



# TOGETHER IN EUROPE



## EC NEWSLETTER FOR CENTRAL AND EASTERN EUROPE

### RELATIONS WITH THE EUROPEAN UNION

#### *STOCKHOLM'S SYNDROME?*

The Belgian daily newspaper "Le Soir" this month raised the question, whether EU enlargement is not on its way to becoming another victim of the Stockholm's Syndrome.

In 1973, during a bank robbery in Stockholm, four people were taken hostage. After several days, the hostages sided with their kidnapers. This is what psychologists call the "Stockholm Syndrome". EU enlargement in central and eastern Europe has become the major moral and geo-political imperative in the Union. Will the, so carefully, but also so delicately constructed, Union's structure survive the adaptation to more than 20 countries? Will it bear the costs? The EFTA countries, when attempting to join the Twelve, claimed full respect for the Union's policies. They gave full support to the common security and foreign policy despite their neutrality. Since the beginning of this year when they become members, things changed.

The argument goes that, to assure ratification in 1992 of the Maastricht Treaty, the EU avoided debate on transformation and accepted that the EU of 15 could function in the same way as the EU of 12. However, the differences in opinions about policies increase with the number of members. Already the UK won a full "opt-out" from the social protocol and together with the Danes also obtained derogations from the single currency and from an eventual common defence policy. It is clear that to integrate the new accession candidate countries would be more difficult than was the case for the EFTA countries. Also some of the new candidates already question (and declare unacceptable) some of the principles and policies which the Union has built up. In this matter, they are finding support from generally the same EU members. What will happen during the IGC- a new Stockholm Syndrome?

The Belgian paper recalls the "hard-core" idea and notes that in all EU initiatives one always finds the original 5 members and most of the time also the 6th founding member, Italy, but rarely the others. We would like to note, that so far new candidate countries' accession application memoranda pleaded the acceptance that "widening" shall proceed jointly with "deepening". Little is yet known about the Czech memorandum which shall be handed over in January. There are short-term interests and long-term interests. Avoidance of the Stockholm Syndrome would be of long-term interest to all. (J.Z) ■

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## HELP IN RECONSTRUCTION OF FORMER YUGOSLAVIA

The EU General Affairs Council, meeting in Luxembourg on 2 October reflected on the problem of the reconstruction and economic rehabilitation of the countries of former Yugoslavia, in the perspective of the definitive cessation of hostilities. The debate was centered around two papers.

A European Communication adopted on 27 September and secondly a joint letter from the German and French Ministers. Both Mr. Kinkel and de Charette plead in favour of the appointment of a European Senior-Representative invested with power by the Security Council. The Commission, on the other hand, proposes that the Council instructs the Commission to set out the modalities for coordinating aid. They are the following:

### Humanitarian Assistance:

The Commission, in its communication to the Council which applies to all states of the former Yugoslavia except Slovenia, stresses the need for continuing humanitarian assistance, which should remain impartial and free of political conditionality. Since the beginning of the conflict the EU has in fact contributed already ECU1.6bn in short-term measures (essentially food and humanitarian aid) of which ECU1bn has come from ECHO (the main donor). The EU continues to contribute in association with other international organizations. The continuing commitment of the United Nations High Commission for Refugees, as the principle field agency, will be needed.

### Objectives of International Support for Reconstruction:

It is clear, however, that humanitarian assistance cannot work alone. The Commission sees that it is now necessary to consider other measures in order to create essential economic conditions for stable and lasting peace in the region. A wider effort is needed to support the creation of stable and economic systems, reconstruction and development, and the establishment of normal relations among all the states and peoples concerned. As the former Yugoslavia will be moving forwards and trying to establish a fully fledged market system, the objective of an international effort to support reconstruction should thus include:

- the establishment and reinforcement of democratic political institutions, which guarantee the rule of law, human rights and fundamental freedoms
- the reinforcement of civil society, though the strengthening of non-governmental bodies
- support for economic stabilization and transition to fully fledged market economies
- the development of the private sector, especially smaller firms, and the promotion of investment
- the establishment of normal economic relations between the states of the former Yugoslavia
- the rebuilding and modernization of energy, water, transport and telecommunications networks
- the participation of the countries concerned in the open international economic system
- the development of trade and cooperation with the European Union and other international partners.

