# European Dialogue

THE MAGAZINE FOR EUROPEAN INTEGRATION

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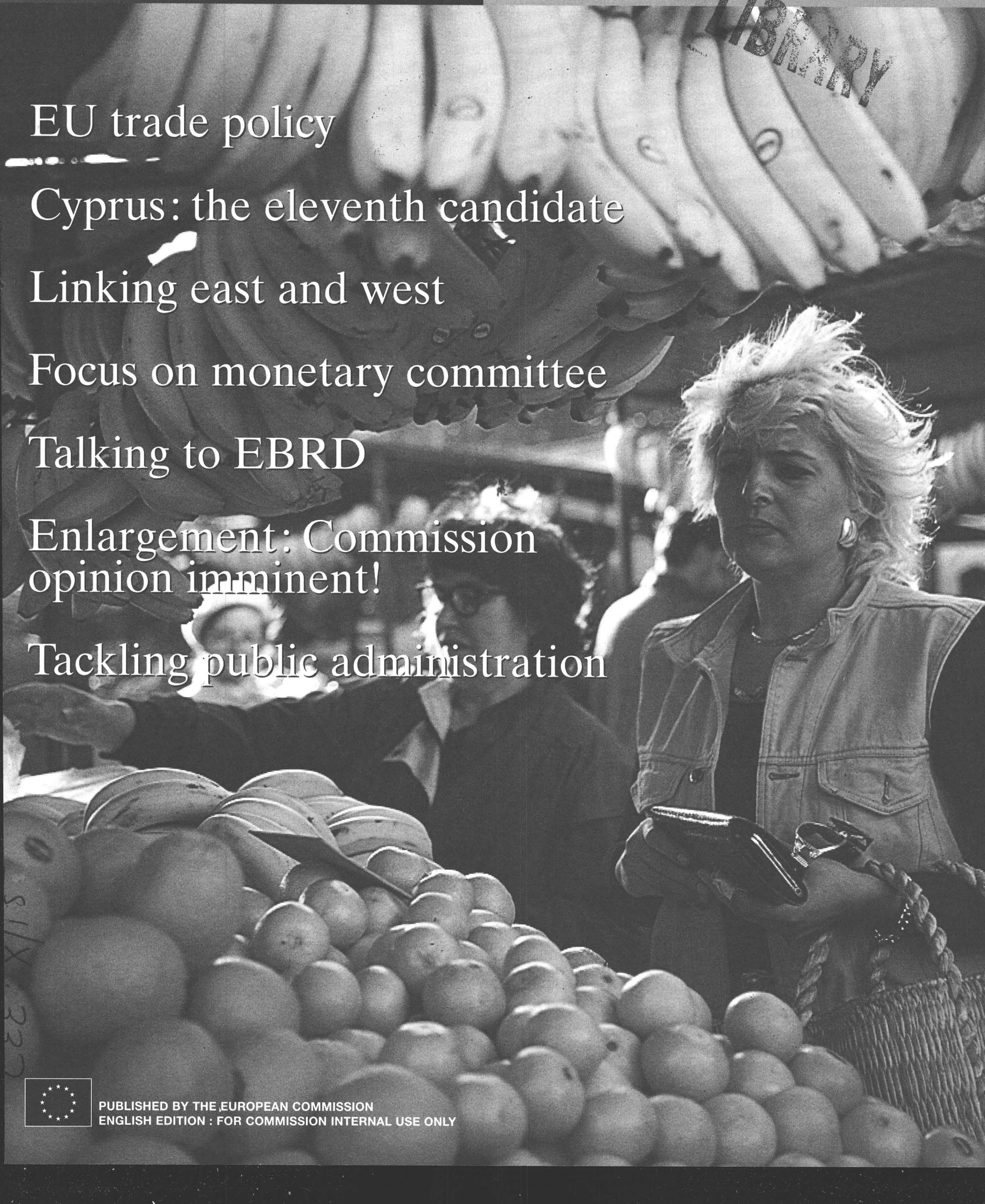

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Tackling public administration

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# European integration is not just a slogan but a real thing which is happening now

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# EU members pull together on trade policies

One area where EU members cede authority to the Commission is in trade negotiations. Aside from a few exceptions, the Commission, together with the Council, takes the lead in this area.

The European Union's capacity to play a leadership role in global negotiations to liberalise world trade over the last 30 years has been crucially shaped by its common commercial policy. The founding Treaty of Rome required member states to adopt common tariffs, liberalisation, export promotion and trade protection policies. They have had to speak with one voice during all of the most important developments in international trade. Other countries have listened and as a result the EU is a major player on the world trade scene.

