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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

FOLLOW UP TO COMMISSION COMMUNICATION ON "THE EUROPE AGREEMENTS AND BEYOND: A STRATEGY TO PREPARE THE COUNTRIES OF CENTRAL AND EASTERN EUROPE FOR ACCESSION"

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FOLLOW UP TO COMMISSION COMMUNICATION ON "THE EUROPE AGREEMENTS AND BEYOND: A STRATEGY TO PREPARE THE COUNTRIES OF CENTRAL AND EASTERN EUROPE FOR ACCESSION"

Introduction

The Commission recently sent to the Council a Communication entitled "Europe Agreements and beyond - A strategy to prepare the countries of Central and Eastern Europe for accession". This was a first response to the request of the Corfu European Council for a strategy to prepare for the accession of the associated countries. The Council held a preliminary discussion on 18 July and noted that the Commission would bring forward specific proposals for implementing this strategy. The present Communication sets out specific proposals grouped under the following main themes:

- A creating the framework for a deepening relationship
- B creating the appropriate legal and institutional environment for economic development and integration
- C enhancing trade opportunities
- D macro-economic and structural change and other forms of co-operation
- E Community assistance to integration and reform

A. CREATING THE FRAMEWORK FOR A DEEPENING RELATIONSHIP

(i) Proposals on the structured relationship with the institutions of the Union

The Copenhagen European Council concluded that "the Community proposes that the associated countries enter into a structured relationship with the institutions of the Union within the framework of a reinforced and extended multilateral dialogue and concertation on matters of common interest. The arrangements include dialogue and concertation on a broad range of topics and in several fora"

The structured relationship was viewed by the European Council as a means progressively to involve the associated countries in the European Union's work in areas of common interest, through joint meetings of an advisory nature with the Union's institutions. The European Council concluded that the structured relationship would apply to all three areas ("pillars") of the Union's activities. Thus joint meetings in areas covered by Community policies, especially with a trans-European dimension, the common foreign and security policy, as well as justice and home affairs, should all be included in the structured relationship. In order that these meetings should be effective, they should be announced well in advance to enable the necessary preparations to be made at joint meetings with COREPER, the political committee and the relevant working groups level.

- Joint meetings at the level of the Council on General Affairs and sectoral joint meetings should be held on matters of common interest
- Sectoral joint meetings could be useful in fields such as energy, environment, transport and telecommunications where discussion will take place on trans-European networks. Such meetings could provide important input to the Christophersen Group which has been invited by the European Council to continue its study on the extension of Trans-European networks to neighbouring countries, in particular central and eastern Europe
- Joint meetings of the Council and associated countries to be held in other areas as mentioned in this document, in particular macro-economic developments, the internal market, social policy, culture, youth and health, where there is mutual benefit to be gained from working together to address common concerns
- The Union should hold preparatory meetings with the associated countries for the United Nations General Assembly, an initial meeting at ministerial level could be held in New York, to be followed by meetings at permanent representative level, as issues arise on which a common view would be mutually beneficial
- The Union should hold joint preparatory meetings with the associated countries for the Budapest CSCE review conference and subsequent summit as well as joint meetings on issues of common interest within the CSCE framework
- The Union representatives should concert with those of associated countries on the follow-up to the Paris conference on Stability in Europe and on the implementation of accompanying measures. Close cooperation will be essential if the Stability Pact is to achieve its objectives
- Regular joint meetings of Political Directors (of which three have already taken place). Shadow correspondents and policy planners should also be envisaged
- Procedures should be established to associate the central and eastern European countries to the actions relevant of the CFSP, such as the demarches, declarations and joint actions decided by the Union

On this basis, the Presidency may wish to draw up a schedule of joint meetings. These should be announced well in advance to enable the necessary preparations to be made at joint meetings at COREPER, Political Committee and working group level

It is suggested that the Presidency and the Commission report to a joint meeting of the Essen European Council, with the participation of the associated countries, on progress made in the structured relationship and that, on that occasion, a provisional schedule be agreed of joint meetings in 1995.

(ii) Co-operation in the fields of Justice and Home Affairs

The procedures for consulting and informing the countries of Central and Eastern Europe within a more structured relationship are under examination by Justice and Interior Ministers whose urgently needed decisions can be expected by the end of 1994.

Although with regard to the content of such a dialogue, recent emphasis has been placed on subjects related to the fight against organized crime, including drug trafficking, illicit trade in nuclear materials, sight should not be lost of other "Third Pillar" related areas, such as immigration and asylum policies in particular, where closer co-operation between these countries and the Union is also important.

Immigration and asylum

The countries of central and eastern Europe are considered as one of the gateways towards the Union. In the context of the Vienna, Berlin and Budapest Conferences on East-West migration, which took place between 1991 and 1993 the countries concerned have committed themselves to respect certain standards related to visa policies, border controls, admission policies and repatriation of those found to be illegally resident. The implementation of these commitments can, however, pose problems due to lack of technical and financial resources.

Co-operation between the Union and these countries could help the establishment of adequate procedures and standards in the interest of both partners and as essential preparation for eventual membership of the Union. Against this background, consideration should be given to opening up the Phare programme to this type of co-operation.

Fight against drugs

The Union's existing agreements with the countries concerned, drawn up before the entry into force of the Treaty on European Union, already provide for a degree of co-operation against drug trafficking. The Europe Agreements contain highly relevant provisions on the fight against drugs. In particular, they call for the introduction of legislative provisions on precursor chemicals and money laundering. It would be logical to use the institutional arrangements offered by these arrangements as an additional framework for dialogue on these aspects.

Title VI of the Treaty on European Union provides a strengthened basis for co-operation between Member States of the Union in the fight against drugs. The Commission's recent communication on how to turn these new possibilities to good use includes ideas in the field of relations with third countries including therefore those of Central and Eastern Europe as members of the Pompidou Group and potential members of the Union. The associated countries could be invited to participate in the wider debate which the Commission's Communication has sought to open up.