### The Coordination of Assistance:

It would be necessary that the international community at large, including all the major world powers, contributed, according to the Communication. The European Union, the United States, Japan, the other members of the OECD, Russia, members of the Islamic Conference Organisation and the international financial institutions will all have their contribution to make. Neighbouring countries of the former Yugoslavia may also wish to contribute in the provision of assistance.

The Commission said it is prepared to convene an International Conference when circumstances permit with the aim to ensure good coordination of international assistance. It also indicated that all major powers including USA, Russia, Japan, the Islamic countries and including the international financial institutions will have to join in with the effort. It should be accompanied by the establishment of a framework for coordinating assistance and monitoring progress, drawing on experience with the G24. This should be an ad-hoc structure. In its communication, the Commission states that it is ready to make available its experience both in the provision and the coordination of assistance.

### Conditionality:

However, it is evident that this essentially long-term assistance in reconstruction would have to carry with it strict conditions. Specific conditions for macro-economic assistance, which may be formulated by the international financial institutions, the providers of assistance should insist that the beneficiaries:

- respect the rule of law, human rights and fundamental freedoms, including the rights of minorities

- permit the voluntary return of refugees and displaced persons

- create the conditions for a functioning market economy

- make a sustained and verifiable effort for disarmament and the dismantling of war industries

- cooperate fully with the International Criminal Tribunal for the former Yugoslavia

- establish normal political, economic and cultural relations with the other states of the former Yugoslavia.

Such conditions do not apply to humanitarian assistance.

#### Assistance from the EU:

Taking into account the decisions of the Cannes European Council on aid for central and eastern Europe and the Mediterranean region, resources will be provided for reconstruction under heading IV of the financial perspectives. Assistance would take the form of grants and loans provided by the EIB and the ERBD.

#### Trade and Cooperation Agreements:

At the moment, economic relations between the Union and the states of the former Yugoslavia, with the exception of Slovenia, are based on the European Community's agreement with the former Yugoslavia. Negotiations have taken place with Croatia for a new trade and cooperation agreement. The communication now seeks the Council's approval to negotiate a network of agreements, designed to reinforce the peace process, to strengthen democracy and the market economy that are adapted to the particular circumstances of each partner.

#### Bosnian Prime Minister in Brussels:

A Bosnian delegation led by Prime Minister Haris Silajdzic, the Deputy Prime Minister and Minister of Defence, Mr Prlic and Foreign Minister Mr Mohamed Sacirbey, met in Brussels on 12 October with European Commission President Jacques Santer,

the Commissioner responsible for relations with Eastern Europe, Hans van den Broek and the EU mediator for the former Yugoslavia, Carl Bildt. Bosnia's economic and political reconstruction was at the centre of discussions.

The Commission plans to send a task force to Sarajevo in the near future to discuss with the authorities on location practical matters having to do with cooperation and international assistance for the country's economic reconstruction as well as assess the current and future needs in food aid.

Mr Silajdzic insisted on the importance of organizing rapidly, free, democratic elections by universal and direct suffrage in Bosnia as soon as a global political solution is found. He emphasized the need for provisions that enable Bosnian refugees (estimated to number 4 million, ed.) to participate in elections. The Prime Minister also spoke of the **absolute need** to settle the problem of external debt. ■

### PHARE AND TACIS DEMOCRACY PROGRAMME 1995

Approval has been given to grant aid to 53 projects submitted by non-governmental organisations under the Phare and Tacis Democracy Programme. 23 Projects in the Countries of Central and Eastern Europe and 21 projects in the NIS, 9 inter-regional projects are to receive a total of ECU 3,854,974 from the Phare budget and a total of ECU 3,857,905 ECUS from the Tacis budget.

The Democracy Programme, which is based on an initiative of the European Parliament, seeks to support the activities and efforts of non-governmental bodies promoting a stable open society and good governance and focuses support on the difficult or unpopular aspects of political reform and democratic practice, where local advocacy bodies are weak and where professional expertise is particularly lacking.

