Financing the Enlargement of the European Union: Opportunity or Obstacle?

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Abstract

The collapse of communism in Eastern Europe has led to a profound shift in both European politics and the process of regional integration. East European states, once separated by political boundaries from the EU, now seek entry in order to gain access to markets, resources, and the prestige that membership entails. Not surprisingly, member states of the EU are much more wary, and the ongoing debate over integration--who should be let in, when, and in what manner--illustrates some of the fundamental divisions within the EU that currently exist. The major sources of debate regarding integration are discussed, and how expanded membership is likely to affect the EU in the future. While the differences in terms of economic development between Western and Eastern Europe are large and vary widely from state to state, this paper argues that postponing integration indefinitely runs the risk of undermining support in the East for the EU as a whole.

Any European State may apply to become a Member of the Union. It shall address its application to the Council, which shall act unanimously after consulting the Commission and after receiving the assent of the European Parliament, which shall act by an absolute majority of its component members. The conditions of admission and the adjustments to the Treaties on which the Union is founded which such admission entails shall be the subject of an agreement between the Member States and the applicant State. This agreement shall be submitted for ratification by all the contracting States in accordance with their respective constitutional requirements.

---Article O, Treaty on European Union

A return to Europe?

The sudden and dramatic collapse of communism in Eastern Europe in 1989 marked not only the end of the cold-war division of Europe; all assumptions regarding the nature of Europe itself and the future of the region were also undermined, forcing reconsideration. The notion of a "return to Europe" and a "common European home" emerged as powerful concepts, particularly in the East, where the long separation from the West was typically viewed as a historical dead-end, one which demanded immediate correction.

Above all else, the concept of Europe for Eastern Europeans has become bound within the structures of the European Union. The EU represents the culmination of everything that Eastern Europe has historically been unable to achieve: economic prosperity, stable democracy, good relations with one's neighbors, and a voice in the affairs of the continent. This symbolic power of the EU for Eastern Europe means that membership takes on not only a practical, but also a normative quality: those who belong are part of a concert of successful nations and states; those who do not are relegated to the status of either idiosyncratic states or poor relations, of "failed" peoples.

It is thus under these conditions that soon after 1989 the various states of Eastern Europe began to take up the question of future membership in the EU. As laid out in the Treaty on European Union, membership was not only a possibility, but clearly a right extended to all Europeans. As such, starting in 1994 ten states of Eastern Europe and the Baltics (hereafter: EE 10) began to submit formal applications for membership in the EU, with Hungary the first applicant in March 1994, and of this date the most recent being Slovenia in June 1996.[1]

Yet despite these formal applications, the future of accession for the EE 10 remains very much uncertain, reflecting the fact that European integration has always been more complicated than the various theories created to explain it. For example, Andrew Moravchik concludes in his study of the Single European Act of 1986 that the success of the SEA, rather than being the results of a process of neofunctionalist "spillover," derived from the same factors that brought the EU into existence in the 1950s: "the convergence of national interests, the pro-European idealism of heads of government, and the decisive role of the large member states."[2] Despite these past successes and the expansion of the EU, the future enlargement of the EU eastwards represents a great challenge. At the level of formal politics, many observers have noted that the existing institutions of the EU were designed for a much smaller group of states. Further enlargement from 15 to 25 members threatens to make current aspects of the EU machinery unworkable, in particular the Council of Ministers and the veto powers of any one state.

Just as if not more worrisome, however, are the financial costs of expansion. Not only does enlargement eastward entail the largest historical expansion of the Union within a potentially short timeframe, but an incorporation of states whose level of financial development is far behind that of the EU average. Can such dissimilar economic systems be integrated, and if so, at what price? Who will bear these costs? What are the long-term ramifications for the economic structure of the EU as it moves down the path toward monetary union? Will the EE 10 help the process of EU evolution by acting as a catalyst for needed institutional reform, or a Trojan Horse that will break the already strained structures of the Union? Are the forces that Moravchik views as critical to institutional breakthroughs present with regard to the EE 10?

The questions remain a source of intense controversy, both within and without the EU. How these questions are answered will have a profound effect on the policies created to deal with future EE 10 accession, and in turn the prospects of the EU and these transitional countries. This paper will provide an analytical overview of the current relations between the EU and the EE 10, the main sources of concern regarding the financial costs of accession, how these issues have affected the strategic considerations of EU member states, and conclude with a discussion of the various scenarios for future EE 10 accession to the EU and their impact on Europe as a whole.

The development and current status of EU-EE 10 economic relations

One of the first issues which emerged following the collapse of communism in Eastern Europe and the USSR was how the relationship between the EE 10 and the EU should be transformed to deal with this new reality. At first, the ongoing decay of Soviet power and the uncertainty of economic and political developments among the EE 10 gave rise to suggestions that the EE 10 would be best served within a neutral set of institutions, which would neither disturb the changing balance of power in Europe as a whole nor within the EU itself. For example, one idea saw a new role for the European Free Trade Agreement (EFTA), which had served as a trade arrangement for states that rejected EU membership, as a new force between East and West.[3]

However, with the final disintegration of the USSR and the subsequent defection of most of the remaining EFTA members (Austria, Sweden Finland) to the EU, the Union was in effect left as the only real game in town. Cold-war geopolitical reservations regarding expansion evaporated; if anything, the disintegration of Yugoslavia and the EU's muddled role in those events convinced many that expansion eastward was not only a moral obligation, but a practical matter of security for the continent as a whole. Lacking market access and external integrative structures, the EE 10 were now adrift, in danger of economic destabilization and political collapse, with unforeseeable ramifications for the rest of the continent in future.

