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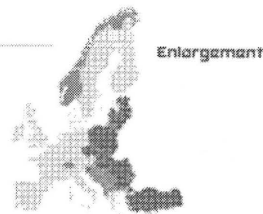
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Welcome to Enlargement Weekly. This weekly bulletin provides an overview of where European Union enlargement has got to, who's doing what in the EU, in the institutions and candidate countries, and how the main challenges are being met.

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NEW MEMBER STATES AT RISK OF LOSING OUT ON STRUCTURAL FUNDING

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Some of the €22 billion allocated to acceding states for Structural and Cohesion Funds in 2004-2006 may go unused unless adequate administrative structures are set up quickly, the European Commission warned last week.

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PRESS CORNER

The Commission confirmed at its regular meeting on July 16 that new member states may not be able to take advantage of money reserved for them, because there are still deficiencies in national preparations. European Enlargement Commissioner Günter Verheugen said: "The time is short and there is no room for further delay". He pointed out that this report is part of the Commission's overall monitoring efforts of the acceding states. "It will provide a good basis for the November monitoring report where I hope we will be able to register further progress in the implementation", he said. The report adopted by the Commission assesses the progress made in managing EU funds by the ten countries joining the EU in May 2004: Poland, the Czech Republic, Hungary, Slovakia, Estonia, Latvia, Lithuania, Slovenia, Cyprus and Malta. Cyprus, Malta, Estonia and the Czech Republic were singled out as having made very good progress with preparations. However, the Commission also made plain that Slovakia and Latvia are in more need of urgent developments than the others.

The report identifies specific areas where more needs to be done, urgently. The Commission summarises them as follows:

- Public procurement: Delays in the alignment and implementation of rules in this field are of particular concern. An adequate reinforcement of the bodies and mechanisms ensuring proper implementation in this area is of utmost importance.
- Institutional arrangements and inter-ministerial co-ordination: The Commission is particularly concerned as regards the delays in fully and properly defining the institutional arrangements for the management of the Funds. In some countries, clarifications on the independence of the certifying role of the new national authorities for the structural interventions are still needed.
- Financial management and control: Main weaknesses concern the confusion between management checks and independent sample checks required by the EU rules on financial management and

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control.

- Accounting systems, which are a prerequisite for sound financial management, are still not established in all acceding countries.
- Recruitment of additional staff for the management of Structural Funds has been delayed in several countries. This is in particular true for regional administrations.
- Programme negotiations: After some delays in the submission of the programming documents, momentum needs now to be maintained in order to finalise negotiations by the end of December 2003. It is of major importance for each country to better define the priorities and measures within the programmes and to avoid overlaps between them.
- Project preparation: The Commission is concerned that actions planned at this stage might not be sufficient to guarantee full absorption of the Structural and Cohesion Funds. Much more attention needs therefore to be given to project preparation.
- Partnership: The acceding countries have made a significant effort to implement the partnership principle, which involves the relevant economic and social actors in programme design and monitoring. This effort needs to be maintained in the course of the negotiating and the implementation period.
- Monitoring: Substantial delays have occurred in many countries in the set up of the monitoring systems which play a decisive role as regards the transparency of programme implementation and financial absorption.
- National co-financing: In view of the efforts needed in several countries to achieve sound public finance, careful planning of the national co-financing components linked to the Structural and Cohesion Funds is an essential part of the successful implementation of cohesion policy in the acceding countries. Therefore, project preparation needs to cover the identification of sources of co-financing.

The matter is all the more urgent because projects are eligible for aid from the beginning of 2004 - four months before formal accession. Michel Barnier, Commissioner responsible for regional policy, acknowledged "the considerable progress made by the acceding countries in their preparations". But he emphasised that they "will only benefit from project and expenditure eligibility from the 1 January 2004 if all appropriate legislation has been aligned and fully transposed by 31 December 2003. Otherwise, the Commission will not be able to approve Community funding upon accession."