Areas of activity include parliamentary practice and organization; transparency of public administration and public management; development of NGOs and representative structures; independent, pluralistic and responsible media; awareness building and education, promoting and monitoring human rights; civilian monitoring of security structures; and minority rights, equal opportunities and non-discrimination practices.

Examples of projects supported include;

- the production by the Helsinki Foundation for Human Rights of six films and audiovisual teaching aids on; The court system; Administrative courts; The ombudsman and Constitutional courts; NGOs and a free press; The European Convention on Human Rights; and the UN system.

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- the development by the Dutch organisation Vredeseducatie, in partnership with two Russian organisations, of educational games on prejudices and the scapegoat phenomenon for use in schools in five regions in Russia.

- professional training for journalists from Central and Eastern European countries on defence and security issues, to be lead by the Italian Centro Studi di Politico Internazionale.

- the development of systems of police accountability in Hungary by the UK Centre for Police Management and Research of the Staffordshire University Business School in partnership with the Hungarian Institute of Law Enforcement, Management, Training and Research.

- the training of journalists from different ethnic groups in Armenia, Azerbaijan and Georgia

- the promotion of twinning projects between women in Eastern and Western NGOs focusing on the Ukraine, Belarus and Russia

- the development of an independent, democratic professional Association of Heads of

Social Services for the Russian Federation. To do so social work leaders and advisors from urban and rural areas across Russia will be brought to work with British and Scandinavian directors and specialist consultants in a structured programme of workshops to exchange experiences

- the improvement of knowledge of parliamentary procedures and techniques relevant to environmental policy-making, the development of an understanding of existing procedures in other parliaments and of the scope for improvement in existing procedures in CEEC parliaments, the promotion of mutual understanding, working relations and the dialogue between parliamentarians and NGOs and MPs

- the promotion and strengthening of the trade unions in multinational companies and in private, export-orientated enterprises

- the defense of the right of conscripts in the Russian Army through the monitoring of the human rights situation. ■

### **ECOFIN MEETS WITH ASSOCIATED COUNTRIES' MINISTERS**

The second regular and semi-annual meeting between the EU finance and economy ministers (ECOFIN) and their counterparts from the associated countries of central and eastern Europe will be held in Luxembourg on October 23. While the first joint meeting of this year within the framework of "structured dialogue" concentrated on micro-economic aspects, this month's meeting will chiefly deal with macro-economic questions.

ECOFIN already decided in March this year, that joint meetings with the associated countries ministers shall be prepared by a debate by a monetary committee on the basis of a paper drawn up by the Commission.

The Commission already prepared a note for the Monetary Committee in late August. This note indicated that the joint discussion during the 23 October meeting will be concentrated on "Financial

Sector Reform : structural and macroeconomic dimensions".

The topic for the discussion is a topical one, as this year some of the associated countries of central and eastern Europe have made important steps towards full convertibility of their currency (even if somewhat more limited convertibility under the terms of Article VIII of the IMF is the matter of the current moves). On October 1, the Czech Republic has become the first central and eastern European country to even partly liberalize capital account transactions, while the convertibility of the Slovak koruna, also introduced on the same date, has been somewhat more limited.

The note prepared by the Commission for the discussions with the EU Monetary Committee underlines that the associated countries have made considerable progress in developing money and securities markets, but still capital

markets in the CEC remain at a relatively early stage of development (they lack liquidity and suffer from regulatory deficiencies). Their development requires not only the development of new financial instruments, but also the emergence of new market-oriented non-bank financial institutions and the existence of efficient clearing and settlement systems.

The note highlights the fact that free capital movements improve the allocation of resources and impose some discipline in the conduct of economic policy. Consequently, the Commission says, that the first step for the CEC would be to complete the liberalization of their current payments and to liberalize their medium and long-term capital movements. The paper underlines that further steps, and in particular the liberalization of short-term capital movements, is more dangerous and complicated. Therefore, the Commission

suggests that **liberalization of short term capital movements shall be the second step** and advises that this step **should take place at the ultimate stage of transition** when the CEC have established a track record of stability and turned into fully fledged market economies. Nevertheless, the Commission notes that the country ready to make bolder moves towards capital liberalization, could be rewarded by the favourable impact of this move on macroeconomic policy and by acceleration of their development of the domestic financial market.