On the particular subject of the relationship between drugs and organised crime, the Corfu European Council called on the German Presidency "to arrange a conference with the central and east European states on drugs and organised crime". The German Presidency has

indicated that it will follow up this conclusion through the organisation of a conference which will provide an opportunity to define new grounds for further co-operation.

Judicial and police co-operation

There are a number of areas currently under discussion among Member States of the Union which are natural candidates for co-operation between the Union and the associated countries. These include action to prevent illegal activities, such as trafficking, car crime and environmental crime. This form of co-operation should help the associated countries to set up necessary legislative and administrative infrastructure.

Many Member States are already engaged on a bilateral basis in some form of technical co-operation with the countries concerned. There is a need however for a co-coordinated approach in this respect, which the structured dialogue envisaged could help to promote.

(iii) Intra -regional cooperation

Co-operation between neighbours is an integral part of Union Membership. Close co-operation between the countries of Central and Eastern Europe will be economically beneficial and will help to accelerate accession. Major initiatives have already been taken by the associated countries such as the creation of the Central European Free Trade Area (CEFTA), the Baltic free trade area agreement soon to be agreed, the numerous bilateral trade agreements in the region and the regional co-operation initiatives such as the Council for the Baltic Sea States, the Black Sea Co-operation Council and the Central European Initiative.

Although it is for these countries themselves to act, more could be done to foster co-operation between the associated countries themselves. The Union, as the natural partner for such cooperation in the region, can help to promote these objectives in a variety of ways:

- *the Community could put forward an initiative with the associated countries to promote intra-regional trade. Such a trade programme would include the following elements:*
 - *support for the introduction of modern trade legislation where necessary, extension of EU know-how for export promotion and marketing*
 - *support programmes which aim to spread European Union norms, standards and practices throughout the region both to promote trade within the region but also to accelerate the development of a sounder business environment across the whole continent*
 - *the development of export insurance and guarantee systems through the provision of technical cooperation, the development of insurance facilities, the improvement of bank clearing and payments systems, including the possible use of the ECU, and support for credit facilities for the development of export services, with particular reference to promoting trade within the region.*

- *by creating a major fund to promote multi-country co-operation in Central and Eastern Europe by bringing together certain Phare intra-regional programmes as well as the recently introduced cross-border programme¹, without, however, reducing the efforts already envisaged for regions bordering the Community. Such a fund could also stimulate co-funding with other sources of finance in the Member States as well as in the associated countries themselves.*

B. CREATING THE APPROPRIATE LEGAL AND INSTITUTIONAL ENVIRONMENT FOR ECONOMIC DEVELOPMENT AND INTEGRATION

It is essential for the associated countries to build an environment which is conducive to the market economy and to the alignment of their economic and regulatory structures with those of the Union, adapted as necessary to take account of future accession. Their authorities are progressively putting in place a legislative and regulatory system which is compatible with that of the Union. This huge task has the following components:

(i) Approximation of laws

On accession, each associated country will have to adopt the "acquis communautaire" which exists at that time. Alignment with European Union legislation can mean either substantial revisions to existing laws, or where no relevant laws exist, European Union legislation can be used as a basis. Several of the associated countries have already instituted systems for ensuring that new laws conform to the Union's legal framework.

This huge task of approximation of legislation can only be done by the associated countries themselves. However, there is a need for close co-ordination and for technical assistance along the following lines:

- *In order to pave the way for accession and for participation in the Internal Market each country needs to draw up a programme of priorities and a time-table for ensuring approximation of legislation, technical harmonisation and development of common European standards and certification procedures.*
- *Co-ordination and monitoring can best be carried out in the specialised sub-committees of the Association Councils, including where necessary the development of specific arrangements.*
- *Through Phare, the Union will continue to provide appropriate technical assistance.*
- *EU Member States also have a role to play here and should consider making resources and experience available, where appropriate and feasible. The experience in the transposition of Union legislation of EFTA members who are about to join the EU will be particularly helpful in this area.*

¹ Regulation 1628/94 O.J. L 171 of 05/07/94

(ii) Competition policy and the control of state aids

The implementation in the associated countries of competition and state aid policies which are compatible with those of the Union is important in two respects. Firstly, an active competition policy will help the transition process by creating healthy economic structures and avoiding abnormal profits. There are also obvious public finance reasons for keeping state aids under strict control. Secondly, in order for these countries to participate in the wider European market it will be necessary to achieve a climate of confidence comparable to that which exists between Member States to ensure that all economic operators are working under the same rules and thus not enjoying any unfair advantage over competitors operating in the same market.

In the Europe Agreements, the associated countries have undertaken to adopt rules on the implementation of competition policy within three years. Work is already well advanced in most of the associated countries in terms of the adoption of legislation and the setting up of offices to deal with the application of competition policy to regulate company behaviour. Implementing rules on anti-trust and merger cases have been agreed with Poland, Bulgaria, Hungary and the Slovak Republic, subject to confirmation by the relevant authorities, and will shortly be agreed with the Czech Republic.

The definition of state aids and their control in a transparent way is less advanced and is an area requiring immediate attention. While none of the associated countries have the budgetary means to pay large subsidies, there are a variety of support mechanisms reliefs, classified as state aids in the Community.

A number of steps can be taken in the short to medium term to put in place in the associated countries, state aid control systems which are compatible with those of the Community:

- *each associated country should empower a single authority to monitor and control all state aids. Such an authority would assess each aid scheme according to the obligations of the Europe Agreement and its potential compatibility with article 92 of the EEC Treaty before final authorization is given.*
- *together with the Commission, each associated country should draw up, and thereafter update, an inventory of state aids, which should be defined and quantified on the same basis as in the Community. The Commission will provide appropriate technical assistance for this purpose and the empowered authority will manage the inventory.*
- *in the past, the Commission has drawn up guidance on the problems of controlling state aids in the special situation of new Member States. It will now indicate the types of aid and the limits it would consider suitable for economies in the situation of the associated countries.*
- *the Union should also set up a competition policy training programme in the associated countries, to provide training for their authorities based on the experience of the Community and on their own experience. This could be funded by Phare and supported by competition authorities in European Union Member States.*

It will be necessary to ensure that the different national authorities maintain coherence in the development of policy, its interpretation and application, linked to Community jurisprudence. It may be considered desirable in the future to develop a "competition authority" along the lines of the EFTA Surveillance Authority, to which several or all of the associated countries could belong or some other appropriate mechanisms. However, the Commission does not consider that such a step is necessary at this stage.