The EU is also the world's largest trade grouping, accounting for just over 20 per cent of total global trade in goods. Free trade has always been one of its main aims because it is heavily dependent on international commerce — more than the US is, for example. This broad objective has been pursued multilaterally, first in Gatt, now in the World Trade Organisation (see separate article) — through regional agreements and in bilateral relations with other countries, in recent years most notably with Japan and South Korea.

The EU has sole responsibility for trade policy. The European Commission negotiates all external trade agreements on its behalf. The Commission's task is not easy because member states frequently have different views about what the detailed outcome of major negotiations should be. Before beginning a key negotiation, the Commission usually proposes its own mandate to the Council of Ministers. The Council authorises the negotiating mandates for the Commission on commercial matters and ratifies commercial agreements by qualified majority (except for association agreements where unanimity is needed).

Once a negotiating mandate is agreed, the Commission is responsible for carrying it out. This is perhaps the most visible case of countries ceding sovereignty to the EU. Eventual agreements with trading partners negotiated by the Commission are then endorsed by the Council.

In addition to full participation in the multilateral negotiation and management activities of WTO, the EU also has a broad range of commercial agreements of differing types with its partners. The most important for the candidate countries are the Europe agreements which aim to integrate the 10 economies of central Europe and the Baltic states with the Union's as quickly as possible.

The nitty-gritty of forming a common commercial policy which the Commission then adopts as a negotiating stance comes from the Council. But the Commission also works hand-in-hand with a special committee of member states' experts grouped together in the 113 Committee.

This takes its name from article 113 of the Treaty of Rome and has been operating since 1961, leaving most trade negotiating to the Commission, but making sure they keep in line with the wishes of member states.

**The EU has spoken with one voice during all of the most important developments in international trade. Other countries have listened and as a result the EU is a major player on the world trade scene.**

The Committee is made up of directors of foreign trade in each of the 15 member states and may be of ambassadorial rank or high-ranking officials of other ministries.

Since it is treaty-based, like the Monetary Committee (article, page 12), the 113 Committee has much greater clout than any of the myriad of Council of Ministers' panels established to represent governments' opinions during the decision-making process of the EU.

Under article 113 member states are committed to the goal of a common commercial policy, based on the fact that the Union is a single market and has a common external tariff.

The Treaty of Rome gives the Commission the power to negotiate trade accords with third countries and represent the 15 nations in all multilateral trading forum, including WTO, but also the Organisation for Economic Co-operation and Development (OECD).

The 113 Committee should be consulted at all times but the ultimate decision on trade policy is taken by the full

Council of Ministers. Committee members inform the Commission of the changing policy stance of their national capitals on each issue and keeps the Commission on the straight-and-narrow if they believe the executive agency is slipping away from their governments' positions.

**The Treaty of Rome gives the Commission the power to negotiate trade accords with third countries and represent the 15 nations in all multilateral trading forum, including WTO.**

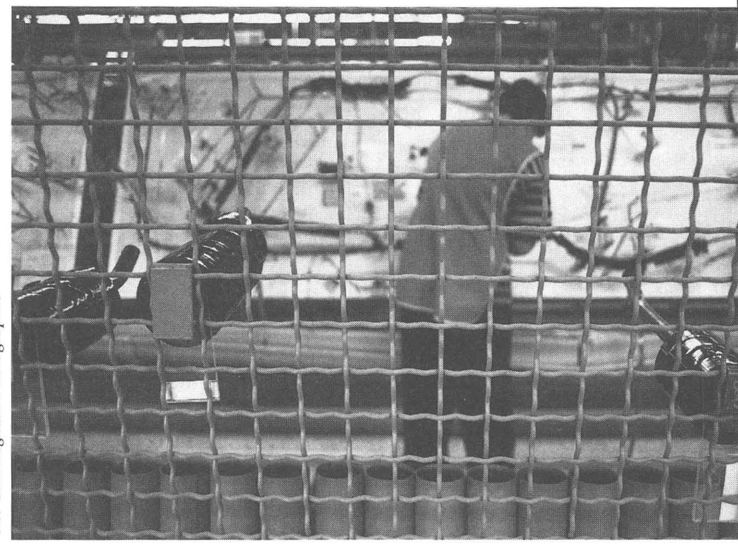
The 113 Committee is usually briefed by a number of Commission experts, sometimes as many as 20 at a time. Meetings are held every month. Their deputies also meet every Friday in Brussels, while weekly sessions are also held in Geneva, where representatives set out positions specifically for WTO issues.

