

The enlargement of the European Community

European File

Within the last four years, three countries have applied to join the European Community : Greece on June 12th, 1975, Portugal on March 28th, 1977 and Spain on July 28th, 1977. Greece should join the Community at the beginning of 1981 once national parliaments have ratified the accession treaty which should be signed in the near future. Negotiations with Portugal and Spain were opened in October 1978 and February 1979 respectively. And within the foreseeable future, people will be referring to the Community as "the Twelve" rather than "the Nine". But with Denmark, Ireland and the United Kingdom already admitted, what are the implications of enlarging the Community once again ?

A difficult challenge

We shouldn't attempt to disguise the fact that extending the Community raises a number of delicate problems. The principal ones for Europe are as follows :

- the level of economic development in the three applicant countries is significantly lower than the Community average. Gross domestic product per head in 1976 amounted to about 2 610 European units of account ⁽¹⁾ in Spain, 2 170 in Greece and 1 460 in Portugal, whilst the Community averaged 4 800 EUA. It should be mentioned, however, that the Community has already succeeded in integrating

⁽¹⁾ EUA = Approx £ 0.68 (at rates current on 1 February 1979).

the economies of Italy and Ireland where the GDP is 2 750 and 2 250 EUA respectively.

- 8.4% of the Community's workforce is employed in agriculture (23.8% in Ireland, 15.5% in Italy). The equivalent figure in the applicant countries is 34.4% in Greece, 27.4% in Portugal and 21.5% in Spain. For the Community as a whole, enlargement will increase the number of farm workers by 55%, the percentage of cultivated land area by 49% and will raise total agricultural production by 24%. Farm produce from the three countries — wine, fruit, citrus fruits and vegetables, olive oil etc. — directly compete with that from Mediterranean regions which are amongst the poorest in the Common Market.
- the export industry in the applicant countries is also frequently active in areas such as textiles, shipbuilding, shoes etc. These are areas in which the Community already suffers from excess capacity.
- their energy dependence is also high, and is a heavy burden on their balance of payments. It represents 78%-88% of total energy consumption against an average of 54% in the Community.
- the three candidate countries have an underemployed work force (there is an estimated 900 000 unemployed in Spain) whilst an enlarged Common Market would extend the principle of the free movement of workers to the new member countries.
- once they are members of the Community, Greece, Portugal and Spain will legitimately benefit from the European financial instruments already set up to help agriculture, regional development and the retraining of workers, etc.
- the disparities between the old and new member countries of the Community could make the economic and monetary cohesion of the Community even more uncertain. And could make the political decision-making process in the Community more difficult as long as decisions require the unanimity of Member States.

For the candidate countries as well, accession to the Community will not be without difficulties. Their farming and industry — often fragile — will have to adapt to the competition from their new partners without benefiting in the long term from protection by customs duties.

Easing the difficulties

Why enlarge the Community in such conditions ?

- Basically because the idea of an enlarged Europe is the basis of the European Treaties and provides a procedure for admitting new members. In the preamble to the Treaty of Rome, the signatories declared themselves "resolved... to preserve and strengthen peace and liberty... calling upon the other peoples of Europe who share their ideal to join in their efforts". In the case of Greece,

an association agreement, signed with the Community in 1961, saw its final objective as accession.

- For political reasons. The three candidate countries have emerged from shorter or longer periods of dictatorships. One of their first actions once liberty was reestablished was to request accession to the Community in which they see a guarantee of democratic stability. The Community has already been able to give its support to their young democracies and it is clear that maintaining peace and liberty in the south of Europe is in the interest of all.
- The economic advantages of the new accessions should also be considered :
 - the candidate countries wish to participate wholly in a Community with which they already have substantial trading relations. The Community takes 48% of the exports from Greece, and supplies 42% of its imports; takes 48% of Portugal's exports and supplies 44% of its imports; takes 46% of Spain's exports and provides 34% of its imports.
 - the Nine will also benefit by enlargement. Though the level of development in these countries is lower than that in the Community, the growth rate is higher : 6.1% per year on average for Greece between 1966 and 1976, 5.5% in Portugal, 5.3% in Spain against 3.7% for the Nine. New potential will open up for our industrial wares and some of our farm produce (cereals, beef and pork, milk products etc.) in a market which expand from 260 to 320 million consumers. Also, to protect our troubled industries, companies in the new Member countries which already export to the Common Market will be subject to Community discipline.
- The Community's political, economic and commercial weight in the world will be strengthened. Spain is already the tenth industrial power in the world and the Greek merchant shipping represents 13% of the world merchant fleet, 68% of that in the Nine. The historical, cultural and commercial links between Portugal and Spain on the one hand and the Latin American countries on the other could help improve relations between the Community and the South American continent.
- Finally, the difficulties which enlargement poses should be considered as a stimulus for the construction of Europe and a motivation to improve the decision-making process in the Community and increase support for regions and agricultural/industrial areas in difficulty — including those in the present Community. The transition period for the entry of the new countries could be fruitfully used for this.

