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Enlargement Weekly

4 February 2002

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

Articles this week

EUROPEAN COMMISSION PROPOSES ITS PACKAGE FOR THE FINAL NEGOTIATIONS

"A fair compromise" is what the European Commission is proposing as the best way t negotiate the final chapters for the EU enlargement process. The package, agreed by th Commission on January 30, would offer around €40 billion to the candidates in their first thre years as EU members, along with a gradual phasing in of a full level of payments. Th proposal, which now has to be discussed by EU member states, is intended to form the basi for detailed EU negotiating positions on agriculture, structural policies, and budgets.

As the Commission admits, it is a compromise. These final chapters cover the toughest issue in the negotiations - each of them with a significant financial component. Inevitably, there ar widely divergent views on how much the EU should pay, and how much the candidates shoul receive. But, as the Commission insists, it is a fair compromise, in that it will permit up to te candidates to join in 2004, but without exceeding the financing limits already set by E member states.

European Enlargement Commissioner Günter Verheugen said: " For the candidates, it mean that they can substantially benefit from the solidarity of the EU. There will be transitiona phases..., but no new member state will be treated as a second class member. For the curren member states, it means that they don't need to fear further financial burdens because o enlargement".

According to Budget Commissioner Michaele Schreyer: "Some 0.09% to 0.14 % of th enlarged union's GNP will be spent on expenditures in the new member states: this is grea value for money for a unified Europe".

Franz Fischler, EU Commissioner for Agriculture, Rural Development and Fisheries, describe it as "a fair, balanced and reasonable package. Our strategy makes sense in economic ecological and social terms. It ensures that EU money is well spent in boosting the necessar restructuring process in the new member states".

The essence of the Commission package is that the 1999 EU agreement on enlargemen spending for the period up to 2006 can be respected, even though there are now likely to b ten new members from 2004, instead of the six new members that the 1999 planning wa based on. This apparent mathematical miracle can be achieved by making pragmati adjustments that overall offer more rather than less, the Commission maintains.

The principal adjustment relates to structural policies. The 1999 planning assume enlargement would start in 2002, and it provided for a gradual increase in EU funding ove 2002-2006. Because new members will now not join until 2004, their capacity to use EL structural funding will not be as great in 2004 as the initial planning had anticipated. Thei structural funding needs over 2004-2006 will, therefore, be lower than the initial provision which creates a margin of funding that can be redeployed elsewhere over these three years.

The Commission says this margin is sufficient both to cope with the accession of ten nev member states rather than six, and also to widen the scope of assistance, with additiona instruments not previously envisaged - in agricultural policy, structural policies, nuclear safety building up administrative capacity, funding for the northern part of Cyprus, and even possibl budgetary compensation payments.

One of the most striking innovations in the package is in agriculture - which will come i addition to the envisaged provision for market policy under the Common Agricultural Polic (which will, for instance, give new member states access to instruments such as interventio for cereals). The Commission has proposed direct payments to farmers from the date o accession - something that the 1999 agreement did not specifically foresee. These payment would start at 25% of current EU levels in 2004, and rise to 30% in 2005 and 35% in 2006, an could be distributed via a new and simplified scheme based on area rather than (as at present in the EU15) on production or head of livestock. After 2006, these direct payments woul continue to rise, so that the new member states would benefit in 2013 from 100% of whateve the EU support level will be at that point. In addition, during 2004-2006, there would be a greater emphasis on rural development policy for the new member states.

For structural actions, the Commission proposes to boost the absorption capacity of the nev member states (that is, their ability to use EU structural funds). So it urges that resource should be focused more on cohesion fund expenditure - covering environment an infrastructure. Instead of limiting this type of expenditure to 18% of structural actions (which i the limit for the four EU member states currently benefiting from cohesion funding - Greece Portugal, Spain and Ireland), the limit should be raised to 33%, the Commission says.

Another innovation is additional provision for nuclear safety. The Commission proposes t allocate €60 million for decommissioning the Bohunice nuclear power plant in Slovakia, an €145 million for decommissioning Ignalina in Lithuania.