Thus, even as the process of further deepening continued, the EU also moved to establish initial agreements with the EE 10 in the late 1980s and early 1990s to forge new ties that would help the process of transition and also pave the way for enlargement at some later date. This began with set of bilateral Trade and Economic Cooperation Agreements with a number of the EE 10 states, typically followed by the so-called Interim Agreements, which further expanded the economic relationship between the EU and the individual EE 10 states by increasing the level of tariff-free trade. Finally, starting in 1991 these provisional arrangements gave way to the Europe Agreements (also known as Association Agreements). The Europe Agreements, in contrast to their predecessors, move beyond the realm of trade relations to cover a number of issues that link EE 10 states to the EU; included are such areas as political dialogue, cultural, technical, and financial cooperation, and the broader process of economic integration and the approximation of laws and regulations. The Europe Agreements are not limited in their time frame, but rather are intended to develop and evolve so long as they are deemed necessary.[4] Alongside the Europe Agreements is financial assistance provided for the EE 10 and other East European states. Central within this is the PHARE program; originally created to serve Hungary and Poland, it has since expanded to cover most of Eastern Europe, providing funds to support economic and state restructuring and training.

The promulgation of these agreements and institutions over time reflects the changing relationship between the EE 10 and the EU. While initially these were piecemeal arrangements meant to respond to the sudden changes in Eastern Europe, as the EU has come to terms with its eventual expansion eastward programs for the region have been restructured as a means to that end. The first major recognition of this occurred at the 1993 Copenhagen summit of the European Council, where the heads of government of the EU member states formally agreed that

> The associated countries in central and eastern Europe that so desire shall become members of the Union. Accession will take place as soon as a country is able to assume the obligations of membership by satisfying the economic and political conditions. Membership requires:
> --that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
> --the existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the Union;
> --the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union. [5]

At the December 1994 Essen summit of the European Council this agreement was further elaborated, laying out a basic pre-accession strategy for those states that had applied for EU membership. Central was the creation of a "structured dialogue" between heads of government and other ministers on a regular basis to discuss the process of integration, the further development of infrastructure and training, a re-orientation of the PHARE program specifically towards the goal of accession, and the creation of a white paper on preparing the EE 10 for integration which "identifies key measures of each sector of the internal market and suggests a sequence in which the approximation of legislation should be tackled" by the EE 10.[6]

Finally, at the Madrid summit of European Council in December 1995 the members addressed the concrete question of when negotiations should begin between the EE 10 and the EU, deciding that this should begin six months after the end of the forthcoming Intergovernmental Conference, or IGC. The IGC, which meets on an ad-hoc basis, had already been scheduled to discuss further reforms of the Treaty on European Union in order to deepen integration and promote efficiency in an increasingly unwieldy EU. While the IGC was not charged with confronting eastward enlargement directly, its decisions would directly serve to facilitate future EU expansion. The IGC began its work in March of 1996, and is expected to finish in June of 1997. The Council also raised the thorny question of how enlargement eastward would affect the current economic structure of the EU in the areas of agriculture and structural policy (discussed below), and asked the Commission to evaluate these effects and present their findings upon the conclusion of the IGC, prior to the beginning of EU-10 negotiations.[7] EE 10 states were themselves asked to complete a several-hundred page questionnaire on the state of their economies as a information source for the Commission's work.

Given the rapid manner in which the issue of enlargement has developed for the EE 10, one might be tempted to believe that the path to accession was now clearly marked, if still somewhat rocky. However, while the objective of eastward enlargement may be evident, the manner in which this will be achieved remains unclear and highly contentious. Above all other considerations are those of finances: what will expansion cost, and who will pay?

The economic conditions of the EE 10 and EU support

The major concern regarding the enlargement of the EU eastward is fundamentally economic. The current wave of expansion proposed is unlike any expansions in the past history of the EU. In contrast to the accession of Spain and Portugal in 1986, or Finland, Sweden and Austria in 1995, the EE 10 as a whole represents a large population and territory--some 106 million people within an area of 1.1 million square kilometers, or 29% of the current EU population and 33% of its present area.[8] What the EE 10 possesses by way of population or land, however, it lacks in economic strength.

While the per capita Gross Domestic Product of the EU in 1996 stands at Ecu 18,084, in the EE 10 the average is just Ecu 5,263, less than a third of the EU average. Furthermore, this figure varies widely from state to state, ranging from a high of over Ecu 9,000 the Czech Republic and Slovenia to a low of under Ecu 3,000 for Latvia.[9] Not surprisingly, many states within the EE 10 also retain large agricultural sectors. While EU agriculture represents only 2.5% of GDP and 6% of the total workforce, for the EE 10 these figures are 8% and 25%, respectively.[10] The Baltic and Balkan states are particularly striking in this regard. In addition, all of these states have been burdened with the institutional legacies of state socialism and the challenge of dismantling a set of statist economic structures before market development can take place. This is a daunting task, and one which has been handled to varying degrees of effectiveness across the region.

