CMEA relations up until 1988 and a description of the CMEA and its activities, see Senior Nello (1991).

Table 20.2 Expenditure on PHARE 1990–2002 (million euros)

1990	475.3
1991	769.7
1992	979.6
1993	966.1
1994	946.1
1995	1114.0
1996	1207.8
1997	1135.1
1998	1153.9
1999	1481.7
2000	1651.5
2001	1635.4
2001	1695.1

Source: European Commission (2003a).

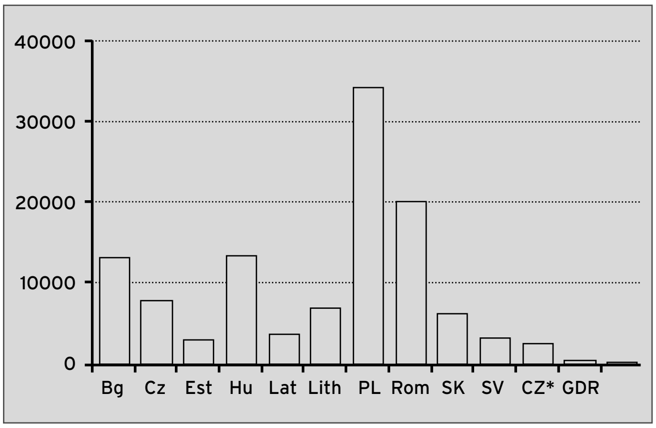

Figure 20.1 PHARE assistance to selected economies in transition, 1990–2002 (euros, millions)

*Czechoslovakia
Source: European Commission (2003a).

encourage investment in transition countries and reduce financial risks. From 1993 PHARE became more concerned with preparing CEECs for accession (with priority given to institution building, infrastructure, and promoting economic and social cohesion). Increasingly PHARE used the procedures of the Structural Funds in order to familiarize the CEECs so they could use the Structural Funds more efficiently upon accession.

One of the main mechanisms used in the task of institution building was 'twinning'. Twinning brings administrations and semi-public organizations in the EU and candidate countries together to work on common projects related to the *acquis*. Typically twinning involves secondment of civil servants from the EU member states working on Community policies to a candidate country for a certain period of time.

The 1999 Berlin Council established PHARE as one of the three pre-accession instruments for the 2000–06 period to help prepare the candidate countries for membership (see also Chapter 9). The three pre-accession instruments are:

- PHARE, which has an allocation of €1.56 billion per year, 30 per cent of which is earmarked for institution building, 35 per cent is for the regulatory infrastructure required for implementation of the *acquis*, and 35 per cent for economic and social cohesion. The new CEEC member states will continue to receive PHARE for three years after 2004, and the programme might continue longer for Bulgaria and Romania.
- ISPA (Instrument for Structural Policies Pre-Accession) is to receive €1.04 billion per year for assistance for the environment and transport infrastructure (see Table 20.3).

Table 20.3 PHARE, ISPA and SAPARD assistance to selected economies in transition, 2001 (euros, millions)

	PHARE	SAPARD	ISPA	Total
Bulgaria	185.3	54.1	106.8	346.2
Czech Rep.	86.6	22.9	66.9	176.4
Estonia	29.3	22.9	66.9	176.4
Hungary	109.9	39.5	90.8	240.2
Latvia	36.2	22.7	48.1	107.0
Lithuania	106.2	30.9	50.5	187.6
Poland	468.5	175.1	406.6	1050.2
Romania	289.1	156.3	245.6	691.0
Slovakia	80.5	19.0	48.1	147.6
Slovenia	28.5	6.6	16.0	51.1
Others *	221.1			
Total	1641.0	539.6	1109.3	3289.9

* Horizontal, regional and nuclear safety programmes
Source: European Commission (2003a), 'General Report on the pre-accession instruments (PHARE, ISPA, SAPARD) in 2001'.

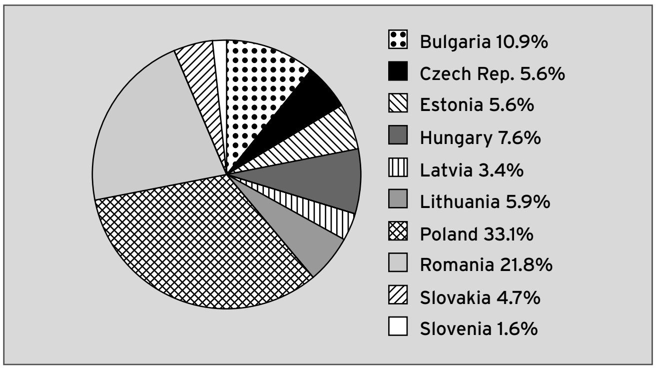

Figure 20.2 PHARE, ISPA and SAPARD assistance, 2001

Source: European Commission (2003a), 'General Report on the pre-accession instruments (PHARE, ISPA, SAPARD) in 2001'.

- SAPARD, or the Special Accession Programme for Agriculture and Regional Development, has been allocated €0.52 billion per year. Measures include improving quality, applying veterinary and plant controls, setting up producer groups and creating land registers.

There was much debate about whether Western assistance to the transition countries could be construed as a new Marshall Plan. However, there were substantial differences from the Marshall Plan:[9]

- Post-war reconstruction is very different from transition;
- Most of Marshall Aid came from one donor, so the co-ordination problems were fewer;
- The scale of financing, and the share of grants (80 per cent compared with 15 per cent, according to Mayhew, 1998) were higher under the Marshall Plan.

According to some observers,[10] the financial assistance under the Marshall Plan was probably less important than the conditionality imposed. In order to receive aid West European countries were encouraged to opt for market economies, liberalized trade and regional co-operation.

[9] As reported in Mayhew (1998).
[10] De Long and Eichengreen (1993).

Western measures to assist the transition process were also conditional. For instance PHARE aid to Romania was suspended on human rights grounds in 1990 and was not extended to Albania until 1991. However, as a growing literature demonstrates, it is the prospect of EU membership that ultimately renders the conditionality imposed on the CEECs effective.[11]

Regional co-operation was also a condition of EU assistance, and this was a major factor leading to the creation of arrangements such as the CEFTA (Central European Free Trade Area) in 1992[12] and the South East Co-operation Initiative of 1996.[13] However, a major shortcoming of these initiatives among transition countries was that they were generally more interested in co-operation with the EU than with each other.

Given the size and number of post-communist economies and the cost of transition, it was inevitable that the role played by external financial assistance would be relatively modest.[14] Much aid was in the form of loans, and much consisted of export credits, which also benefit Western firms. However, at times aid may arrive at a crucial, vulnerable time. The policy advice and training given was often criticized as being contradictory, inconsistent and not always tailored to the needs of the recipient country. Another complaint was that the main beneficiaries were often Western consultants. There was also criticism of the insufficient co-ordination and excessive bureaucracy in giving aid. With the benefit of hindsight, trade liberalization, FDI and the prospect of EU membership were probably more important catalysts in encouraging transition.

THE 'SECOND GENERATION' EUROPE AGREEMENTS

Between 1991 and 1996 the EU signed second generation 'Europe Agreements' with 10 CEECs deemed to have made sufficient progress in economic and political transition (these were the same 10 that were subsequently the first to start accession negotiations).[15] The Europe Agreements were the basic legal instruments covering the relationship between the EU and the CEEC(10).[16] The Agreements covered trade-related issues, political dialogue, legal approximation, 'phased introduction' of the four freedoms (though the EC failed to grant any access to workers beyond what was guaranteed by its member state) and co-operation in other areas, including industry, environment, transport and customs (Mayhew, 1998).

The Europe Agreements created a free trade area between the EU and associated CEECs. Because the CEEC partners needed more time to become competitive, the tariff cuts were asymmetric, with the Community proceeding more rapidly. The removal of tariffs on certain sensitive sectors such as steel and textiles and clothing was to be phased over several years, but by 1998 most restrictions on industrial products had been removed.[17] The concessions granted on agricultural trade were less favourable than in other sectors, and it was only in 2003 that agricultural trade with the new member states was liberalized for products meeting EU standards.[18]

As a result of the provisions of the Europe Agreements, a free trade area in manufactured products was in place before enlargement. For the CEECs, joining the EU means moving from a

[11] Grabbe (2002), Smith (2001), Vachudova (2001), and Smith (2003).
[12] CEFTA is composed of the Czech Republic, Hungary Poland and Slovakia; Bulgaria, Romania and Slovenia subsequently joined.
[13] This was composed of Albania, Bosnia & Herzegovina, Bulgaria, FYR of Macedonia, Hungary, Romania, Moldova and Turkey, with Croatia as an observer.
[14] However, the EU and IFIs have played an important role in attracting additional financing from official sources, including debt relief through the Paris Club. They have been rather less successful in attracting complementary private financing or private (London Club) debt relief.
[15] From 1992 negotiation began leading to the signing of less far-reaching 'trade and partnership' agreements with various former Soviet Republics, including Russia, Belarus, Ukraine, Kazakhstan, Georgia and Kyrgyzstan (see Chapter 18).
[16] See Senior Nello (1991) for a more detailed description of these agreements.
[17] See Mayhew (1998) or Senior Nello (2002a) for descriptions of the timing of trade liberalization for various groups of products.
[18] See Senior Nello (2002b) for a description of the agricultural concessions.

free trade area to a customs union (by adopting the Common Commercial Policy with its 'hierarchy' of trade preferences) and the Single Market.[19]

TRADE AND INVESTMENT IN THE CEECS

What is significant about the level of trade between the EU and CEECs is the speed of its reorientation from Eastern to Western markets, as shown in Table 20.4. The redirection of Czech and Slovak trade towards the EU was less than in other CEECs such as Hungary or Poland because when the two countries split, what had been internal trade became trade between two transition economies. The redirection of trade to the EU was also relatively low for Lithuania,[20] but this is largely due to the continuing importance of transit trade from Russia, in particular of mineral fuels and oils.

