

European Community



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BACKGROUND NOTE

THE EUROPEAN COMMUNITY'S SECOND ENLARGEMENT

Preparing For The Entry Of Greece, Portugal And Spain

"Enlargement" is an important issue among many Western European countries who have discussed "unity", in a European context, for over three decades. Indeed, Canadians can expect to see Greece, Portugal and Spain join the present nine-nation European Community (EC) during the 1980s. This will create a Community with twice the original number of member states, with wider differences in economic development and with an enlarged Mediterranean dimension.

This is the second enlargement for the Community, which in 1973 expanded from its original six members - Belgium, France, Germany, Italy, Luxembourg and the Netherlands - to include Britain, Denmark and Ireland. The founders of the EC had never intended to establish an exclusive club. Article 237 of the Treaty of Rome says simply that "any European state may apply to become a member of the Community".

The first Mediterranean nation to apply for EC membership was Greece, on 12 June 1975. Portugal applied on 28 March 1977 and the formal Spanish application was delivered on 28 July 1977. The European Council, the heads of government of the current member states, accepted the applications of these three countries and accession negotiations have been proceeding with Greece since 27 July 1976, with Portugal since 17 October 1978 and with Spain since 5 February 1979.

The first enlargement presented the original "Six" and the three applicants with relatively modest problems of political and economic adjustment, compared with those faced by the "Nine" and the three new applicant countries. Britain, Ireland and Denmark had well established and stable forms of democratic government, and only Ireland was markedly below the Community average in terms of economic development. Also, the campaign for those who were for and those who were against enlargement was mainly carried out in the applicant countries themselves. The national referenda that were held in Ireland, Denmark and Norway (a majority of its voters rejected membership) reflected the domestic political differences that emerged over Community entry. In the case of Britain, political attitudes became so volatile that a referendum was held 2 1/2 years after joining, to determine whether Britain should remain in the EC.

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In contrast, Greece, Portugal and Spain have newly emerged as democratic states after a long period of authoritarian government. These three applicant countries are at an earlier stage of economic development, and have lower living standards than any of the current nine Community member states. Furthermore, the success or failure of enlargement does not depend upon a domestic political debate in the applicant countries. As Lorenzo Natali, EC Commissioner responsible for enlargement, has stated: "The danger and opposition to enlargement stem this time from the precarious economic situation and the internal institutional weakness of our Community".

The driving force behind enlargement to 12, as it was to nine, is political. The European Council has stressed the political necessity of enlargement to bolster the fragile democracies in these Mediterranean nations. The Community derives its mandate for action from the principles enshrined in the EEC Treaty, where the founders of the EC "being resolved... to preserve and strengthen peace and liberty (called) upon the other peoples of Europe who share their ideal to join in their efforts."

Political necessities apart, the EC Commission's first overall view of enlargement points out that enlargement presents "economic difficulties and poses problems of an institutional nature". As such, the Community must reconcile what Mr. Natali has described as "the dilemma between the political "yes" and the economic and institutional "but" of enlargement".

Institutional Problems

Enlargement will present the Community with constitutional problems. The EC Commission says that the experience in the change-over from six to nine members had already revealed difficulties and deficiencies in the Community decision-making procedures. The accession of three further members will double the original number of nations for which the institutions were designed. An enlarged Community of 12 will require adaptation of the Treaties to strengthen the institutions and procedures. The Commission urges more use of majority voting in the Council of Ministers and recommends that the Commission consist of only one member from each country (Britain, France, Germany and Italy presently have two Commissioners).

French President Valéry Giscard d'Estaing proposed in September 1978 that the EC create a committee of three independent wise men to study the problem, from the point of view of institutions, mechanisms and procedures, that will confront an enlarged Community. The European Council last December appointed such a committee and it is due to report in October on ways to improve the EC's procedures and operations.

Economic Difficulties

Although the constitutional problems are significant, the main difficulties of enlargement are economic. Among the economic problems common to the three applicant countries are:

- a level of economic development that is much lower than the Community average,
- present regional disparities, causing concentration of populations in some regions and depopulation in others, which could increase further after accession to the EC,

- the preponderance of agriculture, in terms of both production and employment, which will pose the danger of structural surpluses where there are already surpluses (wine, olive oil, fruits and vegetables) and the stiffening of competition for sales of similar products from current member countries, particularly Italy and France,
- concentration in certain industrial sectors such as textiles, footwear, steel and shipbuilding sectors, that already face a crisis in the EC,
- large-scale emigration, frequently to Community countries, as free movement of workers will be ensured,
- very considerable current unemployment problems, which could increase further, following agricultural and industrial restructuring and the entry of more young people on the labour market.

The EC Commission emphasizes the need to seek gradual solutions to these problems. It originally proposed that the transitional period for the Mediterranean nations last a minimum of five years and a maximum of ten (compared with a five-year transitional period for Britain, Ireland and Denmark). It would take place in two stages: during the first five years, the applicant countries would be expected to move as far as possible towards fully carrying out EC policies, thereafter, the Council would review progress in each sector and determine extensions, if necessary, within the remaining transitional period.