In time, the state aids control authority in each associated country should aim to reach a degree of effective enforcement and transparency which is recognised as equivalent to the authority exercised by the Commission inside the Union. Once satisfactory implementation of competition policy and state aids control, together with the application of those parts of Community law linked to the wider market, has been achieved, the Union could decide to progressively reduce the use of commercial defence instruments for industrial products for the countries concerned, since it would have a level of guarantee against unfair competition comparable to that existing inside the Internal Market.

C. ENHANCING TRADE OPPORTUNITIES

Since 1989 trade patterns between the Union and the associated countries have changed radically. Although the European Union now absorbs over 50% of the associated countries' exports they still only account for 4.2% of total European Union imports. In spite of the rapid rise in their exports to the Union, the Union's exports have risen even faster causing concern in the associated countries about the large trade deficit (5.6 bn ECU in 1993). (See Annex II for details.)

The Europe Agreements provide such far-reaching liberalisation in industrial goods, even in the sensitive sectors, that it does not appear that further trade measures affecting tariffs or quotas are necessary over the medium term. If the Europe Agreements are all brought into line with those of the Visegrad countries, the Community will offer free trade in industrial goods on January 1st 1995, with the exception of ECSC steel products (on January 1st 1996) and textiles (on January 1st 1998). However, a further impetus to exports could be given by developing the access of the associated countries to European Union public procurement as provided in the Europe Agreements.

There are a number of other areas of trade policy where the Union should consider further action in order to facilitate trade flows and to reduce trade tensions, in addition to those mentioned in the section on agriculture below:

(1) Anti-dumping and safeguards

The strengthening of competition, state aids control and other relevant parts of the acquis communautaire which are related to the internal market will help to eliminate the need for anti-dumping and safeguard action. Antidumping and anti subsidy duties do not apply either in the Union or the EEA where this situation prevails.

The use by the Union of these commercial policy instruments is perceived by the Europe Agreement countries as both a political and an economic problem; they believe that the existence of these instruments is likely to have a dampening effect on

trade and inward investment. Nonetheless it will be necessary for the Union to maintain its commercial policy instruments until the associated countries have been integrated into the internal market.

In the short term, given that these countries are potential Member States which have undertaken to apply EU rules, the Union should offer information to any Europe Agreement country prior to the initiation of any antidumping or safeguard proceeding. Furthermore in cases where dumping and injury are found, the Union could give a clear preference to price undertakings rather than duties in order to conclude the investigation.

The EU should undertake a major exercise to inform the authorities and economic operators in the Europe Agreement countries about the way in which the Union's commercial defence instruments are applied.

(2) Cumulation of rules of origin

- *While technical in nature, rules of origin can have a major impact on the way in which trade develops. To draw full benefit from the approach suggested in this paper, the region needs increasingly to behave as an integrated unit for trade purposes. To give maximum encouragement to integration, further progress should be made towards full cumulation of origin in trade between the EU and the associated countries. This would mean that goods made within the region could more easily benefit from preferential trade access, in that manufacturing and assembly processes could be spread across the associated countries (and indeed from the EU), without there being artificial thresholds or barriers to cross in order for products from the associated countries to be considered as having the origin of one of those countries. Such an approach would not, however, be without repercussions on EU manufacturing interests, since competition would increase. Studies of the impact on particularly sensitive sectors (textiles and electronics for example) are currently under way, and may lead to limited sectoral exceptions to the broad approach described, once it comes to formulating specific proposals in this domain. Nonetheless, an overall approach promises to be of great benefit to EU business and the associated states alike.*

(3) trade in textiles

- *A proposal to implement the Copenhagen decision regarding the exemption from customs duties for products concerned by outward processing arrangements and covered by regulation No 636/82 is before the Council, which is urged to adopt it rapidly.*

(4) Creating the same base for all the associated countries

- *the Union could decide that the timetable of the Bulgarian and Romanian Europe Agreements will be aligned with that of the Visegrad Europe Agreements in the areas of duties and tariff quotas in industrial products, textiles, ECSC products, processed agricultural goods and non-processed agricultural goods.*

D. MACROECONOMIC AND STRUCTURAL CHANGE

(i) Macroeconomic policies

To alleviate the constraints on competitive growth, the associated countries will need to develop macro-economic and reform policies that are conducive to mobilizing domestic saving, curbing fiscal deficits, attracting larger flows of foreign direct investment and expanding their exports, including maintaining adequate exchange rates that do not erode external price competitiveness in order to dampen domestic inflation. The Union should:

- *be involved in a regular dialogue based on the Community's own multilateral surveillance procedures which would of course apply to the associated countries when they become members. Joint Ecofin ministerial meetings would provide peer-group pressure towards the conduct of sound policies*

(ii) Promoting Inward Investment

One of the keys to recovery and development in the associated countries lies in an increase in inward investment flows. In order to promote inward investment, it is proposed that the EU should:

- *further the initiatives taken through Phare to set up inward investment agencies in all the associated countries*
- *building on the work of the G24 investment group, seek ways of assisting the associated countries to introduce measures to create a supportive investment environment. This could include a study of the opportunities for and the obstacles to investment.*
- *taking advantage of the European Energy Charter and its Treaties, encourage investment in the energy sector*
- *further develop the JOPP (Joint Venture Phare Programme) programme to promote joint-ventures between companies in the Union and in the associated countries*
- *promote industrial co-operation, by organising Round-Table conferences involving European Union and association country industrialists.*

(iii) Transport

The integration of the associated countries into a single European transport area will contribute both to improved economic performance and to the wider objective of their membership of the Union.