Table 20.4 The increase EU(15)-CEEC(10) trade over the 1989-2002 period

	Exports to EU as % all exports, 1989	Exports to EU as % all exports, 2002	Imports to EU as % all imports	Imports to EU as % all imports, 2002	Trade balance with EU (million euros) 2002
Bulgaria	5.5% (EC) 1.5% (EFTA)	55.6 (EFTA)	10.8% (EC) 3.9%	50.2	-606
Czech Republic and Slovakia	Czechoslovakia 18.2 (EC)# 4.6 (Austria) 6.6 (GDR)	68.4 (Czech Rep.) 60.5 (Slovakia)	Czechoslovakia 17.8 (EC)# 5.5 (Austria) 7.8 (GDR)	60.2 (Czech Rep.) 50.3 (Slovakia)	-1673 (Czech Rep.) +982 (Slovakia)
Estonia	n.a.	68.0	n.a.	57.9	847
Hungary	24.8 (EC)# 6.4% Austria 5.4% GDR	75.1	29 (EC)# 8.6% (Austria) 6.2% (GDR)	56.3	+68
Latvia	n.a.	60.4	N/a	53.0	620
Lithuania	n.a.	48.4	N/a	44.5	-1290
Poland	31.8 (EC)# 1.5 (EFTA)	68.7	34.2 (EC)# 3.9 (EFTA)	61.7	-9156
Romania	28.5 (EC) 3.2 (EFTA)	67.1	13.8 (EC) 1.3 (EFTA)	58.4	-1003
Slovenia	n.a.	59.4	n.a.	68.0	-1806

Source: Own elaboration based on Eurostat data. n.a. = not available

The rapid switch in trade patterns was reinforced by the difficulties experienced in most former Soviet Republics following the dismantling of the USSR. Over time the pattern of trade growth with the EU also appears to have reflected the evolution of real exchange rates[21] and cyclical changes in Western import demand, but it seems likely that EU trade concessions played an important role.

[19] In contrast, many empirical studies of integration effects are based on the assumption of a move from free trade to a customs union (see Chapter 5).
[20] The other main Lithuanian trade partners were Russia, the Ukraine, Belarus and Latvia.
[21] Halpern and Wyplosz (1995).

The incomplete liberalization of agricultural trade until 2003 was subject to particularly severe criticism, especially with the transformation of an EU agricultural trade deficit into a surplus from 1993.[22] The EU had a deficit in trade in agricultural products with the CEEC(10) of €1 billion in 1988, but a surplus of €1.5 billion in 2000 (see Figure 20.3).[23]

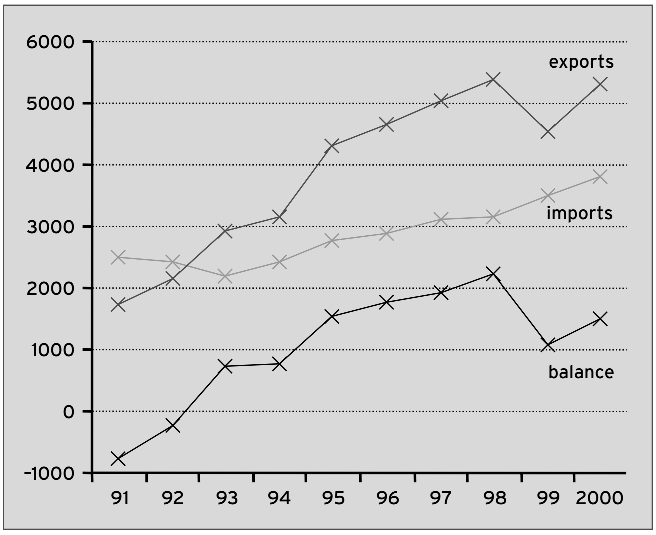

Figure 20.3 EU-CEEC agricultural trade

Source: Elaboration based on Eurostat data.

Early studies found that the composition of CEEC trade was changing relatively slowly.[24] Subsequently, the countries most advanced in transition, and, in particular Hungary and the Czech Republic, succeeded in gradually moving to a larger share of higher-skilled, higher-technology products in exports.[25] The turn-around for these countries came in 1993/4 with the end of transitional recession and the beginning of positive economic growth. The exports were generally produced in firms that were either newly established or restructured, and firms that had not modernized often had problems in maintaining their share in foreign markets. Outsourcing[26] and foreign direct investment (see Table 20.5 and Figures 20.4 and 20.5) played an important role in helping the CEECs to adjust the structure of their exports. In 1999 the EU(15) accounted for 73 per cent of all foreign direct investment in the CEEC (10).[27]

However, despite the rapid increase in exports of more skilled human-capital-intensive, technology-intensive products, even in countries such as Hungary and the Czech Republic the largest share of exports remained in 'traditional' so-called sensitive sectors. The sensitive sectors are generally defined as: agriculture, textiles, clothing, coal, footwear, steel and chemicals.[28] Eichengreen and Kohl (1998) found that if agriculture is excluded,[29] the share of sensitive sectors in the exports of

[22] See Tarditi, et al. (1995) for a criticism of the agricultural provisions of the Europe Agreements.
[23] Eurostat statistics.
[24] Such as Drábek and Smith (1995); EC Commission (1994) and Faini and Portes (1995).
[25] See for example, World Bank (1999a and b), or Kaminski (2000).
[26] Outsourcing, or outward processing trade (OPT), is the international fragmentation of production. It entails previously integrated production activities being segmented and spread over an international network of production sites. OPT is a kind of subcontracting whereby exports of semi-finished products or components flow from the main contractor's country and, after some processing, imports of more elaborate intermediate or final products return to the main contractor's country.
[27] European Commission (2003b).
[28] The large share of EU anti-dumping measures in this sector justifies the inclusion of chemicals among the sensitive sectors, but not all authors accept it. For instance in CEPR (1992) chemicals are not included in the list of sensitive sectors.
[29] The exception of agriculture is largely to be explained by continuing EU protectionism, the disruption associated with transition (and, in particular, privatization), but difficulties in meeting the requirements of the EU market with regard to standards and quality requirements also played a role.

Table 20.5 Foreign direct investment in 2003

	a) Flows 2003 $ million	b) Total Stock 2003 $ million	Inward stocks % GDP (2003)
Bulgaria	1419	5082	29.1
Czech Rep.	2583	41033	48.0
Estonia	891	6511	77.6
Hungary	2470	42915	51.8
Latvia	360	3320	35.1
Lithuania	179	4960	27.2
Poland	4225	52125	24.9
Romania	1566	12693	23.4
Slovakia	571	10248	31.5
Slovenia	181	4290	15.6

Source: World Investment Report 2004 www.UNCTAD.org

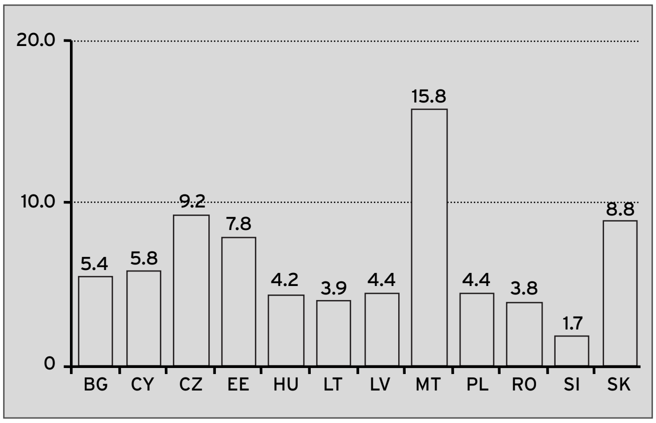

Figure 20.4 FDI in the new member states as a percentage of GDP (average 1999–2001)

Source: European Commission (2004a).

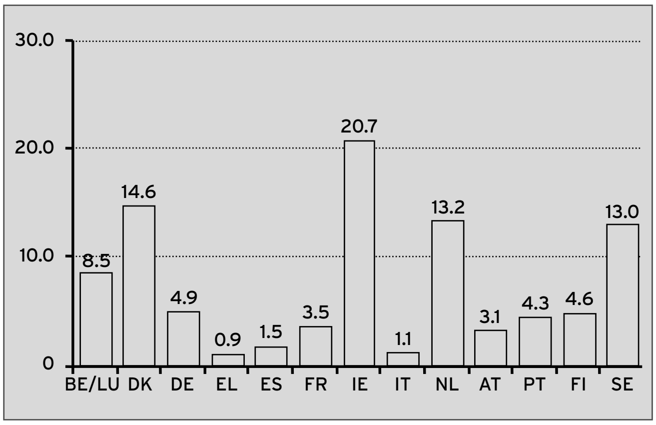

Figure 20.5 FDI in the EU(15) as a percentage of GDP (average 1999–2001)

Source: European Commission (2004a).

the CEEC(6) actually increased over the 1988–96 period.[30] According to Eichengreen and Kohl (1998), the duality in export composition (with the presence of both traditional, sensitive sectors and fast-growing new products) was even more pronounced in Poland, Slovakia and Romania.[31] These findings were confirmed by a more recent study by De Benedictis and Tajoli (2004), as can be seen from Table 20.6.

Despite the increase in machinery exports, the exports of the Baltic States are still dominated by wood and wood products, textiles and clothing, chemicals and base metals, and transit trade of mineral fuels and oils.[32]

Table 20.6 Sectors whose share in CEEC exports increased over the 1989–2002 period

	Increased share in exports	Reduced share in exports
Poland	furniture auto vehicles electrical machinery machinery iron articles paper	copper, iron apparel, glues fuels, seeds fruit, vegetables fish, meat, animals
Hungary	auto vehicles electrical machinery machinery	iron, footwear apparel organic chemicals fuels, vegetables plants, fish meat, animals
Romania	electrical machinery, machinery footwear apparel fuels	furniture aluminium
Bulgaria	copper iron footwear apparel	electrical machinery, machinery organic chemicals inorganic chemicals tobacco beverages seeds, dairy fish, meat animals

Source: De Benedictis and Tajoli (2004).

