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Background Report

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COMPLETING ENLARGEMENT: OPERATION IBERIA
The challenge posed by the entry of Spain and Portugal

The second enlargement of the European Community concerns three countries in which democratic government has been restored after varying periods of dictatorship: Greece, Portugal and Spain. Greece applied for Community membership in June 1975 and entered on January 1, 1981. Negotiations with Portugal and Spain, whose requests for membership date from March and July 1977, have still to be completed.

For the European Community it is a matter of considerable importance that negotiations should be completed quickly and that Portugal and Spain should take their places in the Community. It is clearly in the interest of other member states that Portugal and Spain should enjoy the added element of political stability and economic well-being which they would gain from Community membership. This political imperative has dominated the attitude of the Community in its response to these new candidates for membership. Now, however, more than six years have elapsed since the request for membership was made, and in both candidate states there have recently been signs of annoyance at the delay (Greek membership only took five years to settle). But the Stuttgart European Council emphasised that "the accession negotiations with Spain and Portugal will be pursued with the objective of concluding them, so that the Accession Treaties can be submitted for ratification when the result of the negotiations concerning the future financing of the Community is submitted".

In fact, negotiations with Portugal and Spain have been partially dragged out by their impact on the general structure of the Community and the need to adapt the latter to change. It is for this reason that the Stuttgart European Council associated the problems arising out of enlargement with budgetary problems, agriculture and new Community policies as questions to be resolved at the Athens European Council in December 1983.

What are the difficulties which have to be overcome if enlargement is to be achieved? The first of these concerns the size of the Community budget. Although the accession of Portugal and Spain does not imply a very great financial burden, nonetheless it seems likely to carry Community expenditure over the 1 per cent Value Added Tax (VAT) ceiling. On the 1981 figures it has been calculated that the Community budget would increase by 15 to 20 per cent and that transfers to those countries of 4 to 6 per cent of the budget would occur (850-1,400m ECU). Such figures would almost certainly imply a breach of the 1 per cent VAT ceiling.

An increase in the Community's resources would, therefore, be necessary before Portuguese and Spanish entry, even if there were no need for new expenditure to cope with economic difficulties resulting from enlargement.

However, it seems clear that the economic problems following entry will be severe. The Commission's original opinion stated that "a return to sufficiently rapid and lasting growth is a major condition for resolving the serious economic policy problems which have to be overcome". It is now clear that this cannot be expectec It will, therefore, be necessary to make funds available, not only to re-structure some sectors of the Portuguese and Spanish economies, but also to aid those regions of the Community unfavourably affected.

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The problems created are diverse. They include social matters, such as the problem of migrant workers - there are about one million Portuguese in France alone - but they mostly concern agriculture and particularly Mediterranean agricultural products (olive oil, wine, fruit and vegetables). The regions of the Community likely to be affected, therefore, are those lying around the Mediterranean basin in France, Greece and Italy. All these areas depend on the same products as Portugal and Spain, and their farmers are liable to be damaged by free access to the Community market of massive Spanish production (Portugal does not represent a problem on the same scale). Also Portuguese and Spanish accession will make it more difficult for the Community to continue to import Mediterranean products from other countries, including those with whom Association agreements are in force.

To take one example of these difficulties: due to the large Spanish production of olive oil, in a Community of twelve states there would be a surplus of some 230,000 tonnes (implying a Community self-sufficiency of 122 per cent). This would harm previous Community suppliers who include Tunisia, Morocco and Turkey and would mean a rise in the cost of the Common Agricultural Policy of ECU 800m. The surplus will be partially caused by a re-orientation of consumer demand towards cheaper types of vegetable oil. Enlargement will, therefore, create difficulties with states outside the Community - both those producing olive oil, whose exports will be cut, and those producing cheaper vegetable oils which may have to be subject to taxation. It seems to be impossible to compel a drop in the production of olive oil, though the Commission has said that it will provide incentives for conversion. This, however, would be very costly.

Similar difficulties appear likely in the sectors of wine and fruit and vegetables. fisheries also will prove a problem owing to the size of the Spanish fishing industry. As to industry proper, the obstacles are likely to be found in the adaptation of the two new member states to a common internal market. Following trade agreements in 1970 and 1976 Spain and Portugal have both had access to the Community market, and the effect of their industrial exports has largely been absorbed. On the other hand, the industries of both these countries have been protected (heavily in the case of Spain) and may find some problems in adapting to a new situation. The difference in industrial productivity between these countries and the Community is over 40 per cent. The position is still more difficult in the case of industries, like steel and textiles, where there is over-production. For instance, in the case of the Spanish steel industry exports accounted for 45 per cent of total production at the beginning of the 1980s. This can hardly continue, and the Community is faced with the task of absorbing Spanish production into its own contracting steel industry. The Portuguese steel industry does not present a problem. As far as textiles are concerned the position is reversed: Spanish industry poses no problem, whereas some member states feel themselves threatened by Portuguese exports of textiles.

A number of matters have been agreed in the course of negotiations with Portugal and Spain. These include the conditions of Spanish participation in the customs union, a six-year transition period for the Spanish tobacco monopoly and agreement by the Spanish government to introduce value added tax (VAT) from the date of entry. But the majority of points raised in the negotiations are still outstanding.

The integration of the Portuguese and Spanish economies into the Community must be considered as a difficult operation, especially at a time of recession. Whatever the solutions reached during the negotiations, some areas both of the present Community and of the two candidate states are bound to suffer. It is for this reason that the Commission has pointed out the necessity of more regional aid, of an integrated economic programme for Mediterranean areas, of improved arrangements within the Common Agricultural Policy for fruit, vegetables and olive oil and of a fisheries policy (which now exists). The Commission has already

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proposed a plan of assistance to the Mediterranean regions costing ECU 6.6 bn (£4 bn). Inevitably, however, all these things imply the existence of greater Community resources. Thus, even the economic arrangements consequent on Portuguese and Spanish entry into the Community will require a raising of the ceiling of the Community budget.

As well as budgetary and economic problems enlargement will also face the Community with institutional difficulties. It will be harder for agreements to be worked out between the diverse interests of twelve states than it is with ten. Even leaving aside purely administrative problems such as are raised by the addition of two more working languages to those already in use, it is easy to imagine how the decision-making process could be slowed down while the new member states accustomed themselves to Community practice.

To meet the difficulties which it foresees in this area the Commission has put forward proposals for a more flexible type of decision-making. These include an increased use of voting in the Council by qualified majority and also the introduction of such voting on matters where it cannot be used at present. In these cases qualified majority voting would be used if the text were in agreement with the Commission's proposal and the European Parliament's opinion. It was also suggested that there should be a greater use by the Council of the devolution of powers to the Commission. These measures, it is hoped, might ease the strain on an overburdened system.

What is striking in the present state of the negotiations with Portugal and Spain is the extent to which enlargement is linked to all the other problems of the Community. In fact, the process can hardly be completed unless the other elements of the Athens 'package' find satisfactory solutions. The demand for membership of these two states has had the almost accidental effect of a catalyst whose operation will determine the development of the Community over the years to come. It is clear that whatever the difficulties the European Community and its institutions cannot refuse this particular challenge. The way to a successful future now lies through enlargement, and no retreat is possible.

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