The Structural and Cohesion Funds are the European Union's instrument of solidarity with the less prosperous regions and countries. Between 2000 and 2006, the total allocation for all structural instruments amounts to €213 billion for EU15. The Structural Funds usually finance multi annual programmes drawn up in partnership with administrations at national and regional level and aim at enhanced regional growth, competitiveness and job creation. The Cohesion Fund assists Member States to comply with the requirements of Economic and Monetary Union by granting subsidies to major investments in the area of transport and environment. Under the accession negotiations with the acceding states, completed at the European Council in December 2002, an envelope of almost Euro 22 billion was agreed for the Structural and the Cohesion Funds for these countries for 2004- 2006

PAYING FOR EU INFORMATION CAMPAIGNS THROUGH 2003

The European Commission has just allocated nearly €10 million for information campaigns about EU accession this year in the ten central and eastern Europe candidate countries. In most cases, the allocations continue the increasing trend of EU funding under the Communication Strategy. The money is provided to the European Commission Delegation in each country, for local programmes.

DISTRIBUTION OF FUNDS PER DELEGATION (€000)				
	2000	2001	2002*	2003
Bratislava	400	650	660	1,050
Bucharest	500	850	950	1,500
Budapest	638	1,000	1,170	1,200
Ljubljana	365	720	870	1,100
Prague	530	900	1,100	1,100
Riga	390	670	550**	550
Sofia	370	550	620	700
Tallin	325	611	560**	550
Vilnius	375	680	700	750
Warsaw	600	1,559	1,700	1,300
TOTAL	4,500	8,191	8,800	9,800

* 12 months equivalent

** in fact an increase when different contracting periods are taken into account.

The allocations take into account the different levels of activity after the referenda that have taken place in some countries, and the need to continue the information effort in the immediate period after accession.

The Communication Strategy in these countries is financed by the Phare programme - and it will continue to pay for it until the end of 2004 in the eight central European countries that are set to join on 1st May 2004, as well as the continuing Communication Strategy in Bulgaria and Romania. Information campaigns are also being funded separately for Cyprus and Malta, and in each of the 15 member states too.

For information about the implementation of the communication strategy, see the regular monthly reports at

<http://europa.eu.int/comm/enlargement/communication>

CYPRUS AND MALTA FIRST ACCEDING STATES TO RATIFY ACCESSION TREATY

Two of the acceding states have now ratified the EU Accession Treaty. Cyprus - the most easterly - and Malta - the most southerly - both completed their formal ratification processes last week, advancing past one of the last milestones on the road to full membership next May.

The 56-member Cyprus House of Representatives ratified the Treaty unanimously at an extraordinary sitting on July 14, attended by - among others - President Tassos Papadopoulos, Paphos Bishop Chrysostomos, the Armenians' Archbishop, the Attorney General Solon Nikitas, the Republic's EU harmonisation co-ordinator, Takis Hadjidemetriou, and Nicosia mayor Michalakis Zambellas.

The European Commission immediately publicly congratulated Cyprus. "It demonstrates the strong will of Cyprus to join the European family of democratic nations as a member of the European Union, with equal rights and obligations", said the Commission statement, reiterating confidence "that Cyprus will play an important role in the development of the European

integration process". At the same time, the Commission also restated "its support for the efforts of the UN Secretary General in reaching a comprehensive settlement of the Cyprus problem and calls for an early resumption of the talks on the basis of his proposal."

Congratulations came too from the Chairman of the EPP-ED Group in the European Parliament, Hans-Gert Poettering. "This is a historic success and a significant day for the people of Cyprus. I am very happy that the Cypriot Parliament made this very important decision for the future of their country and confirmed their wish to join the wider European family". Poettering also urged a settlement within the framework of the United Nations and based on the Annan plan, to lead to the reunification of the island "for the benefit of all its people".

Malta - which was the first of the acceding states to hold a referendum on EU accession, too - also ratified the Treaty at a third reading on July 14 by Malta's Parliament of the bill endorsing accession. But the vote was less ceremonial than in Cyprus. Since the Maltese Parliament began discussing the bill in late June, there had been votes against it from the Labour opposition, and it required three votes on the bill on July 14: in the end the bill was finally approved by 34 government votes in favour and 25 opposition votes against, just satisfying the 33-vote minimum required by the constitution. Five members of parliament were missing from the opposition benches for the final vote, including the Leader of the Opposition himself.

Meanwhile, the German Parliament has approved the Accession Treaty - the second member state to do so, after Denmark. The German upper house endorsed on July 11 the support registered by the lower house the previous week.

