

Problems of enlargement

Taking stock and proposals

Commission communication to the European Council,
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Introduction

In the following paper the Commission presents its reply to the Heads of State or Government, who, at the European Council meeting held on 28 and 29 June 1982, asked it to take stock of the problems connected with enlargement and to make appropriate proposals.

In doing this, the Commission has based itself on :

- the points made by the Heads of State or Government in reply to the letter sent to them by the President of the Commission ;
- information acquired since the start of the negotiations ;
- updated data or special studies carried out by it for this purpose.

The Commission has summarized its analysis of the problems and the guidelines it suggests in a short text in order to present to the Heads of State or Government only the main lines of its thinking and proposals. In the annex to this paper it presents more specific details summarizing the particular and technical data regarding the problems it is dealing with.

The Commission's approach has been based on the principle that the Community's political objective is to achieve enlargement within a reasonable period of time. In this connection it noted that the members of the European Council unanimously reiterated their political will to achieve that goal.

The aim of the proposals made by the Commission is to offer lines of conduct and negotiation enabling the obstacles which have hitherto delayed completion of the process of enlargement to be overcome on both sides.

Preliminary considerations

Two points must be made regarding (i) the present stage reached in the accession negotiations with Portugal and Spain, and (ii) the context in which those negotiations should be seen.

So far progress has been made in the accession negotiations, which have been conducted with each of the applicant countries on the basis of its own merits, on a large number of chapters, some of which may be regarded as having been settled pending an overall agreement.

Further progress must still to be made with Spain, however, in crucial chapters of the negotiations, such as the customs union for industrial products, external relations and the ECSC, and substantive negotiations have yet to be started with the two applicants on the social affairs, fisheries and agriculture chapters. It has not yet been possible to assess Spanish and Portuguese concern regarding their budgetary situation during the post-accession transitional period; concrete negotiating results have not in fact been achieved on such essential aspects of the matter as the alignment of agricultural prices and aids. Finally, the questions raised by the participation of Portugal and Spain in the Community institutions must also be settled.

The negotiations have not uncovered any problems which had not previously been identified. The Commission's analysis of enlargement in both its 'General considerations'¹ and its 'Opinions'² and subsequent proposals is therefore, in the main, still relevant.

In the evaluation of the conditions and consequences of enlargement, however, two points – the importance of which has increased over the past few years – must be emphasized.

First of all, the economic environment of enlargement has seriously deteriorated. The Commission clearly stated, particularly in its 'General considerations' 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' and thus on it depends 'the reciprocal capacity [of the applicants and the Community] to overcome the obstacles arising from restructuring and intensified competition'.³

It has to be said that the continuing recession has prevented such an objective from being attained.

The apparently realistic assumption of growth of the order of 3-4% has not materialized, making the problem of employment more acute, in both the Community and Portugal and Spain, and making it even more difficult to deal with the problems of restructuring, particularly in those sectors where there is considerable spare production capacity and major competition problems at international level.

For the future, the prospect of an imminent and durable return to growth rates of the order of those previously envisaged remains unlikely.

The second point to be taken into account concerns the internal development of the present Community. Fundamental problems, accentuated by the impact of the recession, currently exist even outside the context of enlargement, the prospect of which makes those problems appear even more acute, however. The problems include the painful restructuring which the Community has undertaken in a number of sectors in crisis. Coordination at Community level and, in particular, the introduction of joint disciplines have provided a framework for the adjustment process. Another problem concerns the new fields and resources the Community will have available to it in the future for its development. In this connection it must be stressed that the Community is today very close to the 1% VAT ceiling. Lastly, there are the difficulties, now felt more acutely than ever, regarding the institutions' decision-making procedures.

General principles

At the present stage of the negotiations the Commission feels that the following three general principles must be confirmed so that the framework within which enlargement is to take place is assured:

- clarity of the terms of accession;
- adoption of the *acquis communautaire* in full;
- simultaneous accession of Portugal and Spain.

Clarity of the terms of accession is an objective which must be confirmed by the Community.

¹ Supplement 1/78 – Bull. EC.

² Supplements 5/78 and 9/78 – Bull. EC.

³ Supplement 3/78 – Bull. EC, p. 47.

The negotiations must lead to transparency of the terms for both Portugal's and Spain's accession, particularly with regard to the nature and content of the transitional period. This search for clarity prior to accession is one of the reasons for the European Council's request for a stocktaking exercise, and it is a point on which the Heads of State or Government have stressed their concern.

