European Communities
Commission
Background Report

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ISEC/B43/78

June 19, 1978

ENLARGING THE COMMUNITY

An assessment of the problems

Summary

The applications of Greece, Portugal and Spain to join the European Community have been accepted in principle by the Community of the Nine. Negotiations with Greece are expected to have made substantial progress by the end of 1978, enabling her to accede before 1981. The Commission has now submitted its opinion on Portugal, and has begun work on the Spanish opinion.

At this stage the commitments on both sides are essentially political. The applicants wish, through the Community, to preserve their new-found democratic institutions; the Nine have acted in accordance with the principles enshrined in the Preamble to the Treaty of Rome whereby the founders of the Community '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'.

There is no doubt, however, that further enlargement presents the Community with economic difficulties, and poses considerable institutional and administrative problems. The Commission has recently sent detailed documents* to the Council of Ministers drawing attention to these problems and proposing lines of action.

As the Commission points out, Greece, Portugal and Spain want to be part of a strong Community. If it were diluted, weakened, or nothing more than a free trade area or even a customs union it would be of only limited interest to them and to the Nine. This means that, parallel with negotiations on entry with the three applicants, the present Community must rapidly strengthen its own cohesion and structures in order to handle the bigger organisation of the future.

Economic and other difficulties

Enlargement poses particular problems in the economic and industrial fields and in agriculture, but it will also have an impact on the Community's trade relations with third countries,

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*Communication, COM(78)120 final, April 24, 1978 and COM(78)190 final, April 24, 1978 notably in the Mediterranean and the developing world. The Commission argues that these problems must be openly discussed and solutions found over a flexible five - ten year transitional period. It emphasises, however, that this must be done without dismantling existing Community achievements (acquis Communautaire) or hindering the extension 'in depth' of common policies essential to the success of enlargement, such as economic and monetary union.

Economic problems

The Community has attained a high level of economic development with comparatively homogeneous structures in the member states. Even so, the first enlargement of 1973 created problems which, since then have been exacerbated by the onset of world economic recession. Today the Community is faced not only with economic problems which are particularly acute in certain industries but with social problems - more than six million unemployed - whereas hitherto it has been the main opening for migrant labour, much of it from the applicant countries and with striking regional disparities.

This situation makes it harder than before to achieve that convergence of the economies that is basic to Community policy. The advent of the three new countries will add to the difficulties. Although Spain's economic weight and growth potential are much greater than those of Greece or Portugal, all are less economically developed than the present Community. This will increase the proportion of Community regions and sectors which are in difficulty. Further, the applicants' agricultural, industrial and social structures are different, in many respects, from those of the Nine. Unless carefully handled these disparities could adversely affect the cohesion of the Common Market and progress towards Economic and Monetary Union.

To avoid this situation the Commission proposes certain guidelines, the most important of which is the reinvigoration of the Community economy. In addition, it suggests that there must be careful and specific sectoral agreements with the applicant countries to ensure an integration that does not put Community objectives at risk. Such a policy could involve expansion of some industries, aided by Community funds and the European Investment Bank (EIB), but would also require 'some common discipline in certain well-defined areas', even before accession, on the part of the new entrants.

Of the three, Portugal will need the most help. Greece has a per capita income only a little lower than Ireland, and Spain is in many ways comparable to Italy. Portugal has a much lower per capita income than any other member of the enlarged Community and its structures are still undeveloped, so the country could receive Community aid to facilitate its growth. The Community should continue its support for the Portuguese balance of payments, particularly through the IMF, and help with expansion of necessary investment.

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Although difficult to calculate at this stage, the Commission estimates that if the applicant countries were now members of the Community, paying their full contribution and receiving full benefits, they would enjoy a net balance corresponding for Greece to 2.30 per cent of its GDP, for Portugal to 2.5 per cent, and for Spain to 0.40 per cent. If the three applicant countries are allowed to contribute to own resources during the transitional period on the sort of favourable terms granted to Britain, Denmark and Ireland in 1973, however, their relative advantage will be considerably greater.

The Commission emphasises that to support such transfer of resources it will be necessary to adjust the budgetary instruments at the Community's disposal and to ensure that optimum use is made of their resources. To ensure Common Market cohesion this must be done within an overall policy that considers the problems of entry as a whole. Enlargement will be much easier, the Commission says, if the Community is strong and if it has made headway with EMU.

Agriculture

Assuming that the three applicant countries join the Community, there will be a further strong tilt towards agricultural interests. It will mean an increase of 55 per cent in the number of people working in agriculture in the Community; a 49 per cent increase in land given over to agriculture; a 57 per cent increase in the number of farms, and a 24 per cent increase in agricultural production. The Mediterranean type of agriculture shared by these countries is also shared by the present Mediterranean regions of the Community. The imbalances already existing within the present Community will, therefore, be magnified by the accession of these three countries.