Enlargement news in brief

Verheugen insists on early change to Bulgarian constitution

In Sofia last week, European Enlargement Commissioner Günter Verheugen made it clear that Bulgaria's chances of closing negotiations next year depend crucially on modifying its constitution by September this year. In talks with president Georgi Parvanov, prime minister Simeon Saxe-Coburg, and foreign affairs minister Solomon Passy, Verheugen emphasised that constitutional amendments needed to put vital judicial reforms into place would have to be adopted early in the autumn if they were to figure in the Commission's regular report in November. The November regular report will contain the Commission's recommendations on whether it will be possible to close negotiations by Bulgaria's target date of 2004 - and the Commissioner stated firmly that without judicial reform in place, it could not make a positive recommendation. Bulgaria has already admitted that if it does not close negotiations next year, its 2007 target date of accession may become impossible to meet. The constitutional amendments are needed for an in-depth reform of the judiciary and include questions of immunity for members of parliament and the judiciary, and the procedures for appointment of magistrates. Verheugen warned that those who aim to delay agreement could be responsible for delaying Bulgaria's accession.

VAT rule changes "driven by enlargement"

European Commission proposals last week to remove some of the anomalies in member states' VAT rules are due in part to the need for clarification before enlargement. The Commission wants to iron out excessive variations between national provisions on reduced VAT rates for some goods and services, so it is urging an equalisation process among the derogations some current member states enjoy, and a standardisation of the goods and services that member states are allowed to levy reduced rates on. "This proposal must be seen in the context of the upcoming enlargement of the EU", said the Commission. "In the recent negotiations, the Commission and

the Council agreed on a rigorous approach to VAT-rate derogations granted to the new countries: all the derogations granted were strictly limited in time, with the last one expiring on 1 January 2010. This should be taken into account in the review of the temporary derogations currently enjoyed by certain member states. The EU must ensure more equitable treatment of all member states, both old and new. This proposal, which advocates applying all derogations from the standard rate only to goods and services that are eligible for reduced rates, is an important step in this direction", it urged.

EU ministers review acceding countries' structural reforms

The EU's Ecofin Council of economic and finance ministers last week reviewed structural reform in the acceding countries, and welcomed "the impressive progress with structural reforms in acceding countries in recent years and the ensuing higher real economic growth rates". But the future member states need to take on some serious challenges to achieve real economic convergence with current member states more quickly. Their tasks "may in some cases be more demanding" than in current member states, EU ministers admitted - particularly on employment and incentives to work. Competition and efficiency in goods and services markets, completing reforms in financial markets, continuing pension and health reform, and accelerating the transition to the knowledge-based economy are other major challenges identified. In some acceding countries the structure of public finances needs to be re-balanced too, so as to foster growth and sustainability more effectively. And ministers decided that acceding countries should be integrated as soon as possible into the EU processes for coordinating structural policy: so they will be included in the update of the EU's broad economic policy guidelines from 2004, and in the associated implementation report from 2005. Acceding countries are also to be invited to provide - on a voluntary basis - reports this October on structural reforms in goods, services and capital markets.

Twinning is winning on Czech environment

Czech compliance with the EU's environmental rules has benefited from help under the EU's twinning programme - part of Phare's pre-accession aid, under which experts from EU member states work alongside local officials in the acceding states. An 18-month Phare project at the Czech Ministry of the Environment has helped develop institutions for monitoring air quality, and integrated regional offices into the process of implementing EU clean air rules. It has also provided investment of €1 million in equipment for air quality monitoring. Another 18-month project also coming to an end has focused on EU rules on Integrated Pollution Prevention and Control: it has prepared the state administration for the new system of issuing integrated permits, and provided with training programmes, the preparation of expert documents, issuing of pilot permits for three IPPC installations, and investment in information systems for an integrated pollution register. There was German expert input into both these projects. A third 18-month project, with Austrian input, has been focusing on waste management rules. This is due for completion in August, and is establishing an EU-compliant centre for waste management in the Czech Ministry of the Environment. The project has also provided training and set up a waste information system, as well as purchasing sampling and analytical equipment. Altogether, the EU contributed €4.3 million to these three projects, bringing Phare assistance to the Czech Republic since 1990 to close to €1 billion - alongside some €350 million under the ISPA programme and some €70 million under the SAPARD programme since 2000.