The note evaluates positively results achieved in the CEC in developing a modern and relatively independent monetary policy, but also notes that the implementation of monetary policy in CEC continues to face a number of difficulties. This is because of persistent structural weaknesses in the financial system.

**The Banking sector reform** has advanced, but the break up of the former monobank system resulted in a few large state-owned banks, while new

private banks remain still too small to create competitive pressures. The task is to speed up privatization with increasing participation of foreign investors. The Commission notes that one of the prerequisites for privatization is cleaning up the bank portfolios. The Commission says that the scale of the sub-standard loans is hard to quantify, but suspects it reaches between 15% and 50% of the banks' loans. So far, the various bank consolidation programmes have not managed to fully create sound conditions in the banking sector. The tough short-term problem is to develop a policy mix to proceed with bank restructuring while tightening the regulatory framework. Substantial strengthening of banks' balance sheet is necessary.

**Capital markets:** the Commission's paper outlines fundamental progress reached so far in the development of capital markets in the associated countries, but points out, that despite these encouraging signs, the capital markets remain at relatively early stage of development; they lack liquidity and depth and suffer from a number of regulatory deficiencies. The paper

lists in details its main weaknesses. It suggests the need for new market-oriented non-bank financial institutions and the need for an efficient clearing and settlement system. It is suggested that the implementation of regulatory changes, in accordance with the White Paper recommendations, is important. In this respect the EU directives setting a minimum disclosure and listing standards for the securities markets, directives on insider dealing and directives on investment firms and collective investment funds are underlined as particularly relevant.

The discussion on 23 October, between ECOFIN and the associated countries, is likely to concentrate on the next steps to be taken in the reform of the financial system, and especially how to minimize risks of instability. The EU ministers would also like to find out how their counterparts analyze their particular economic and financial conditions for further liberalization of external financial transactions and where they see the main obstacles for a faster liberalization of capital movements. ■

## EU MEDITERRANEAN POLICY

The joint preparatory meeting between the EU officials and officials from the Mediterranean countries in early October has nearly finalized all the points of the draft "final declaration" to be adopted at the Euro-Mediterranean Conference to be held in Barcelona in late October. However, there are still some differences between the EU's position and the positions taken by the countries in the region.

One difference concerned a list of countries to be invited to Barcelona. The EU already indicated during the Cannes Summit the 12 countries to be invited. The Arab group insisted on inviting Libya also. Then there is the question of "observers". There was a question of the participation of various bodies such as the Arab league, or Gulf Cooperation Council as observers. Than a number of countries also not

belonging to the Mediterranean rim wanted to participate. Some information from Madrid indicated that the Spanish Presidency was considering inviting the USA, Russia, and countries of central and eastern Europe as "observers".

However, the meeting on 9-10 October between President-in-Office of the EU, Felipe Gonzalez, and the French President, Chirac, made it clear that **no third country not belonging to the Mediterranean rim would be invited to Barcelona.**

The EU draft declaration says that the countries want to establish a global Euro-Mediterranean partnership through strengthened political dialogue, development of economic and financial cooperation with a strong stress put on the human dimension of the cooperation.

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The aim is to establish a "Euro-Mediterranean Area" based on free trade amongst all partners in the area and via new association and free-trade area agreements. This free-trade zone shall be progressively set up between now and year 2010. This free trade area will cover the bulk of the trade as required by the WTO.

In practical meaning this represents free-trade with industrial products and partially free trade for agricultural products and food which will be gradually

liberalized on the base of preferential treatment and reciprocity. Right of establishment and services will be liberalized progressively in accordance with the GATT agreement.