EU POLICY TOWARDS SOUTH-EASTERN EUROPE

South-Eastern Europe (SEE) is generally taken to refer to the five Western Balkan countries: Albania, Bosnia/Herzegovina, Croatia, FYR Macedonia and Serbia-Montenegro, though Bulgaria and Romania are also included in certain initiatives.

The poor long-term economic performance of SEE has been compounded by the series of wars that resulted from the disintegration of Yugoslavia. The instability in SEE also imposes costs on the EU in terms of military intervention, migration, trade disruption, ecological damage and the need for humanitarian and other aid. Between 1991 and 1999 EU assistance (including EBRD

[30] The study covers: Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia.
[31] According to Eichengreen and Kohl (1998) Bulgarian exports continued to fall mainly into this latter category.
[32] See Pautola (1999) and Kaitila and Widgrén (2001) for detailed analyses of trade between the EU and Baltic States.

measures) to the five Western Balkan countries amounted to €8.2 billion, of which roughly half was humanitarian aid (Uvalic, 2002).

Initially the EU underestimated the political problems arising from the collapse of Yugoslavia and failed to develop a long-term strategy towards the area, relying instead on *ad hoc* measures and 'day after' actions. It was only after the Dayton Peace Agreement of 1995 that the EU began to evolve a regional approach to SEE. In 1995 the EU launched the Royaumont Process aimed at promoting stability and good neighbourly relations in SEE. In 1996 the Regional Approach of the EU was introduced, but it was not well defined, had limited financial resources, arrived late, and failed to offer the SEE counties any incentive for compliance.

In 1999 the EU attempted to bring an end to its crisis-by-crisis approach by introducing the Stability Pact, which aimed at fostering peace, democracy, human rights and economic prosperity as a means of bringing stability to the region. Importantly, the EU attempted to reinforce its leverage in SEE by offering the prospect of eventual EU membership. The EU insisted that its approach would be differentiated according with the compliance of a country to the relevant conditions, including increased emphasis on regional co-operation. Central to the approach was the Stabilization and Association process that offered eligible West Balkan countries the possibility of signing Stabilization and Association Agreements. By 2004 Agreements had been signed with Croatia and Macedonia, and Albania was negotiating an Agreement. In April 2004 the European Commission published an Opinion favourable to opening negotiations for membership with Croatia. Macedonia also applied for membership.

The Thessaloniki European Council and the Summit between the EU and Balkan countries of 2003 set out the 'Thessaloniki Approach', which entailed extending some of the more successful instruments of the pre-accession process to the SEE countries. In particular, European Partnerships were introduced to set out the short- and medium-term priorities these countries need to address. As progress was achieved, these Partnerships would be increasingly geared to the task of taking on the *acquis*. Over the 2000–06 period EU assistance for SEE was to be provided mainly through the CARDS (Community Assistance for Reconstruction, Development and Stabilization), and about €5 billion was earmarked for this purpose.

THE COPENHAGEN CRITERIA

In 1993 the Copenhagen European Council agreed that 'accession will take place as soon as the applicant country is able to assume the obligations of membership by satisfying the economic and political conditions required'. The conditions for accession are:

- The applicant state must have a functioning market economy with the capacity to cope with competitive pressures and market forces within the Community;
- The applicant state must have achieved stability of institutions, guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- The applicant state must be able to take on the obligations of membership, including adherence to the aims of political and economic and monetary union.

At the Copenhagen Summit it was also stipulated that enlargement is subject to the condition that the EU is able to absorb new members and maintain the momentum of integration.

The criteria are generally divided into political criteria, economic criteria, and ability to take on the *acquis communautaire* and to establish the administrative and judicial capacity to ensure its effective implementation.

There are three political criteria:

- Stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- Adherence to the objective of political union; and
- Maintaining the momentum of integration.

The economic criteria are similarly divided into three:

- The existence of a functioning market economy;
- Capacity to cope with competitive pressures and market forces within the Community; and
- Adherence to the aim of economic and monetary union.

The accession criteria are presumably intended to provide some kind of objective basis for selecting those CEECs ready to join the EU, as well as indicating to the applicant countries the tasks they are expected to perform. The introduction of the Copenhagen criteria would therefore seem aimed at replicating the experience of the Maastricht criteria but in a different field, that of enlargement.

However, although there is a certain flexibility and political leeway in deciding whether the Maastricht criteria have been met, this is far more the case for the accession criteria. This arises from the number of criteria and, in some cases, from the vague and imprecise nature of the concepts involved. This is the case, for instance, in deciding whether a country has a 'a functioning market economy' or the 'capacity to cope with competitive pressures'. There are different models of market economies, and no indication is given as to which model is appropriate, or how to assess when the CEEC has 'arrived'.

In deciding whether the CEECs are ready to cope with competitive pressures in an enlarged EU, a detailed analysis of their economies is necessary, together with predictions about which sectors will be able to cope in the internal EU market. The International Institute for Management Development in Switzerland (IMD) carries out annual studies of competitiveness in 59 countries (see Table 20.7). Just how complicated the task is can be seen from the fact that the IMD takes into account more than 300 variables. These reflect current economic performance, business surveys and factors such as infrastructure and innovation.

For other criteria, such as the obligation to take on the objective of political union, or the requirement that the momentum of integration can be maintained (which presumably requires some form of enhanced co-operation or flexibility, see Chapter 3) the objective in question has yet to be defined fully.

Table 20.7 World competitiveness in 2004: overall scoreboards

Overall ranking		EU rankings		EU rankings	
country	rank	country	rank	country	rank
USA	1	Denmark	7	France	30
Singapore	2	Finland	8	Spain	31
Canada	3	Luxembourg	9	Portugal	39
Australia	4	Ireland	10	Slovak Republic	40
Iceland	5	Sweden	11	Hungary	42
Hong Kong	6	Austria	13	Czech Republic	43
Denmark	7	Netherlands	15	Greece	44
Finland	8	Germany	21	Slovenia	45
Luxembourg	9	UK	22	Italy	51
Ireland	10	Belgium	25	Romania	54
		Estonia	28	Poland	57

Source: International Institute for Management Development (IMD).

The simple rule 'when a CEEC meets the accession criteria, it can join the EU' is misleading given the degree of discretion in deciding whether the accession criteria have been met. In the end choice of who joins when becomes a political issue. Poland could not be left out of a first wave without undermining the image of 'reunifiying Europe', and the ratification process and institutional changes in EU decision-making suggested that there would be less disruption admitting a larger group simultaneously.

Though at the time of the Copenhagen European Council no indication was given with regard to the weights of the different criteria, subsequently the European Commission indicated that predominance was to be given to the political criteria, so a country must fulfil these before joining and must be making substantial progress towards meeting the economic criteria. Agenda 2000 stresses that 'the effective functioning of democracy is a primordial question in assessing the application of a country for membership of the Union'.[33]

Political criteria were also introduced into the Amsterdam Treaty and Article 6 states:'the Union is founded on the principles of liberty, democracy, respect for human rights and fundamental freedoms, and the rule of law, principles which are common to the member states'. According to Article 49, any country that respects these principles may apply to become a member of the Union. The 1999 Helsinki European Council again stressed that democracy is the requisite for beginning negotiations on EU membership.

At the 1997 Luxembourg European Council Slovakia was not considered to meet the accession criteria on political grounds. Following the electoral defeat of Meciar in September 1998, this decision was reversed, and the Helsinki European Council decided that Slovakia was sufficiently advanced in both economic and political transition for accession negotiations to begin. It is mainly on the basis of the political criteria that the European Commission expresses misgivings about Turkey (see Appendix 2).

Treatment of minorities has also been a sensitive question in accession negotiations. There are large Hungarian minorities in Romania and Slovakia, a Slovak minority in Hungary, substantial Russian minorities in Estonia and Latvia, a Turk minority in Bulgaria and a large Roma population in countries such as Romania, Bulgaria, Slovakia, the Czech Republic and Hungary (see Box 20.1).

Box 20.1 Ethnic minorities in Central and Eastern Europe

Hungarians in Romania
Estimated 1.6–2 million (about 8% of the population).
Hungarians in Slovakia
Estimated 600 000 (about 11% of the population).
Slovakians in Hungary
Estimated 100 000

Russians in Latvia
Estimated roughly 43% of the population
Russians in Estonia
Estimated 28% of the population

[33] Agenda 2000, p. 40. The experience of sanctions on Austria following the inclusion of Haider in the governing coalition in early 2000 suggests that in the future political issues will become predominant.

Roma
Estimated 1–1.5 million in Romania
400 000–600 000 in Hungary
Officially 1.6% of the population in Slovakia (unofficially 4–10% of the population;
5% in Bulgaria

Turkish Minority in Bulgaria (10% of the population or 800 000).
Sources: Vachudova (2000); European Commission, www.europa.eu/comm.

Also in this context the European Commission has emphasized the need for regional co-operation and good neighbourly relations before accession,[34] and the applicant countries have generally taken this condition seriously. Agenda 2000 maintained that outstanding border disputes between applicant countries should be referred to the International Court of Justice. In 1992, for example, the Czech Republic and Slovakia were careful to ensure their break-up was peaceful. In 1993 Hungary and Slovakia agreed to refer a dispute over the Gabcikovo dam on the Danube to the International Court of Justice.

In the context of the 1994–95 Pact for Stability (which was one of the first joint CFSP actions) the EU co-ordinated a multilateral framework in which the CEECs were encouraged to conclude agreements with each other on borders and treatment of minorities, as well as to use regional round tables to agree cross-border co-operation projects (with EU financial support). Agreements followed between Hungary and Slovakia (1995), and Hungary and Romania (1996) regardless of opposition in all three countries.