The Commission's aim has been to promote gradual integration through comprehensive transport agreements with Central and Eastern Europe covering as many countries as possible. The Europe agreements, coupled with wider processes such as the Pan-European Transport

Conference, have been regarded as the best vehicles for achieving this.

However, progress has so far been slow, for example in the inland waterways sector where the achievement of a global approach is dependant on a rapid settlement of the Yugoslav crisis, and in the air transport sector where little has yet been done apart from encouraging the associated countries to harmonise their legislation with that of the Union. Negotiating directives for EC aviation relations with the associated countries are now in preparation and should shortly be submitted to the Council. The integration of the associated countries with the Union will also require an extension of the relationship in the area of railways and combined transport.

The Europe agreement approach is essentially a bilateral one. Although the Council is now discussing a transit agreement with three of the associated countries (Hungary, Bulgaria and Romania), this is considerably reduced from the Commission's original 1992 proposal for a multilateral agreement on the road transport sector between all the Central and Eastern European and CIS countries. Consideration needs to be given to arrangements which can ensure that the institutional environment of the EC's relationship with the associated countries reflects a balance between bilateral and multilateral elements, the absence of which can often lead to discriminatory practices.

The Joint Transport Sub-Committees of the Europe Agreements constitute an appropriate framework for co-operation. At the same time, the wider framework for consideration of future actions and policy development will have to be developed, perhaps in the context of the joint ministerial meetings between the Council and the associated countries.

(iv) Energy

The energy sector will play a crucial role in the economic restructuring of the associated countries. The current framework for energy co-operation is provided by the Europe Agreements and the European Energy Charter.

Restructuring of the energy sector in these countries started from different points and has proceeded at different paces necessitating a bilateral approach. Nevertheless three key areas remain important across all the associated countries:

- the development of overall energy policies, taking into account policies within the Union, and the need for improved nuclear safety levels in the associated countries
- the acceleration of energy saving measures to improve energy efficiency and reduce environmental damage
- the promotion of competition in the sector.

The following proposals are intended to assist in these areas:

- *The Union should launch an intensive policy dialogue with associated countries, at ministerial and official levels, covering all aspects of policy formulation, through an*

"energy contact group" to be established between the Commission and each associated country. A joint ministerial meeting is due to take place during the German Presidency.

- *New ways of promoting private sector investments into new state-of-the-art generating capacities should be studied.*
- *Where appropriate, the associated countries should, as soon and as closely as possible, be associated with the European Union's work on Trans-European energy networks, possibly through the Energy Contact Group.*
- *Associated countries participation in European Union energy programmes (e.g. SAVE programme for harmonisation of energy efficient standards) should be accelerated.*
- *Diplomatic support should be given to facilitate associated countries' accession to the International Energy Agency.*
- *Full support should also be given to those countries joining European standards organisations to allow them to adopt accepted standards, especially in the fields of energy efficiency and grid interoperability.*

(v) Agriculture

Agriculture plays an important part in the economies of the associated countries, in most of them it is far more important than in the European Union. Annex III shows the share of agriculture in employment and output in each country.

In all these countries output has fallen since the transition to a market economy has started. The causes include a fall in internal demand but production was also affected by increased prices for inputs, lack of capital and management problems related to the difficulties of privatisation. The livestock sector was particularly hard hit by the fall in production. Governments have responded by providing support for producer prices by setting minimum prices for certain major products. Some even provide export subsidies.

Although the European market can never be the only outlet, the associated countries look to it as a natural destination for their agricultural production, and as one which can ensure satisfactory prices. However, exports of agricultural products from the associated countries have decreased recently while their imports of agricultural products from the European Union have increased rapidly over the same period. The details are set out in Annex IV.

With the exception of Hungary all of these countries now have a negative agricultural trade balance with the EU, whereas in 1990 only Romania had a negative balance. This has prompted some of them to consider applying measures to stem imports, which will have to be examined for their compatibility with the Europe Agreements.

| Agricultural Trade - EU balance with associated countries (in MFCU) | | | | |
|--|-------|------|------|-------|
| | 1990 | 1991 | 1992 | 1993* |
| Balance | - 960 | -702 | -305 | 433 |

* January to November

Source: EUROSTAT

Against this background, it is crucial that the agricultural policies of the associated countries evolve in a way which is compatible with the reform of the CAP as well as with GATT commitments entered into by the European Union and these countries. Therefore the Commission will prepare a review of options for future agriculture policies in a wider Europe with a view to preparing for the accession of the associated countries to the European Union.

In the short term, agricultural trade relationships have to be reviewed for the following reasons:

- *first, in order to adapt the Europe Agreements to the new situation created for the European Union and for the associated countries by the conclusion of the Uruguay Round. This should go beyond a technical adaptation and provide the opportunity to reassess the balance of the agricultural part of these Agreements in the light of recent developments*
- *the second challenge is to adapt the Europe Agreements to the enlarged Union, in particular to include the arrangements made by the future Member States in their bilateral agreements with the associated countries. At the same time, a thorough examination has to be made of the reasons why only a few of the tariff quotas which the European Union has opened so far are fully utilised. The causes have to be analyzed, together with the associated countries and remedies have to be urgently sought.*
- *finally, a similar review of developments regarding Union agricultural exports to the associated countries should be undertaken in order to evaluate the reasons for the marked expansion of these exports, with a view to addressing any serious imbalances.*

(vi) Environment and nuclear safety

Pollution levels in certain parts of the associated countries have reached alarming proportions. In extending its cooperation with these countries to environmental policy the European Union's main objectives should be:

- to contribute to solving major European transborder environment problems especially in areas such as the Black Triangle, the Danube basin, the Mediterranean and Baltic Sea regions.