Greece and the European Community

Greece is expected to become the tenth member of the Community in 1981, now that the accession negotiations are nearing completion. By mid-1978 broad agreements had been reached on Greece's integration into the industrial customs union and the Coal and Steel and Atomic Energy Communities, as well as on its adjustment to the Community's relations with third world countries. The difficult issues have been agriculture, the free movement of labour and the length of the transitional period.

Greece's largely rural economy and low-cost production of Mediterranean fruits and vegetables are expected to pose stiff competition for the farmers of EC member states, particularly in France and Italy. The Commission proposed that Greece wait an extra five years for free trade with the Community in 65 per cent of its agricultural products and seven years for free trade in meat, milk, olive oil and fats. The Greek Government sought an overall five-year maximum transitional period.

A compromise agreement was reached, on 24 December 1978, on the transitional periods for agricultural products, and the timetable for allowing Greek migrant workers free movement to the EC, and giving them EC social security benefits.

The agreement provides for a five-year period of transition - for all Greek agricultural products, except fresh and processed tomatoes and fresh and canned peaches, which will have a seven-year transition period. A seven-year transition will also apply to the free movement of Greek workers into EC member states. This point reflects the concern of some member states, particularly Germany, that immediate free movement of Greek workers into the industrialized north would add to unemployment and rising social welfare costs. Finally, more than 235,000 Greek migrant workers already employed within the Community will be given EC-guaranteed employment and social benefits upon Greek entry.

Now that the more difficult obstacles in the negotiations have been settled, the EC and Greece must settle relatively minor issues, such as the budget, taxation, transportation and companies right of establishment. There is no official timetable for the completion of the negotiations, but EC officials say about three months remain before a treaty can be completed with Greece. If this is the case, the Treaty of Accession could be signed in the first half of 1979. This will allow Greece to join the EC after the Parliaments of Greece and the EC member states have ratified the Treaty. The expected accession date is 1 January 1981.

There are two reasons behind the Greek Government's desire to strengthen its links with the Community. The first is political: Europe has taken the road towards integration. Athens wishes to be there to make its contribution to what will surely be the greatest event of the century; the second is economic: Greece's external trade is directed above all at the European market. Within Greece only the Panhellenic Socialist Movement (PASOK) has expressed anti-EC sentiments. EC entry, PASOK argues, would consolidate the peripheral role of the country as a satellite of the capitalist system, hinder the pursuit of socialist policies, and pose a serious threat to the development of Greek agriculture and industry. PASOK, however, does not represent a major threat to the ratification of an accession treaty as the ruling New Democratic Party retains a working majority.

Portugal and the EC

Like the case for Greece and Spain joining the EC, the arguments in favour of Portugal seeking EC membership are political. The Commission's Opinion on the Portuguese application for membership, however, stresses that political considerations must not be allowed to obscure the economic difficulties. For the Community the economic impact will be very limited in view of the relative weight of the Portuguese economy. Portugal will account for only three per cent of the population of the Community and only one per cent of its wealth. On the other hand, EC membership could adversely affect Portugal's economy.

The success of Portuguese accession depends upon major structural changes in all sectors of Portugal's economy. Among the structural weaknesses are:

- 28 per cent of Portugal's working population is still employed in agriculture, which, however, accounts for only 14 per cent of its gross domestic product,
- industry is concentrated in sectors such as textiles, footwear and food-processing, which are at present depressed in developed countries,
- a deterioration in the terms of trade (Portugal is importing twice as much as it exports) has contributed to a large balance-of-payments deficit,
- inflation is running at 27 per cent.

To resolve these problems prior to accession, Portugal needs to gradually align its economic and social policies with those in effect in the EC. Any Portuguese action towards structural reform would be backed by EC assistance. The Commission says Portugal, unlike Spain and Greece, will need special financial aid both before and after joining. This commitment was reaffirmed during the opening of the accession negotiations with Portugal on 17 October 1978 when EC Commission President Roy Jenkins underlined "that Portugal's integration into the Community should be eased by joint actions to support the reorganization of Portugal's economy". Mr. Jenkins pointed out that discussions would be held to determine what the Community could do to support the efforts of the Portuguese Government to restore economic stability since simply joining the Community would not solve Portugal's current economic difficulties.

The customs union and external relations are expected to be the first subjects of discussion. The EC will present general proposals for Portugal's integration into the EC's customs union within the next few months. It is expected that at least two years will be needed to conclude the accession negotiations.

Spain and the EC

In the case of Spain the application to join the EC on 28 July 1977 was mainly for political reasons. The Spanish Government and the main political parties - from the right-wing Popular Alliance to the Communists - supported Spain's application as a means of consolidating democracy. Spain's determination to become a part of an integrated Europe is bolstered by strong economic links. The EC absorbs 46 per cent of Spain's exports and accounts for 34 per cent of its imports.