Despite the Commission's insistence on being good neighbours, tensions among the accession countries have at times run high, as, for instance, over the call by Austria and Hungary for repeal of the Czechoslovak Benes decrees under which some 2.5 million Germans and 30 000 Hungarians were deported at the end of the Second World War.[35]

THE PRE-ACCESSION STRATEGY

The Essen European Council of 1994 set out a pre-accession strategy to help the candidate countries prepare for EU membership. An enhanced pre-accession strategy was launched at the 1997 Luxembourg European Council and was set in motion in 1998. In addition to the Europe Agreements and pre-accession assistance (through PHARE, ISPA and SAPARD), the enhanced strategy includes Accession Partnerships and National Programmes for the Adoption of the *Acquis* (NPAA), the opening of Community programmes and agencies, and a review procedure.

The Accession Partnerships set out the main priorities for each of the candidate countries in preparing for EU membership and provide a single framework for coordinating the various forms of EU assistance. Each of the candidate countries drew up a NPAA that indicated in detail how the country aimed to meet the priorities of the Accession Partnership. In 2002 the Commission also prepared Action Plans with the 12 countries with whom negotiations were underway to reinforce their administrative and judicial capacity.

The opening of Community programmes and agencies was aimed at promoting co-operation between the member states and applicant countries in areas such as public health, the environment,

[34] See Smith (2003) for a more detailed discussion of this point.
[35] See, for example, the *Financial Times*, 3 April 2002.

energy, research, small and medium enterprises, culture, vocational training and support for student and youth exchanges (such as Socrates). In this way it was hoped that the new member states could be familiarized with the way in which EU policies and instruments are put into practice.

Following the Opinions of the applications of the candidate countries for accession, each year in order to assess progress in preparing for membership the Commission submitted Regular Reports to the Council. The Regular Reports on each applicant country were generally published in October/November, together with a Composite or Strategy Paper. While useful as a source of information, often the style of these publications was not far removed from school reports, though the comments 'could try harder', or 'could do better' were usually expressed in slightly more diplomatic terms.

THE ACCESSION NEGOTIATIONS

A first step in preparing for the accession negotiations was the 'screening' of the *acquis.* It began in March 1998 with all the accession countries, whether negotiations had been opened or not. The purpose of the exercise was to identify issues likely to arise in the negotiations. It consists of a detailed presentation by Commission experts on the application of the 31 chapters of the *acquis* (see Table 20.8) to the applicant countries. The first chapters of the *acquis* opened in the screening process were the least controversial and included Chapters 15–19 (see Table 20.8), Consumers and Health Protection (Chapter 23) and Statistics (Chapter 12).

Though the Commission stressed that political criteria remained primordial, the 'screening' of the applicant countries to assess their progress in taking on the 'obligations of membership' encouraged a shift of emphasis away from the other Copenhagen criteria. The speed and progress of accession negotiations appeared to depend heavily on the ability of a country to adopt and implement the *acquis*. According to the Commission, the administrative and judicial capacity of a country were also key factors in implementing the *acquis*.

Following the screening process, negotiations were opened with the candidate countries, chapter by chapter. A chapter was considered 'provisionally closed' with a candidate country when the EU considered that further negotiation was not required on the chapter, and the candidate concerned

Table 20.8 Chapters of the *acquis*

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

accepted the EU common position. The EU reserved the right to return to the chapter at a later stage during the negotiation if new *acquis* were adopted, or if the candidate country concerned failed to implement the commitments it had taken on the chapter. As a result, though chapters could be 'provisionally closed', the Commission's negotiating stance was based on the principle that 'nothing is agreed until everything is agreed' and that a final overall compromise deal was necessary to conclude negotiations.

For the areas linked to the functioning of the Single Market, according to the Commission, any transition periods were to be few and short (though there were exceptions to this general rule as, for instance, the derogation on movement of people requested by existing member states). For areas where considerable adaptations were necessary, and which required substantial effort (including large monetary outlays) such as the environment, energy and infrastructure, transition periods involving 'temporary derogations' were to be granted, but in some areas (nuclear safety, the fight against crime) the new members were expected to go 'beyond the *acquis*'.

The new member states criticized the Commission's attitude to the adoption of the *acquis* on a number of counts:

- The asymmetry of treatment compared with present EU members (e.g. the Nice Treaty does not require respect for minorities, while the Copenhagen criteria do);
- The CEECs were given little opportunity to voice objections to the conditions, and their preferences seemed to be marginalized at times (while the EU(15) have on occasion challenged the overriding nature of the *acquis)*;
- Taking on the *acquis* does not always further transition;
- The *acquis* is constantly evolving;
- The insistence on taking on all the *acquis* might divert attention from the need for a hierarchy of priorities.

EXTENDING THE CAP TO THE NEW MEMBERS

Agriculture frequently threatened to prove a stumbling block in the enlargement process. As shown in Table 20.9, agriculture continues to play an important role in many of the CEECs. The numbers employed in agriculture in the EU will increase from about 7 to 11 million, raising the share in employment from 4 per cent to 5.5 per cent, which would become 7.5 per cent with Bulgaria and Romania. At the same time, the CAP continues to absorb just under half of the Community budget, while food and agricultural measures account for roughly half the *acquis communautaire.* The applicant countries have the complex task of adapting to EU policies and standards, while the EU wanted to ensure that enlargement does not result in excessive transfers from the Community budget.

As described in Chapter 10, the 1992 MacSharry Reform, the 1999 Berlin Agreement and the June 2003 reform entailed cuts in support prices for some of the main Community products. The impact of these price cuts for farmers in the EU(15) was (more or less, see Chapter 10) offset by direct income payments. By 2002 direct aids accounted for roughly 60 per cent of the CAP budget.

There was considerable debate about extending direct income payments to farmers in countries joining the EU. At least initially, such payments were introduced as compensation for the reductions in price support. At first the Commission argued that farmers in applicant countries would not generally experience price cuts and so should not benefit from direct payments.[36]

[36] See, for example, the Agricultural Strategy Paper (Commission of the European Communities, 1995), and Agenda 2000 (Commission of the European Communities, 1997).

Table 20.9 Basic data on agriculture in the new member states and selected candidate countries

	Land area (m. ha) 2001	Gross value added in ag. € billion 2000	Agriculture as % gross value added 2002	Agriculture employment (1000s) 2000	Ag. as % total employment 2002	Food expenditures % income 1999
Bulgaria	5.5	1.6	12.5	342[b]	10.7	54[a]
Czech Rep.	4.3	1.9	3.7	193	4.9	32
Slovakia	2.4	0.8	4.5	119	6.6	32
Hungary	5.9	1.8	4.3[d]	227	6.0	42[a]
Poland	18.4	5.0	3.1	2698	19.6	30
Romania	14.8	4.6	13.0	4861[b]	37.7	58
Slovenia	0.5	0.6	3.3[d]	81	9.7	24
Estonia	1.0	0.3	5.4	32	6.5	36
Latvia	2.5	0.3	4.7	118	15.3	39
Lithuania	3.5	0.8	7.1	262	18.6	40
CEEC(10)	58.8	17.8	5.1[c]	8933	21.4[c]	37
Cyprus	.1[c]	0.3[b]	4.3	14[b]	5.3	19
Malta	.01	0.08	2.8	3	2.3	
EU(15)	130.0	167.5	2.0[c]	7129	4.3[c]	17

[a]= 1998, [b]=1999, [c]= 2000, [d]=2001
Source: European Commission www.europa.eu.int/comm/enlargement.

According to the European Commission, prices for most agricultural products were below EU levels,[37] and it was argued that farmers in the CEECs would receive the benefit of higher prices when they joined the EU, so compensation in the form of direct payments was superfluous. However, this argument was somewhat undermined by rapid price increases for agricultural products in the CEECs.[38] The proposed differential treatment between 'rich' Western farmers and their poorer counterparts in the CEECs was subject to fierce criticism in those countries.

In March 2002 the Commission published an extensive study of the impact of enlargement on agricultural markets and incomes,[39] confirming the view that immediate payment of 100 per cent direct payments on accession of the CEECs would lead to social distortions and inequalities. Moreover there would be non-rural beneficiaries who had generally become landowners as a result of the privatization process that included restitution in most CEECs. The report took into account four different policy scenarios:

- No enlargement;
- Application of the 1999 CAP without direct payments;
- Introduction of the CAP with full, immediate direct payments; and
- Acceptance of the candidate countries' negotiating positions.

The working assumption of the analysis was accession of eight CEEC candidates from 2007.[40] According to the Commission report, even without direct payments the CEEC farmers would benefit on average from a 30 per cent increase in income as a result of EU market support. With the scenario of full application of direct payments in the new member states, the average expected income gain tripled, reaching a level of 89 per cent, while assuming that the applicant countries'

[37] The European Commission (1995) maintained that, depending on the product, CEEC prices were between 40 and 80 per cent of EU levels.
[38] According to *Euro-East*, No. 90, July 2000, p.6, grain prices in Slovenia were 70–80 per cent higher than in the EU, and Polish beef prices were well above EU averages.
[39] EC Commission (2002).
[40] It was assumed Bulgaria and Romania would join later.

negotiating positions were accepted, the predicted gain quadrupled to reach an estimated 123 per cent.

At the Copenhagen European Council of December 2002 it was agreed that direct aids for the new member states would be phased out gradually in over 10 years. These countries would receive direct payments equivalent to 25 per cent of the present system in 2004, 30 per cent in 2005 and 35 per cent in 2006, rising to 100 per cent only in 2013. The new member states were offered the possibility of topping up direct payments through national funds and their rural development funds to 55 per cent in 2004, 60 per cent in 2005 and 65 per cent in 2006.

In order to meet problems of administrative costs and fraud, the new member states could opt for simplified system of direct payments for three years, renewable for up to two more years.[41] This would entail area payments per hectare on the whole of the agricultural area of the applicant countries. There would be no obligation for farmers to produce in order to receive these payments, and so the direct aids would be 'decoupled' from the level of production.[42]

Difficulties also arose in deciding on production quotas for milk and sugar (see Chapter 10) for the new member states. The EC Commission proposed taking 1995–99 as the reference period, but this was contested by some of the CEECs as not being representative. For instance, since milk production fell during these years due to the process of restructuring, countries such as Poland and the Czech Republic argued in favour of a quota based on production in the 1980s or some estimate of 'productive potential'. The Copenhagen European Council agreed on production quotas on the basis of 'the most recent historical reference periods for which data is available', though in fact some concessions were granted.

