Mission accomplished – accession on May 1, 2004!

Negotiation poker ended

Fifteen years after the disappearance of the Iron Curtain, the first large group of Central and Eastern European countries (CEECs) will have finally arrived "in the West". The Copenhagen European Council on December 12-13, 2002 marked – in the dramatic style peculiar to the EU – the official conclusion of negotiations and set the date for the largest enlargement round in EU history for May 1, 2004. This means that ten of the thirteen accession candidates have completed the most important leg of the journey.

The enlargement-related financing package[1] remained a bone of contention between the candidates and the current members up to the very end, even though the members had "sweetened" their offer several times. The compromise provides for a total of EUR 40.85 bn for 2004-2006, i.e. a roughly EUR 1.5 bn increase over the sum resolved at the Brussels summit in October. As usual, bargaining over milk quotas and other farm subsidies dominated the final round, even in the age of the knowledge and services society. The new members can now beef up direct payments to farmers by reallocating part of the financial transfers they will receive. This negotiating success may have a favourable impact on the upcoming referenda, especially in Poland. In the medium term, however, it will likely prove to be a Pyrrhic victory, since outdated structures are being strengthened and economic dynamic squandered. For the present EU members, though, the financial package is an acceptable investment in the future of Europe. The accession of the CEECs will entail economic benefits for EU members old and new, and politically strengthen Europe as a whole.

Financing package for enlargement EUR bn

	2004	2005	2006
Agriculture	1.90	3.75	4.15
Structural actions	6.10	6.94	8.81
Internal policies*	1.42	1.38	1.35
Administration	0.50	0.56	0.61
Commitments, total	9.95	12.66	14.96
Lump-sum cash-flow facility	1.00	0.65	0.55
Budgetary compensation**	0.26	0.48	0.35

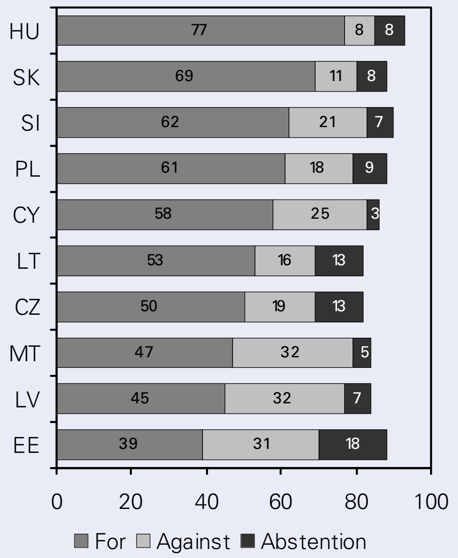
*) Nuclear safety, border controls, etc.

**) Compensation for temporary deterioration in budgetary position

Source: European Council, differences due to rounding

Despite the many years of preparation, the public's uncertainty or even scepticism – among both the current members and the candidates – over this European project remains as strong as ever. The sentiment in the population at large has to be taken seriously, since the accession treaties must be ratified by the parliaments of the member countries and the European Parliament. Most of the candidate countries have still to hold a referendum to obtain public support for ratification. While enlargement is broadly welcomed in most of the applicant countries, the accession conditions hammered out at short notice may in some cases distort the focus on the medium-term advantages of EU membership.

Outlook on EU referenda: positive votes dominate



Source: Eurobarometer Sept. 2002

The crucial factor for the economic and political success of enlargement is, first and foremost, the degree of preparation – on the part of the candidates and the EU itself. If the candidates are not adequately prepared, the smooth functioning of the internal market will be jeopardised; if the EU is not adequately prepared, the Union's ability to function will be paralysed. The EU and the new members have to bear in mind that the formal conclusion of the accession negotiations does not mean the end of the preparations for enlargement in mid-2004.

It is particularly obvious that the EU has to get its act together since a decision on the new constitution – on the basis of the proposals tabled by the European Convention – will be taken at the earliest towards the end of 2003 or beginning of 2004. The enlarged Union requires a newly

[1] Copenhagen European Council, December 12-13, 2002, Presidency Conclusions.

balanced foundation on which it can address conflicts and find viable solutions. The need for action looms large. EU policies have either not yet been adapted to the needs of an enlarged, more heterogeneous EU (regional policy), or the EU's current, misdirected structures have even been replicated – the common agricultural policy (CAP) being a case in point.[2]

Reforms still needed in EU

Candidates – fit for accession?