As the Commission has already stated in the 'Fresco',¹ this does not prevent the implementation of new policies involving, in certain cases, a differentiated application of Community measures and instruments in the applicant countries. Increased use of such flexibility might prove necessary throughout the transitional period.

In general, the Commission notes that possibilities for differentiation compatible with the Treaties already exist. Differentiation in the implementing measures can indeed make for sound management of the common policies.

In the 'Fresco' the Commission also envisaged a transition in stages, respecting the principle of adoption of the *acquis* in full by the applicant countries. It foresaw a certain flexibility in the management of the transitional period, the total length of which would be fixed in the Treaty of Accession. This solution was not adopted in the agreements already reached in the context of the negotiations. It would now create problems as regards the balance to be established between the various chapters of the negotiations or within those chapters.

In view of the difficult budgetary and trade problems facing the Community and the applicant countries, the idea of considering adoption of only part of the *acquis communautaire* might seem an attractive solution. In practice, this option could, without settling the basic problem, the solution of which would merely be deferred, give rise to even greater new difficulties. If such an exception were to be made for either party this would obviously not be done without a trade-off. Gradually a process would be set in motion which, going beyond the principle that the problems of integration can be resolved progressively by introducing transitional measures, would considerably dilute the *acquis* as a whole. To this would be added the problem of the institutions' decision-making capacity with regard to policies which would no longer be common.

Simultaneous accession for Portugal and Spain would appear preferable, for both the Commu-

nity and the applicant countries. Even if the acuteness of the problems and the progress made in the negotiations differ, this goal can be achieved.

The obstacles to the accession of both applicants can in fact be overcome within a reasonable period of time and the nature of the problems is, in any case, such as to require a common approach. Moreover, to delay accession would merely mean deferring a solution to the problems and hence making them even more intractable.

The Commission has already presented, in the context of the accession negotiations, proposals for dealing with the problems; such proposals, in accordance with the undertaking given by the Member States, must be adopted as soon as possible.

The additional proposals it is making in this report should make it possible to overcome the specific difficulties which are not being or cannot be dealt with in the traditional framework of negotiations.

Obstacles to enlargement – proposals for overcoming them

The obstacles to enlargement stem not only from the specific difficulties involved in integrating Portugal and Spain into the existing Community but also from the issues mentioned by the Commission in the preliminary remarks above, notably the difficulties connected with the functioning of the Community.

The Commission's views on these two aspects are set out below.

A. Internal obstacles

Own resources

For a number of years the Community has been living with a budget under which expenditure is

¹ Supplement 2/78 – Bull. EC.

dangerously near the own resources ceiling, despite more affective management of the common agricultural policy and the 'favourable' trend of prices for agricultural products on the world market.

The strengthening of existing common policies and the development of new ones are essential for the cohesion of the Community. Even though many measures may not be reflected in the budget, it is impracticable to consider limiting, for financial reasons,¹ those which might prove necessary.

The cost of enlargement to include Portugal and Spain will not place on the Community an intolerable financial burden and cannot be regarded as disproportionate to the political importance of enlargement. The size of the budget, in its present form, will increase by between 15% and 20%; the two new members will receive net transfers which, on the basis of a notional budget (Community of Twelve) for 1981, would have amounted to 850-1 400 million ECU, equivalent to between 4% and 6% of the budget of the enlarged Community.

This burden, though limited, is nevertheless a real one and would result in the resources within the 1% VAT ceiling being used up.² On the basis of the notional budget (Community of Twelve) for 1981, the VAT rate would have reached a level varying, according to the hypotheses used, between 0.964% and 1.044%.

Quite apart from enlargement, the maintenance of the present limits on own resources does not appear to be a practical possibility. Refusal to increase them would, for the operation of a 10 or 12-member Community, involve in practice a fundamental revision of present Community policies. For the CAP in particular the basic principles followed up to now would be called into question, not only for products of concern mainly to the new member countries but also for products of interest to the whole Community of Ten. It would also be necessary to abandon the ambition of implementing the new policies which the Community needs to strengthen its capacity, notably in the industrial and technological fields, and to combat the aggravation of regional disparities. Thus the cost necessarily entailed in extending the *acquis communautaire* to the new Member States is not the only factor to be taken into account.

The Commission considers, therefore, that the Community must declare its readiness to increase own resources, a need which is already evident, even without enlargement. It will be putting forward proposals as speedily as possible on the basis of the consideration it is currently giving to this question.

The decision-making process

The Commission has more than once stressed the difficulties which are already being caused by the deadlock in the decision-making process. Enlargement to a Community of Twelve will intensify this problem unless steps are taken to make the decision-making machinery more flexible.