The presidency and the European Commission agree on each meeting's agenda and send the agenda to member state capitals a week in advance of each meeting. The monthly meetings of full members last a day, punctuated by a working lunch. If they meet in trade hot spots, during international summits, the meetings can go on for days.

Before it can start negotiations on any trade accord, the Commission must have a mandate from governments — written permission which is drafted within the 113 Committee.

When the negotiators come home with what they believe to be an acceptable compromise, they present it to the 113 Committee, which informally approves or rejects it. Their opinion is then sent to the EU's ambassadors, grouped together in Coreper, before passing it on to ministers in the General Affairs Council.

A decision of the Court of Justice in 1994 established that new areas of trade negotiations which have arisen since



*Sue Cunningham Photographic*

the Treaty of Rome was signed — such as services, investment rules and intellectual property rights — should be conducted by member states instead of Commission negotiators. As a result the 113 Committee must agree unanimously in these fields.

In general decisions over trade are made by compromise so that no member state is forced into the position of being out-voted. But this can sometimes happen when a decision needs to be taken quickly.

As decisions are taken by qualified majority voting, some members states may not be pleased with the trade stance then taken by the Commission. To ensure that their views are known by other member states, trade officials keep in close contact with each other and try to find compromise solutions wherever problems arise. ■

*James Gwynn, Brussels*

Trade policy

## WTO and the EU

Before WTO was created, talks took place within the general agreement on tariffs and trade (Gatt) according to cycles or rounds, including areas of trade assigned to it by the negotiating parties. Three years after its creation, the Geneva-based World Trade Organisation (WTO) has proved a surprise to the European Union (EU).

**Officially at least, EU politicians and the European Commission itself stress how important it is to have a multilateral institution with teeth to stop the tendency towards unilateral trade actions.**

Officially at least, EU politicians and the European Commission itself stress how important it is to have a multilateral institution with teeth to stop the tendency towards unilateral trade actions.

Yet even they have been amazed at how successfully WTO has worked in resolving disputes between the key international players – the US, EU and Japan – as well as banging heads together in the final days of multilateral trade sector negotiations.

The apogee of its achievement was the signing in mid-February of a deal by WTO's 125 members to open up the global market for basic telecommunications – ending limits to foreign ownership of operators, establishing regulatory bodies and permitting access to networks for new companies. ■

Trade policy

# Confidence in partners important to Britain

"We rarely think in terms of a 'UK trade policy'. That's natural enough," comments Richard Bartelot, head of the EU Enlargement Unit at the Department of Trade and Industry in London. "Where the European Community has exclusive competence — for trade in goods, for example — the Commission negotiates with other parties on our behalf and they have to reach a view on what will be acceptable to member states," explains Mr Bartelot.

Britain sees itself governed by two realities. "We have joint responsibility for trade policy within a regional group and we live in an increasingly global economy. To make it work we need confidence in our partners, and the credibility to influence them and the multilateral trading system itself," he says.

Britain's trade policy is, therefore, about influence. But how does the UK make sure it exerts that influence within the EU? "First, we keep close to the Commission, feeding them with our own ideas and views, and often with our own information picked up from our contacts with the US or Japanese administration or whoever. Second, we try to influence views within the Council. We have regular bilateral contacts with the major member states and frequently co-ordinate our positions with the ones likely to be sympathetic. Third, we seek to influence the wider debate. We have regular bilateral contacts with players like the US, Japan, South Korea and Australia," says Mr Bartelot.

**We do not win all of our battles. But we have no doubt whatsoever that we are more influential as part of a major group of trading nations than we could ever be acting on our own.**

But Britain finds this a difficult and arduous task. "There is a fairly wide spectrum of views in the EU on trade policy and Britain is generally at the most liberal end of that spectrum. We do not win all of our battles. But we have no doubt whatsoever that we are more influential as part of a major group of trading nations than we could ever be acting on our own," says Mr Bartelot.

On the enlargement issue, Britain also has its own strong ideas. "The candidates for EU accession are finding out that once they join the EU they will join an organisation which operates within a global and increasingly borderless economic space in which members will have fewer and fewer opportunities to protect their individual interests or persuade the EU act in a protective way," explains Mr Bartelot, adding, "We make no apology for strictly insisting that the candidate countries stick to a free trade approach."