Rapid adoption of acquis by candidates: a great achievement

In the eyes of the EU, the ability to enshrine the single-market legislation and rules in national law, and to apply them, has always been one of the key accession criteria. Owing to the progress with European integration the demands on future members are now considerably higher than in the 1980s at the time of the southern enlargement. It is a huge achievement that the accession countries have managed to transpose most of the *acquis communautaire*, built up over decades, into national law in just a few years. The European Commission monitored their progress intensively during the enlargement negotiations.

Considerable shortcomings remain, however, in implementation and law enforcement. The candidates will have to reinforce their administrative and judicial capacity in order to overcome these deficits. This has been stressed by the European Commission.[3] Until now, candidates have been spurred by concern that they might not be among the first enlargement round if they failed to satisfy the requirements, but the Copenhagen decision has removed this impetus. To ensure that efforts – which are costly in both political and economic terms – do not flag after the signing of the accession treaty, a special monitoring system is to be applied during the period until accession, and safeguard clauses thereafter. Six months before the scheduled accession date, i.e. at the end of October 2003, the European Commission will draw up a comprehensive monitoring report looking at the advancement by the future members and giving last-minute recommendations. It is not clear, though, what political consequences a critical assessment could have, especially since, by that time, the accession treaty will probably have been ratified by some EU members and acceding countries.

It is also still unclear how the new safeguard mechanism, which is intended to ensure the functioning of the internal market and the Schengen area, would be applied in practice.[4] The European Commission claims the right to decide on necessary measures if a new member fails to comply with accession obligations – but specifies only that the measures should be „proportional and limited in time". How serious

Institutional aspects

- Immediately upon accession each new member will delegate one commissioner, but without portfolio, to the European Commission.
- As EU members, they will participate in the June 2004 elections to the European Parliament (EP). (Hungary and the Czech Republic will have two seats more in the EP than previously planned – 22 in total, i.e. as many as Portugal and Belgium.)
- The European Commission is to resign in October 2004, and the new Commission will be appointed as of November 1 (commissioners from the new member countries will then also have portfolios; each member will nominate just one commissioner, i.e. there will be 25 in total); the newly elected EP votes to approve the Commission.
- The new decision-making rules for the Council of Ministers, laid down in the Treaty of Nice, also enter into force on November 1 (weighting of the countries' votes, number of votes required for a qualified majority or a blocking minority).
- The acceding countries will participate, with full rights, in the intergovernmental conference on the reform of the EU treaties, scheduled to begin in autumn 2003; the new treaties will not be signed until after their accession in May 2004.
- The presidency of the Council will continue to rotate as hitherto until the end of 2006 to give the new members time to prepare for this task.

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2 Acting on the basis of a Franco-German „compromise", the European Council in Brussels in October 2002 set the level of resources for the CAP up to 2013. This agreement cleared the way for the adoption of the financing package for enlargement, thus removing the last obstacle from the EU point of view. Contrary to the original demands of the net contributors, however, it means that the CAP – including the controversial element of direct payments – is being extended to the new members, without any decisions having been taken on reforms or expenditure cuts. The present beneficiaries of the CAP do not face a significant reduction in their own transfers after enlargement. See the Brussels European Council, October 24-25, 2002, Presidency Conclusions, and a detailed analysis in DIW Wochenbericht No. 48/2002.

3 "Towards the Enlarged Union", Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries, Brussels, October 9, 2002. http://europa.eu.int/comm/enlargement/report2002/strategy_en.pdf.

4 These safeguard clauses are in addition to a general economic safeguard clause as contained in the accession treaty for the previous enlargement.

must a breach be to trigger the mechanism? How great is the risk that the mechanism will be used to curb the increasing competition in the internal market due to the accession of the new members?

Old members not always exemplary in observation of internal-market rules

Certainly, in view of the extent of economic integration there are good reasons for taking pains to ensure that the rules affecting the internal market are observed. Legal equality and legal certainty are important conditions for a unified economic area. It must be pointed out, though, that even ten years after the launch of the internal market the old members have still not transposed all the regulations into national law themselves.[5] Nor are they exemplary in applying the rules: currently, infringement proceedings are pending against EU member states in more than 1,500 cases. Nonetheless, it is clear that the reinforcement of administrative and judicial capacities, improved training of the relevant personnel, greater transparency – and, by extension, less corruption – are among the most important tasks facing the candidate countries in the run-up to accession, and beyond.

Able to compete in the internal market?