The Commission has already indicated in the 'General considerations' the means by which decision-making could be made more flexible:

- greater use by the Council of the scope available to it under Article 155 of the EEC Treaty for devolving executive powers on the Commission;
- a more systematic use of the vote by qualified majority, as provided for in the Treaties;
- extension of majority voting in certain cases where the Treaties at present require unanimity (for example, in areas covered by Article 100).

The separation made by the Treaty authors between qualified-majority matters and unanimity matters is not logical in all cases. Furthermore, the changes that have taken place in certain sectors of Community activity justify the unanimity requirement being replaced now by one of a qualified majority.

Any adjustment of the institutional aspects of the Treaties must take into account that major event, the direct election of Parliament. This has made it only natural that the European Parliament's opinions should be assigned a specific role in the

¹ In its reply to the mandate (Supplement 1/81 - Bull. EC), the Commission stated (Section 5) that it considered that Community activity cannot be developed if the Community budget is artificially limited by the present upper limit to its resources. It will take the necessary steps to overcome that constraint.

² See Annex - Budgetary matters (p. 19).

attempt to introduce flexibility in decision-making, without the present balance between the institutions being upset.

The Commission therefore proposes that the Council should adopt a text by qualified majority if it is in accordance with the proposal from the Commission and the opinion of Parliament.

The Commission considers that the solutions outlined above should be regarded as adjustments to the Treaty, which enlargement too has made necessary and which could also be brought about through the procedure provided for in Article 237 of the EEC Treaty.

As regards itself, the Commission will initiate a process of reflection paying particular attention to its make-up and the conditions under which it operates, including the use of languages.

B. Obstacles thrown up by the negotiations

Many of the difficulties involved in enlargement are those which are 'traditional' in such a process. They arise from the fears engendered in the Member States by the prospect of change in an established situation, the increased openness of their markets to external competitors and the concomitant adjustments in terms of specialization. However, the difficulties tend to obscure the structural advantages of economic integration (increased size of markets, improved conditions of competition, and so on).

The establishment of appropriate transitional measures assuages the fears by ensuring gradualness in the insertion of the economies concerned. In the accession negotiations, most of the difficulties have already been resolved – or will be – by this procedure, which has itself now become traditional.

However, the Community is also going to be faced with intensified sectoral difficulties, arising in certain cases from the similarity between the Community's own problems and specialization trends in the applicant countries; The difficulties relate mainly to Mediterranean agricultural products, fisheries, textiles and iron and steel.¹ This list does not include free movement of workers from the applicant countries within the enlarged

Community. A transitional solution to this question may be found in the negotiations, as at the time of the last enlargement.

The sectoral difficulties have two main characteristic features :

(a) They may relate to surpluses – whether existing or potential – in production capacity, the important point being that the phenomenon is not a passing one :

the consumption of certain products cannot be increased beyond certain limits in present circumstances ;

changes in structure in international trade and industrial adjustments are forcing a new distribution of labour worldwide ;

the Community has entered into international undertakings granting certain facilities, under various headings, to non-member countries ; for both economic and political reasons, there can be no question of withdrawing such facilities without inviting countermeasures.

(b) The difficulties mainly affect the Community's less-favoured regions (the Mediterranean regions) or those in the throes of crisis (regions possessing declining industries and, in the case of fisheries, the coastal regions).

The Community is already making a comprehensive effort to reduce surplus production capacity. Enlargement of the Community must not jeopardize its efforts or the results achieved.

Particular stress must be laid on this aspect with regard to agriculture, given the significant increase in the Community's self-sufficiency rates which enlargement will entail in the olive oil, fruit and vegetables and wine sectors. In addition, there is a potential for still greater development of these lines of production linked to an increase in productivity and an extension of irrigated areas.

The above remarks may also apply to other fields, e.g. the industrial sector.

The Commission considers that cooperation between the Community and the applicant countries must be stepped up as soon as possible, especially as it is not in the interests of the enlarged Community that the applicant countries should specialize still further in sensitive sectors.

¹ See Annex for specific developments.

The Commission considers, therefore, that in some of the fields with the characteristics described above the applicant countries should agree to apply before accession disciplines similar or even identical to those being implemented in the Community.

Consequently, it proposes that discussions be initiated with the applicant countries, parallel to the negotiations and geared to their specific circumstances, with a view to concluding as rapidly as possible a pre-accession undertaking.