Realizing the obstacles that such economic underdevelopment creates, the EU has been active in directly and indirectly providing support to the EE 10 in order to restructure and revitalize their economic and state structures with a view to accession. In the area of direct support, during the period 1990-94 PHARE grants totaled Ecu 4.2 billion, with an additional Ecu 6.7 billion allocated for the period 1995-99.[11] Direct loans have also been provided to the region via the EU's European Investment Bank, which has lent over Ecu 4.7 billion since 1990 for projects dealing with energy, transportation, communcation, and the development of private enterprise.[12] In total, EU aid to Eastern Europe (PHARE loans and other support) during the period 1990-1994 was approximately 34 billion Ecu.[13] Financial assistance to the region overwhelmingly comes from the EU and its member states, accounting for 68% of the total as of 1995 in comparison to just 14% from the US.[14] However, in terms of the total yearly amount spent, EU support for Eastern Europe represents less than 2% of the 1996 and 1997 budget.[15] By way of comparison, Hungarian economist András Inotai has noted that Hungary's yearly per capita allotment of PHARE funds is approximately 3% of EU funds transferred to Portugal alone.[16]

In the area of indirect support, EU-EE 10 relations have been marked by a transformation in trade patterns. With the collapse of the Soviet market and the need to attract hard currency and foreign direct investment, East European trade has within a short period of time become completely reoriented westward; in part as a result of the Europe Agreements, East European trade since 1989 has become largely directed toward the EU. In 1994 the EU accounted for approximately two-thirds of total regional exports, compared with only one-third in 1989.[17] Liberalized trade relations with the EU have progressed rapidly since the first Trade and Economic Cooperation Agreements, with tariffs and quantitative restrictions for most industrial products eliminated by 1995 for the majority of EE 10 states. However, it is important to note that this has not included agriculture, one area where a number of EE 10 states have a comparative advantage. In addition, so-called "contingent protection" clauses have been used against some EE 10 exports in order to protect certain "sensitive" EU industries.[18]

EE 10-EU trade since liberalization has been a mixed bag; while Eastern Europe exports to the EU have grown significantly, these have been eroded by imports from the EU, leading to the development of an overall EU trade surplus with most of the EE 10, even in agriculture.[19] This has led some to view the Europe Agreements as having been more effective at opening up Eastern Europe to EU trade than the other way around.[20] Economic growth prospects in Eastern Europe in the near future are also less than clear, with growth rates ranging between 3-6%, and trade and current account deficits likely to worsen. The region's almost exclusive link to the markets of the EU has served to exacerbate the region's problems, given the recent sluggishness of West European economies. As a result, the notion that the EE 10 are the next "Asian Tigers," driven by export-led growth, should be viewed with some caution. Richard Baldwin has argued that for the majority of EE 10 states consistent growth rates of between 4-5% per year would be necessary to simply catch up with the income level of Spain by the year 2010, a goal that only a few of the EE 10 are likely to achieve.[21] In short, while EU policies are well-intentioned, their objectives remain quite restricted and asymmetrical, in the face of a set of countries whose economic standard is far below that of the Union.

The opportunities and barriers to accession

Given the factors discussed above, it should be clear that for the EE 10, past the symbolic notions of EU membership enlargement means greater access to markets and funds within the Union. Yet this is precisely where the difficulties lie. The understanding that the EE 10 will eventually join the EU has rekindled a long-simmering debate over the internal financial policies of the EU, how much money it should draw from the member states, and in what manner these funds should be spent. The financial issues at their core are not complex; of the EU's 1997 budget of some Ecu 90 billion, 46% went to support the Common Agricultural Policy (CAP), while another 35% went to support cohesion and structural funds. In other words, these two sets of policies consume over 80% of the EU's budget. Over 80% of the EU's 1997 budget is financed by contributions from the member states based on their GNP and through value added taxes (VAT), and these funds are distributed unequally across member states based on their perceived needs. This makes the issue of raising and spending EU funds highly contentious. Were the EE 10 to join the EU, it is expected that they could have a profound effect on the financial structure of the Union, a prospect which strikes terror into the hearts of some member states and elicits glee from others. To better understand how the accession of the EE 10 would impact EU spending practices, we need to discuss both the CAP and the CSF, the sources of debate and the estimations of how they would be affected by enlargement eastward.

The Common Agricultural Policy

The Common Agricultural Policy (CAP) is a system of set agricultural prices and subsidies created to respond to market instability and deficiencies as well as the political power that agriculture and farmers command in Europe. The CAP has been discussed in great deal elsewhere, and so its basic mechanics and history shall not concern us here. Most important is the fact that as a result of its success in developing and protecting European agriculture, the CAP has become a highly institutionalized program, resistant to change and reform despite the agricultural market distortion, overproduction, and increasing costs that it eventually generated. What recent reforms have taken place have resulted largely from external pressure, specifically the Uruguay Round of the General Agreements on Tariffs and Trade, where under US pressure the EU agreed in 1992 to move forward with a series of reforms within the CAP that would reduce and transform farm supports and export subsidies. While the result of such reforms has meant that over time the CAP has declined as a proportion of the EU budget from over 80% in 1970, its total costs have risen eightfold in that same time.[22] For many, these reforms are only a first step, envisioning a radical transformation and reduction of the CAP in the near future. Other states seek to hold the status quo.