- to help the associated countries to integrate the requirement of sustainability into their economic and sectoral policies.
- to help them to prepare for their future accession to the EU through approximation and enforcement of their environment laws and standards.

The environment, nuclear safety and energy are already priority areas in Phare whose objectives should be the creation of conditions permitting sustainable growth and efficient energy production. The EU, which has special responsibility for G-24 coordination, is the leader in technical assistance aimed at introducing uniform norms, standards and practices throughout the region. Such technical assistance should be extended to infrastructure measures concerning legislation, liability and insurance.

In the context of the structured relationship the EU and the associated countries should jointly develop a common framework for consultation to guide their future cooperation. This approach would avoid unnecessary duplication of effort and would also facilitate cooperation between the associated countries themselves.

(vii) Regional development

The Europe Agreements provide for co-operation in regional development and land-use planning between the associated countries and the Union. The co-operation will for the moment be based on the exchange of information and officials and the provision of technical assistance as well as on joint action by regional and local authorities in the area of economic development.

Such cooperation has been under way since 1990 through links between Member State towns and regions and those in Central and Eastern Europe financed by the Ecos-Ouverture programme. This has supported actions to help small and medium-sized enterprises and, by means of exchanges of experience, has encouraged tourism, development, the rational use of energy, better waste management, improved town planning and the strengthening of local democracy. More recently much more intensive cooperation has started in the border areas between the Union and Eastern Europe through a cross-border programme financed by the Structural Funds Interreg Programme and Phare.

Cross-border cooperation also needs to be further developed between the countries of Central and Eastern Europe themselves in order to break down barriers to trade and encourage economic development.

On a more strategic level it will be important to involve the associated countries in the Community's discussions on spatial planning. The Commission is about to publish Europe 2000+ which analyses trends in land use and builds on the first such Community-wide exercise, Europe 2000, published in 1991. The new version pays considerable attention to the impact of opening to the east on the Community's territory and will provide a solid basis for future dialogue with the associated countries. Such discussions have already started, most notably at the 1993 Dresden Conference on Spatial Planning in the wider Europe. Further studies are already being carried out, looking at the land use implications of the changing

relations with three regions: the Baltic region, the Danube basin and the Black Sea

These programmes of regional cooperation have a part to play. However, the most important task for the Community will be to draw on its experience of social and economic cohesion within the Community, to assess the infrastructural, human resource development and other structural changes which will be fundamental in preparing those associated countries which so desire for accession. The needs are formidable and new. Imaginative solutions are required if the burden is to be manageable.

(viii) Social Policy

Accession to the Union also entails adoption of the *acquis communautaire* in the social policy area. With a view to accession the Union will build on the Europe Agreements which already provide for co-operation in certain areas, such as social security and health. They aim to improve the level of protection of the health and safety of workers in the associated countries, taking as a reference the level of protection existing in the Community, to upgrade services such as vocational training and to adapt social security systems to the new economic and social situation. In Copenhagen the European Council decided, in the context of furthering economic integration through the approximation of laws, that it is particularly important that progress be made in areas such as the protection of workers.

In the light of the framework provided by the Europe Agreements and the decisions taken in Copenhagen there are a number of areas where the Union and the associated countries could develop their co-operation on social policy. These include:

- employment and labour market policy. In order to help the associated countries to integrate the economic and social dimensions of the transformation process, assistance should be provided to develop effective labour market policies in areas such as employment promotion including training, reform of labour legislation, management efficiency etc. These will be particularly important in the context of industrial restructuring which will have important labour implications.
- social security and social protection: The European Union has adopted a recommendation on the convergence of social policy objectives (92/442/EEC) which while fully respecting the independence and diversity of systems in operation in each country, defines three essential tasks of social protection. These are social and economic integration, guarantee of minimum resources and income maintenance. The experience of Member States in these areas could serve as a useful point of reference for the associated countries as they adapt their social security systems.
- health and safety at work. Reducing work accidents and occupational diseases are fields where the Union can provide support and expertise to the associated countries which should aim, over time, to introduce minimum requirements and practices compatible with those of the Union. The Union could also provide technical assistance to help the associated countries draw up a programme and timetable for the approximation of legislation in this area.
- public health. The associated countries should be involved in the activities described

in the Commission's proposed action plans in areas such as cancer, drug dependence, health promotion and information.

(ix) Cultural co-operation

Cultural co-operation contributes to mutual awareness and can create important links between the Union and the associated countries. It should be fostered as a visible sign of our common cultural heritage. In the Europe Agreements the parties undertake to promote cultural co-operation in areas such as the exchange of works of art and artists, literary translations, conservation and restoration of monuments and sites, training and mutual awareness raising in cultural affairs.

Where appropriate, the Europe Agreements provide for the Community's existing cultural co-operation programmes to be extended to the associated countries. The Commission will be proposing the extension of the following programmes to the associated countries:

- Kaleidoscope, a programme which provides support for artistic activities with a European dimension
- Ariane, which supports literary works, and in particular their translation.

Since the entry into force of the Treaty on European Union initiatives in the cultural area will be based on article 128. Through its activities in this area the Union can contribute to strengthening the links and cultural dialogue between the Member States and the associated countries, thus complementing their bilateral relationship. The Member States and the Union could consider additional ways of promoting cultural exchanges with the associated countries e.g. by the establishment of Europe Houses in these countries to provide easier access to the rich diversity of national and regional cultures in the Union.

(x) Co-operation in science and technology

Co-operation in science and technology between the Union and the associated countries will be mutually beneficial. Since 1992 the Union has been engaged in a wide-ranging action costing over 150 MECU to promote scientific and technical co-operation, which covers partial participation in the Third Framework Programme as well as joint research projects, scientific networks, conferences and mobility.

For the future two central themes are envisaged:

- the opening of the whole of the Fourth Framework Programme to project by project participation, allowing for closer integration into the joint Community effort in favour of RDT, thus favouring the development of industry (in particular small and medium sized companies) in the wider European market including an open and integrated information infrastructure in Europe.
- action focused on key areas (defined in concertation with these countries) in order to permit the rehabilitation of the production system and to improve quality of life.