For the applicant countries the undertaking would mean applying forms of discipline in jointly-defined areas aimed at meeting the objectives of cohesion within the enlarged Community.

The Community, for its part, would set a target date for bringing the accession negotiations with Spain and Portugal to a successful conclusion.

Greater financial and budgetary assistance would be provided, firstly, to help the applicant countries fulfil their undertakings and, secondly, to speed up the process of adjusting and diversifying their economies.

The applicant countries would also be informed and consulted on future options wherever a 12-member viewpoint was already necessary.

At the same time, the Community should concentrate its internal efforts in four key directions in order to prepare itself economically for enlargement and to ensure that enlargement will be a success by removing certain real obstacles to the negotiations' favourable outcome.

(a) Aid to less-favoured or crisis-hit regions must be stepped up. The Commission would refer in this connection to its recent proposals to amend the European Regional Development Fund Regulation¹ and concerning the non-quota section of the Fund.²

(b) On the basis of proposals which the Commission will shortly be sending to the Council, the Community must establish integrated programmes for the Mediterranean region.

(c) In agriculture, the Commission has put proposals before the Member States aimed at

improving the operation of the common agricultural policy in the fruit and vegetable and olive oil sectors.³ The Commission reaffirms its proposals and urges the need for them to be adopted rapidly.

The Commission also stresses the fact that economic rationalization entails fair conditions of competition being respected throughout the Community.⁴

(d) With regard to fisheries, the Community should round out the *acquis communautaire* as soon as possible, so that it will have a clear basis for negotiating the accession of the two applicant countries in this sector.

With regard to the Mediterranean non-member countries with which the Community maintains preferential relations and which will be particularly affected by enlargement, the Commission has already presented an initial communication setting out the main components of a Community Mediterranean policy.⁵ It will amplify its proposals in a further communication.

Conclusions

As the Heads of State or Government have clearly confirmed the political purpose of enlargement, the Commission considers that a concerted effort must now be made to find the means of achieving enlargement.

It has set out above its analyses and proposals. It awaits from the Heads of State or Government a clear response on the principal choices which, in its view, are the key to the conclusion of the negotiations and the satisfactory functioning of the future Community of Twelve.

¹ OJ C 336, 23.12.1981 ; OJ C 261, 6.10.1982.

² OJ C 15, 19.1.1983 ; Bull. EC 10-1982, points 1.1.12 to 1.1.16.

³ OJ C 281, 4.11.1981 ; Bull. EC 10-1981, point 1.3.1 *et seq.*

⁴ See Annex, paragraphs 20 and 27.

⁵ Bull. EC 6-1982, points 1.2.1 to 1.2.4.

Analysis by sector

Agriculture

1. The accession of Spain will increase the utilized agricultural area of the present Community by 30%, the agricultural labour force by 25% and the number of holdings by 32%, while the addition of 37 million Spanish consumers will increase the number of consumers in the Community by 14%. For comparison, the accession of Portugal will enlarge the utilized agricultural area by only 4%, the agricultural labour force by 12.8% and the number of consumers by 3.6%.

The contribution of agriculture to gross domestic product is 9% in Spain and 14.5% in Portugal, compared with 3.9% in the present Community.

2. In terms of output, Spanish membership will put up production of vegetables by 25%, of fresh fruit by 48% and of olive oil by 59%; production of whole milk will go up by only 6% and that of cereals by 14.5%. The Community cattle herd will be enlarged by only 6%. The percentage increases consequent upon the accession of Portugal are extremely low.

3. The above figures show that that impact on the self-sufficiency rate of the Community varies considerably from product to product.

Simply by adding the production figures, the rate of self-sufficiency of the Community in Mediterranean products (wine, fruit and vegetables, olive oil) will go up, but in the case of a number of livestock and crop products it will go down.

As far as the latter are concerned, the fact that the two applicant countries will open their markets and adopt the principle of Community preference should have a favourable effect on the regions growing these products in the present Community.

In the case of Mediterranean products, the Community's self-sufficiency rate will reach 100% or more but without causing particularly heavy surpluses, with one or two exceptions. However, the mere addition of present production figures neglects the impact of the common agricultural policy on producers in the applicant countries in terms of both productivity and increases in the area under cultivation.

4. The Community therefore faces two basic issues :

- controlling production capacity in the sectors where surpluses are likely to be created or increased ;

- rechannelling production towards sectors where the Community deficit with outside countries is likely to widen.

5. The problem of production capacity mainly arises in connection with Spain, one of the major factors being the extension of irrigation.