How would EE 10 accession affect the CAP? This is difficult to answer, for a number of reasons. The total costs of enlargement have to take into consideration the possible date of accession and which states would be accepted at that time, likely future changes in the budgetary structure of the EU, contributions from the new member states, changes in the economic structure of the EE 10 between now and accession and in trade patterns within an enlarged EU--all variables that do not lend themselves to concrete projections. Accordingly, the EU itself, while commissioning a series of studies on the costs of enlargement, has been loathe to accept any one number as gospel.[23]

Not surprisingly, the estimates given so far for the costs of enlargement on the CAP vary widely (one might say wildly). There are a number of studies of projected costs of EU expansion eastward; for the sake of simplicity, I will concentrate only on a few, representative studies . At one end is the "break the bank" estimation, which argues that the cost to the CAP would be approximately Ecu 35-40 billion per year just to bring Poland, Hungary, the Czech Republic, and Slovakia (sometimes referred to as the Visegrád Four in reference to their own regional agreement) into the EU--double the current amount spent on the CAP, and roughly the same amount which has been spent by the EU and its member states in total on the region from 1990-94.[24] Given the ongoing debate over the CAP as it stands, such a massive increase in EU revenue and spending is clearly out of the question, as it would entail massive new layouts from the member states as well as the likelihood that many of the current net recipients of CAP funds would become net contributors--including France, one of the biggest supporters of the CAP.[25] However, not all estimations are so dramatic. Fritz Breuss, in an analysis of EE 10 accession, came in with a much more conservative estimate, concluding that CAP costs for the EE 10 as a whole would only come to around Ecu 12 billion, a number that also jibes with the European Commission's own findings.[26] Finally, according to Bernhard Friedmann, president of the EU Audit Court, expansion of the CAP to the EE 10 would increase total costs in this area only by Ecu 10 billion, his lower estimates deriving from the argument that the already relatively high prices for agriculture in Eastern Europe would reduce the need for subsidies in this area.[27]

Cohesion and structural funds

While the CAP is well known and often reviled both within and without the EU, the other major source of EU spending, the cohesion and structural funds (CSF), are given much less attention. This is in part due to the fact that the CSF are not directly involved in trade relations with states outside of the EU, and as such do not serve as a source of international economic conflict. However, within the domestic context of the EU the CSF are equally controversial, resulting from the amount of funds spent in this area and the question of how effective this support has been. Eastward expansion would be certain to strongly affect the CSF even if current funding levels were not to change, for reasons we will discuss below.

The primary goal of the CSF are to help bring less developed regions of the EU up to the Union standard. The CSF concentrate on a number of specific issue areas, such as industrial decline, low population density and rural areas, high unemployment, infrastructure, education, integration of youth into the labor market and the retraining of workers. While some of these policies are EU-wide in scope, over 60% of the funds, or some 93 billion Ecu out of the 153 billion projected for the period 1994-1999, are targeted at specific geographical regions at the substate level in a category known as Objective 1. To qualify for Objective 1 funding, the regional GDP must be less than 75% of the EU average over the past 3 years. Within this framework, a number of countries are thus eligible for CSF support: Greece, Portugal, and Ireland qualify at the national level for Objective 1 funds, while specific regions qualify in Belgium, Germany, Spain, France, Italy, the Netherlands, Great Britain, and Austria. As table 1 indicates, smaller nations may qualify more widely for CSF support, though the lion's share of the funds go a few of the larger states. More so than the CAP, the CSF's widely scattered yet specific targeting can create strong local support and could engender resistance to the reform of these funds.[28] Also as with the CAP, the CSF has been criticized by some as largely ineffective in stimulating development, inefficient, and prone to fraud.[29]

Table 1
Breakdown of CSF allocations by member state, 1994-99
(in millions of Ecus)

Belgium	2096	Luxembourg	104
Denmark	843	Netherlands	2615
Germany	21724	Austria	1574
Greece	15131	Portugal	15038
Spain	34443	Finland	1652
France	14938	Sweden	1377
Ireland	6103	Great Britain	13155
Italy	21646	**Total**	**153038**

How would EU enlargement affect the CSF?. As in the case of the CAP, estimates vary. One estimate which takes into consideration the accession only of the Visegrád Four concluded that this would cost approximately Ecu 26 billion in additional funds to the CSF. An expansion that included all of the EE 10 would see this number would jump to Ecu 54 billion per year, or approximately twice as much as is currently spent.[30] In a more conservative estimate, Breuss' study argues that EE 10 enlargement would cost the CSF only an additional Ecu 21 billion, though in this case he also noted that enlargement costs to the CSF would still be nearly double the costs to the CAP.[31] As in the case of his CAP estimates, Friedmann gives a still lower figure at only Ecu 10 billion, though he bases this not on what the EE 10 would be entitled to under the current system, but rather what amount of subsidies the new members could effectively absorb.[32] Further complicating matters is the fact that most structural funds require co-financing, meaning that the recipient countries must contribute usually up to 50% of the total costs of a project. This limits the amount of funds any one state can acquire due to the demands placed on their own budget.[33]

Despite the disagreement on the numbers, however, there is one aspect of the CSF debate that observers agree on. That is the fact that because the bulk of the CSF are allotted on the basis of a region's GDP relative to the EU standard, the accession of the EE 10 states would change this calculation dramatically. In other words, by incorporating a number of new member states with weak GDPs, the average of the EU would fall, lowering the 75% of GDP threshold currently required to gain access to Objective 1 funds. According the calculations of this author, acession of the Visegrád Four would lower the EU per capita GDP to Ecu 12,681 from its current average of 18,084; inclusion of all the EE 10 would lower the average further to Ecu 11,674. At either level, it can be estimated that many of the current regions that benefit from Objective 1 funding would lose this support. Portugal and Greece, the two poorest states in the EU would most likely be unaffected by Visegrád accession under the current framework, but expansion to include all the EE 10 would leave only Greece as a national recipient of Objective 1 funds. Similarly, many of the regional beneficiaries of the CSF would be likely to see their Objective 1 support vanish. For example, some studies have noted that upon EE 10 accession virtually all Spanish regions currently supported by these funds would likely lose their subsidies, as would France's overseas departments (counties) and Corsica.[34] These issues make the CSF a potentially more explosive issue than the CAP in the long run.