New provision is also proposed for continuing certain institution building actions aimed a reinforcing administrative capacity. These are currently funded under pre-accessio programmes - which will not be available once the candidates become members. So th Commission proposes a so-called transition facility, which would provide €200 million in 2004 €120 million in 2005 and €60 million in 2006.

For the northern part of Cyprus, which is one of the poorest regions within the candidat countries, and which at present receives no pre-accession funding, the Commission i proposing €39 million in 2004, €67 million in 2005, and €100 million in 2006. Such a measur could support the EU's active encouragement to the parties involved to resolve the Cypru problem and to come to a political settlement.

Where necessary, the EU should also be ready to provide budgetary compensation to nev member states that find themselves worse off in net terms after joining than when they wer candidates. As soon as they are members, they should be required to contribute fully to th EU budget - which would amount to some €5,500 million per year between the ten. But the EL should consider lump sum payments to them if they become net contributors to the EU budge the Commission says - and it is suggesting earmarking around €2.4 billion for this purpose.

Bulgaria and Romania, the two candidates who are currently negotiating but are not expecte to join before 2007, also feature in the Commission plan. The Commission says it will propos an updated road map and, if necessary, a revised pre-accession strategy, in its 200 Enlargement Strategy Paper, for them.

The issues likely to be the focus of the upcoming discussions have rapidly identifie themselves. For instance, the Commission describes its package as "what can realistically b achieved": there is no wide margin for manoeuvre, and the proposal should not be seen as a starting point for discussion, it says. Member states will have to decide whether they are read to accept the package largely as it is proposed, or whether they wish to open the discussio more widely. Member states are also known to have differing approaches both to the levels o funding proposed, and to the way the money should be allocated. And a clear view will have t be established among member states on matters of principle - and notably on the proposal t phase in direct aids to farmers in the new member states from the date of accession.

The proposals also provoked mixed reactions in the European Parliament, with some critic arguing that the approach was not generous enough. And already the candidates themselve have started to express their own views. These range from a welcome for some of th innovative elements (such as early aid to farmers, or assistance in decommissioning nuclea plants) to concerns that the proposed funding is too limited, or that the package could leav new member states at a competitive disadvantage to the current member states.

A first informal exchange of views will take place among EU foreign ministers at their Februar 8-9 meeting in Caceres. EU finance ministers will discuss the package at the February 1 Ecofin Council. Agriculture ministers will also review the proposals on February 19. And th General Affairs Council will aim at a synthesis in time for the Barcelona summit in mid-March On that basis, detailed EU positions can be drawn up for each of the individual chapters, s that negotiations can start with each of the candidates.

SCENARIO	**€ ,000**		
Accession of 10 new Member States in 2004	2004	2005	2006
Commitment appropriations			
Agriculture	2048	3596	3933
Structural actions	7067	8150	10350
Internal policies	1176	1096	1071
Administration	503	558	612

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Total commitment appropriations	**10794**	**13400**	**15966**
Total commitment appropriations (Berlin 1999 scenario)	*11610*	*14200*	*16780*
Payment appropriations (Enlargement)	**5686**	**10493**	**11840**
Payment appropriations (Berlin 1999 scenario)	*8890*	*11440*	*14220*

CANDIDATE REGIONS STILL LAG EU IN GDP PER CAPITA

The candidate countries are still a long way behind the EU in terms of gross domestic produc per capita. The latest regional breakdown, from the EU's statistical service, Eurostat, show: that only four regions in the candidate countries had a per capita GDP of at least 75% of the EU average in 1999: Praha in the Czech Republic (124%), Bratislavský in Slovakia (95%) Cyprus (85%) and Közép-Magyarország in Hungary (75%).

This means that 52 out of the 56 regions in the candidates had a per capita GDP below thi: level. There were eight regions, including four in the Czech Republic, where the figure wa: between 50% and 75% of the EU average, and there were nine regions (five in Romania an four in Bulgaria) where the figure did not reach 25% of the average.

