The enlargement of the European Community

European File

The forthcoming accession of Spain and Portugal will increase the number of States in the European Community to 12, twice the number which founded the Community in the 1950s. This gradual enlargement marked by the accession of Denmark, Ireland and the United Kingdom in 1973 and Greece in 1981, demonstrates the Community's vitality and attractiveness. Despite a variety of economic, social and political problems, the Community is playing an increasing role in world affairs and stands as the symbol of the ideals of unity, peace and democracy in Europe.[1]

It was this sense of identity of ideals which led the democratic governments of Portugal and Spain to apply for membership; Portugal in March 1977 and Spain the following July. Following a positive response from the European Commission, negotiations between existing and candidate States began for Portugal in October 1978 and Spain in February 1979. After about 40 negotiating sessions with each candidate country, this process is almost complete in several areas: transport, regional policy, economic and financial questions, capital movements, taxation, harmonization of laws and the right of establishment for private citizens. In the case of Portugal negotiations are almost complete on the customs union in industrial goods, coal and steel, Euratom and external trade. The main areas still to be negotiated are agriculture, fisheries and social affairs. Nevertheless considerable progress has been made, considering the delicate nature of the subjects already dealt with. This is a tribute to the positive political will displayed by all sides. The summit of Community Heads of State and Government at Stuttgart in June 1983 called

[1] This file updates and replaces our No 5/79.

Commission of the European Communities
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Rue de la Loi 200 — B-1049 Brussels

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for the completion of negotiations in time to allow enlargement to be presented for ratification, by national parliaments, at the same time as the outcome of the current negotiations on the related issue of the future financing of the Community.

Hope for Europe

Enlargement is not simply a symbol of the vitality of the Community. It offers new hope for the European ideal:

□ First and foremost, politically, the accession of Spain and Portugal will increase the number of countries which not only share common ideals of liberty and democracy but have set themselves a common objective of peace and unity.

- It marks a new milestone on the road to European unity. The original European treaties foresaw the possibility of enlargement of the Community and laid down procedures for the admission of new Member States. In the preamble to the Treaty of Rome, the signatories spoke of their resolution to 'strengthen the safeguards of peace and liberty' and called on 'the other peoples of Europe who share their ideals to join in their efforts'.

- Enlargement can also help to cement in place the recently-created democratic systems in Spain and Portugal. As soon as democracy was restored Portugal and Spain applied for membership of the Community, believing that this would guarantee the stabilization of their new-found political liberties. To respond positively to these applications is for the existing Community States both an act of solidarity and support and a recognition of self-interest. The accession of Spain and Portugal will help to reinforce liberty and peace in southern Europe.

□ Economically, enlargement will also bring considerable advantages:

- Overall, the Ten can look forward to material gains from the extension of the Community. The development potential of the Spanish and Portuguese markets will help to boost trade within the Community. Although Spain now ranks amongst the 10 or 12 most powerful industrial nations in the world, the two candidate countries have clearly still to reach the average level of economic development in the Community. On the other hand, their rate of growth is significantly greater than that of the Ten. Between 1970 and 1980 it averaged 3.8% in Spain and 4.7% in Portugal, compared with 2.9% for the Ten. Within a Community market increased from 270 million consumers to 320 million, new trade opportunities will be created for industrial goods and a range of agricultural products from the Ten, such as cereals, beef, pork and dairy produce.

- The candiate countries can equally expect material advantages from full membership of a Community on which their trade already largely depends. In 1981 54% of Portuguese exports went to the Community which provided 38% of Portuguese imports. In the same year, the Community accounted for 43% of Spanish exports and 29% of imports.

- Finally, enlargement will enhance the political and economic weight of the Community in the world. It will consolidate the Community's status as the world's foremost trading power. Non-Community countries will benefit from an opening up of the Spanish and Portuguese markets when the new Member States apply the common Community customs tariff – considerably less protectionist than their own. The historic, cultural and trading links between Spain and Portugal and a host of Latin-American and African countries will help the Community to further develop its relations with the Third World.