More support for leasing in Latvia

Up to €17 million is to be made available in Latvia to help smaller firms get access to new equipment and services through leasing arrangements. The money is coming in the shape of a €15 million loan from the European Bank for Reconstruction and Development, and nearly €2 million from the

European Commission. The objective is to encourage and enable micro and small enterprises to undertake leases - an increasingly important, but often still scarce, tool for entrepreneurs in the accession countries. The loan is being channelled to SIA Unilizings, the leasing subsidiary of Latvijas Unibanka, one of Latvia's leading banks. The European Commission is contributing €150,000 for technical co-operation and up to a further €1.9 million, depending on the number of leases made by Unilizings. Andris Berzins, President of Unibanka - which has already channelled some €20 million of EBRD money into credit lines for smaller firms since 2001 - said "the demand for leasing in Latvia is on a steep rise". The EBRD and the EU are systematically promoting smaller firms in central and eastern Europe through a specific programme to support the development and growth of entrepreneurs by facilitating their access to finance. So far the Bank has signed commitments of €525 million, of which approximately €420 million has been disbursed via 16,500 loans. And the European Commission has committed €241 million to this facility under the Phare Programme, including €130 million of grant co-financing in co-operation with the EBRD.

New border crossing for Hungary on the EU's new borders

EU-financed construction of a new border crossing at Horgoš, between Hungary and Serbia, has started, with a view to speeding commerce and travel between the enlarged EU and the Balkan region. The crossing is on the E75 highway that runs from Germany to Greece, one of the key trade routes through south-eastern Europe. It will be equipped with modern customs facilities and a special terminal for inspecting trucks and goods - particularly livestock and plants. The €10 million project is funded by the EU and managed locally by the European Agency for Reconstruction. Work is expected to be completed by July 2004.

"Cut red tape" for new member states' employment aids

The European Commission is to make it easier for candidate countries to use funds from EU support programmes in order to boost employment, particularly "by eliminating red tape". That is what the European Parliament's committee on social policy and employment was urging just before the Parliament's summer break started. A draft report on candidate countries' progress in implementing the joint assessment papers on employment also says that EU member states should show more empathy with candidate countries as they face the demands being made on them to introduce stable employment policies. The committee - whose report will go to the Parliament's plenary after the summer break - is urging special employment programmes for particular crisis regions, so as to avert further emigration and impoverishment. Where youth unemployment stands at 20% or more, special efforts are needed "to prevent neglect and radicalisation". Business location policy in the candidate countries should be "selective", the committee report also says, to cut the risk of heavy localised job losses, and an additional EU aid instrument should be introduced to prevent regions from becoming impoverished as a result of industrial restructuring. private investors from the EU should earmark part of their investment for training, to support workers in difficulties in new deregulated labour markets, and there should be a "balanced business strategy" to ensure greater respect for workers' rights and to make businesses more aware of their social responsibility. Farming should be assessed "not only from the point of view of business economics", but also taking account of environmental protection, landscape conservation, and interim relief until new jobs are created outside farming.

Polish ecologists fear GM invasion

"Poland's greatest asset" - its large area of unpolluted agricultural soils and rich natural environment - is under threat from genetically-modified crops, according to the International Coalition to Protect the Polish Countryside, the vocal environmentalist lobby group. It says new legislation now in the Polish

parliament on bio-fuels - crops raised for energy-production through burning - could poison the Polish countryside. "Under the guise of promoting a clean, environmentally friendly fuel, the act will, in reality, encourage the widespread use of agrichemicals and open the door for the production of genetically modified crops", says ICPPC. Reflecting some of the anxieties currently giving rise to discussions in the EU on GM crops, it says: "If this act is passed it will further expose Poland to the pressures of US based agribusiness corporations (backed by the US Government) to find a home for highly controversial GM seeds, such as oilseed rape, currently blocked or still under trial in other countries."