Science and technology can contribute to the resolution of some of the serious difficulties which confront these countries. This operation will be carried out under action 2 (international co-operation under the Framework Programme).

(xi) Information

The Europe Agreements each contain an article on the mutual exchange of information. Priority is to be given to programmes aimed at providing the general public with basic information. For the Union this means a major effort to provide information to general and specific audiences in the associated countries, including, where possible, giving them access to Union databases. All indications show that there is a great interest in such information and that a sustained effort will be needed in the years to come.

E. COMMUNITY ASSISTANCE TO INTEGRATION AND REFORM

(i) The Phare programme

In addition to support for reform and economic transformation, Phare has provided financial support for the implementation of the Europe Agreements and will therefore support many of the elements of the strategy set out in this paper.

The Commission has taken measures recently to improve the operation of the Phare programme in areas such as the programming cycle, the quality of programmes and the rate of disbursement. Phare needs however to be strengthened further in order for it to become an adequate tool for the realisation of this strategy. The major changes which are considered necessary are as follows:

- *The movement towards programmes which support investment and which provide direct financing to end-users should continue as it is what the partner countries require at this stage of the transformation. The infrastructure facility decided at Copenhagen should be developed beyond transport infrastructure and the 15% limit should be dropped. Programmes providing finance for the development of the private sector including privatisation and restructuring and the development of small and medium-sized enterprises should be extended.*
- *The further development of multi-annual programming over the period 1995-1999 would enable the Commission through Phare to negotiate and adopt multi-annual framework conventions. This would increase decentralisation, stimulate investment through the predictability of Community assistance and improve the administration of the programme. In addition, Phare needs to have a sufficient degree of flexibility to determine the final allocation of funds between Phare countries and sectors on the basis of performance reviews.*
- *The attached financial statement sets out an indicative financing scenario for Phare over the 5 year period 1995-1999. It is coherent with the financial*

guidelines agreed in Edinburgh with the chapter on financial co-operation in the Europe Agreements and gives concrete substance to the Declaration of the Copenhagen summit that "the Community will continue to devote a considerable part of budgetary resources foreseen for external action to the central and eastern European countries, in particular through the Phare programme". This political priority, for which an endorsement of the budgetary authority will be sought, and which will be subject to the annual budgetary procedure would provide sufficient planning certainty in order to make the multi-annual programming approach worthwhile for the partner countries and to improve Phare's efficiency in terms of its economic impact.

- *Phare's programmes in support of democracy and civil society need to be strengthened in order to consolidate political reform and to strengthen stability.*

(ii) **Lending instruments**

The Community has a number of loan based instruments which are used to promote economic development in these countries. The first is macro-financial assistance, which has mainly been used in the initial stages of transition to ensure balance of payments sustainability and the introduction of external convertibility. The second consists of project based loans, mainly through the EIB, which have largely been used in infrastructure development. The Commission therefore suggests that:

- *The EBRD could become a genuine instrument of Union policy, following the entry into force of the Maastricht Treaty. As the Union, Member States and EIB combined hold the majority of shares, a decision could be taken that all Union directors would uphold a previously agreed common position, according to Article J-2.3 of the Union Treaty.*
 - *the Union could envisage providing macro-financial assistance to the associated countries along the lines of that provided to Member States. The assistance would take the form of medium-term loans to be financed by recourse to the international capital markets, or where appropriate by the Member States, within specified ceilings. Apart from being mobilised in balance of payments crisis situations, this form of quick-disbursing loan assistance could complement project related grants (Phare) and loans (EIB, EBRD) and support the implementation of structural reforms and national programmes of structural adjustment. The general terms and conditions applying to this type of assistance could be systematized in a framework decision by the Council.*
 - *the Union should consider whether a full budget guarantee remains necessary for EIB loan operations in associated countries.*
-

ANNEX I

Possibilities for meetings between the Council of the Union and Associated Countries of
Central and Eastern Europe and suggested items for discussion

| Meeting | Date |
|--------------------|---------------------------|
| General Affairs | September, UNGA, New York |
| Research | 29 September |
| Environment | 4 October |
| Youth | 27 October |
| Ecofin | 7 November |
| Telecommunications | 17 November |
| Transport | 21-22 November |
| Energy | 29 November |
| Health | 22 December |

Trade balance of associated countries with EU (in bn ECU)

| Trade balance of associated countries with EU (in bn ECU) | | | |
|--|------|------|------|
| | 1989 | 1992 | 1993 |
| Czech/Slovak | 0.2 | -0.7 | -1.3 |
| Hungary | -0.4 | -0.1 | -1.0 |
| Poland | -0.1 | -1.1 | -2.3 |
| CEFTA | -0.3 | -1.9 | -4.5 |
| Bulgaria | -0.9 | -0.2 | -0.4 |
| Romania | 1.9 | -0.5 | -0.6 |
| 6 assoc. countries | 0.6 | -2.5 | -5.6 |

Source: EUROSTAT

| Share of associated countries exports in EU imports (%) | | | |
|---|------|------|------|
| | 1989 | 1992 | 1993 |
| | 2.7 | 3.9 | 4.2 |

| Share of associated countries' imports in EU exports (%) | | | |
|--|------|------|------|
| | 1989 | 1992 | 1993 |
| | 2.8 | 4.9 | 5.3 |

Source: EUROSTAT

ANNEX III

TABLE I

| Share of agriculture in employment and output | | |
|---|------------|-------------------|
| | % (91) GDP | % (92) Employment |
| Bulgaria (3) | 16 | 19.5 |
| Czech Republic (1) | 8.5 | 9.9 |
| Hungary (1) | 15 | 10 |
| Poland (3) | 7.3 | 28.1 |
| Romania (3) | 22.7 | 29 |
| Slovakia (1) | 8.3 | 13 |
| EU (2) | 2.8 | 5.8 |