A further sensitive issue was whether the CEECs would be allowed a derogation on land ownership. Land prices are much lower in the CEECs, and though a general derogation of seven years, with the option of extending the derogation for a further three years, was eventually agreed (12 years for Poland), the initial requests were higher (18 years in the case of Poland).[43]

THE STRUCTURAL FUNDS

As Table 20.10 illustrates, in earlier enlargements the addition to the population and GDP of the EU were roughly in line. Although they have been growing faster than the EU(15) since the mid-1990s, Table 20.11 shows that in all the CEECs the per capita income in terms of purchasing power parity (PPP) is well below the EU average.[44] With enlargement the gap between the most and the least prosperous member states will widen.

The Third Report on Economic and Social Cohesion (European Commission, 2004a) divides the countries in an enlarged EU into three groups according to GDP per head in PPP terms. For the first group, consisting of 12 of the present 15 member states, GDP per head is well above the EU(25) average (10 per cent or more). In the second group of seven countries (Spain, Portugal, Greece, Cyprus, the Czech Republic, Slovenia and Malta) GDP per capita is between 68 per cent and 94 per cent of the EU(25) average. In the third group, which comprises the other new member states and Bulgaria and Romania, GDP per capita is less than 60 per cent of the EU(25) average.

Despite the rapid growth of the CEECs, it appears likely that it will take some years to eliminate the income disparity compared with existing EU member states. Baldwin (1994) estimated that

[41] The need for a simplified system arose because the EU applies 30 types of direct payment, and six for beef alone. The various types of direct payments are listed in an Annex to Council Regulation No. 1259/1999.
[42] As explained in Chapter 17, this has important implications for GATT/WTO commitments.
[43] The general derogation applies to the three Baltic states, the Czech Republic, Hungary and Slovakia.
[44] It is essential to bear in mind the limitations of comparisons of this type. All the CEECs have rapidly growing private sectors, part of which fails to show up in official statistics, though it must be recalled that most EU economies also have substantial 'informal' sectors.

with 5 per cent growth, the catch-up period ranges from eight years for Slovenia to 22 years for Poland and 26 years for Slovakia. A later study by the European Integration Consortium suggested an average period of 30 years to catch up, with Slovenia possibly requiring only 10 years.[45]

The EU(15) stand to gain from the catching-up process of the CEECs, given their high dependency on imports (over half of GDP). About 60 per cent of these imports come from the EU, of which about 25 per cent from Germany and 10 per cent from Italy.[46]

Table 20.10 The impact of successive enlargements of the EU

Year	New entrants	Increase in population	Increase in GDP
1973	From 6 to 9 Denmark, Ireland, UK	+33.4%	+32.4%
1981	From 9 to 10 Greece	+3.7%	+2.8%
1986	From 10 to 12 Spain and Portugal	+17.7%	+11.6%
1995	From12 to 15 Austria, Finland, Sweden	+6.2%	+6.3%
2004	Accession of 10 new member states May 2004	+20%	+5%
2007?	Romania and Bulgaria	+8%	+1%

Source: *Le Cacheux* (1996) for enlargements until 1995; European Commission (2004a) for subsequent enlargements.

Table 20.11 Extending the Structural Funds to the CEECs

	Population 2002	GDP € billions PPP 2002	GDP per capita at PPP (% EU average, 2002)	Average GDP growth 1995–2000	Growth in 2002	Unemployment % labour force 2002
Bulgaria	7.9	47.4	25	-1.7	4.8	18.1
Cyprus	0.8	14.0	72			3.8
Czech Rep.	10.2	146.9	60	0.6	2.0	7.3
Estonia	1.4	13.5	42	4.3	6.0	9.1
Hungary	10.2	138.2	57	4.0	3.3	5.6
Latvia	2.4	19.9	35	3.7	6.1	12.8
Lithuania	3.5	34.3	39	2.7	6.7	13.1
Malta	0.4	4.6	55		1.2	7.4
Poland	38.6	363.0	39	5.4	1.6	19.9
Romania	21.8	128.9	25	-2.2	4.9	7.0
Slovakia	5.4	61.3	47	4.2	4.4	18.6
Slovenia	2.0	35.3	74	4.0	3.2	6.0
Acceding 10	74.3	831.0				
EU(15) total/ average	378.7	9166.5	100	4.0		

Source: EC Commission: www.europa.eu.int/comm/enlargement.

[45] Boeri and Brücker (2000).
[46] European Commission (2004a).

Enlargement will also increase income disparities between regions in an enlarged EU. Between 1999 and 2001 some 19 per cent of the population of the the EU(15), or 73 million, live in Objective 1 regions, where income per capita is less than 75 per cent of the EU average. It is estimated that some 69 million of the 74.5 million in the 10 new member states, or 92 per cent of the total, live in regions where the GDP per capita is less that 75 per cent of the average in EU(25).[47]

The average GDP per capita will be reduced with the increase in the number of member states from 15 to 25 (see Table 20.12). As a result, if the criterion for Objective 1 remains unchanged, some regions that now qualify for Objective 1 status will no longer do so in an enlarged EU. This is the case for four regions in Eastern Germany, four in the UK, four in Spain, one in Greece and one in Portugal.[48] It is estimated that some 19 million people in the EU(15) live in such regions.

Table 20.12 The statistical effect in Objective 1 regions (based on GDP per capita in PPP, average 1999–2001)

	For EU(15) in EU(15)	For EU(15) in EU(25)	In 10 new member states in EU(25)	In EU(25) in EU(25)
Number of regions falling below 75% of average GDP/head	50	33	36	69
Population in those regions (millions)	73	54	69	123
Population as % of EU(15) for 10 new states	19.2	14.2	92.4	
Population as % of EU(25)		11.9	15.2	27.1
Average GDP/head PPP of those regions as % of EU(15)/EU(25) average	65.1	69.3	46.0	56.2

Source: European Commission (2004a).

In 2004 Michel Barnier, the commissioner responsible for regional affairs, suggested splitting the 2007–13 expenditure on the Structural Funds so that half goes to the new member states and half remains for the poorer existing member states. Barnier proposed transitional assistance to poorer regions in existing member states who would otherwise lose their rights to assistance.

With enlargement employment disparities between regions in the EU will also increase. Unemployment is generally higher in the CEECs than the existing member states (see Table 20.11). In the new member states only Cyprus and three regions in the Czech Republic exceed the Lisbon target of 67 per cent employment of the active population for 2005.[49] In an EU of 25 members there will be 14 regions where the employment rate is less than 50 per cent: six in Southern Italy, one in Spain (Ceuta e Melilla), one in France (Corse), five in Poland and one in Hungary (E'szak Alfold). A further three regions in Bulgaria fall into this category.

In general areas with low employment are associated with low GDP per capita. However, there are many rural areas, in particular in Poland, Romania and Lithuania, where semi-subsistence farming provides employment, but GDP per capita remains low.

The financial package agreed for the new member states at the December 2002 Copenhagen European Council allocated €14 156 million for the Structural Funds, and €7591 million for the Cohesion Fund for the 2004–06 period (see Chapter 9). Total support including that from the

[47] European Commission (2004a).
[48] European Commission (2004a).
[49] European Commission (2004a).

Cohesion Fund amounts to just over €7.3 billion a year in 1999 prices. The requirement of national co-financing seems likely to place a strain on the budgets of the new member states during these years.

To limit the scale of transfers and 'resolve the absorption problem', the Berlin Agreement also set a limit on the size of transfers, which could not exceed 4 per cent of the GDP of the recipient country. This ceiling entails a kind of inverse logic whereby the lower the GDP, the lower the transfer from the Structural Funds. It is estimated that over the 2004–06 period Poland will receive €67 per capita annually, and Hungary €49 compared with Greece receiving €437 per head and Ireland receiving €418 per capita in 2000.[50]

In order to simplify implementation, during the 2004–06 period support is to be concentrated on a few priority areas (see Table 20.13). The activities programmed reflect the transitional nature of the period, and appear largely as a means of preparing the ground for the strategies and procedures to be followed subsequently (European Commission, 2004a). In particular, there seems a need for better analytic tools and information sources, and increased selectivity to ensure the quality of programmes. Administrative capacity to implement measures also needs to be improved.

Table 20.13 Indicative breakdown of commitment appropriations for Structural Funds in new member states, 2004–06

	CY	CZ	EE	HU	LT	LV	MT	PL	SI	SK
Basic infrastructure		16.9	37.2	16.4	39.4	32.6		14.1		40.5
Competitiveness industry/enterprise		17.9	19.7	21.5	25.3	25.0	60.0	15.2	57.5	14.5
Human resource development		21.9	20.5	28.2	18.3	21.2	17.0	17.8	31.9	27.2
Agriculture, rural development and fisheries	67.5	12.0	18.7	15.9	15.3	18.5	11.0	16.7	9.9	17.7
Regional development		31.2		18.0			10.0	35.9		
Urban regeneration	30.0									
Other*	2.5		3.9		1.7	2.7	2.0	0.3	0.8	
Total	100	100	100	100	100	100	100	100	100	100

*including technical assistance
Source: European Commission (2004a).

ECONOMIC AND MONETARY UNION

One of the main challenges for the EU in the coming years is to reconcile the twin programmes of deepening and widening. This also creates tensions between enlargement and EMU.

As described in Chapter 8, enlargement will further complicate the already cumbersome decision-making institutions of the European Central Bank (ECB) and add to the complexity of the division of responsibility between the ECB, Ecofin, the Eurogroup and national governments.

Full participation of the new member states in EMU is unlikely to occur for some time. The Maastricht criterion on exchange rates entails that a country should remain within the 'normal' band of the exchange rate mechanism (ERM 2) without tension and without initiating depreciation for two years. For the new member states, this means that full participation in the third stage of EMU has to wait for two years after joining the EU since they were not allowed to join the

[50] *Financial Times*, 22 April 2004.