Forecasts in this area tend to offer a wide range of results ; however, it is reasonable to assume that by 1990 the enlarged Community will have at least 1.2 million hectares of new, irrigated land under cultivation, one third of this in Spain and two thirds in the Community of Ten.

6. This said, the real issue is less the existence of this irrigated land than the uses to which the land is put. The seriousness of the problem is indicated by the fact that the sectors most concerned (mainly vegetables, followed by fruit) seem to be those where the equilibrium between supply and demand, taking imports into account, is becoming increasingly unstable.

The Commission has taken account of these difficulties in its proposals on the *acquis communautaire*. Any dilution of the proposals as they now stand and any further delay in adopting them will have serious implications both in the present Community and in the Community after enlargement.

The solution which should be aimed at is, unquestionably, one in which producers farming irrigated land would be encouraged to grow fodder and protein crops. This, of course, raises the problem of their living standards.

7. There is no single, comprehensive solution to the problem of controlling agricultural surpluses. Economic, social and regional constraints need to be taken into considerations and these in turn are intimately linked to the problem of rechannelling production.

Olive oil

8. With the accession of Greece, the Community's deficit in olive oil has diminished sharply as

the level of self-sufficiency has risen from an average of between 86% and 96% in the Community of the Nine to 95% in the Community of Ten. Production is shared by three Member States, with Italy producing 70%, Greece producing 29.6% and France producing 0.4%.

9. The annual production of olive oil in Spain is on average 463 000 tonnes, i.e. almost 60% of the production of the Community of Ten. The level of self-sufficiency in Spain is close to 135%. The accession of Spain alone will have the effect, if consumption remains the same, of increasing the level of self-sufficiency in the Community of Eleven to about 109%, a figure that will not be altered greatly by the accession of Portugal. The latter produces a volume corresponding to only about 6% of the 10-member EEC's production and, according to the information available, supply and demand there are more or less in balance.

It should be added that in both Portugal and Spain special arrangements have been introduced guaranteeing outlets for nationally-produced olive oil. The adoption of the *acquis communautaire* will entail the abolition of these arrangements and consequently favour the consumption of less-expensive competing vegetable oils imported into the Community at a zero rate of duty or at relatively low rates and without quantitative restrictions.

10. On the basis of the existing Community legislation this situation would have three consequences :

- a surplus estimated at 230 000 tonnes, i.e. a level of self-sufficiency of 122%, would emerge in the Community of Twelve, as a result not of increased production but of the consumer's replacing olive oil by competing, and cheaper, substitutes ;

- in view of the provisions governing the common organization of the market in olive oil relating to production and marketing aids, there would be an increase in budget costs linked with the rise in production of around 800 million ECU, costing in all 1 645 million ECU in the Community of Twelve compared with 845 million ECU in the Community of Ten ;

- the Community olive oil market might be lost to the main exporting non-member countries for

which such access is of crucial importance. Those countries are Tunisia (52 000 tonnes = Ø 1975-80), Morocco (11 000 tonnes = Ø 1975-80) and Turkey.

11. A comprehensive and compulsory reduction in production capacity does not appear feasible for a number of reasons. For one thing, the regions concerned are among the poorest in the Community. But in addition to this economic consideration, ecological and social factors prevent recourse to alternatives to olive-growing, an activity which will contribute to the incomes of nearly three million farmers in the 12-country Community. A reduction in production capacity would also be extremely costly without providing any guarantee that the number of holdings would in fact be appreciably diminished. The Commission has, however, stated that, when this is practicable, it will provide incentives for conversion.

It should be noted in this connection that under the plan adopted in October 1981 Spain had already undertaken to reduce considerably the areas under olive trees.

12. The Commission has therefore proposed measures,¹ confirmed in the first part of this document, on the level of demand for olive oil together with a long transitional period for Spain and Portugal and arrangements with non-member countries which supply other vegetable oils, postponing until a later date the question of introducing a non-discriminatory consumption tax on vegetable oils.

13. For the non-member countries which now provide part of the Community's supplementary olive oil supplies (15% of the production of the Community of Ten) the opportunities for redirecting their exports to other markets are very limited, especially in the case of Tunisia, which sends 78% of its olive oil exports, i.e. almost 50% of its agricultural exports, to the Community.

The problem is a particularly sensitive one, therefore, which the Community will have to resolve when implementing its new overall policy for the Mediterranean. It should be borne in mind in this connection that the Heads of State or Government have made it clear that enlargement

¹ Bull. EC 10-1981, point 1.3.2.