Among the six candidate countries with at least two regions (on the EU's NUTS-: classification), there were some wide disparities in average wealth. The highest regional pe capita GDP was more than double the lowest in Poland (2.1), Hungary (2.3), Slovakia (2.4 and the Czech Republic (2.6).

Regional per capita GDP in the candidate countries in 1999

(in purchasing power parities, with the EU-15 = 100)

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	The ten highest			**The ten lowest**	
1	Praha (CZ)	124	1	Nord-Est (RO)	18
2	Bratislavský (SK)	95	2	Sud (RO)	21
3	Cyprus	85	3	Sud-Vest (RO)	22
4	Közép-Magyarország (HU)	75	4	Nord-Vest (RO)	22
5	Slovenia	68	5	Severen Tsentralen (BG)	23
6	Mazowieckie (PL)	58	6	Severozapaden (BG)	23
7	Nyugat-Dunántúl (HU)	57	7	Yuzhen Tsentralen (BG)	23
8	Malta	55	8	Severoiztochen (BG)	24
9	Jihozápad (CZ)	54	9	Sud-Est (RO)	24
10	Jihovýchod (CZ)	51	10	Centru (RO)	26

POLISH PM SETS OUT REFORM PLANS

Polish Prime Minister Leszek Miller has been setting out his plans for reform. He told a grou of visiting US journalists in Warsaw in mid-January that it was now time for Poland "t generate development impulses for the economy". He said he was planning a package o measures aimed at increasing the pace of economic growth and export facilities for investors including foreign investors. Poland currently receives some €50 billion in inward investment a year, but, he admitted, on a per capita basis this was less than Hungary. "There is still quite a lot of potential, but this requires more conducive conditions for foreign investment." He said th package will include changes in the taxation system and amendments to the labour law tha make it more flexible. There will also be credits or concessions for investment in area threatened by unemployment.

However, he sees the need to focus foreign investment. "When I talked about encouragin foreigners to invest in Poland, I did not mean all types of investment because there are area in this country, either in the business sector or financial sector, where the penetration o foreign capital is quite high. In the banking sector, a further increase of foreign capital would b really pointless. "When I encourage foreign investors to come here, I mean primarily thos involved in production and introducing state-of-the-art technology that will improve th competitiveness of the Polish economy and increase our export potential. We are going t open the door wide for investors who want to invest in production and who wish to contribut leading -edge technology. They will be accorded preferential treatment. We have to stimulat the knowledge-based economy and attract high technologies."

"The package of measures also includes the concept of a cheaper state", he went on. Thi meant reforming many of the public institutions, abolishing many central government office and cuts in the administration, to make it more transparent, with more clear-cut competencies It is not only financial issues that are at stake but also facilitating and improving the quality o services provided by the administration."

But he made clear that economies and budgetary cuts would be made on the side o consumption, rather than investment. The Polish budget sets money aside to match EU funds "because we realise that this is not money going to consumption, but rather to investment" Any project that is going to be funded by EU assistance will be matched to some extent b money from the Polish budget, he promised. "This will be an investment which, in the long run will prove very beneficial".

He also set out his ideas for combating the rising level of unemployment in Poland. "We wan to return to the path of fast economic growth. Faster economic growth will translate into lowe unemployment", he said. "The most effective way to fight unemployment is to stimulate highe economic growth. This is what we saw in previous years in Poland. We do not limit ourselve only to long-term measures. We are going to launch such programmes related either to jol creation or to providing stimuli for investors who wish to create new jobs."

Enlargement news in brief

Foreign Ministers confirm the timetable

European Union Foreign Affairs Ministers agreed that they should continue to follow th roadmap for EU negotiations when they discussed EU enlargement at the General Affair Council on January 28. They maintained their view that negotiations can be closed with th best-prepared candidates before the end of 2002. A common EU position will be sought in th first half of 2002 for agriculture, regional policy, financial and budgetary provisions an institutions, Ministers agreed. A first assessment of the implementation of the acquis by th candidate countries will be made by the European Council at Seville, in June, on the basis o the Action Plan the Commission is drawing up. And the drafting committee for the Act o Accession should start work in March. Heads of state or government, foreign affairs minister and economy ministers from candidate countries will be invited to take part in the first day o the Barcelona European Council on 15 March. The Council also adopted updated Accessio Partnerships with the twelve candidates in negotiations - giving legal effect to the politica agreement reached late in 2001, after the publication of the Commission's regular reports.