ERM 2 before they become EU members.[51] In the meantime the CEECs have a free choice of exchange rate regime, though 'this does not mean the EU would treat these choices with indifference'.[52]

Even without participating fully in the third stage of EMU, with enlargement the new member states will have to accept the EMU *acquis*, which involves:

- Adherence to the objective of EMU;
- Respect of the Stability and Growth Pact including regular submission of convergence programmes in the context of EU surveillance (Art. 99 § 2–5);[53]
- The prohibition of direct public sector financing by the Central Bank and the ending of privileged access to that bank (Art. 101);
- Treatment of the exchange rate and of other economic policies as a matter of 'common concern' (Art. 99 and Art. 124) to be co-ordinated within the Council (Art. 99 §1);
- The orderly liberalization of capital movements not only *vis-à-vis* other EU members but also third countries (Art. 56);
- Independence of the central bank (Art. 108) and its adherence to price stability as the primary objective (Art. 105).

The European Commission has repeatedly warned the CEECs against premature attempts to meet the Maastricht criteria in order to join the euro early.[54] The new member states could encounter difficulties in meeting the fiscal deficit criterion on a sustainable basis (see Table 20.14). Although external discipline can play a useful role where fiscal deficits are too high, excessive concern for budgetary constraint may hinder transition. The CEECs face pressure for additional government spending from a number of sources. Most of these countries are engaged in

Table 20.14 The Maastricht criteria and 2002 data for the new member states and candidate countries

	Inflation rate (%) annual average	Government debt % GDP	Fiscal deficit % GDP
Bulgaria	5.8	53.0p	-0.6
Cyprus	2.8	59.0	-3.5
Czech Republic	1.4	20.0	-3.9
Estonia	3.6	5.2	1.3
Hungary	5.2	54.3	-9.2
Latvia	2.0	14.6	-3.0
Lithuania	0.4	29.5	-2.0
Malta	2.2	60.6 (2000)	-6.2
Poland	1.9	46.0	-4.1
Romania	22.5	22.7p	-2.2
Slovakia	3.3	42.7	-7.2
Slovenia	7.5	26.9	-2.6
Turkey	45.0	95.0	-10.0

p = provisional
Source: European Commission; European Bank for Reconstruction and Development for government debt for the eight CEECs that joined the EU in 2004.

[51] In the past the Council has demonstrated a certain flexibility in interpreting this criterion: for example, both Finland and Italy were accepted even though they had been in the ERM less than two years.
[52] Ecofin meeting, 7 November 2000.
[53] The references are to the relevant articles in the Nice Treaty.
[54] As discussed elsewhere (see Krenzler and Senior Nello, 1999), problems of definition or specification may also arise in applying the Maastricht criteria in transition economies. For example, assessing public deficit may run into difficulties since many CEECs do not present consolidated accounts, while some are only now in the process of setting up regional governments (whose accounts should also be included). Many CEECs do not issue 10-year government bonds, which are the basis for the interest rate criterion.

fundamental reform of their pension and social security systems, health care and education. Improvements in infrastructure are urgently required, and the bad debts of state enterprises remain a problem in some CEECs. The task of taking on the *acquis* also calls for budgetary expenditure, in particular in areas such as the environment, increasing nuclear safety and improvement in administrative and judicial capacity.

Further difficulties could arise with inflation (see Table 20.14). Price liberalization in some CEECs is incomplete, in particular in the housing and energy sectors. When the formerly closed and inefficient centrally planned economies were opened up to market forces, a process of catching up, with rapid gains in productivity, occurred. If the productivity gains are faster in the traded than in the non-traded sector, this can generate inflation.[55] If the CEECs attempt to peg their exchange rate when inflation is higher than in their main trading partners, this can lead to loss of competitiveness and may result in currency crises.[56]

It is important to stress that although the applicant countries have to adhere to the aim of EMU, they are not obliged to meet the Maastricht criteria at the time of their accession. The Commission has repeatedly stated that the Maastricht criteria should not be regarded as a short-run objective but a goal for the medium to long term.

FREEDOM OF LABOUR MOVEMENT

As discussed in Chapter 7, most studies suggest that if ethnic upheaval and major civil strife are avoided (and this is one of the main reasons for applying the Copenhagen criteria), migration in an enlarged EU will be on a manageable scale.[57] None the less, a general transition period of five years before requiring the extension of freedom of labour movement to the new member states has been agreed, with the possibility of being extended for a further two years by individual member states. During that time member states can decide on what national measures to implement, and individual countries are free to proceed more rapidly with liberalization of labour movement if they so decide. Cyprus and Malta, which have labour shortages, will be excluded from these transition periods. An automatic review will take place after the first two years, when member states can decide to shorten or lift the transition period.

ENLARGEMENT AND PUBLIC OPINION

Any enlargement has to be ratified by all the EU member states, the European Parliament and the accession country in question. With the exception of Cyprus, for constitutional reasons all the new member states decided on ratification by referendum (see Table 20.15). The process proceeded surprisingly smoothly, though in some countries the majority in favour of accession was rather small (notably Malta), while in others (Hungary in particular) the turnout was low.

Enlargement has largely been a process carried forward by élites, so the annual opinion surveys also carried out by Eurobarometer in the new member states provide a useful indication of the attitudes of the general public to the EU. The results presented in Table 20.16 suggest that support for the EU was higher on average in the then 13 candidate countries (62 per cent on average

[55] This phenomenon is called the 'Balassa–Samuelson–Harrod effect'. When a small economy opens to international trade, its export prices are set at the world level. If the country is on its production possibility frontier, increased productivity in traded goods leads to increased wages in the traded-goods sector. However, if wages are equalized between the traded and non-traded goods sectors, and the non-traded goods sector has lower productivity, inflation will increase.
[56] As, for instance, occurred in the Czech Republic in 1997 and Slovakia in 1998.
[57] See, for instance, Alvarez-Plata et al. (2003); Boeri and Brücker (2000); CEPR (1992) or Layard et al. (1992).

Table 20.15 Referenda and ratification of the Accession Treaty

Country	Date of referendum or ratification	Referendum outcome
Cyprus	Ratification notified 6 August 2003	
Czech Republic	13–14 June 2003	Yes 77.33%, No 22.67% Turnout 55.21%
Estonia	14 September 2003	Yes 66.92%, No 30.98% Turnout 63.9%
Hungary	12 April 2003	Yes 83.76, No 16.24% Turnout 45.62%
Latvia	20 September 2003	Yes 66.69%, No 32.2% Turnout 72.53%
Lithuania	10–11 May 2003	Yes 91.04%, No 8.96% Turnout 63.3%
Malta	8 March 2003	Yes 53.65%, No 46.35% Turnout 91%
Poland	7–8 June 2003	Yes 77.45%, No 22.55% Turnout 58.85%
Slovakia	16–17 may 2003	Yes 92.46%, No 6.20% Turnout 52.15%
Slovenia	23 March 2003	Yes 89.61%, No 10.39% Turnout 60.29%

Table 20.16 Support for EU membership

	A good thing	Neither good nor bad	A bad thing
Romania	81%	10%	2%
Bulgaria	73%	17%	3%
Turkey	67%	18%	10%
Cyprus	59%	26%	11%
Slovakia	58%	31%	8%
Hungary	56%	24%	10%
Lithuania	55%	29%	9%
Malta	55%	22%	17%
Poland	52%	28%	13%
Slovenia	50%	37%	8%
Latvia	46%	37%	16%
Czech Republic	44%	34%	15%
Estonia	39%	37%	16%
	A good thing	**Neither good nor bad***	**A bad thing**
Austria	35%	45%	20%
Belgium	56%	32%	12%
Denmark	57%	21%	22%
Finland	39%	39%	22%
France	44%	39%	17%
Germany	46%	44%	10%
Greece	62%	31%	7%
Ireland	73%	21%	6%
Italy	58%	32%	10%
Luxembourg	77%	17%	6%
Netherlands	62%	26%	12%
Portugal	55%	34%	11%
Spain	62%	31%	7%
Sweden	40%	28%	32%
UK	28%	43%	29%

* includes 'don't know' percentage.
Source: European Commission (2004b and 2004c).

thought that membership was a 'good thing') than in the 15 member states (48 per cent on average). Among the candidate countries, support for the EU seemed highest in the three countries not joining in 2004. In the EU(15) support has fallen since the early 1990s when 72 per cent considered the EU a 'good thing', but support remains high in the Cohesion countries, in countries hosting a large share of EU institutions (Luxembourg and Belgium) and in the Netherlands and Denmark.

EVALUATION AND OUTLOOK FOR AN EU OF 25 OR MORE

Though the EU was slow to respond to the requests of the CEECs for membership, there were few illusions that transition and preparing for accession could prove other than lengthy and complex. Many aspects of transition (such as those relating to infrastructure, energy, the environment, human capital, and social capital and institution building) will have to continue long after enlargement.

Though an enlargement on the scale of that of 2004 has never been attempted, it seems set to become simply one in an ongoing process. In addition to Bulgaria, Romania, Turkey (see Appendix 2), Croatia and Macedonia have presented requests for membership. As part of the Stability and Association Process, the possibility of eventual membership has been offered to other countries in South-Eastern Europe. The Wider Europe policy foresees tighter links with CIS countries, and even if the prospect of enlargement has not yet been voiced, it cannot be indefinitely excluded for at least some of these countries.

With previous enlargements (and those of 1973 and with the Mediterranean countries, in particular) there were fears that larger membership would profoundly change the nature of the Community. Inevitably, this is even more the case for a move from 15 to 25 members or more. What kind of changes can be expected?

To date decisions in the EU have generally been taken on the basis of consensus. Even on issues where qualified majority voting is foreseen in the Council, votes are rarely taken and efforts are made to find a compromise. In a larger EU confrontational politics will probably be more difficult to avoid, and efforts to find compromise could lead to a slowing of the integration process. There may be a shift to more application of the QMV rule, but even after Nice or with the Constitutional Treaty, many areas remain subject to unanimity. Confrontational tactics could lead to a return to situations like the Empty Chair Crisis of 1965 or the eurosclerosis of the 1970s.