In its Opinion on Spain's application for accession, issued on 29 November 1978, the Commission expresses a favourable opinion and "welcomes the prospect of seeing a democratic Spain become part of Europe and participate in its construction". The EC Council of Foreign Ministers, meeting on 19-20 December 1978, adopted the Commission's Opinion and negotiations with Spain formally opened on 5 February 1979. Substantive talks, however, are unlikely to begin before autumn 1979.

Many economic difficulties have to be solved prior to Spanish entry to the Community. Spain has the largest European market that remains outside the Community, with a highly protected industry and low-cost agriculture. Of the three Mediterranean countries applying for EC membership, the Spanish economy will have the most effect on the present EC's own industry and agriculture. In industry, Spain is dynamic in some sectors, such as steel, oil refinery, shipbuilding textiles and footwear, where the Community is already coming up against difficulties and trying to implement restructuring measures. The Commission's Opinion recommends Spain's speedy involvement in industrial restructuring programmes and in the common policies adopted for EC industries in crisis.

The Nine's most acute worries about Spanish entry are, however, in agriculture. Mediterranean products account for 40 per cent of Spain's agricultural output and most of its exports: fruit, vegetables, citrus fruits, olives, wine. An enlarged Community can expect to attain a high level of self-sufficiency in these Mediterranean products. Furthermore, Spain's adoption of the Common Agricultural Policy is expected to stimulate production, while enlargement will aggravate problems for French and Italian Mediterranean farmers. The French Left, especially the French Communist Party, has opposed Spanish membership because of the repercussions Spanish entry would have on farmers in Southern France.

Jacques Chirac, the French Gaullist leader, has expressed concern about the effects of Spanish entry on French wine and fruit growers, and about enlargement in general, because of its possible paralysis of the EC's institutions.

The French Socialists have taken a more cautious approach to enlargement. They approved a report on 27 September 1978 entitled "Pour une autre Europe" which stipulates four preconditions for enlargement:

- real market organizations to protect wine, fruit and vegetable growers,
- protection for crisis-hit sectors, such as steel, textiles and shoes,
- a stronger EC regional fund, and
- an indefinite transition period for the candidate countries.

The agricultural problems over Spanish entry may be overestimated. Spanish consumption of Mediterranean produce has been rising steadily, and Spain's self-sufficiency in these products has fallen. Furthermore, the accession of Spain to the Community may provide benefits for northern producers who will have a new and growing market for their beef and milk.

Political opposition to enlargement is less marked in other Community countries. The Italian Communist Party, for example, unlike its French counterpart, has come out in favour of the entry of Spain, Portugal and Greece into the EC. "EC enlargement", according to the Italian Communists, is "inevitable and useful because the arrival of other countries similar in structure to Italy will help to restore equilibrium vis-à-vis the privileges won by Central and Northern European agriculture."

Statistical Annex

Indicators of Size

	Surface Area (1 000 km)	Population 1976 (millions)	GNP 1976 (U.S.\$ billion)
Germany	248.6	61.5	445.30
United Kingdom	244.0	56.0	218.50
Italy	301.3	56.2	170.80
France	547.0	52.9	346.70
Spain	504.8	36.2	104.62
Netherlands	41.2	13.8	89.30
Belgium	30.5	9.8	66.35
Greece	132.0	9.2	22.04
Portugal	91.6	9.7	14.95
Denmark	43.1	5.7	38.90
Ireland	70.3	3.2	8.05
Luxembourg	2.6	0.4	2.20

Unemployment	EC	+ 5 per cent
	Spain	5.4 per cent
	Portugal	15 per cent
	Greece	3.4 per cent

Regional disparities (rates of gross domestic product (GDP) per capita)		
Calabria/Hamburg	1 - 5	
West Ireland/Hamburg	1 - 6	
4 poorest Portuguese regions/Hamburg	1 - 10	
Of the 53 million people in the applicant countries, 34 million have comparable standards of living with the poorest regions of the EC "Nine" (Mezzogiorno and West of Ireland)		

Community wealth (GDP per capita)		
EC		U.S. \$5221
EC "Twelve"		U.S. \$4760

AGRICULTURE AND INDUSTRY

	Portugal	Spain	Greece	EC
Employment in agriculture (% labour force)	28	22	36	8
Agricultural productivity (% productivity in other sectors)	35	53	40	
Agricultural productivity (% of EC average)	27	44	43	100
Industrial productivity (% of EC productivity)	33	55	51	100
Exports (% of imports)	52.8	48.7	43.7	

Agricultural Labour Force as Percentage of Total Employment

EC	9 %
EC "Twelve"	11 %

How Enlargement Will Expand EC Agriculture

Persons employed	+ 55 per cent
Agricultural area	+ 49 per cent
Number of farms	+ 57 per cent
Total output	+ 24 per cent