Transport Workers' Federation in favour of "socially controlled market opening"

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The European Transport Workers' Federation has complained that a Luxembourg freigh company is illegally employing hundreds of drivers from central European countries. Dor Zinke, the federation's general secretary, describes it as "the most recent scandal in Europea road transport". He says that without work or even residence permits, they had been paid €0. per km, a system which, he insists, is strictly forbidden in the EU because of safety reasons Under this system, their salaries would be about a third of an EU driver - except, he says, the have not even been paid at all by the company in question. "For the Luxembourg governmen it is obviously more important to host lots of transport companies than to control what actuall happens on their territory", according to Zinke. But the federation is not demanding th exclusion of central and east European transport workers from the EU labour market. Instead it has committed itself to what it terms "a socially controlled opening" of the market.

ECJ rules against Germany on Association Agreement case

According to the European Court of Justice, Germany broke EU law when it prevented Polish teacher from working there. The Court rules on January 29 that the 1985 law o employment contracts for teaching foreign languages was discriminatory. The State of North Rhine Westphalia had invoked the law when it refused to employ Beata Pokrzeptowicz-Meye a Polish foreign language assistant. This was indirect discrimination, and incompatible with th 1991 Association Agreement between the EU and Poland, the Court said. The Associatio Agreement states that Poles legally working in the EU "shall not be discriminated against o the basis of nationality, as regards working conditions, remuneration or dismissal". It als takes legal precedence over EU Member State legislation.

Committee of the Regions increases co-operation with candidates

The European Commission has asked the Council of Ministers to approve plans to set up Joint Consultative Committee between the European Union's Committee of the Regions an representatives of Slovenia's regions. The JCC is intended to be a consultative mechanism fo dialogue between EU and Slovenian regional and local authorities in preparation for th country's membership of the EU. This will become the fourth such JCC: the Committee ha already set them up with the Czech Republic and Poland, and one is just getting underwa with Cyprus. Others with Slovakia and Bulgaria are planned.

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Sing your way to membership

Estonia is losing its reputation of being the most Euro-sceptical candidate country. An opinio poll in December shows that Estonia's aspirations to join the EU are supported by 58% of th people. The agency that conducted the poll said the rising ratings were in the first place due t growing support among elderly people. While earlier in 2001 only 31% of people older than 5 years supported the EU, in December the percentage had risen to 52%. Among younge people, support for the EU rose sharply last summer after Estonia won the Eurovision Son Contest, it says.

Cigarette taxes still a bone of contention

Lithuanian foreign minister Antanas Valionis has written to foreign ministers of the 15 E member states asking for a longer transitional period for excise duties on cigarettes. So as t "offset negative multi-sided implications" - a reference among other things to the risk o alienating citizens from EU accession - Lithuania has decided to seek a transitional period u to 31 December 2010. The Lithuanian government has approved a plan for gradual alignmen with the EU acquis over this period.

IMF warns Latvia on its current account

The International Monetary Fund says Latvia's economic performance in 2001 was among th best of the EU candidate countries. Strong and broad-based economic growth was driven b domestic demand, particularly investment, while inflation remained low. At the same time, th

IMF has expressed concerns about the size and persistence of the external current accoun deficit, and says it regrets that the first review under its current arrangement with the IMF wa: delayed. It also expressed reservations about the expansionary fiscal policy in the 200: budget, which it says could exacerbate pressure on the external current account. It recognise the spending needs associated with EU and NATO accession - which are needed to upgrad the delivery of crucial public goods - and supported the authorities' desire to gradually reduc the tax burden on the economy. To make room for these important steps, however, the IMI describes as "crucial" improved prioritisation and containment of public expenditure (especiall in an election year), continued efforts to enhance tax administration, and more determination i bringing public sector reforms to completion, including at the municipal levels of government.