Source: European Commission and OECD
FAO, UNICE, National Authorities

- (1) 1990
(2) 1991
(3) 1992

TABLE 2

| EU AGRICULTURAL EXPORTS TO (MECU) | | | | |
|-----------------------------------|-------------|-------------|-------------|-------------|
| | 1990 | 1991 | 1992 | 1993 |
| Poland | 615 | 996 | 924 | 973 |
| Hungary | 119 | 152 | 225 | 299 |
| ex-CSFR | 149 | 267 | 418 | 467 |
| Romania | 300 | 243 | 324 | 296 |
| Bulgaria | 83 | 155 | 125 | 195 |
| Total | 1266 | 1813 | 2016 | 2230 |

Source: Eurostat

TABLE 3

| EU AGRICULTURAL IMPORTS FROM (MECU) | | | | |
|-------------------------------------|-------------|-------------|-------------|-------------|
| | 1990 | 1991 | 1992 | 1993* |
| Poland | 1106 | 1080 | 952 | 723 |
| Hungary | 713 | 920 | 830 | 624 |
| ex-CSFR | 213 | 247 | 277 | 230 |
| Romania | 41 | 76 | 78 | 72 |
| Bulgaria | 152 | 192 | 184 | 157 |
| Total | 2226 | 2515 | 2321 | 1806 |

Source: Eurostat

ANNEX IV

FINANCIAL STATEMENT

1. TITLE OF OPERATION

Community assistance towards integration and reform in Central and Eastern Europe
(Phare programme)

2. BUDGET CHAPTER INVOLVED

B7-60 Cooperation with the countries of Central and Eastern Europe

3. LEGAL BASIS

- Council Regulation (EEC) No 3906/89 of 18 December 1989 on economic aid to the Republic of Hungary and the Polish People's Republic (OJ No L 375 of 23.12.1989, p. 11);
- Council Regulation (EEC) No 2698/90 of 17 September 1990 amending Regulation (EEC) No 3906/89 in order to extend economic aid to other countries of Central and Eastern Europe (OJ No L 257 of 21.9.1990, p. 1);
- Council Regulation (EEC) No 3800/91 of 23 December 1991 amending Regulation (EEC) No 3906/89 extending economic assistance to other Central and Eastern European countries (OJ No L 357 of 28.12.1991, p. 10);
- Council Regulation (EEC) No 2334/92 of 7 August 1992 amending Regulation (EEC) No 3906/89 extending economic assistance to Slovenia (OJ No L 227 of 11.8.1992, p. 1);
- Council Regulation (EEC) No 1764/93 of 30 June 1993 amending Regulation (EEC) No 3906/89 on economic assistance for certain countries of Central and Eastern Europe (OJ No L 162 of 3.7.1993, p. 1);
- Europe Agreements ratified with Poland and Hungary and in the process of being ratified with the Czech Republic, Slovakia, Bulgaria and Romania.
- Council Regulation (EEC) No 4253/88 of 19 December 1988 laying down provisions for implementing Regulation (EEC) No 2052/88 as regards coordination of the activities of different structural funds between themselves and with the operations and the operations of the European Investment Bank and the other existing financial instruments (OJ No L 374 of 31.12.1988, p. 1), as amended by Regulation (EEC) No 2082/93 (OJ No L 193 of 31.7.1993, p. 20), and in particular Article 11 thereof;
- Council Regulation (EEC) No 1360/90 of 7 May 1990.

4. DESCRIPTION OF OPERATION:

4.1 General objective

The Phare programme is part of a much wider Western aid programme to help Central and Eastern European countries. The aid is designed to facilitate each country's transition from a planned economy to a democracy based on a market economy. Furthermore, the Copenhagen European Council of June 1993 set the accession of those countries to the European Union as an objective to be achieved.

The Phare programme is the special financial instrument for the Europe Agreements signed or in the process of being signed with those countries.

The operations financed under this Chapter are therefore aimed, in the political context outlined above, at:

- . stabilizing and supporting the initial transition phase (aid towards putting in place institutions characteristic of the rule of law and a basic regulatory framework);
- . implementing and supporting the process of economic reform;
- . developing a social framework in line with the Phare programme's general objective;
- . cofinancing operations of a structural nature in third countries adjacent to the Community which will be cofinanced by the structural funds.

These operations are carried out in the beneficiary countries according to each one's needs to take account of varying stages of transition and development.

The programmes financed are as a rule defined in accordance with sectoral priorities identified by the beneficiary countries as this is a basic feature of the Phare programme (demand-driven approach).

4.2 Period covered and arrangements for renewal or extension

Given the current state of the countries of Central and Eastern Europe, the Community will contribute financially to the reform process until at least 1999. This is in line with the financial perspectives approved by the European Council in Edinburgh on 11 and 12 December 1992.

5. CLASSIFICATION OF EXPENDITURE OR REVENUE

5.1 Non-compulsory expenditure

5.2 Differentiated appropriations

5.3 *Type of revenue involved*: not applicable

6. TYPE OF EXPENDITURE OR REVENUE

- *100% subsidy*

The financing generally takes the form of a 100% subsidy for the programme's operational expenditure.

- *Subsidy for joint financing with other sources in the public and/or private sector*

Joint financing may be organized in the G24 framework, with the EIB, the IBRD and the World Bank, as part of initiatives by NGOs or in conjunction with the Central and Eastern European countries themselves.

The joint financing will be used in particular in the context of trans-frontier cooperation in the structural field.

- *Interest subsidy*

In some cases, particularly in programmes to develop and support small businesses (SMEs), there will be need for interest subsidies.