Relations between the Community and the candidate countries

Relations between the Community and the three candidate countries are currently governed by agreements of a very different nature but which nevertheless aim to liberalize trade between its partners.

- With *Greece*, an association agreement was signed on 9 July 1961. It made provisions for :
 - the gradual introduction of a customs union. Since 1 July 1968 Greek industrial exports have entered the Common Market free of customs duties. The same has been true since 1974 for around two-thirds of the Nine's industrial exports to Greece. Free trade in agricultural produce has been more limited though certain concessions have been accorded to Greek exports to the Community.
 - the harmonization of policies in a succession of sectors such as agriculture, transport, taxation, competition rules. But since the agreement was frozen during the period of dictatorship, these objectives have not been realized.
 - financial aid from the Community for the Greek economy. 280 million EUA will be put at Greece's disposal between now and the end of 1981.

- With *Portugal*, a free-trade agreement was signed on 22 July 1972, in the framework of bilateral agreements concluded at the same time as those with other Western European countries not applying for Community membership. Since 1 July 1976, customs duties have been totally abolished for most Portuguese industrial exports to the Community. The same has been true since 1977 for certain industrial exports from the Community to Portugal whilst other products will only enter duty free between 1980 and 1985. The Community has also accorded tariff reductions for certain Portuguese agricultural products : tomato concentrates, tinned sardines, certain wines, fruits and vegetables. In addition, a financial protocol will put 230 million EUA at Portugal's disposal by 1982.

- With *Spain*, a preferential trade agreement was signed on 29 June 1970. Since 1 January 1973, duties collected by the Community on virtually all industrial exports from Spain have been reduced 60%; for some exports such as shoes and certain textiles, the permitted reduction after 1 January 1977 was limited to 40%. Agricultural concessions have also been accorded to some products : citrus fruit, olive oil, certain fruits and vegetables. For its part, Spain reduced duties as of 1 January 1977 by 60% for some Community products and by 25% for others.

A common facet of all three agreements is that the speed of removing customs duties varies from one to the other to take into account the unequal state of economic development of the partners. Whilst these agreements have helped increase trade between the Community and the three candidate countries, they have not helped prevent the rise of these latter countries' trading deficits.

Nine's trade with the applicant countries

(in million ECU)

	Community imports			Community exports		
	1960	1970	1977	1960	1970	1977
Greece	113	400	1 514	284	963	2 893
Portugal	140	439	1 000	310	811	1 949
Spain	517	1 144	4 765	332	1 795	5 332

Negotiations proceed

The negotiations between the three countries and the Community are progressing along different time schedules due to the different dates of application for membership : June 1975 for Greece, March 1977 for Portugal, July 1977 for Spain.

- *Greece* : a few months after receiving Greece's application, the European Commission gave its preliminary recommendation (28 January 1976) to the Community's Council of Ministers for acceptance of the application. Without underrating the problems involved, the Commission recommended that the Nine make a "clearly affirmative" response. On 9 February 1976, the Nine gave the green light and accession negotiations officially began on 27 July 1976. The two parties reached agreement on 21 December 1978, on the length of the transitional period (five years) for applying Common Market regulations in Greece. On the most difficult points, suitable compromises were reached. In the agricultural sector the transitional period was fixed at seven years for tomatoes and fish, and cotton will be dealt with in a separate protocol. In the social sector, Greek workers will receive priority treatment amongst foreign workers in the Nine. The free movement of labour principle will only be applied after a seven year transitional period.
- *Portugal* : before even officially receiving Portugal's application, the Council of Ministers had established a joint position on this the least prosperous of the three applicant countries. In its "opinion" of 19 May 1978, the European Commission stressed the political necessity of responding positively to the Portuguese application. It recognized that, for Portugal, accession would accentuate the country's need for economic reorganisation to reduce the external deficit and accelerate growth. Following the Nine's affirmative decision of 6 June 1978, negotiations officially opened at ministerial level on 17 October last. It was decided to hold three ministerial sessions per year and two ambassador level meetings per quarter. In addition, the two parties decided that their administrations should collaborate closely throughout the accession negotiations to help Portugal adapt to the Community from the very beginning.
- *Spain* : on 29 November 1978, the European Commission gave a favourable recommendation to the Council on Spain's accession, though it did take note of the special position of Spain whose economic weight poses real problems for