Total costs of enlargement

Combining the CAP and CSF estimates gives us a basic range of possible enlargement costs. Overall, it is estimated that accession of the EE 10 would cost anywhere from 20-100% of the current EU budget, or Ecu 16-80 billion. However, if we look at the range of estimates, their average projected cost for enlargement is approximately Ecu 30 billion, or some 35% of the 1996 EU budget. A recent study by Richard Baldwin et. al. also comes to the roughly the same conclusion.[35]

As important as the actual numbers is the fact that this lack of clarity regarding the costs of expansion, while understable and unavoidable, has made further moves toward integration more difficult. Is has been pointed out that the various estimations of expansion costs have served as valuable political tools, weapons for member states to use against one another to entrench or undermine the position of specific actors within the EU vis-a-vis current and future budgetary outlays. This makes objective decisionmaking within the EU all the more problematic.[36] It is this conflict within the EU that we will turn to next.

EU reform and accession: North versus South? Core versus periphery?

We have noted that EE 10 accession will affect EU member states quite differently, depending on their existing relationship to the EU; changes in the consumption of EU revenues will most strongly affect those states which currently enjoy a substantial tranfer of funds in the form of the CAP and/or the CSF. More broadly, the cost of a larger EU is also likely to demand greater contributions from all the member states, possibly to levels at which most member states would balk. Therefore, it is widely accepted that enlargement will (and must) be preceeded by further EU negotiations on budgetary reform after the IGC has concluded. Indeed, in the area of both the CAP and the CSF their current financial mandates are set to expire in 1999, bringing the member states back to the bargaining table (and in the case of the CAP, back to the World Trade Organization for a new set of negotiations over agriculture). What is likely to be proposed, and by whom?

At first glance, the dividing lines over economic reform is typically seen as one of north versus south or center versus periphery. That is to say that the wealthier countries, being concentrated in the north of Europe, are net contributors to EU funds, while poorer countries in the south are the net beneficiaries of these transfers. While there is some truth to these observations, the reality is, of course, much more complicated. It is true that the poorer countries of the EU are clustered in the south, specifically Portugal, Spain, Greece, and Southern Italy. However, Ireland should also be included in this grouping, which falls out of these geographic boundaries. In a way, a more accurate desciption might be to make the comparison between core and periphery countries, those states which were able to benefit from early industrialization versus those who languished on the margins of European development--including Eastern Europe.[37]

The financial position of the periphery states thus tends to mirror the dispensation of EU funds, though again, not completely. Spain, Greece, Portugal and Ireland have been net recipients of EU support, though so have Denmark and Luxembourg. Major net contributors to the EU have been Germany, Great Britain and the Netherlands. France and Italy pay in total slightly more than they receive, while Belgium breaks even. The recent additions to the EU of Austria, Finland and Sweden are all net contributors.

For some of the states which are major contributors, then, accession can be hoped or feared as a Trojan horse, a way in which dramatic changes will be forced upon the financial structure of the EU through the threat of high enlargement costs. Particularly hostile to the CAP has been Great Britain, whose previous Conservative government described it as "a wasteful and interventionist policy which denies many of the principles of the open market".[38] Beyond the strongly liberal position of the Conservative Party, the fact that the country paid 40% more in contributions than it received from the EU in 1993 has contributed to this hostility.[39] Britain's policy recommendations have been to radically restructure if not eliminate the current CAP system, doing away with its "regulatory quotas, set-aside and other supply controls".[40] While the recent Labor victory in Great

Britain is likely to mean some changes in the position of the British government towards the Union, it appears that Labor remains equally committed to substantive EU economic reforms.[41]

While Great Britain has always been viewed as the greatest Euroskeptic member of the EU, their views do have support within the community. The Dutch government has expressed a strong desire to see a revision of the CSF and the CAP, and this has been echoed in the official comments of Denmark.[42] Sweden has also been very vocal on CAP reform, with the Minister of Agriculture Margareta Winberg arguing that "enormous sums are used just to accomplish one thing: to keep food prices up and the bureaucracy in operation".[43]

On the other end, the greatest opponents of EU fiscal reform are its central beneficiaries of Portugal, Spain, Greece and Ireland, with similar doubts expressed by Belgium. In their view, as the official Greek position on the IGC stated, "enlargement cannot serve as a pretext for the reversal of economic and social conditions".[44] Several of these member states have vowed to defend their "sacrosanct" EU funds; in this regard Spain has been particularly vocal, threatening to use the Commission and the European Parliament to oppose any enlargement that is linked to economic reform. Spanish representatives currently head the Agricultural Committee and the Regional Policy Committee of the European Parliament, and these positions have been characterized by Spanish observers as "strongholds...to prevent the entry of new member states from jeopardizing solidarity with the south".[45] Instead, some member states call for a new "fifth resource" of revenue to be created, such as a EU-wide tax not directly linked to member state contributions and therefore less open to direct interference.[46]