However, eurosclerosis 30 years later would be a different animal. The *acquis* has grown, and achievements like the Single Market and the euro seem irreversible, though less stringent application of, for example, competition or industrial policy could erode some of the advantages.

Member states will continue to benefit from the advantages of a larger market with more price transparency, but the aim of the Lisbon Strategy is to move beyond this and create a knowledge-based economy of world quality reference by 2010. The date 2010 is drawing closer, and we do not seem much nearer this aim. Part of the difficulty is that the Lisbon goals are disparate and also rely on the efforts of national governments and private business for their realization. Insufficient resources are still devoted to education and research, and to reaching the goals of the European Employment Strategy, which include increasing employment, the quality of work and social cohesion.

One of the main aims of the 2007–13 financial perspective is to give these goals a higher priority. However, the member states that are net contributors to the EU budget oppose any increase in spending (and, indeed, favour its reduction as a share of gross national income). The October 2002 European Council precluded the possibility of releasing substantial resources from the CAP for other spending. There have been calls for radical cuts, if not the elimination of the CAP, from some quarters. However, as argued in Chapter 10, there are well-founded reasons for public intervention in agriculture. The public has repeatedly expressed a strong preference for safe food and a healthy environment. Though there is still space for improvement in gearing policy to these objectives, the CAP has been radically transformed by the 1992, 1999 and 2003 reforms. Goals such as food safety and protection of the environment are not achieved cheaply, but there may be an argument for shifting more of the burden to national governments, with a partial renationalization of the CAP.

Since the scope for increased spending on the Structural Funds is therefore limited, the emphasis will have to be on increasing the effectiveness of measures.[58] Many of the new member states would like to repeat the Irish experience, which, as argued in Chapter 14, was partly due to the Structural Funds. However, when Ireland joined it was the only poor member state, and now there are many.

In December 2004 a decision will be taken on Turkey.[59] It is difficult to pretend that accession will not pose difficulties for the EU, given the size of the Turkish population, the level of GDP per capita and the share of agriculture in the economy. Against this, the urgent need to provide security in such an unstable corner of the globe could prove overriding. The prospect of EU membership has encouraged the Turkish government to undertake an active policy of democratization, and there are strong reasons for continuing this process. Similar arguments apply for many of the countries in South-Eastern Europe, but here their relatively small size poses fewer problems for the EU.

One of the main challenges for the EU remains establishing its democratic legitimacy. When consulted in referenda or opinion polls the people of Europe have frequently expressed negative opinions of the integration process (as, for instance, the Danish and Swedish votes against the euro, or the Irish vote on the Nice Treaty). Even if the Constitutional Treaty is ratified, as anyone who has attempted to consult it on the Internet can verify, the Constitutional Treaty has severe limits as an attempt to 'sell Europe' to its citizens. As Siedentop (2000, p. 1) argues, ongoing debate on the constitutional form of the EU is the only way to convince Europeans that 'what is happening in Europe today is not merely the result of inexorable market forces or the machinations of élites, which have escaped from democratic control'.

Clearly prescriptions to resolve this situation are beyond the present scope, but further forms of flexibility, or enhanced co-operation, will have to emerge. They will probably do so in the time-honoured, piecemeal EU method of reaching compromises and allowing exceptions. Grand designs for Europe invariably have to be whittled down and adjusted so that one size is stretched into shape to fit all.

Summary of Key Concepts

- In May 2004 10 countries joined the EU: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. Bulgaria and Romania could join in 2007, and a decision on Turkey will be taken in December 2004. In April 2004 the European Commission published an Opinion favourable to opening negotiations for membership with Croatia.
- The PHARE Programme that came into operation from 1990 was initially demand-driven, and based on the requests of the recipient countries. From 1993 PHARE became increasing concerned with preparing CEECs for accession.
- PHARE is one of the three pre-accession instruments for the 2000–06 period. The other two instruments are ISPA and SAPARD.

[58] For suggestions of how this might be achieved see, for example, the Sapir Report of 2004.
[59] See the OLC website of this book for an updating of this issue.

- Western assistance to the transition countries was different from the Marshall Plan. Post-war reconstruction is very different from transition, while the co-ordination problems were fewer, the scale of financing was higher and the conditionality was tighter under the Marshall Plan.
- As a result of the provisions of the Europe Agreements, a free trade area in manufactured products was in place before enlargement.
- The CEECs succeeded in redirecting their trade rapidly towards the EU(15) and, in some cases, in attracting substantial foreign direct investment.
- South-Eastern Europe is generally taken to refer to the five Western Balkan countries: Albania, Bosnia/Herzegovina, Croatia, FYR Macedonia and Serbia-Montenegro, though Bulgaria and Romania are also included in certain initiatives. In 1999 the EU introduced the Stabilization and Association process, which offered eligible West Balkan countries the possibility of signing Stabilization and Association Agreements and eventual EU membership.
- The conditions for accession set out at the 1993 Copenhagen European Summit are: a functioning market economy with the capacity to cope with competitive pressures and market forces within the Community; stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities and ability to take on the obligations of membership, including adherence to the aims of political and economic and monetary union. It was also stipulated that enlargement is subject to the condition that the EU is able to absorb new members and maintain the momentum of integration.
- Difficulties arise in applying the Copenhagen criteria because of the number of criteria and, in some cases, the vague and imprecise nature of the concepts involved.
- The Essen European Council of 1994 set out a pre-accession strategy to help the candidate countries in preparing for EU membership.
- Agenda 2000 of July 1997 set out the Commission's proposals for the 2000–06 financial perspective and for reform of the Common Agricultural Policy and Structural Funds.
- Agriculture continues to play an important role in many of the CEECs and to account for a high share of EU spending and the *acquis*. The applicant countries have to adapt to EU policies and standards, while the EU(15) wanted to ensure that enlargement does not result in excessive transfers from the Community budget.
- The proposals for extending the Structural Funds to the new member states appear to discriminate in the treatment of the existing member states, new members and so-called pre-ins. The new member states are likely to challenge this discrepancy in treatment.
- Enlargement will further complicate the already cumbersome decision-making institutions of EMU, but the new member states will only be able to adopt the euro two years after accession.
- Most studies suggest that migration in an enlarged EU will be on a manageable scale, but a transition period has been agreed before applying full movement of labour in an enlarged EU.
- Opinion polls suggest that support for the EU was generally higher in the new member states than in the EU(15).

Questions for Study and Review

- **What criticisms can be made of Western measures to assist transition?**
- **How far can Western measures to facilitate transition be considered a new Marshall Plan?**
- **Discuss the conditionality applied by the EU in its dealings with the CEECs.**
- **Describe the main features of the Europe agreements.**
- **When the CEECs joined the EU, they passed from a free trade area to membership of the Single Market. What does this imply?**

- **Describe the main features and limitations of the policy of the EU towards SEE.**
- **Why did the accession of Cyprus to the EU create difficulties (see Appendix 3)?**
- **What criticisms can be made of the Copenhagen criteria?**
- **With enlargement, what are the main obstacles facing agriculture?**
- **What difficulties arise in extending the Structural Funds to the new member states?**
- **What difficulties are likely to arise in reconciling EMU and enlargement?**
- **How far is migration likely to pose a problem in an enlarged EU?**
- **Discuss public perceptions of the EU and enlargement.**

Appendix 1 Steps in pre-accession

1988 the Joint Declaration of Mutual Recognition between the EC and CMEA

From 1989 the PHARE Programme

From 1991 the TACIS Programme

1988–90 First Generation Trade and Co-operation Agreements

1992–95 Second Generation Europe Agreements

1994–1997 Trade and Co-operation Agreements with the former Soviet Republics

June 1993 Copenhagen European Council

- The accession criteria;
- The structured relationship;
- Accelerated market access;
- Additional financial assistance (an additional 15 per cent of PHARE annual commitments for infrastructure);
- Assistance for the harmonization of laws.

December 1994 Essen European Council

- Development of the structured relationship;
- Call for White Paper to prepare CEECs for inclusion in Single European Market;
- Call for a study of appropriate means to develop relations in agriculture (leading to the Agricultural Strategy Paper of 1995);
- Encouragement of regional co-operation among accession countries.

1995 Cannes European Council

- Approval of the White Paper on the Single Market;
- Agreement that technical assistance under PHARE should be concentrated on implementation of the White Paper, and that more resources should be devoted to improving infrastructure (including TENs).

1995 Madrid European Council

- The necessary decision should be taken to begin accession negotiations within six months of the conclusion of the Intergovernmental Conference (IGC) to be launched in Turin in March 1996;
- Studies of countries to prepare Opinions as soon as possible after the conclusion of the IGC;
- Decision to prepare a composite paper on enlargement;
- Further strengthening of structured dialogue.

June 1997 Amsterdam Treaty

Aimed at creating more efficient operating procedures and facilitating decision-making in an enlarged EU, as well as increasing the legitimacy of EU institutions and meeting the problem of the democratic deficit.

July 1997 Agenda 2000 and Opinions on the applications for EU membership

December 1997 Luxembourg European Council

- Decision to open accession negotiations with five CEECs (Poland, Hungary, Czech Republic, Slovenia and Estonia) and Cyprus;
- Accession partnership extended to all 10 CEEC applicants;
- European Conference to include CEEC(10) and Cyprus (Turkey refused to participate).

March 1998 opening of negotiations with CEEC(5) and Cyprus

- 'Screening' of CEEC progress in implementation of *acquis*;
- Infringement procedures where progress in implementing the *acquis* is inadequate;
- Feedback into Regular Reports.

March 1999 Berlin Agreement on Agenda 2000

- The financial perspective for 2000–06;
- Reform of the CAP;
- Reform of the Structural Funds.

1999 December Helsinki European Council

Decision to extend negotiations to Bulgaria, Latvia, Lithuania, Malta, Romania, and Slovakia and to declare Turkey a candidate.