Wine, olive oil, certain fresh fruit and vegetables, are already in or bordering on surplus in the Community, and the Commission points out there is a danger that the CAP mechanisms of support prices and intervention buying could encourage the new applicants to increase production. This is particularly true in sectors which compete with the agricultural interests of non-member countries with which the Community has established special relations.

These daunting problems must not, the Commission urges, be allowed to undermine what has already been achieved by the Community in the agricultural sphere or with the continuing integration process in the agricultural sectors. It will be necessary to consult with the new applicants and to devise joint measures to meet Community objectives. This will take time and adjustment will be difficult, the more so as improvements in the agricultural sector must mean fewer people on the land and more people looking for jobs elsewhere. To meet this situation the application of the CAP will have to be closely paralleled by development of all sectors of the economy and a determined regional policy.

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Industry

Economic recession and the challenge from low-cost producing countries to the Community's industries have already caused problems of restructuring and adaptation in the member states. Enlargement will add to production capacities in some sensitive sectors of the Community, while lower production costs in the applicant countries will create other problems.

The Commission emphasises that Spain, Greece and Portugal will have to adapt their industries, within the Community, to the demand and conditions of the world market. Technical discussions are to begin shortly, but the Commission notes the need also for adjustments involving common disciplines if the accessionary states are to get off to a good start and be exempted from the protective measures applying to sensitive key industries that the Community has had to adopt towards non-member countries.

Energy

Energy use is another problem. Greece, Portugal and Spain depend on imports for 78 - 88 per cent of their energy compared with 57 per cent for the Community of the Nine. Because they are set for development, energy consumption in the other three is expected to continue to rise steeply.

The movement of energy prices and foreseeable increases in energy imports (mainly oil) in these three countries is likely to worsen their balance of payments problems, endanger growth and make more difficult the convergence of economic structures within the enlarged Community.

The Commission argues, therefore, that a fresh political impetus to reduce Community dependence on imported energy is vital. This means the establishment of a genuine common energy market, joint utilization of resources, more intensive energy saving, and a common policy vis-à-vis third countries for securing a long-term flow of supplies.

Social and Regional aspects

The Commission notes that industrial and agricultural restructuring and the trend towards capital-intensive production systems will release manpower and seriously worsen unemployment problems. At present in the 12 countries there are 7.5 million people unemployed, and this is likely to increase in the 1980's as more young people seek work.

Further, freedom of movement of people, in particular workers, is a fundamental right that the Community cannot deny its members. There has been a tradition for workers from the applicant countries to seek employment in the more developed economies of the Nine, but the removal of all restrictions on this movement could create strains. In the Commission's view, regional

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development must be encouraged and transitional measures adopted to ensure that freedom of movement and work can progressively be introduced.

Enlargement and Third countries

While enlargement will strengthen the Community as a trading bloc, it will also have notable repercussions on EC relations with important trading partners, particularly in the Mediterranean and with developing countries.

The Commission warns that there is no avoiding the fact that the Community's capacity to absorb the agricultural and industrial consumer goods of these countries will become more limited. This is particularly true for non-Community Mediterranean countries.

As far as the ACP countries (under the Lomé Convention) are concerned, enlargement will offer them a larger market for their tropical products and raw materials and so should not have prejudicial consequences. There will, however, be an impact on the Generalised System of Preferences (GSP) as a result of increasing competition in the production of sensitive goods, which in general are precisely those that are of the greatest interest to the countries that benefit under the system.

In addition to those countries with which the Community has commercial agreements - covering three Maghreb and four Mashreq countries, Israel, Malta and Cyprus - the Commission points out that the Association Agreement with Turkey could also be affected by enlargement; the aim should be to strengthen existing ties with Turkey and increase cooperation with the country.

So as negotiations with the applicant countries proceed, it will be necessary to have parallel discussions with third countries whose trade or other interests are likely to be most affected by enlargement, and ensure that they are able to pursue their development with the support of the Community.

The transitional period

The problems outlined above make it clear that the applicant countries could not undertake all the responsibilities involved in membership of the Community the moment they join, and there will have to be a carefully phased transitional period. While on accession the new member states will be immediately involved in full participation in all Community institutions and other bodies in the decision-making process, the Commission suggests that it would be unrealistic to suppose that the transitional period could be less than five years and might have to be extended to ten. Much will depend not only on the new members

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themselves, but on the Community and world economic situation.

The Commission envisages a flexible programme, perhaps in two stages which should be adapted to different sectors, and would rule out a uniform conception of the transitional period. This would allow the more complicated aspects of integration to take place in a orderly way.