This leaves several states whose positions are unclear, most important among them the axis states of the EU, Germany and France. To some extent, the positions of these two states have reversed over time. France, which under Mitterand was quite unenthusiatic about eastward expansion, has during Chirac's tenure frequently expressed strong support for rapid enlargement. However, France has not clearly broached the issue of how this would be dealt with financially, though Prime Minister Juppé has commented that the current financial system should be kept intact during enlargment.[47] In contrast, Germany has become much more cautious about enlargement, as it increasingly views its own contribution to EU funding too high and fears the prospect of mass migration from the EE 10 upon accession.[48] According to some reports, in recent weeks Bonn has grown "irritated by the lack of realism of Jacques Chirac," whose government is accused of having forgotten the underlying financial issues, such as "who is going to pay for the Common Agricultural Policy?"[49]

Further confusing these issues are divisions over where the priorities for economic reform lie. The prospect of such cross-cutting cleavages was already seen in the debate over the 1997 EU budget, where proposals to reduce the budget of both the CSF and CAP created a blocking minority of Spain, Portugal, Ireland, Greece (which opposed Objective 1 cuts) and Italy (which opposed agricultural cuts). Under the current system of qualified majority voting, 26 votes out of 87 will block legislation, and the combined votes of these five states is 31. Only by agreeing not to cut Objective 1 funds was this minorty veto overcome, though the Netherlands, Belgium, and Austria then voted unsuccessfully against the budget on the basis that the CSF cuts were at the expense of non-regional CSF programs that benefit the EU as a whole.[50]

The gulf between the economic conditions of the EE 10 and the EU, as well as the viewpoints of the EU member states, makes it difficult to imagine that consensus will be easily or quickly forged regarding when or how enlargement should take place. While subsequent to the IGC the Commission will present its findings on the EE 10's path to membership, this will only set the stage for the negotiation process itself. The report apparently will not provide any financial data on enlargement costs (which would clearly be invalidated in any case by subsequent reforms); in addition, while opinions as to the economic and political "readiness" of each of the EE 10 states will be detailed, no specific policy recommendations for Council of Ministers regarding accession plans will be included.

Timeframes and scenarios for enlargement

Who will be the first to join the EU from among the EE 10, how long will this take, and what will accession entail? First, it is clear that the EU has no intention of accepting the EE 10 en masse. While negotiations with all of the EE 10 may begin at the same time, some of these negotiations will take longer than others, due to economic or political considerations that would hinder full accession. To give one example, while Slovakia, one of the Visegrád group, was initially a strong candidate for accession, its decline into semi-authoritarian government since independence has clearly knocked it out of the running indefinitely.[51]

Early candidates for accession

It is commonly assumed that the first new members to the European Union will be Poland, the Czech Republic, and Hungary. In all three cases the process of economic and political reform is highly advanced, and regional issues or conflicts are minimal. According to some reports, in addition to these three Estonia and and Slovenia are increasingly being considered.[52] Slovenia enjoys the second highest per capita GDP among the EE 10, and has strong ties to both Austria and Italy. Estonia, while much poorer, is still the most economically successful of the Baltic states and has strong historical and ethnic ties to Finland. The remaining EE 10 states might later follow in a second and even third wave of accession, with the remaining Baltic states next in line and Slovakia, Bulgaria and Romania the last group to enter.

Timing of accession

When these enlargements would take place is a subject of great speculation and debate, and as with the figures on enlargement costs, highly politicized. Several states that have appear to have vested interests in rapid enlargement--Great Britain, Sweden and Denmark, all of which support EU financial reform--have argued that the first wave of enlargement should take place as soon as the year 2000. Germany in the past also supported rapid expansion around the same time, but now appears to have reconsidered.[53] It is now widely accepted that expansion around 2000 is unrealistic. Not only are the candidate countries unlikely to be ready for accession at that time in terms of the institutional reforms and regulatory approximation necessary to accept the *aquis communautaire* (the body of EU laws), but the presumed reforms necessary *within* the EU in advance of enlargement are not likely to be tackled until 1998-99.

Many regional observers and representatives of EU member states thus place accession in a longer timeframe. According to this viewpoint, between the need for substantive economic and institutional reform both within the EU and the EE 10, a more realistic timeframe would be for the first wave of membership to take place around 2010-2015, by which time, perhaps, enough of the EE 10 states will have achieved sufficient internal reform that an expansion which includes a majority of them could then occur.

If we compare the case of the EE 10 with other EU expansions in the past, this longer period for accession has a historical precedent. In the case of the relatively poor and post-authoritarian Southern European countries, from the time of application accession took six years for Greece, and nine years for Spain and Portugal. Given the greater challenges faced by the EE 10 in their move toward a market economy, some argue that accession will (or should) take at least as long as that for Southern Europe, possibly longer.[54]

Manner of accession

This leads to the final issue, the way in which integration will take place. One danger in the long-range scenario for accession is that lacking a firm commitment to accession, East European leaders and publics are likely to lose faith in EU institutions and the ostensible values it embodies, undermining pro-western political elites and increasing insecurity in the region.[55] Already there is perceptible erosion in public support within the EE 10 for the Union, with less than half of respondents having a positive image of the EU.[56]

One alternative that has been raised to deal with this dilemma is to create a kind of "halfway house" for accession, that would confer a kind of membership on some or all of these members, but under conditions that would not jeopardize the current financial or voting balance within the EU. The most commonly heard proposal would be to extend membership without rights to the CAP and/or CSF; rather, the EE 10 would be given greater access to the EU market (again, excluding agriculture, as this would undermine the CAP), limited or no voting rights, and continued PHARE funding in place of the CSF. Full integration would occur later on down the road, in perhaps twenty years. In addition, existing border controls could be retained in order to prevent a brain drain and broader migration from East to West. The Dutch expressed an idea similar to this prior to the IGC, as did Spain.[57] In a more detailed proposal, Richard Baldwin has envisioned a multi-staged and multi-tiered path to accession, whereby some EE 10 states would initially be drawn into an "inner circle" with membership but still restrictions on migration and access to EU funds while other EE 10 states would be placed in an "outer circle" of a customs union until such time as they could move inward.[58]

Is some variant of this halfway house proposal a workable alternative? Certainly there is nothing that prevents the EU from creating such a structure. However, as many have noted, it runs the great risk of institutionalizing "class" differences between the EU and the EE 10, with a core of first-class members, enjoying full political powers and economic support, while a second or even third class languish on the margins--a new core-periphery relationship that benefits EU trade and subordinates Eastern Europe to the needs of the full member states.