February 2000 opening of negotiations with these six further candidates

December 2000 Nice European Summit

- Limited extension of the qualified majority vote, and reweighting of votes in the Council of Ministers;
- Ceilings on the number of commissioners and members of the European Parliament;
- An increased possibility to use flexibility or enhanced co-operation;
- A new IGC to be called in 2004 to decide on the future architecture of the EU.

June 2001 Gothenburg Summit

- Confirmed the 'road map' set out at Nice with the objective of completing negotiations with the first applicant countries in 2002 so that they could participate in the European Parliament elections of 2004.

December 2002 Copenhagen Summit

- Confirmed 1 May 2004 as the objective for the date of entry of 10 of the applicant countries;
- Indicated 2007 as the possible date of accession for Bulgaria and Romania;
- Decision on whether to open negotiations with Turkey to be taken December 2004.

February 2003 Nice Treaty comes into effect

December 2003 failure to agree on the Constitutional Treaty at the Brussels European Council

May 2004 10 new member states join the EU

June 2004 the European Council agrees on the Constitutional Treaty, but ratification still has to take place

Appendix 2 EU–Turkish Relations

Turkey became a member of the OECD in 1948, the Council of Europe in 1949 and NATO in 1952. It applied for Associate Membership of the EEC in 1959 (a few days after Greece), but following the coup in 1960, talks were suspended for two years.

In 1963 Turkey signed an Association Agreement, the Ankara Treaty, with the Community. Since being European is one of the conditions of Community membership, in 1963 the president of the European Commission, Hallstein, ruled in favour of Turkey, announcing that it was 'part of Europe'. However, debate about the dual European and Muslem identities of Turkey and the implications for EU membership continues.

In 1970 the Association Agreement was modified by an Additional Protocol that called for the creation of a customs union by 1995. However, during the 1970s tensions arose over the 1974 Cyprus crisis and the Greek application of 1975 for full membership. In 1978 Turkey requested participation in EPC (European Political Co-operation) in order to prevent Greece using its position to hinder the development of tighter Turkish–EC relations. This request was rejected, and in 1978 Turkey issued a unilateral declaration freezing its relations with the EC. The military took over in Turkey in 1980, and relations with the EU remained suspended. Relations were resumed in 1986, leading to a reactivation of the Association Agreement from 1988.

Turkey presented a request for EU membership in 1987, and received a negative reply two years later. The official reason given by the Commission was the need to complete the Single Market Programme. In 1990 the EC implemented a package to improve relations with Turkey, that included financial and technical assistance and the creation of a customs union by 1995.

At the Luxembourg European Council of December 1997 Turkey was not even included among the slow-track countries being considered for EU accession. The Council decided to establish the European Conference, but Turkey refused to attend its first two meetings. In 1999 meetings were suspended, but were resumed with Turkish participation after the 1999 Helsinki European Council. At the 1999 Helsinki European Council Turkey was declared a candidate. The 2002 Copenhagen Summit agreed that a decision on whether Turkey was ready to join the EU would be taken in December 2004, and if so that negotiations would begin 'without delay'.

Despite substantial reforms in Turkey, the 2003 Regular Report still concluded that further efforts were needed with regard to:

> the strengthening of the independence and the functioning of the judiciary, the overall framework for the exercise of fundamental freedoms (association, expression and religion), the further alignment of civil-military relations with European practice, the situation in the South-east and cultural rights. Turkey should ensure full and effective implementation of reforms to ensure that Turkish citizens can enjoy human rights and fundamental freedoms in line with European standards.

Membership would also pose economic problems because of: Turkey's size, population (69.6 million in 2002), level of development (GDP per capita was only 23 per cent of the EU average in 2002), the importance of the agricultural sector (33.2 per cent of employment and 11.2 per cent of GDP in 2002), the dominant role of the state in the economy, the weakness of the financial sector, corruption and inflation (45 per cent in 2002).

In 2002 the EU accounted for 51.5 per cent of Turkish exports and 45.5 per cent of Turkish imports.[60] The main exports to the EU were textiles (41.4 per cent), transport material (13.4) and agricultural products (9.5 per cent). The main EU exports to Turkey were machinery (29.7 per cent), chemical products (19.1 per cent) and transport material (14.2 per cent).

[60] The data here are taken from the European Commission: www.europa.eu.int/comm/trade. See the OLC website of this book for an updating of this issue.

Appendix 3 The EU and Cyprus

Since 1974 the island of Cyprus has been divided into the Greek Republic of Cyprus (population 689,000 in 2002), and what in 1983 was declared the Turkish Republic of Northern Cyprus (TRNC). The TRNC (population 211,000 in 2002) is recognized only by Turkey.

Cyprus obtained its independence from Great Britain in 1960, and the Treaty of Guarantee placed the independence, territorial integrity and security of the island under the joint guarantee of Greece, Turkey and the UK. The Treaty envisaged a complex power-sharing arrangement and a bi-communal structure. The Turkish Cypriots claimed that representation in municipal authorities and the army failed to conform to planned ethnic proportions and began to exercise their veto rights. In 1963 President Makarios proposed constitutional amendments to reduce the opportunities for the Turkish Cypriots to block legislation, and there was a political crisis. Intercommunal violence broke out, Turkish Cypriots moved into enclaves and withdrew from the common institutions.

In 1964 the UNFICYP (United Nations Peacekeeping Force in Cyprus) was established to prevent a recurrence of fighting and to contribute to the maintenance of law and order.

In 1974 the Greek junta staged a coup against President Archbishop Makarios and claimed annexation of Cyprus to Greece. Also committed to the protection of Cypriot independence, Turkey intervened on 20 July 1974. Two conferences were held in Geneva between Greece, Turkey and the UK, with the second also attended by Greek and Turkish Cypriots. The talks were inconclusive, and on 14 August the Turkish army launched a second offensive. According to the Greek Cypriots, this second invasion was not justified by the Treaty of Guarantee since the constitutional order had already been restored.

In 1974 Cyprus was divided by a 'Green Line', with the Turkish Cypriots holding almost 37 per cent of the island. In 1974 some 140 000–160 000 Greek Cypriots moved to the South, while an estimated 30 000–40 000 Turkish Cypriots fled to the North (Brewen, 2000). It is estimated that some 50 000 Turkish Cypriots left the island, while between 85 000 and 115 000 settlers (in particular from Anatolia) came over from the Turkish mainland, though the statistics are controversial.[61] A large Turkish force (estimated at 35 000 in 2003) remained in Northern Cyprus.

In 1990 the Republic of Cyprus applied for EC membership. In 1993 the EC Commission published its Opinion on application for EC membership, that appeared to make accession conditional on internal political settlement.

In 1994 Greece threatened to veto negotiations for a customs union between the EU and Turkey if Cyprus were not included in the next EU enlargement process, and at the 1997 Luxembourg European Council it was agreed to include Cyprus among the first-wave countries.

The EU continued to push for a settlement, but the Presidency Conclusions of the 1999 Helsinki European Council announced that 'if no settlement has been reached by the completion of accession negotiations, the Council's decision will be made without the above being a pre-condition'.

In 2002 the UN presented a proposal to set up a Swiss-type confederation between the two parts of the island, that would also permit Northern Cyprus to join the EU. The European Commission made it clear that if agreement were reached, Northern Cyprus could join the EU in May 2004 with no further negotiation of the Accession Treaty. A referendum on the UN proposal, or Annan Plan, was held in both parts of the island on 24 April 2004, and while 65 per cent of Turkish Cypriots voted in favour of settlement, 76 per cent of Greek Cypriots voted against. As a result only the Greek Cypriot part of the island joined the EU. The EU introduced a series of measures to compensate the Turkish Cypriots for their favourable vote, but were still not prepared to recognize the Turkish Republic of Northern Cyprus.

[61] The data here are taken from www.un.int/cyprus/cyissue.htm.

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Useful Websites

European Commission provides data, description of policies and key documents:
www.europa.eu.int/comm/enlargement
www.europa.eu.int/comm/external_relations
The Countdown site of the Wiener Institut für Internationale Wirtschaftvergleiche provides an extensive bibliography, abstracts of publications and debate on key issues in transition:
http://wiiwsv.wsr.ac.at/Countdown/f_liter.htlm
European Bank for Reconstruction and Development presents statistics, country reports and analyses of key issues in transition countries:
www.ebrd.org
The Council of Europe provides analyses of democratic consolidation and human rights in transition countries:
www.coe.int
Reports on the international competitiveness of countries are available from the Institute of Management Development, Lausanne:
www.imd.ch
World Economic Forum:
www.weforum.org
Data on FDI is available from UNCTAD:
www.unctad.org

List of abbreviations

CAP	The Common Agricultural Policy
CARDS	Community Assistance for Reconstruction, Development and Stabilization
CEEC	Central and Eastern European country
CEFTA	Central European Free Trade Area
CFSP	Common Foreign and Security Policy
CIS	Commonwealth of Independent States
CMEA	Council for Mutual Economic Assistance
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
Ecofin	Council of Economic and Finance Ministers
EMU	economic and monetary union
EPC	European Political Co-operation
ERM	Exchange Rate Mechanism
Europgroup	Group of Economic and Finance Ministers of the euro area
IFI	international financial institution
IGC	Intergovernmantal Conference
IMF	International Monetary Fund
ISPA	Pre-Accession Structural Instrument
NATO	North Atlantic Treaty Organization
NPAA	National Programme for the Adoption of the *Acquis*

OECD	Organization for Economic Co-operation and Development
OPT	outward processing trade
PHARE	Poland, Hungary Aid for Economic Reconstruction
PPP	purchasing power parity
SAPARD	Special Accession Programme for Agriculture and Rural Development
SEE	South-Eastern Europe
Socrates	EU programme for the mobility of students
TACIS	Technical Assistance for the Commonwealth of Independent States
TEN	Trans-European Network
UNFICYP	United Nations Peacekeeping Force in Cyprus
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization