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Enlargement Weekly

21 January 2002

Welcome to Enlargement Weekly. This weekly bulletin provides an overview of where European Union enlargement has got to, who's doing what in the EU, in the institutions and candidate countries, and how the main challenges are being met.

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ENLARGEMENT ON THE BARCELONA AGENDA

EU enlargement figures prominently in the European Commission's preparatory papers for the Barcelona summit on March 15-16, which will focus largely on assessing progress and prospects for the so-called Lisbon strategy (agreed by EU leaders at their summit in March 2000) to boost EU growth, competitiveness and jobs. The Commission said this week: "The Lisbon strategy provides an additional way for candidate countries to adopt and implement key economic, social and environmental objectives."

"But", the Commission continued, "it is not an additional condition for entry. The eEurope Plus initiative launched by candidate countries at the Göteborg European Council is a good example of this. They have put in place a framework to speed up their transition to a knowledge economy". The Commission added: "It could be helpful if other similar initiatives were developed across the candidate countries."

"The process of enlargement also presents challenges for the strategy itself, just as it does for economic and social cohesion", said the Commission. "It will certainly be a further factor for growth, investment and job creation across the Union in the second half of the decade, but it will also put many of the quantitative Lisbon targets under strain. It will involve a two-way learning process". This process has already started, with the participation of candidate countries in all EU programmes, the Commission said. "This is helping those countries sometimes with the support of pre-accession aid, to familiarise themselves with the objective and way of working within the Lisbon strategy. Moreover, pre-accession funding may help them in adopting, implementing and enforcing those elements of the *acquis communautaire* which form part of the Lisbon strategy."

BUDGET STUDIES OF THE CONSEQUENCES OF ENLARGEMENT

The European Commission has just published some of the research it has commissioned over recent years on the budgetary impact of enlargement. The studies, covering Germany, Austria, Italy and Denmark, generally suggest a positive overall impact from enlargement. The studies operate from slightly differing assumptions about the precise number and accession date of new members, and they identify a number of possible downside risks. But their conclusions coincide in suggesting that enlargement will, on balance, be good for the member states in question. ENLARGEMENT WEEKLY provides here some of the key extracts from the studies. They can be consulted in full or http://europa.eu.int/comm/budget/financing/enlargement_en.htm

Austria. "Due to geographic proximity and its historical ties to the central and east European countries, the Austrian economy seems particularly well positioned to reap benefits from a closer integration of commodity markets that would materialise from an eastern enlargement of the European Union. At the same time, however, one must expect that it is quite severely hit by adjustment pressure that stems from increased import competition, as domestic producers lose some of the external protection afforded by the common external tariff of the Union. In addition, as all other incumbent countries, it would face the need to contribute a larger amount to finance a more expensive Union...."

"The aggregate capital stock is revealed to increase by an amount of 1.5 % in the long run. This is mirrored by a 1 % increase in GDP. Taking account of this dynamic effect, we conclude that the first round of enlargement is also a welfare-increasing policy, despite the increase in net contribution payments that Austria will have to live with in an enlarged Union...."



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"Given the present EU farm policy, the effect of enlargement on farmers appears quite modest: a mere 1.3 % of output loss for instance in the case of the first round of enlargement reform. At the other end of the scale, transport equipment benefits the most from an export boom set free by market integration. As regards the much feared effect of integration on the wage gap, our results indicate that the idiosyncratic features of the 'policy shock' in question are likely to lower the wage gap between skilled and unskilled labour, rather than aggravating such distributional concerns...."

"While, admittedly, [inward] migration is likely to cause some short-term friction in western labour markets, the long-run welfare effects for the initial western population as a whole should be positive. It does, however, cause a long-run change in income distribution to the disadvantage of all individuals who own factors that are substitutable to incoming labour. In a probability this is the case for low-skilled labour, since migration most likely is concentrated in the low-skill segment of the labour market...."

"... enlargement of the EU should be much more attractive for incumbent countries in geographic proximity to the east than much of the public debate seems to suggest. However, countries further away from, and therefore trading less with, new member states are much less favourably affected than a country like Austria."

Denmark: "The net effects on the Danish economy are quite small. There are some benefits and some costs. In the short run the costs seem to be larger, with increasing foreign trade

offset by negative effects on production and welfare. In the long run the positive effect from the immigration to Denmark turns the results slightly positive....

"The short to medium term effects... are that the positive effects do not quite offset costs. The cost in terms of contribution to transfers to central and eastern Europe run in advance of the benefits. The enlargement costs are not unimportant. On the other hand they are not a threat to economic welfare in Denmark. The analysis points out that even minor positive effects from the integration process will offset the cost. The simulation results suggest this will be the case in the medium term. In the long run positive effects from integration seems to outweigh costs. The expected immigration, perhaps most important, brings along supply-side effects. Thus: production costs will be reduced and productivity increased. This is perhaps the most important effect on the Danish economy in the long run....

"In pure economic terms the effects are small, and almost negligible in the Danish case in the long run, so... the possible benefits in terms of economic and political stability and peace in Europe should be the important issues in the debate on the enlargement process as far as Denmark is concerned....

Italy: "The analysis of welfare reveals that EU enlargement has a positive impact on Italian households... The expansionary effect on Italian exports will increase production, employment and private disposable income so that a positive income effect will boost consumption without generating relevant change in consumer prices... The reduction of import prices will reduce the consumer prices of imported goods and, for some commodities, also the domestic price due to reduced cost of inputs. Therefore, we may conclude that Italian households will benefit from EU enlargement through an increase of their disposable income and consumption... The overall effect of the enlargement clearly swells the total volume of the tax base...

"In general, the national budget benefits from enlargement.... The scenarios used in this report do not provide evidence of a noticeable impact of expenditures such as government consumption and investments. In any case, the impact of the enlargement on the national budget appears to be very modest"

Germany: "Despite some difficulties in agriculture, the integration of [...] five countries of central and eastern Europe holds a potential for an investment-led expansion of the German economy. Rather than representing a fiscal burden, it contributes to a more healthy public sector budget. Despite the required increase in net contributions to the EU, the expanded macroeconomic activity swells the tax bases to an extent that allows more generous transfers to the household sector without increasing public debt. We estimate the overall welfare gain to the German economy at almost 0.4 percent of GDP annually, including the benefits from the Europe Agreements.

"Eastern enlargement, however, also holds some potential for adverse redistributive effects. On average, it benefits capital owners which are mainly found among current older generations, while the full benefits to worker households will materialise only after some time along with capital accumulation. Windfall gains and losses to capital owners are distributed quite unevenly across sectors. Agriculture and food sectors are clearly among the losers, while chemicals and textiles and clothing belong to the winners. Furthermore, the particular scenario of trade integration coming with eastern enlargement tends to favour equally skill- and labour intensive industries. Therefore, the enlargement scenario does not significantly affect the wage gap between high and low skilled labour. Overall, we conclude that eastern enlargement of the EU may largely be self-financing and promises considerable welfare gains for present member states even under a narrow self-interested economic calculus."

NEW PARLIAMENT PRESIDENT LOOKS TO ENLARGEMENT

Pat Cox, the new President of the European Parliament, said in his acceptance speech on January 15: "We are on the brink of the most important event in recent European history, the enlargement of the European Union".



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Speaking in his native Irish, he said he was convinced that "...cultural pluralism and cultural diversity are the sine qua non of the Europe to which I am committed and which we seek to build". (...) "The successful completion of enlargement negotiations is the overarching political priority. Reuniting Europe brings together a divided Europe to share common values and economic prosperity. We are building something by way of common values and future economic and social prosperity and we are doing work of historic dimensions." The new President pointed to the importance he attaches to the relations with the Commission on enlargement, noting that he had established a very good working relationship with Commissioner Verheugen.

EPP/ED leader Hans-Gert Poettering, in his welcome to the new President, emphasised that his election showed that all Europeans could be fully involved in the European process. Looking ahead to enlargement, he suggested inviting observers from the candidate countries to come to the European Parliament in preparation for the 2004 elections.

Socialist group leader Enrique Barón also undertook to establish effective working relations with the new EP President: "We want a real commitment in favour of all the Europeans who want to share in our common adventure in an enlarged Europe", he said.

BYRNE SETS OUT CHALLENGES IN FOOD HEALTH AND AGRICULTURE

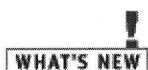
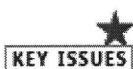
"Significant progress has been, and is being, made on veterinary and plant health issues which are my responsibility in the agricultural sphere within the Commission", said European Commissioner for Health and Consumer Protection, David Byrne, in Berlin in mid-January. He said he had already tabled the Commission's final position in respect of Slovenia, because he is satisfied with the adoption and implementation of the acquis. "This sends a signal that the negotiations can be successfully concluded in a spirit of good will and consensus. "

"For the other leading countries, we expect to be in a position to prepare the ground for the Council to close the chapters in the course of the Spanish Presidency. This very much depends on the ability of the candidates to provide detailed information and effective plans for sensitive sectors. In the case of Hungary, we may well be ready to propose closure by the end of this month. In the case of other candidates, let me be clear. Failure to provide essential information in the coming weeks will risk delays in closing the chapter on time. The timing is largely in their own hands. It is only in respect of two candidate states that negotiations have yet to be commenced, but I hope that they will commence as quickly as possible. "

Part of the discussions will centre on food processing plants in the candidate countries, a subject which, he admitted, is "very sensitive - from the point of view of food safety, and... from an economic and social point of view in the candidate countries. Our negotiations will ensure that EU food safety standards are safeguarded and that the health of our present and future citizens is protected. For this reason considerable attention will be given to sensitive issues regarding food processing plants. Whether in the meat or dairy sectors, significant restructuring efforts will be needed over time... It should be the objective of all candidate countries to get their food production up to Community standards as speedily as possible and certainly by accession."

The Commissioner said the major objective was to foster investments that will reinforce the ability of operators to meet EU veterinary, hygiene, sanitary, food quality, animal welfare and environmental requirements - preparing, in other words, for the opportunities of the Single Market. And as to transitional arrangements, they will be "guided by the principle that products from establishments in transition will be limited to the domestic market of the candidate country concerned". In addition, the Commission will implement a detailed process of reinforced monitoring through inspections and ongoing contacts, he said.

Enlargement news in brief



SCHROEDER HAS NO DOUBTS ON ENLARGEMENT OR ON POLAND

German Chancellor Gerhard Schroeder told a group of US journalists visiting Berlin in mid January that for the candidates, "The question of membership is no longer a political question. It's decided. We decided it in Berlin, and in Nice, where we set the preconditions, and we clearly said that we want it." The EU is ready for new members, he said. But he went on to say: "Whether enlargement works depends on the economic development of the member states". And whether the candidates are ready "will depend on economic developments and the reform process" they achieve. He also said he was confident that Poland would make it into the EU at the same time as other leading candidates. "I assume that, without their being any special political consideration or discount" – "there won't be one", he insisted – "the Poland will be in the first group. I can't imagine it any other way. It would be historically difficult for a German chancellor not to support Poland. We do that decisively. It's a consensus across the German political landscape, so Poland can rely on Germany".

WORLD BANK SAYS GROWTH IN CANDIDATES DEPENDS ON NEW FIRMS

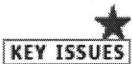
Barriers to the creation of new firms are a critical obstacle to sustained growth in the transition countries of central and eastern Europe, as well as in the former Soviet Union, according to a new report by the World Bank. The report, "Transition: The First Ten Years", says new firms mostly employing 50 or fewer workers, have rapidly become the major source of employment in the fast-growing countries of central Europe and the Baltics. In Poland, for example, where output in 2000 was almost 150% of 1990 levels, more than half of all workers are employed in small new firms, compared to a quarter of a decade ago. But in Bulgaria and Romania, the process was hampered because protection of state enterprises and farm collectives through the banking sector led to sharp increase in bad debts to the banking sector, which prevented the expansion of bank credit to new, small, and politically less connected enterprises (and eventually triggered banking and macroeconomic crises). So reducing barriers to entry must be accompanied by hardening budget constraints on old and new firms, says the report. "Allowing resources to be sucked into old enterprises does not leave adequate economic space for new firms. At the same time, not having a vibrant emerging private sector limits the options available to those in old enterprises and makes it more difficult to downsize".

NEW HOPES FOR CYPRUS SETTLEMENT?

Cyprus President Glafcos Clerides and Turkish Cypriot leader Rauf Denktash took a major step towards resolving the tensions on the island when they met in Nicosia on January 16. The meeting was a follow-up to an earlier encounter on 4 December, under the auspices of United Nations Secretary-General Kofi Annan. They agreed to set up an intensive series of regular meetings in a bid to find common ground, now that the prospect of EU accession is in sight. The new degree of goodwill was welcomed by several EU member states. UK minister for Europe Peter Hain welcomed the start of direct talks, and expressed the British government's continued strong support for the efforts to secure a just and lasting settlement in Cyprus. He said he hoped that all concerned would participate in a constructive and flexible manner. "These talks represent a real opportunity for all Cypriots and for all of us. I urge the two leaders to exert every effort to achieve a just and lasting settlement."

PRODI BALANCES ENLARGEMENT AND EUROMED

European Commission President Romano Prodi told the European Parliament on January 14 that 2002 "will be a crucial year for the enlargement process, and we know that the Spanish Presidency will be making every effort to keep the process moving ahead, so that we can conclude negotiations this year with those countries that have shown their compliance with the accession criteria." But he set enlargement in the context of other aspects of EU external relations policies. "Vital though it is to the Union's future, eastward enlargement is not the only external issue occupying the Union's thoughts", he said. "Relations with the countries of the Mediterranean are an obvious priority in the Union's external activities. Under the Spanish Presidency, I look forward to seeing the Euro-Mediterranean dialogue move decisively forward".



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IMF WELCOMES TURKEY'S BANK RECAPITALIZATION PLANS

The International Monetary Fund has welcomed the Turkish government's commitment in its newly-revised economic programme to ensuring the soundness of its banking system. "A sound banking sector will ensure confidence of depositors, a return to normal credit growth and reduced pressures on interest and exchange rates. Sound and profitable banks will contribute revenue to the budget, enhance public debt sustainability, and set the stage for economic recovery", it said in mid-January. "The scheme is considered necessary at this point given the likely scarcity of new capital from existing owners or new investors in Turkey and abroad under present market conditions. The scheme is designed to show government support of the banking system, while minimising overall public sector costs. The IMF supports this scheme as the least cost solution to deal with remaining banking sector weaknesses," it said.

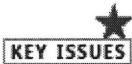
LATVIAN RAILWAY HOPES FOR ISPA AID IN 2002

The state-owned Latvian railway company Latvijas Dzelzceļš hopes to get € 13.7 million during 2002 in co-financing from the EU pre-accession fund for environment and transport, ISPA. It plans to use the funding mainly on the upgrading of the east-west railway corridor, including improved traffic management system and replacement of rail track switches. But it will also build new facilities at the Rezekne station in eastern Latvia. In 1996-2001 Latvian railway received € 8.6 million from the EU's Phare programme, and it is planning to obtain a total of € 113.2 million from ISPA before 2006.

MALTESE REQUESTS ON AGRICULTURE

Special arrangements being requested by Malta in the upcoming agriculture negotiations include two transitional periods, for arrangements for registering establishments in the animal feed sector (to allow the restructuring of feed mills), and for production aid for individual producers. It is also seeking four transition periods, covering the evaluation of active substances in plant protection products and biocides (the results of pesticide evaluations in other member states would be recognised); minimum quality requirements for tomato-based products eligible for production aid; application of EU law provisions on the content of tomato products; and the stocking density for granting of premiums to sheepmeat and goatmeat producers.


Malta may also decide to seek additional transitional periods for health problems relating to meat, meat products, poultry, rabbit and game (so as to allow the restructuring of cutting, deboning and processing establishments and the implementation of self-regulation and restructuring of slaughtering and cutting establishments). Deferment may also be sought of the obligation to meet EU rules on marketing of milk and milk based products, so that upgrading and restructuring of farms and dairies can take place. Similarly, it may seek particular arrangements for sampling and monitoring for eggs and milk, for incineration and controlled dumping of high and low risk materials other than rendering. It may also seek to maintain its current safeguard measures with respect to the import of live animals and products from other member states and third countries.



Agenda

Date	Event
First half of 2002	During the Spanish Presidency of the EU in the first half of the year, work will take place on the drafting of the accession treaty and on the remaining chapters of the accession negotiations, in accordance with the "road-map". At the beginning of 2002 the Commission will propose common positions on the agriculture, regional policy and budgetary chapters.

January	
Monday 21 st	EU Council of Ministers working group on central Europe meets, Brussels
Tuesday 22 nd	EU Council of Ministers working group on enlargement meets, Brussels
Tuesday 22 nd	EU Council of Ministers working group on justice and home affairs meets with candidate countries, Brussels
Tuesday 22 nd to Thursday 24 th	Enlargement Director General Eneko Landaburu visits Poland
Thursday 24 th	Political directors of the Baltic Sea States discuss foreign policy and security issues and the relations between Russia and the European Union, Brussels.
Thursday 24 th	Inaugural meeting of the new joint committee set up by the EU Committee of the Regions with the Czech Republic, Prague
Thursday 24 th	CEPS working party on the Common Agricultural Policy in the 21st Century: Doha, mid-term review and enlargement, Brussels
Thursday 24 th -Sunday 27 th	Chief negotiators of the 5+1 "Luxembourg" group of candidate countries (Cyprus, Czech Republic, Estonia, Hungary, Poland, Slovenia) discuss the Spanish presidency, association agreements and the current status of the accession negotiations; Karlovy Vary, Czech Republic.
Friday 25 th	EU Council of Ministers working group on enlargement meets, Brussels
Friday 25 th	European Justice and Home Affairs Commissioner Antonio Vitorino receives Romanian foreign minister Mircea Dan Geoana, Brussels
Monday 28 th	General Affairs Council, Brussels
February	
Friday 8 th	Informal foreign affairs ministers meeting, Caceres
Friday 8 th	Secretaries General of the Parliaments of the candidate countries meet with Enlargement Director General Eneko Landaburu et al., Strasbourg
Wednesday 13 th -Friday 15 th	European Enlargement Commissioner Günter Verheugen visits Turkey
Thursday 14 th -Friday 15 th	Accession negotiations with the candidate countries at deputy level (chief negotiators and EU ambassadors), Brussels
Tuesday 19 th	CEPS working party on the Common Agricultural Policy in the 21st Century: Doha, mid-term review and enlargement, Brussels
Thursday 21 st -Friday 22 nd	European Environment Commissioner Margot Wallström visits Slovakia
Thursday 21 st -Friday 22 nd	European Research Commissioner Philippe Busquin visits Hungary
March	
Friday 15 th , Saturday	Barcelona European Council – including a special working meeting on economic and social integration for the candidate countries

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16 th	
Thursday 21 st -Friday 22 nd	Negotiating session at the level of deputies (EU ambassadors and candidates' negotiators), Brussels.
April	
Details tbc	European Commission organises a "BEST" Conference in Slovenia, to assist candidate countries in boosting enterprise culture.
Friday 19 th and Monday 22 nd	Negotiating session at the level of deputies (EU ambassadors and candidates' negotiators), Brussels.
May	
Details tbc	Second negotiating session at the level of deputies (EU ambassadors and candidates' negotiators), Brussels.
Friday 31 st	Negotiating session at the level of deputies (EU ambassadors and candidates' negotiators), Brussels.
June	
Details tbc	EU/European Economic Area (EEA) consultative committee will discuss enlargement and the future of the EEA at its annual meeting, Iceland
Monday 3 rd	Negotiating session at the level of deputies (EU ambassadors and candidates' negotiators), Brussels.
Tuesday 11 th	Ministerial negotiating session with foreign ministers of the EU and of the candidate countries, Brussels.
Friday 21 st , Saturday 22 nd	Seville European Council: European Commission reports on the implementation of the plan of action for strengthening the candidates' institutions.
Monday 24 th	Informal meeting of education ministers from the EU and the candidate countries, Bratislava
July	
Monday 1 st	Start of Danish Presidency of the EU: the aim is to close negotiations before the end of the year with those countries that are ready. The Laeken summit noted that, if progress is maintained in the negotiations and in the reforms, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, the Czech Republic and Slovenia could be ready.
October	
24 th and 25 th	Brussels European Council: enlargement will be on the agenda and the Commission's regular reports on the candidate countries may be available.
December	
Thursday 12 th , Friday 13 th	Copenhagen European Council - enlargement may be on the agenda again, taking account of the aim of concluding accession negotiations by the end of the year.

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