Enlargement will also undoubtedly cause problems which the Community must attempt to solve, of which more later. But these will mainly be problems which already exist in the Community and which must be dealt with in any case. The challenges of enlargement will also provide a stimulus. It will inevitably reinforce the urgent necessity to strengthen European institutions and policies to cope with problem regions and sectors in economic difficulties, such as Mediterranean agriculture, fishing, textiles and steel. It will also increase the need for improvements in the Community financing system and decision-making process. The present negotiations and the period of transition which will succeed accession must be used for this purpose if enlargement is to be accomplished without a dilution of the Community.

Existing relations with the candidate countries

Existing relations with the candidate countries are organized in a variety of ways, all intended partly to prepare for their accession.

- Trading agreements:

  - With Spain, a preferential trading agreement was signed in June 1970. Since the beginning of 1973 Community tariffs on almost all Spanish exports have been cut by 60%. For some goods, such as shoes and textiles, tariff reductions were negotiated in 1977 but limited to 40%. About half of Spanish agricultural exports (citrus fruits, olive oil, some wine and other fruit and vegetables) are allowed tariff reductions of between 25 and 60%. Spanish tariff concessions cover a large part of Community exports and vary between 25 and 60%.

  - With Portugal, a free-trade agreement was signed in July 1972 as part of a series of bilateral arrangements with members of the European Free Trade Association (EFTA). Since July 1976 customs duties have been abolished on many Portuguese industrial goods exported to the Community. This has also applied since 1977 or 1980, according to products, on some Community industrial exports to Portugal but the agreement will not apply to the rest before 1985. The Community has also granted tariff reductions to some Portuguese agricultural exports, notably tomato concentrate, processed sardines, some wine and fresh fruit and vegetables.

  Both sets of agreements take account of the relative underdevelopment of the economies of the candidate countries in laying down a timetable for the dismantling of customs duties on both sides. These agreements have helped to boost trade between the Community and the candidate countries. Spain's trade deficit with the Community has decreased but Portugal's has continued to grow.

Trade between the 'Ten' and the candidate countries (in millions of ECU)

	Community imports			Community exports		
	1970	1975	1982	1970	1975	1982
Spain	1 162	3 089	10 376	1 802	4 121	10 432
Portugal	442	872	2 553	813	1 226	3 921

Source: Eurostat.
One ECU (European currency unit) = about £0.58, Ir. £0.73 or US $0.86 (at exchange rates current on 14 October 1983).

- ☐ Financial assistance: gestures of solidarity have already been made to help Spain and Portugal to integrate with the Community. The two countries have received Community assistance in the form of loans from the European Investment Bank and, in Portugal's case, grants and interest rate subsidies from the Community budget. The money paid out in this way from 1981 to the middle of 1984 is likely to total 300 million ECU for Spain and 350 million for Portugal. Earlier loans to Portugal, often with interest rate subsidies, totalled 410 million ECU and began immediately after the restoration of democracy in that country.

Enlargement strategy

The European Commission drew up check-lists of the issues raised by Spanish and Portuguese accession in April 1978 and December 1982. These documents included concrete proposals for dealing with problems in specific areas. The overall objective was to achieve the enlargement of the Community without dilution of existing policies. The method proposed was to set out fair and clear conditions for accession with adequate advance preparation on both sides.

Accession conditions: the main areas under discussion

- ☐ The *acquis communautaire* and period of transition: the candidate countries must accept in its entirety the *acquis communautaire* or body of Community treaties and the laws derived from them. Although there can be no question of modifying Community rules, this wholesale acceptance of the *status quo* will make it necessary to lay down a transitional period, as with previous enlargements, which will give time to solve a number of problems of adaptation. The Commission has recommended that this transition period must take account of the recession, which has accentuated certain difficulties. It must also allow for problems of adaptation in the existing Community and the level of economic development of the candidate countries. A comparison of relative purchasing powers at the beginning of the 1980s reveals that GNP per head averaged less than 3 500 ECU in Portugal, 6 000 ECU in Spain and 8 300 ECU in the Ten. (But the figure for Greece was 4 600 ECU and Ireland 5 200 ECU.) The duration of the transition period for each of the problem sectors will probably not be fixed finally until the close of the enlargement negotiations. But accession will give the new Member States the immediate right to participate fully in Community institutions.

☐ Free trade:

- The often weak industry and agriculture of the candidate countries must adapt to competition from their new partners. Portugal must abolish its existing customs duties (a seven-year deadline has already been agreed) and its non-tariff trade barriers. Spain must dismantle a highly protectionist taxation and trading system, including customs duties and import quotas. It has already agreed to introduce VAT in the near future. It must also adapt to Community rules its system of State aids to industry. Transition will be eased in certain cases by limits for a number of years on the volume of imports of a number of industrial products from the Ten.

- For the most part the gradual abolition of customs barriers will create few difficulties for the economy of the Ten. As already explained, Portuguese industrial goods already have the right of customs-free access to the Community and Spanish goods have preferential tariff rates. There are, however, a number of sensitive areas where problems have already arisen and are likely to be exacerbated by enlargement. Urgent solutions are necessary. A significant proportion of Spanish and Portuguese exports to the Community are in areas where the industry of the Ten already suffers from permanent over-production. Import controls have already been imposed on Spanish and Portuguese textiles, steel and a number of Mediterranean agricultural products. The problems are especially acute in the agricultural sector. This accounts for 19% of the working population in Spain and 27% in Portugal, compared to an average of 8% in the Community as a whole (but 19% in Ireland and 30% in Greece). Agriculture provides 9% of GNP in Spain and 14.5% in Portugal, against 3.2% in the Ten. Enlargement will increase the number of Community farmers by 38% and its area under cultivation by 34%. Spanish accession alone will increase Community vegetable production by 25%, fruit by 48% and olive oil by 59%, resulting in a substantial increase in the Community's degree of self-supply in these areas, and the possibility of a sharp increase in expenditure for the European budget. Furthermore, competition from the new Member States in these branches of agriculture as well as in textiles and steel will create problems for regions of the existing Community members who are already badly hit by the recession or are underdeveloped. Examples are the Mezzogiorno in Italy, Greece and the South of France. Problems will also be created for non-Community Mediterranean countries and other trading partners who have preferential association and cooperation agreements with the Community. It is essential that the Community avoids a 'war of the poor' in which the burden of enlargement falls on those least able to sustain it.

  For these reasons the European Commission has made a number of proposals, described later, which are intended to prepare for and accompany enlargement. The transition period following accession must also be used to soften the blow. Special arrangements have already been agreed to stagger the opening of Community borders to Spanish and Portuguese textiles and avoid disruption of the market. As for agricultural produce, trade will gradually be liberalized from the moment of accession but the Commission believes the transition period should be fairly lengthy. The period suggested is from seven to ten years and even twelve years in exceptional cases. For certain products this transition period will fall into two stages. The first, lasting four years in most cases, will allow the development of Community machinery for market support in Spain and Portugal. The second, in principle lasting six years, will see the gradual application of the common agricultural policy in its entirety.

- Fishing: Community fisheries policy grants free access to all vessels from Member States in the 200 miles Community zone of the Atlantic seaboard. National catch quotas are fixed for threatened species and a 12 miles coastal zone is reserved for local fishermen or boats with traditional rights. Catching opportunities are declining. The Spanish fleet is equivalent to 70% of the tonnage of fishing vessels in the Ten. Alongside agriculture and social affairs, fisheries is therefore one of the trickiest issues in the accession negotiations.

- Social affairs: Spanish and Portuguese workers will, in principle, have the same right as workers from other Community countries to seek work, freely and without discrimination, in any other Member State. But the Community is seeking special arrangements to take account of the economic differences between the candidate countries and the Ten and the scale of unemployment in Europe (10.8% of the working population of the Community and 16.5% in Spain in mid-1983). The Ten are calling for a transition period of seven years at least before Spanish and Portuguese workers are given full freedom of movement.

Preparation for accession on both sides

- The European Commission believes that the candidate countries must observe certain disciplines to achieve a coherent Community after enlargement. Progress has already been made in this area. In the steel sector, for instance, Spain has recently embarked on a restructuring programme. In the agricultural field, the Commission had suggested that Spain should not use newly irrigated land for products already in surplus. Instead it should be used to produce animal fodder and protein crops. The Commission also suggests that the Community should give increased financial aid to Spain and Portugal to allow a speedier adaptation and diversification of their economies. The problem here is substantial. The scarcity of productive investment capital has been felt more sharply in Spain and Portugal than in many of the existing Member States.

- The Ten must step up their own efforts to prepare internally for enlargement and ensure its success. The main objective must be to assist problem regions to adapt to the increased competition in an enlarged Community. Methods include improvements to the common agricultural policy in sensitive sectors such as fruit and vegetables, wine and olive oil. There should also be increased Community aid for those poorer regions where enlargement will make the need for a complete rebuilding of the local economy even more urgent. For this reason, the Commission has proposed a reform of the European Regional Development Fund, an increase in Community assistance for Mediterranean areas affected by enlargement and a six-year programme of integrated developments in the Mediterranean region worth 6 600 million ECU. The objective here is to coordinate Community, national and regional efforts to boost the development of agriculture, tourism, energy supplies and small and medium-sized enterprises.

- ☐ Relations with non-Community Mediterranean countries must be framed by a global policy for the Mediterranean region. This will involve, above all, an increase in trade cooperation and financial assistance to prevent any risk of an economic crisis in this area. The Community must step up its contribution to the development of Mediterranean countries if it wishes to ensure a peaceful future for the area.

- ☐ For enlargement to be a complete success, there must also be improvements in other areas of Community policy. Two examples can be given. The acute dependence on imported energy supplies of the candidate countries must lead the Twelve to greater efforts in the fields of energy saving and the development of new, internal sources of supply. Such efforts would greatly assist the balance of payments in Spain and Portugal but would also reinforce the economic independence of Europe as a whole. Efforts must also be made to ensure that the economic and monetary stability of the Community is not disrupted by the admission of countries with comparatively underdeveloped economies, high rates of inflation and relatively weak currencies. Steps must be taken to strengthen the European Monetary System created in 1979.

- ☐ Finally, enlargement underlines the urgent necessity to resolve a number of financial and institutional problems which have bedevilled the Community in recent years:

  - Once members of the Community, Spain and Portugal will benefit from the European budget in areas such as agriculture, regional development and training and re-training of workers. It is estimated that the budget of a Community of twelve will be 15 to 20% larger than that of the Ten. The new Member States can expect to benefit, once their contributions have been taken into account, from a net transfer of resources from the Community budget. It is reckoned that in 1981 this transfer would have amounted to between 4 and 6% of the budget, or between 850 million and 1 400 million ECU. It is now clear, however, that the Community budget, financed by customs duties, agricultural levies and a maximum 1% of VAT receipts, no longer allows the scope for developing the common policies needed to face up to the problems confronting the Community. It has become necessary to increase the own resources of the Community, through, for example, an increase in its share of VAT. At the same time measures must be taken to ensure that Community money is spent effectively and cautiously, especially in the agricultural field. And that the financing of the Community takes account of the problems of individual Member States.

  - The enlargement of the Community from six members to ten has already placed considerable burdens on the institutions of the Community and its decision-making machinery. In a Community of ten the over-frequent insistence on unanimity in the Council of Ministers has proved paralysing. In a Community of twelve, it could be a formula for almost total sterility. The opportunity must be seized to move towards more frequent use of voting by qualified majority in the Council, more account of the opinions of the European Parliament and an extension of the management powers of the European Commission ■

Commission of the European Communities

Information offices (countries fully or partially English speaking*)

Ireland 39 Molesworth Street, Dublin 2 – Tel. 71 22 44

United Kingdom 8 Storey's Gate, London SW1P 3AT – Tel. 222 81 22
– 4 Cathedral Road, Cardiff CF1 9SG – Tel. 371631
– 7 Alva Street, Edinburgh EH2 4PH – Tel. 225 2058
– Windsor House, 9/15 Bedford Street,
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USA 2100 M Street, NW, Suite 707,
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– 245 East 47th Street, 1 Dag Hammarskjöld Plaza,
New York, NY 10017 - USA – Tel. (212) 371-3804

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