Enlargement Mini-Briefs

- Andris Kesteris, Latvia's chief negotiator during the accession negotiations, and now deputy state secretary in the foreign affairs ministry, is to take over at the head of his country's Mission in Brussels. He will become Latvia's permanent representative to the EU, on accession next year.
- EU ministers last week endorsed a new agreement with Malta on conformity assessment and acceptance of industrial products. The agreement should help eliminate technical barriers to trade in industrial products.
- Edgar Savisaar, leader of Estonia's largest opposition party, the Centre Party, says it will do no harm to the country if the referendum in September produces a "no" vote. Why should Estonia be eager to go where it is not wanted ?, he asked in a newspaper article last week, claiming that public support for enlargement was falling in the EU. "Less than half of the citizens in all the EU states support enlargement, while more than one third are resolutely against it," he said. He also questioned whether Estonia will maintain her right to make independent decisions: the draft of the EU constitutional treaty suggested a unitarian state rather than a union of states, he argued. Joining the EU because there is no other choice "is the worst reason for accession", he said. For latest polls in Estonia, see http://www.gallup-europe.be/epm/epm_estonia.htm
- The EU's Phare program is providing €3.3 million for new border guard posts on Estonia's border with Russia, and for purchasing border surveillance equipment. Estonia will contribute €1.28 million in co-financing.
- The transition countries of central and eastern Europe have expanded more rapidly than the EU and are now catching up in terms of productivity - especially in manufacturing, according to the latest report from Viennese research institute WIIW, "Transition Countries in 2003: Reforms and Restructuring Keep the Global Economic Slowdown at Bay". And the acceding states in the region which have attracted FDI recently have also improved their competitive position by securing larger export shares in the EU market. The **report** forecasts growth averaging 3% in 2003 and 2004 - although this will be "slow, but steady" in Poland. These modest rates of growth "do not make for the creation of additional jobs", it warns.
- Latvia's foreign affairs minister Sandra Kalniete is continuing her tour of the regions for discussions on the EU with local citizens. She went last week to Ludza and Preili districts on Latvia's borders, to help provide information, and to stimulate dialogue on opportunities for development of Latvia's border regions within the European Union.

Agenda

See also the new "Enlargement events calendar" on the DG Enlargement web site at <http://europa.eu.int/comm/enlargement/events/calendar.htm>. This gives a run-down of public events related to the enlargement of the EU taking place in all current and future member states.

(note: now that acceding states take part in Council meetings and EP and ESC plenaries, these will from now on be listed in this calendar)

Date	Event
July 2003	
July 22th	<ul style="list-style-type: none"> ■ European Enlargement Commissioner Günter Verheugen meets Hungarian foreign affairs minister Laszlo Kovacs, Budapest ■ General Affairs and External Relations Council, Brussels ■ European Commission Vice-President Neil Kinnock and Justice and Home Affairs Commissioner Antonio Vitorino meet Romanian internal affairs minister Johan Rus, Brussels ■ European Transport Commissioner Loyola de Palacio meets Czech transport minister Milan Simonovsky, Brussels ■ European Transport Commissioner Loyola de Palacio meets Cypriot minister of communications Kyriakos Kazamias, Brussels
22-23 July	■ Agriculture Council, Brussels
August 2003	
September 2003	
1st - 3th	■ European Enlargement Commissioner Günter Verheugen visits Estonia
1st - 4th	■ European Parliament plenary session, Strasbourg
3 th - 5 th	<ul style="list-style-type: none"> ■ European Enlargement Commissioner Günter Verheugen visits Latvia ■ Informal Telecommunications Council, Viterbe
5 th - 6 th	<ul style="list-style-type: none"> ■ Informal General Affairs and External Relations Council, Riva del Garda ■ Informal Health Council, Milan
11th	■ David Byrne, European Commissioner for Health and Consumer Protection visits Lithuania
12 th	■ David Byrne, European Commissioner for Health and Consumer Protection visits Latvia
12 th - 13th	<ul style="list-style-type: none"> ■ Informal Ecofin, Stresa ■ Informal Justice and Home Affairs Council, Rome
Sunday 14th	■ Referendum in Estonia on EU accession
Monday 15th	■ David Byrne, European Commissioner for Health and Consumer Protection visits Estonia
18th	■ European Enlargement Commissioner Günter Verheugen visits Switzerland
Saturday 20th	■ Referendum in Latvia on EU accession
20th - 23th	■ Informal Agriculture Council, Taormina
22th - 23th	<ul style="list-style-type: none"> ■ European Enlargement Commissioner Günter Verheugen visits Korea ■ Competitiveness (internal market, industry and research) Council, Brussels
22th - 25th	■ European Parliament plenary session, Strasbourg
24th - 26th	■ European Enlargement Commissioner Günter Verheugen visits Japan
26th	■ Franz Fischler, European Commissioner for

Agriculture, Rural Development and Fisheries visits
Switzerland

- 29th - 30th
- General Affairs and External Relations Council, Brussels
 - Agriculture Council, Brussels

2004

May 2004

- Saturday 1st
- Entry into force of the accession treaty (according to conclusions of General Affairs Council, 18.11.02)

ENLARGEMENT WEEKLY is prepared for the Information Unit of the Enlargement Directorate General of the European Commission. As part of its communication strategy on enlargement, the Commission makes this bulletin publicly available. Comments are welcome and should be addressed by e-mail to enlargement@cec.eu.int.

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