The Commission re-emphasises, however, that concern with these complex negotiations must not be allowed to affect Community achievements to date or to put a brake on future Community development. If such development proves difficult, for various reasons, for the new members to accept straight away, the Community should be able to agree special measures of derogation which would allow them at a later stage to 'catch up'.

Changes in the Institutions and adjustment to the Treaties

Enlargement will require numerical and other adjustments to the Community institutions.

The Commission warns frankly that enlargement could result in deterioration of Community decision-making procedures. The experience of the change-over from six members to nine revealed difficulties and deficiencies in the capacity to act and re-act jointly. With 12 members the situation could be worse. Extensive adjustments, therefore, will be necessary if the Community of the 12 is to work properly.

Here a priority should be greater use of majority voting. The Commission sees support for this argument in the approach adopted at the European Council in 1974, when the Heads of State and Government expressed the opinion that, in order to improve the functioning of the Council, it was necessary 'to renounce the practice which consists of making agreement on all questions conditional on the unanimous consent of the member states, whatever their respective positions may be regarding the conclusions reached in Luxembourg on January 28, 1966'. (This refers to the Luxembourg Accord which instituted the general principle of unanimous voting in the Council of Ministers.)

There has been a pragmatic extension of majority voting in the Council of Ministers since 1975, and a political code of conduct has emerged which is now accepted by all the member states. The Commission would like to develop this trend by extending the code to a few Treaty articles where the present insistence on unanimity does not appear objectively justified, and has led in the past to considerable delays in the decision-making procedure.

The Commission also suggests that decision making could be speeded up if the Council and its subsidiary bodies were relieved of preparatory work on matters of technical implementation and it

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was agreed to change the Treaties to enable the Commission to exercise administrative and executive powers where the Council did not decide otherwise. This would introduce into the Community legal order a method of action already recognised as valuable in several official statements - notably in para. 8 of the Communiqué put out by the Heads of State and Government at the summit meeting in December 1974.

'Numerical' changes

At this stage any suggestions for numerical change in the Community institutions must be tentative. But on the principle that all the member states must be represented in every Community institution and body, and that there should be no appreciable shift in the existing balance of power between member States, the Commission has submitted some proposals for consideration. Taking the criteria for representation which apply to present Community members, the Commission suggests that Greece and Portugal should occupy much the same position as Belgium and the Netherlands, whereas Spain should lie between this group and the 'big four', Germany Italy, the UK and France.

On this basis Spain should have about 58 seats and Greece and Portugal 24 each in an enlarged European Parliament of 516 members.

In the Council, for the purposes of weighting where required to act by a qualified majority, Greece and Portugal would have five votes each, the same as Belgium and the Netherlands. As the four large members have 10 votes each, the figure for Spain might be eight. This would give a total voting strength of 76 while the number of votes requires for a qualified majority would be 51. This would broadly preserve the existing balance of power between the member states and would mean that no majority decision could be taken without the consent of at least one small country in addition to the 'big five'.

There have been suggestions that the Commission should be composed of 12 members, one from each national state, but the Commission itself is doubtful about reducing its size (from 13) in view of the increased burden of work in a wider Community, particularly during the transitional period.

The Commission has already asked the Court of Justice to give an Opinion on the changes necessary for enlargement, noting that under the Treaties it would have to consist of 13 judges - an odd number to avoid tied votes.

In the Economic and Social Committee the Commission proposes 12 seats each for Greece and Portugal (as for Belgium and the Netherlands) and 18 for Spain in order to reflect the relative sizes of the applicant states.

Other Community bodies, including the European Investment Bank (EIB), will also have to be expanded appropriately.

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Cherishing Parliamentary democracy

The Rt. Hon. Roy Jenkins, President of the Commission, has emphasised, as have others, that the second enlargement of the Community is primarily a matter of political principle. The Community 'was founded in the duty to cherish and nurture parliamentary democracy and individual liberty. Whatever our difficulties, these remain our entrenched values. The recent emergence of new democratic regimes in the three applicant nations', he said 'calls for a direct and full-hearted response from the Community. To fail to give such a response would run the risk of undermining the very democracy for which we stand'.*

This view was strongly supported in a debate in the House of Lords on May 11. The Minister for State for Foreign and Commonwealth Affairs, Lord Goronwy-Roberts, said it would be disastrous for the applicants if any of the negotiations were to be delayed because the Community has begun to have doubts about enlargement as the wider implications became known. A very tentative estimate of the cost to Britain of enlargement, he said, would be between £90m and £150m.

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*Address to the Deutsche Gesellschaft für Auswartige Politik, December 8, 1977.

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