Agenda

Date	Event
February	
Monday 4th	European Agriculture Commissioner Franz Fischler takes part in information seminar on agriculture for candidate countries, Brussels
Tuesday 5th	EU Council of Ministers working group on enlargement meets, Brussels
Wednesday 6th	European Enlargement Commissioner Günter Verheugen meets Bulgarian president Georgi Purganov, Brussels
Wednesday 6th - Friday 8th	Organisation For Economic Co-operation and Development workshop and regional meeting for the central and eastern European countries on insurance and private pensions, Tallinn.
Thursday 7th-Friday 8th	European Economic and Social Committee delegation visits Sofia and meets Meglena Kuneva, Bulgarian deputy minister for foreign affairs, and Lidia Shouleva, deputy prime minister and minister of labour and social policy.
Friday 8th	EU Council of Ministers working group on Enlargement meets, Brussels
Friday 8th	Informal meeting ("Gymnisch") of EU foreign affairs ministers will discuss enlargement, and particularly the Commission's proposals for the "big three" chapters, Caceres
Friday 8th	Secretaries General of the Parliaments of the candidate countries meet with Enlargement Director General Eneko Landaburu *et al.*, Strasbourg
Monday 12th	EU economic and finance ministers will discuss enlargement, and particularly the Commission's proposals for the "big three" chapters, Brussels
Wednesday 13th-Friday 15th	European Enlargement Commissioner Günter Verheugen visits Turkey

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Thursday 14th-Friday 15th	Accession negotiations with the candidate countries at deputy level (chief negotiators and EU ambassadors), Brussels
Monday 18th - Tuesday 19th	EU General Affairs Council will discuss enlargement, and particularly the Commission's proposals for the "big three" chapters, Brussels
Tuesday 19th	CEPS working party on the Common Agricultural Policy in the 21st Century: Doha, mid-term review and enlargement, Brussels
Tuesday 19th	EU Agriculture Council will discuss enlargement, and particularly the Commission's proposals for the financial aspects of the agriculture chapter
Thursday 21st-Friday 22nd	European Environment Commissioner Margot Wallström visits Slovakia
Thursday 21st-Friday 22nd	European Research Commissioner Philippe Busquin visits Hungary
Thursday 28th - Friday March 2nd	European Enlargement Commissioner Günter Verheugen visits Cyprus
Thursday 28th - March 2nd	First conference of the central and eastern European employee ownership network, to promote employee ownership and participation in Europe, Budapest
March	
Details tbc	Local elections (renewal of one third of mandates), Malta
Friday 15th, Saturday 16th	Barcelona European Council – including a special working meeting on economic and social integration with the candidate countries
Thursday 21st-Friday 22nd	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' efforts to improve the climate for small businesses.
Details tbc	Regional elections, Poland
Wednesday 7th	First round of Hungarian parliamentary elections
Friday 19th and Monday 22nd	Negotiating session at the level of deputies (EU ambassadors and candidates' negotiators), Brussels.
21st	Second round of Hungarian parliamentary elections
May	

Friday 31st	Negotiating session at the level of deputies (EU ambassadors and candidates' negotiators), Brussels.
Friday 31st	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
Details tbc	Parliamentary elections, the Czech Republic
Monday 3rd	Negotiating session at the level of deputies (EU ambassadors and candidates' negotiators), Brussels.
Tuesday 11th	Ministerial negotiating session with foreign ministers of the EU and of the candidate countries, Brussels.
Friday 21st, Saturday 22nd	Seville European Council: European Commission reports on the implementation of the plan of action for strengthening the candidates' institutions.
Monday 24th	Informal meeting of education ministers from the EU and the candidate countries, Bratislava
July	
Monday 1st	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	
24th and 25th	Brussels European Council: enlargement will be on the agenda. The Commission's regular reports on the candidate countries may be available.
November	
Details tbc	Lithuania presidential elections
December	
Thursday 12th, Friday 13th	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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Comments are welcome and should be addressed by e-mail to enlargement@cec.eu.int.