- *Other*

- *Should the operation prove an economic success, is there provision for all or part of the Community contribution to be reimbursed? No*

- *Will the proposed operation cause any change in the level of revenue? If so, what sort of change and what type of revenue is involved? Not applicable*

- *Reutilization Not applicable*

7. FINANCIAL IMPACT

7.1 Method of calculating total cost of operation

See Table at Annex

The multiannual indicative financial programming set out in the Annex reflects the guidelines adopted at the Edinburgh European Council and is in line with the Copenhagen European Council's declaration in that the Community will continue to allocate a major part of the budgetary resources earmarked for external operations to the Central and Eastern European countries, in particular through the Phare programme.

Even though the amounts of financial assistance that the Phare programme can provide up to the end of the current financial perspectives is well short of what the Central and Eastern European countries need, the Union, subject to the annual budgetary procedure, is earmarking for 1995-99 ECU 7.072 billion under Chapter B7-60 "Cooperation with Central and Eastern European countries". This represents an annual average growth rate of around 10% for the corresponding period of the financial perspectives (1993-99).

7.2 Itemized breakdown of cost

The indicative breakdown by type of programme is as follows:

| | |
|--|-----|
| - national programmes for each country | 80% |
| - multi-country programmes encouraging cooperation between several countries | 15% |
| - other programmes including support for implementation of Europe Agreements | 5% |

7.3 Indicative schedule of appropriations

See Table at Annex.

8. FRAUD PREVENTION MEASURES; RESULTS OF MEASURES TAKEN

The projects financed under the Phare programme are subject to regular monitoring and systematic audit by the Commission or its authorized agents and by the Court of Auditors.

9. ELEMENTS OF COST-EFFECTIVENESS ANALYSIS

9.1 Specific and quantifiable objectives; target population

- *Specific objectives: links with general objective*

As part of the general objective described at 4.1, the operations undertaken under this Chapter are aimed at partial or total financing of programmes in the following fields:

- restructuring and privatization of industrial and agricultural state enterprises;
 - assistance to the private sector, particularly small businesses, and promotion of private investment and tourism;
 - modernization of the financial system, fiscal policy and financial services;
 - development of a social protection framework comprising active employment policies and anti-poverty measures;
 - nuclear protection and safety;
 - reforms linked to the rehabilitation of basic infrastructure required to run a modern economy in, for example, environment, energy, health and human resources;
 - assistance to border regions in the Central and Eastern European countries to overcome special development problems due to their relative isolation, to benefit the national economy and the population as a whole and take account of environment problems;
 - encourage the creation and development of cooperation networks on either side of the frontier and establish links between those networks and the wider Community networks;
 - assist the attainment of wider cooperation objectives on trade and cooperation agreements concluded between the Community and certain Central and Eastern European countries, particularly with a view to integrating the processes established under the Europe Agreements.
- *Target population: distinguish as applicable for each objective; indicate the end-beneficiaries of the Community's financial contribution and the intermediaries involved.*

The end-beneficiaries of the Phare assistance are of course the citizens of each country. More practically, the target population of each programme depends on the type of programme and the ways and means chosen. Given the diversity of the programmes, it is difficult to give a full list of the types of end-beneficiaries and intermediaries used.

9.2 Grounds for the operation

- Need for Community financial aid

The beneficiary countries' economic situation prevents them from bearing the heavy burden of transition to a market economy unaided. The European Union, for obvious geopolitical reasons, is most keenly interested in the development of those countries as it has made clear on several occasions at European Councils. It should be at the forefront of Western aid to them.

Moreover, the operations financed by the EU also serve to encourage operations and investments by other donors (G24, EIB, EBRD, etc.).

- Choice of ways and means

The different ways and means adopted by the Phare programme depend on the type of programme referred to at point 7.2 and on the situation of each sector and each country. The adoption of each programme is preceded by identification and feasibility studies necessary for the objectives to be attained. The types of intervention are in general those described at point 6.

- Main factors of uncertainty which could affect the specific results of the operation

The difficulty of the reform process and political events which could take place in certain beneficiary countries are taken into account at the planning stage of each programme in order to ensure that its objectives are not jeopardized.

9.3 Monitoring and evaluation of the operation

The Phare programmes are for the most part run by management units set up by the competent national authorities and bolstered by technical assistance and monitoring by the Commission delegations. Over and above permanent contacts and ad-hoc technical missions, general monitoring of a more formal kind is carried out on the basis of:

- a new monitoring, reporting and evaluation system set up in early 1994 (Manual for the Decentralized Implementation System), which is made up of an annual strategic plan and a monitoring and assessment report, which are technical in nature, and half-yearly work programmes, which are more financial in nature. The quantitative and qualitative indicators are established when each programme gets off the ground on the basis of the logical framework matrix and monitoring is carried out using the documents already mentioned;

- a standardized computer system for financial operations (contracts and payments) carried out by each local management unit;
- a plan for systematic programme auditing;
- evaluation exercises by independent experts aimed in particular at the technical aspects of the programme and their impact on the sectors concerned.

FINANCIAL, TECHNICAL AND ECONOMIC COOPERATION WITH THE CENTRAL AND EASTERN EUROPEAN COUNTRIES (CHAPTER B7-60)

Multi-annual indicative programming of commitment appropriations (1)

(subject to annual budgetary procedure)

(ECU million, current prices)

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | TOTAL 95/99 |
|---|-------|-------|-------|-------|-------|-------|-------|----------------|
| Trend in the ceilings of heading 4 of the financial perspectives, at current prices for EUR-12 (2) | 4.115 | 4.306 | 4.605 | 5.007 | 5.463 | 6.034 | 6.719 | 27.828 |
| Internal programming (indicative) of the multi-annual aid to Central and Eastern European countries (3) | 986 | 985 | 1.106 | 1.235 | 1.400 | 1.586 | 1.745 | 7.072 |

- (1) Where payment appropriations are concerned, the schedule comprises a 20% annual expenditure spread over five years, including the year of commitment.
- (2) Hypothesis for 1996-99 with an annual inflation rate of 3%.
- (3) These amounts confirm the priority given to Central and Eastern Europe assuming an average annual growth rate slightly higher than that assumed under heading 4 of the Edinburgh financial perspectives.