The next preparatory meeting for the Barcelona Conference will be held on 24-25 October, during which the final draft declaration is likely to be tackled. The EU Council will have the final say on the EU position during its meeting on 30 October. ■

### EUROPEAN CINEMA

*Some 300 European cinema-makers and audio-video specialists met at Strasbourg on 12-13 October to speak about "European Cinema for the 21st Century". The meeting was organised by the European Parliament, the European Commission and the Council of Europe. The French film-maker, Robert Enrico, requested the establishment of a "High Authority for European Audio-Video Sector" to supervise the implementation of the "Television Without Frontiers" Directive, which introduces quotas on the broadcasting of European works. The meeting was also addressed by film directors from the CEE including Jaromil Jires and Istvan Szabo from the Czech Republic.*

*The discussion concentrated on two topics :*

*- what assistance is necessary for the European film industry? The discussion included an examination of the position of the central and eastern European film and video industry in the European support schemes*

*- future developments in the audiovisual sector - production, distribution, copyright and the implications for the audiovisual sector from future developments within the WTO.*

*The opinions expressed shall help to prepare the 8th Conference of Ministers of Culture of some 43 countries which signed the Council of Europe's Cultural Convention and which will be held in Budapest in October 1996.* ■

### POLICY FOR EUROPEAN TEXTILE INDUSTRY

In early October the European Commission approved a ECU1bn modernization programme for the textile industry of Portugal. Then on 12 October, the Commission presented its assessment of the impact of the Uruguay Round on the European textile and clothing industry. It will be recalled that on 12 June this year, the Council approved negotiating directives for the Commission to open negotiations with the six associated countries of central and eastern Europe on additional textile protocols. The original protocols provided for a revision after 3 years linked to the multi-fibre arrangement. There is also a link to

the results of the Uruguay Round negotiations (see details in No71, pp6-7).

These three things are inevitably linked and it may be expected that textile negotiations with association countries may now progress.

The Commission proposed to the Council that the new negotiations with the associated countries should not be limited to the technical adaptation of the textile protocols, but also result in an overall improvement in the protocols. Some Member Countries for which the textile sector is of particular importance made it clear they do not seek a more fundamental trade

liberalization. EU imports of textiles from the six associated countries expanded by more than 50% since 1990.

#### Program for Portuguese textile industry:

The program seeks to facilitate the adaption of the industry to international competition following the new rules for trade, which resulted from the Uruguay Round. It should be noted that the textile industry in Portugal represents 28% of total employment (250,000 people), one-third of all exports and 20% of all added value in the manufacturing industry. Low

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## DEVELOPMENTS WITHIN THE EU

### **EU CURRENCY ON TRACK FOR 1999**

*After weeks of contradictory statements, mutual suspicion and increasing doubts about the political will of some Member States to stick to the 1999 deadline for the introduction of the common currency, the informal meeting of the EU Finance Ministers, on 29 and 30 September in Valencia, confirmed, as President Santer said, that monetary union is "on track and on the right course". The Central Banks Governors and Alexander Lamfalussy, President of the European Monetary Institute, also were present at the meeting, and Mr Lamfalussy's precise and forceful contribution gave the ambitious project a sense of reality and urgency.*

In Valencia, the Fifteen agreed on the need not to question the agreed deadline, and to strictly comply with the convergence criteria that they will have to fulfill if they want to enter the third stage of monetary union (and therefore be part of the common currency). Moreover, as Council's President Pedro Solbes told the press, they admitted that the criteria are "not only a condition for access to the third stage, but must also be pursued" afterwards. German Finance Minister Theo Waigel had, in the previous weeks, stressed the need that common currency countries should go on fulfilling these criteria once the third stage has started, and even to go further and agree on terms of budgetary discipline and stability. In Valencia, Mr Solbes said that "some Member States" had suggested that a study was needed "on how to apply the criteria once stage three has begun". This particular debate will be pursued in due time, and for the moment, Mr Solbes noted a general consensus on the fact that convergence should be "a permanent exercise" (but no Member State wants to amend the Treaty, emphasized Jacques Santer), while Belgian Finance Minister Philippe Maystadt showed understanding for Kohl's government concern to give Germans "every

guarantee" that the new European currency will be as solid as their DM.

#### **Who will participate ?**

One of the issues which had brought some disarray about the EMU in the last weeks was, apart from the 1999 deadline question, the uncertainty about which countries would be "in" or "out" of the EMU. At the informal summit in Formentor, a week before Valencia, there was a lot of talk about Italy. In Valencia, everybody agreed that it was counterproductive and, in the end not useful, to speculate about this over two years ahead of the final decision. But some concern was expressed about the ability of France to fulfill the criteria, because of recent figures about the French budget deficit. (In Brussels, French Socialist Elisabeth Guigou, who represents, with Elmar Brok, the EP in the Reflection Group on the 1996 Intergovernmental Conference, said aloud what many others think: ie. without France, monetary union will lack credibility).