The dangers inherent in this scenario are great enough to reject such "transitional" institutions, for fear that they will become anything but. Already within the IGC the issue of a "hard core" of member states pursuing further integration and monetary union while a "soft core" of hesitant or lagging members forgo these next steps has created a great deal of controversy. The notion of a "variable geometry" EU, while to some extent inevitable, also raises the threat of "Europe a la carte," where states only subscribe to certain tenets of integration, weakening the institution as a whole. The idea that the EE 10 would have a limited set of agreements imposed on it from the outside, bereft of full voting power within the Council or access to EU funds, seems a dangerous path toward institutionalizing a set of relationships which are both separate and unequal.

Conclusions and observations

To return to our earlier questions, EU expansion eastward seems at this time to be a distant prospect. The current struggles within the EU over institutional and financial reform, the lack of clear support for the EE 10 from key EU member states such as France and Germany, and the confusion over how expansion will shift current relations within the Union all conspire, at least temporarily, to keep the EE 10 from membership in the near future. Of course, these obstacles have been brought to the surface by the very prospect of a widened EU, and so the current uncertainty over expansion should be viewed as part of a normal process of reorganization and reconceptualization within an EU that is considering some of the most important changes in its internal structure since the Treaty of Rome laid the foundation for the EEC in 1957. In the area of political change, the move from unanimous decision to qualified majority represents a major, if difficult, step forward. And in the area of economic reform, future enlargement has set the stage for the reorganization of the current structure of subsidies into a system which is less wasteful and more supportive of market competition.[59]

But such battles need not, and should not, sideline the EE 10. If, following the conclusion of the IGC, the EU does not make clear steps toward accession for at least some of the EE 10, there is the possibility that East European faith in integrative, European structures will be further eroded, undermining the political clout for pro-integrationist and pro-market leaders in the region. Seven years on, democracy and the institutions of liberal capitalism remain fragile in the region, and the EU has an obligation to support and reinforce these institutions. This may require as little as a series of phased commitments to the region as part of the path to membership: For example, wider market access, and greater targeted support for the development of physical infrastructure, a role which the PHARE program has taken up only in 1995 as part of the new pre-accession strategy. Progress in these areas would not only help prepare the way for EE 10 integration, but also serve as a highly visible symbol of EU commitment, much as the Marshall Plan did after WWII.

Whatever the means, it is important that the EU establish a relationship that over time provides ever greater commitments to the EE 10 states. This should not be as a pretext to forestall accession, but rather to deepen East-West integration alongside negotiations for full membership. This would provide concrete benefits to the region, and also reaffirm the process of accession for East Europeans. Lacking this, lengthy negotiations for eastward enlargement may appear as empty promises, in the long run discrediting the concept of a common European home for those whose main goal has been to rejoin it.

Endnotes

1. The applicants and dates are as follows:

Hungary	31 March 1994	Estonia	24 November 1995
Poland	5 April 1994	Lithuania	8 December 1995
Romania	22 June 1995	Bulgaria	14 December 1995
Slovakia	27 June 1995	Czech Rep.	17 January 1996
Latvia	13 October 1995	Slovenia	10 June 1996

2. Andrew Moravchik, "Negotiating the Single European Act," in Robert O. Keohane and Stanley Hoffman, eds, *The New European Community: Decisionmaking and Institutional Change* (Boulder: Westview, 1991), 67.

3. Anders Aslund, "Systemic Change in Eastern Europe and East-West Trade," European Free Trade Association Occasional Paper no. 31, June 1990.

4. Richard E. Baldwin, *Towards an Integrated Europe* (London: CEPR, 1994), 125-127; "Pre-Accession Strategy for the Associated Countries of Central Europe," <http://europa.eu.int/en/comm/dg1a/preaccession/strategy.htm>

5. "Enlargement: Questions and Answers," 30 July 1996, <http://europa.eu.int/en/comm/dg1a/enlargement/qa9678en.htm>.

6. "White Paper: Preparation of the Associated Countries of Central and Eastern Europe for Integration Into the Internal Market of the Union," <http://europa.eu.int/en/agenda/peco-w/en/summary.html>; see also Agence Europe *Europe Documents*, no. 1916 (14 December 1994), reprinted in Franz-Lothar Altmann, Wladimir Andreff, and Gerhard Fink, "Future Expansion of the European Union in Center Europe," Research Institute for European Affairs Working Paper no. 8, March 1995, Annex 2.

7. *Economic Bulletin for Europe*, vol. 48 (New York: United Nations, 1996), 9-11; "Enlargement, Questions and Answers."

8. European Union, European Parliament Committee on Budgets, *Report on Financing the Enlargement of the European Union*, A4-0353/96/Parts A+B, 5 November 1996, 10.

9. *East Europe Agriculture and Food*, No. 175 (April 1997), 2.

10. European Union, European Parliament Committee on Agriculture, *Report on the Commission Study on Alternative Strategies for the Development of Relations in the Field of Agriculture Between the EU and the Associated Countries With a View to Future Accession of the Countries*, A4-0384/96, 20 November 1996, 3; See also "Building an Indicators Database," *Transition* no. 5 (Autumn 1996), <http://www.oecd.org/sge/ccet/trans5/agrstats.htm>

11. "New Orientation for PHARE Programme," *Together in Europe: European Union Newsletter for Central Europe* no. 106 (1 April 1997) <http://europa.eu.int/en/comm/dg10/infcom/newspage/news-106.html#6>

12. Information derived from the European Investment Bank website: <http://www.eib.org>

13. "Relations Between the European Union and Central and Eastern European Countries," <http://europa.eu.int/en/comm/dg1a/cec/cec.htm>.

14. Ministry of Foreign Affairs, France, "The European Union and The Central and Eastern European Countries," February 1996, <http://www.france.diplomatie.fr/frmonde/euro/eu27.gb.html>.

15. European Community, Directorate General XIX, "Le Budget 1997," <http://europa.eu.int/en/comm/dg19/graphfr/1997budg.htm>.

16. Györgyi Kocsis, "Európai rendek," *HVG*, 29 March 1997, 99.

17. *Economic Bulletin for Europe*, 8.

18. Ibid, 16.

19. See "Trade Statistics," *European Dialogue* March-April 1997

<http://europa.eu.int/en/comm/dg10/infcom/eur_dial/src/bac1.html>.

20. MTI (Budapest) 16 October 1996; FBIS EEU-96-208 29 October 1996; see also Andrej Kumar, "The CEE Countries' Aspirations for Enlargment," in Lorand Ambrus-Lakatos and Mark E. Schaffer, eds., *Coming to Terms with Accession* (London: CEPR, 1996), 49.

21. Baldwin, *Towards an Integrated Europe*, 96-98.

22. "Do We Need a New Budget Deal?" Philip Morris Institute for Public Policy Research Discussion Paper no. 7 (June 1995), 20.

23. The best known in this regard are four reports submitted to the Commission in 1995 by Allan Buckwell, Louis Mahe, Secondo Tarditi, and Stefan Tangermann.

24. K. Anderson and R. Tyers, "Implication of EC Expansion for European Agricultural Policies, Trade and Welfare," cited in Baldwin, *Towards an Integrated Europe*, 168-69.

25. "Study Assesses Impact of EU Enlargement on French Economy," *Les Echoes* 12 March 97 3; FBIS-WEU-97-071, 14 March 1997.

26. Fritz Breuss, "Austria's Approach to the European Union," Research Institute for European Affairs Working Paper no.18, April 1996, 48: *Report on the Financing of the Enlargement*, 6.

27. "EU Audit Court: Eastward Expansion 'Affordable'," *Welt am Sonntag* 3 March 1996, 37-38; FBIS-WEU-96-045, 7 March 1996.

28. "A Major Step Forward!," Dagens Nyheter, 3 October 1996, A2; FBIS-WEU-96-194, 7 October 1996.

29. "Do We Need a New Budget Deal?," 51-54.

30. Ibid., 23-24; Baldwin, *Towards and Integrated Europe,* 29.

31. Breuss, "Austria's Approach," 48.

32. "EU Audit Court".

33. *Coming to Terms with Accession* , 92; "Benefits, Drawbacks of EU Membership Assessed," *Népszabadság*, 23 November 1996, 3; FBIS-EEU-96-229, 27 November 1996.

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35. Richard E. Baldwin, Joseph Francois and Richard Portes, "The Costs and Benefits of Eastern Enlargement: The Impact on the EU and Central Europe," *Economic Policy* 24 (April 1997).

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39. "Do We Need a New Budget Deal?," 53.

40. Foreign and Commonwealth Office, "The Intergovernmental Conference".

41. See the opening statement by Doug Henderson, Minister for Europe, at the EU IGC working group of personal representatives, Brussels, 5 May 1997, <http://www.fco.gov.uk/texts/1997/may/05/hend1.txt>.

42. See, for example the comments by Hendrik Jan Brouwer, Treasurer-General of the Dutch Ministry of Finance, in "Do We Need a New Budget Deal?" 16-26.

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44. European Community, European Parliament Intergovernmental Conference Task Force, *White Paper on the 1996 Intergovernmental Conference, Volume II: Summary of Positions of the Member States With a View to the 1996 Intergovernmnental Conference*, 15 November 1996, 43.

45. "EU: Spain to Hold Key EP Committee Leadership Positions," *ABC*, 15 January 1997, 29; FBIS-WEU-97-011, 17 January 1997.

46. *White paper on the 1996 Intergovernmental Conference*, 48, 53.

47. Ibid, 70.

48. See the comments by Commissioner Monika Wulf-Mathies before the EU Committee of the German Bundestag: "Enlargement and Structural Funds," *Together in Europe*, no. 92, 1 July 1996.

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53. *White Paper on the 1996 Intergovernmental Conference*, 35.

54. *Economic Bulletin for Europe*, 12.

55. Ambrus-Lakatos and Schaffer, *Coming to Terms With Accession*, 97.

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57. This proposal has already been made by the Dutch; see the *White Paper on the 1996 Intergovernmental Conference*, 89.

58. Baldwin, *Towards an Integrated Europe*, chapter 9.

59. *Do We Need a New Budget Deal?*, 48-58.