Impressive level of convergence is reflected in ...

According to the Copenhagen criteria, new members must have achieved "the capacity to cope with competitive pressure and market forces" within the internal market. In the opinion of the European Commission the ten countries fulfil this condition. The DB Research convergence indicator, which measures the degree of economic maturity achieved by the candidates, shows that the current enlargement group has attained over 70% of the EU average.[6] The convergence level of the top countries is similar to that of Spain and Portugal at the time of their accession. Besides, in economic terms, enlargement has in many respects already taken place. The intensity of the candidates' trade with the EU barely differs from that of the smaller EU members such as the Netherlands and Portugal; in some cases, trade with the EU accounts for more than two-thirds of the total. In most of the countries, the stock of direct investment equals a higher percentage of GDP: at the end of 1999 it was 40% in Hungary, 33% in the Czech Republic and 17% in Poland – compared with 21% in Portugal and 50% in the Netherlands. Since Eastern European business is so strongly integrated into the European and international division of labour, competitiveness should not be a problem, at least for the export-oriented sectors – especially since they will for some time retain competitive advantages such as lower labour costs.

... intensive trade relations, and

... strong direct investment

New members show strong will to reform

The acceding countries have made good use of the past decade for economic reforms – unlike the EU, which has made little progress towards its ambitious goal, formulated in Lisbon, of becoming "the most competitive [...] economy in the world" by 2010.[7] Among the general public the candidate countries are often associated mainly with rising financial transfers under EU regional policy and the CAP. That is

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[5] The deficit in transposition is currently 2.1%. In order to meet the new deadlines, Germany alone will have to transpose over 50 EU rules into national law by spring 2003 (France over 70 and Portugal over 60).

[6] We have not assessed Malta and Cyprus. Their convergence level should, however, be higher than that of the Central and Eastern European countries.

[7] Whereas potential growth in the USA is estimated in the region of 3-3 ½%, the European Commission assumes a rate of 2.3% for the EU after 2004 (2000-2003: 2.6% on average). See European Commission, Economic Papers No 176. http://europa.eu.int/comm/economy_finance/publications/economicpapers_en.htm.

unfair. Some candidates pursue a more liberal economic policy than several of the old members. The future members' willingness to support the opening of markets, liberalisation and deregulation at the European level should not be underestimated, especially since they have less to lose than the jealous old members. As regards other goals of the Lisbon process, however, the acceding countries still have considerable weaknesses, e.g. in increasing the employment rate or preparing the transition to a knowledge-based society. Their substantial growth dynamic means, though, that they have a good chance of catching up rapidly here, too.

Increased assistance for Romania and Bulgaria

- Pre-accession assistance is to be increased by 20% (2004: EUR 1.23 bn; 2005: EUR 1.33 bn; 2006: EUR 1.43 bn).
- The funds are intended primarily for the improvement of the transport infrastructure, the agricultural sector and the implementation of market reforms and the environmental acquis.
- Additional assistance is to be conditional on progress in line with the roadmaps and improved capacity to manage transfers effectively.

Roadmaps for Bulgaria and Romania

The other two candidates now engaged in negotiations, Bulgaria and Romania, have also made further progress (see p. 14). In the talks with Bulgaria 23 chapters have been closed and with Romania 16. The DBR convergence indicator shows, though, that both countries will still need some time to transpose and implement the demanding EU legislation. Both aim to join the EU in 2007. It is important that the countries of the second round do not lose steam for reforms. The European Council has therefore decided on more precise roadmaps and a marked increase in pre-accession assistance for the two countries.[8]

Reform momentum must be maintained

Clear accession prospects for Turkey

At the Copenhagen summit the heads of government of the EU member countries proved accommodating towards Turkey – albeit less so than demanded by the Turkish government. In December 2004, under the presidency of the Netherlands, the European Council of the – by then – 25-member Union will examine, on the basis of a report from the Commission, whether Turkey fulfils the accession criteria. If so, negotiations are to be opened without delay. For Turkey, which has had candidate status since 1999, this is a clear signal of closer relations. The EU could not have reneged on its declared approval in principle of Turkish membership without damaging its own credibility and presumably creating far-reaching – not merely bilateral – political problems.[9] The opening of accession negotiations must remain conditional upon Turkey's fulfilment, by the agreed examination date, of the criteria decided at the Copenhagen summit in 1993 regarding the rule of law and the economy. The EU must not allow itself to be pressured into making concessions denied to other candidates.[10] In its 2002 regular report the European Commission acknowledged Turkey's noticeable progress, but noted that much remains to be done before it complies with the political and economic criteria. Since then, the reform

Turkey and the EU
Stages in the partnership

Dec-04	EU-25 decide on opening of accession negotiations
Autumn 04	European Commission draws up report
12/12/02	EU defines accession perspective
08/03/01	EU accession partnership enters into force
10/12/99	Turkey obtains EU candidate status
12/12/97	EU offers Turkey special pre-accession strategy; Turkey turns it down
01/01/96	Customs union between EU and Turkey
18/12/89	Commission delivers negative opinion on application
14/04/87	Turkey's first application for EC membership
01/12/64	Association Agreement between Turkey and EEC enters into force

8 The European Commission has revised the accession strategy for both countries and made detailed proposals for phased steps towards fulfilment of the obligations of the acquis communautaire and the necessary economic reforms. http://europa.eu.int/comm/enlargement/docs/pdf/roadmap-br-ro-2002_en.pdf.

9 From the EU point of view, geopolitical aspects – such as those prompting the US to exert pressure to hasten Turkey's accession to the EU – cannot be a leitmotif for future enlargement rounds. There are other alliances to serve that purpose. Besides, the USA assumes a very comfortable position as free rider on this issue: whereas the EU would face enormous costs for economic and political integration if Turkey became a member, the USA would only benefit from the further stabilisation of an important geopolitical partner.

10 Slovakia, for example, met the economic conditions but was not included in the first group of countries with which accession negotiations were started (the Luxembourg group) because it did not fulfil the political criteria, especially as regards the protection of minorities.

Despite reforms, much remains to be done to meet the accession criteria

process in Turkey has gathered pace and the new government has announced further economic and political reforms. If these are implemented and applied successfully, and there are no setbacks, Turkey will have better prospects of beginning concrete – though undoubtedly very long and tedious – accession negotiations in the foreseeable future. The greater predictability in EU-Turkish relations (and the increased financial assistance) should stimulate trade and investment, thus benefiting the development of the Turkish economy – as happened in earlier candidate countries (see p. 16).

Structure for regional cooperation

Final number of EU members remains uncertain, but ...

The EU will need years to digest its biggest enlargement economically, politically and institutionally, and to strengthen cohesion among the old and new members. Membership is apparently to be increased further, beyond Bulgaria and Romania, and Turkey – the final count remains uncertain. In the stability pact with the Balkans the EU gave these countries a perspective for eventual entry into the EU. But is the prospect of full membership the sole option for achieving economic and political stability on the external borders of the EU – especially when the external borders keep shifting? The EU way of internalising, rather than eliminating, the numerous regional flashpoints on its external borders through wide-ranging integration threatens to result in a self-blockade of the EU in the medium term.[11] Unimpeded growth of EU membership harbours the risk that the EU will ultimately fall prey to its own economic and political attractiveness.[12] In Copenhagen in 1993, i.e. at the beginning of the enlargement process, the European Council warned that "maintaining the momentum of European integration" was an important consideration when absorbing new members. In a pan-European framework, the EU must develop, as an alternative to enlargement, a consistent strategy for putting economic and political relations with its neighbours on a basis that is satisfactory to all concerned. The very different forms of cross-border cooperation that already exist will have to be reinforced to narrow the stability and welfare gap along the EU's future borders. The concept behind the European Economic Area, which results in the "export" of economic (and hence ultimately political) stability when the rules of the internal market are fully applied, offers good prospects.[13]

... uncontrolled increase holds danger of self-blockade ...

... hence, alternative concepts are needed for neighbouring regions

Barbara Böttcher, +49 69 910-31787 (barbara.boettcher@db.com)

[11] The acceptance of Cyprus is an example. Initially, it was stated that the division of the island had to be overcome before Cyprus could accede, but the threat of a Greek veto on enlargement without Cyprus took all pressure off the negotiating partners and the divided island is now joining.

[12] The historian Paul Kennedy has identified "imperial overstretch" as one of the causes of the fall of great powers. While the EU can hardly be called an imperium, the danger of political and institutional overstretch is very real.

[13] The ideas of Romano Prodi, the president of the European Commission, on the future relationship between an enlarged EU and its neighbours point in a similar direction: "sharing everything with the Union but institutions". See Romano Prodi, "A Wider Europe – a Proximity Policy as the key to stability", Brussels, December 2002.