#### **Decision in 1998**

The meeting in Valencia brought a clarification about the timing of the decision on which Member States can enter stage three, on the reference figures for making such a decision, and on the way stage three itself will be

structured. The outcome was that the decision about the first group of countries, which will go ahead with the new common currency will be based on 1997 figures (we want real figures and will not accept any projection, said Mr Waigel), and that this decision will be made in 1998 ("early 1998", noted Waigel). And Mr Lamfalussy, who announced the final report by the European Monetary Institute on the scenario leading to stage three for mid-November, said that stage three, after the locking of exchange rates and the introduction of the single monetary policy by the European Central Bank (more precisely, the European System of Central Banks), should involve a transitional period of around three years during which the European Central Bank and the national banks will have to use the European currency in their accounts. Other financial institutions (such as smaller German banks, which are very concerned that the process could be too speedy for them to keep up) will be able to go on using the national currency if they need to, said Mr Lamfalussy, adding that the EMI thinks that the public should be able to use single currency banknotes at the end of this three-year transitional period. Then the last phase of stage three will come, which will have to be very short - about six months - and during which banks will be encouraged to use the European currency for all their operations.

#### **Still looking for a name**

In Valencia, of course, no decision was made about the

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name of the single currency. But it will be necessary to know this name soon, in order to make the public familiar with it, and in order to be able to manufacture the new coins and notes on time. The decision is expected at the 15-16 December Madrid European Council. At this stage, the European Commission sticks to the name written into the Treaty, the Ecu, but if consensus is possible on another name, it would not object

to it. The main problem are the Germans: it is a well known fact that they - especially Mr Waigel and the Bundesbank - don't like the name "Ecu", among other things because they think it does not sound as stable and as reliable as "DM". In Valencia, Mr Waigel said that he would ask Chancellor Kohl to suggest the name "Euro", and the first reactions by his colleagues were quite positive, but not unanimous.

#### European Savings Bank Survey:

The European Savings Bank issued a survey in early October which outlined public opinion in 3 of the 15 Member States on the European Single Currency. The survey, carried out in Germany, France and Belgium, clearly indicates that Europeans are not strictly opposed to the introduction of a new currency unit and that, in fact, the majority are actually in favour.

#### Acceptance of a single currency

Are you in favour of the adoption of a single European currency ?

(in %)

	Germany	Belgium	France
Very much in favour	14	48	37
In favour	37	29	40
Not very much in favour	24	10	11
Not at all in favour	22	11	10
Don't know	3	2	2
Indicator of acceptance	+5	+56	+56

With regard to the name for the currency unit the majority of the French and Belgians are happy to see the ECU as its name, with the Germans less satisfied with this solution. The majority of public opinion in all three states was less worried as to its appearance, but insisted that more information be made available. There is a strong belief that the ECU is advantageous to the strengthening of Europe's identity in all three states.

No real urgency was expressed in any country for the introduction of the Single European Currency. France and Belgium were, however, more inclined to favour a more rapid introduction than Germany, with only 14% of Germans wishing for a speedy introduction. With regard to the delaying factors, 65% of Germans believed that a major delaying factor for the effective introduction of the European

currency would be the difference in the economic situation in each country while only 40% of Belgians and 52% of the French agreed with this view. A large number of Belgians believed that it would be delayed as a result of a lack of will on the part of member states.

All three states appear confident in their banking systems to cope with the successful introduction of the currency unit. ■

## ENVIRONMENT COUNCIL

### Faster reduction of ozone-depleting substances

On 9 October the Environment Ministers, meeting in a Council sitting, managed after lengthy debate to adopt the position the Union will defend at the seventh Conference of Parties to the Montreal Protocol on ozone-depleting substances (Vienna, 28 November-7 December). The Council did not approve, in its original form, the Presidency's proposal on the reduction of the use of two particularly harmful substances, HCFCs (hydrochlorofluorocarbons) and methyl bromide, but the Ministers agreed on a common draft (the Spanish and Portuguese delegations were opposed, but qualified majority was sufficient). The draft sets out a timetable