agriculture and industry in some regions of the Nine. Simply adapting a few regulations is not enough to ensure painless integration. The Commission has consequently recommended implementing "preparatory actions" as soon as possible to harmonize as much as possible trade and competition in the agricultural and industrial areas. The Commission also considers that a transitional period up to ten years could be necessary in certain sectors. Based on the Commission's opinion, the Council of Ministers decided on 20 December 1978, to open negotiations with Spain. Negotiations officially began on 5 February 1979.

Success of enlargement

The enlargement challenge has thus begun. The risks are high. Minimizing these difficulties could put the Community on a perilous course and the Commission has demanded in its "overall reflections on the enlargement of the Community" (sent to the Council of the Nine on 20 April 1978,) "vast and courageous action".

The action programme presented by the European Commission (which will be completed in detail in due course) deals both with the three applicant countries and with the current Member States of the Community.

Greece, Portugal and Spain

- The new countries should be subject as soon as possible to various disciplines required by the Community to reorganize and put to rights various basic sectors : textiles, steel, shipbuilding, synthetic fibres, chemicals, car industry etc. The Common Market could not tolerate an unrestrained increase of production capacity in those industrial sectors already in crisis.
- On the other hand the Community should give financial assistance to the three applicant countries to help them adapt to the new common disciplines. This will make it possible to avoid the restrictive systems applied to third countries and the safeguard clauses included in the accession treaties.
- In Portugal the economic situation and the level of development are such that sectoral action will not be sufficient. Specific aid will need to be given to this country : balance of payments support and contributions to raise investment.
- To make it possible to transfer Community resources to the new members, the European budget will have to be considerably increased. A theoretical Community budget for 1978 based on the assumption that the "three" were already members, shows that resource transfers from the budget would reach around 1 billion European units of account.
- As with the integration of Denmark, Ireland and the United Kingdom, a transitional period will be necessary for the application of all Common Market regulations in these countries. Whilst these countries will fully participate in

Community institutions following accession, the period of transition will be relatively long given their present economic position.

Action for the whole Community

- “Expansion with stability” is required to enable the Community to integrate the new members — with their weaknesses and shortcomings — without too many difficulties. A return to economic growth rates of around 4.5% per annum is consequently more necessary than ever. Progress in the direction of greater cohesion in the Community and towards economic and monetary union also becomes imperative to counter balance the dilution effect of admitting three less developed economies with weak currencies. The Nine have taken the first step in this direction by finalizing details of a European Monetary System at the European Council of 4 and 5 December 1978.
- The Common Agricultural Policy must also be looked at closely given the importance of farming in the applicant countries and their Mediterranean crops which will put them in direct competition with farmers in France’s Midi region and Italy’s Mezzogiorno. The Commission is proposing joint action to safeguard the achievements of the European agricultural policy, to maintain farmers’ standard of living and avoid further increases of surplus products, in particular wine, olive oil and certain fruits and vegetables. By giving substantial aid (1 billion EUA over five years) to Mediterranean farmers in the present Community, the Nine have already taken the first step in this direction. The Community’s programme aims to improve the common organization of the markets for olive oil, fresh vegetables and processed fruit and vegetables, and wine. It also specifies financial participation by the Community in schemes to irrigate the Mezzogiorno, to reorganize the wine growing industry in Languedoc-Roussillon and the re-afforestation of arid regions.
- In the energy sector, the European Commission has requested Member States to expand their domestic and alternative energy resources given the foreseeable increase in the Community’s energy dependence once the new countries are integrated.
- The Commission also foresees an intensification of the Community’s social and regional actions to create new jobs “on the spot”. When applied to the new countries such action will prevent excessive migration which could be problematic for the job market in the Nine, given the current high level of unemployment in the Community.
- Finally, the move from six to nine Community members has already put a strain on the Community decision-making mechanisms. The expansion to twelve could cause numerous difficulties unless more use is made of the “qualified majority” vote in the Council of Ministers. The Nine have consequently appointed three experts to draw up proposals by Autumn 1979 to improve the functioning of the European institutions ■

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