Britain pursues its policy of accelerating the introduction of better trade conditions through the Europe agreements. "For example, we've helped to accelerate concessions for Romania and Bulgaria so they are aligned with the other associates. From the beginning of 1997, the introduction of the pan-European cumulation of origin rules should help the candidate countries to grow their export industries and attract investment, because goods can be more easily processed in more than one country without losing preferential access to the EU. We also take seriously the challenge of settling trade disputes as they arise. I think there is now good mutual confidence in the Europe agreement machinery to keep trade free and fair. Nevertheless, the EU's confidence continues to be severely tested by proposals for new tariff protection against imports, lack of prior consultation on the sheltering of industries being restructured, the maintenance of onerous product standards certification requirements. In short, Britain sees the issue as mainly one of trust. We now concentrate on helping the associates to help themselves in a framework of mutual confidence."

Equally important, in Mr Bartelot's view, is progress by the candidates in strengthening trade between themselves. "Cefta [Central European Free Trade Agreement] has come a long way. In some respects EU member states are as interested in its progress as Cefta's own members," explains Mr Bartelot. Slovenia, which now holds the Cefta chair, wants to enhance Cefta's role. "If it can begin seriously to tackle the agriculture dossier and the development of dispute settlement procedures, that would be extremely impressive," concludes Mr Bartelot.

Britain is doing the rounds of the candidate countries. The purpose behind this is to get to know the people in charge of the national programme for implementing single market legislation in the candidate countries. This means that Mr Bartelot travels frequently to the candidate countries to meet his opposite numbers, and they increasingly meet in Brussels. "The main benefit is that we begin talking to one another. We want to

*Sue Cunningham Photographic*

promote a borderless Europe and this requires constant maintenance and repair of trust and influence with other member states. We need already to be treating the associated countries as we treat member states, as far as possible. We go out and explain how we've promoted the single market here in Britain and encourage them. We offer assistance through our Know-How Fund or the Commission's TAIEX office [set up to help the candidate implement the White Paper on the single market]. After all, it is the member states and not the Commission who can best guide the associates on the practical application and enforcement of the EU's rules."

The Commission will soon issue its opinions on the readiness of the candidates for accession negotiations, but after that it is the member states themselves who will have to make tough decisions on the enlargement of the Union. Mr Bartelot offers some advice to the candidate countries about what EU members want to see within the candidates to raise their confidence that they will be good economic partners in a larger EU.

"Impetus needed from businesses at grass roots — so there is a premium on preparedness to restructure industry, and communication to/from government/ business. Member states want to see the whole infrastructure of a civic society which makes the single market work. Companies need to know such things as product standards or they will not be able to sell. The rules for public tenders must be understood — bidders need to know their chances of winning contracts. Consumers need to know their rights, how to complain," remarks Mr Bartelot, adding, "We try to make clear what we expect of an open market and a functioning market economy, which is the EU's basic economic criterion for accession. We explain that Europe's open market is not just a policy design, but is also a vast technical exercise."

What are the really critical ways a candidate can demonstrate open market credentials and influence the member states at this important time? "The basic policies which traditionally raise trading partners' confidence in each other — the ability to solve trade disputes with the EU, keep them off the agenda and not let new ones arise. Another is an effective competition policy, because, together with the transparent control of state aid, it demonstrates a command over the fundamental disciplines which guarantee open and fair markets. If the member states can see good strong institutions being set up, this is bound to influence their decision," concludes Mr Bartelot. ■

## Commission view supports open markets

The EU trade instrument that upsets most third countries, including the 10 applicant countries, is anti-dumping measures. A report commissioned by OECD in 1995 criticised the EU (and the US) for its anti-dumping policies. "When one economy is more open than another, it needs to have some defence," says a Commission spokesman.

Trade Commissioner Sir Leon Brittan is trying to soften the impact of the EU's anti-dumping regime on the candidate countries. The following are extracts from a speech given by Sir Leon to an anti-dumping seminar earlier this year. In it he outlines his and the Commission's views on trade policy and anti-dumping measures.

*Anti dumping actions affect only a tiny minority of our trade. We in the Commission have estimated for example, that anti-dumping measures against Central and East European countries affected only 0.28 per cent of our imports from these countries in 1995. If we turn this figure around it is even more striking, for it implies that 99.7 per cent of our imports from the Associated countries were not affected by anti-dumping.*

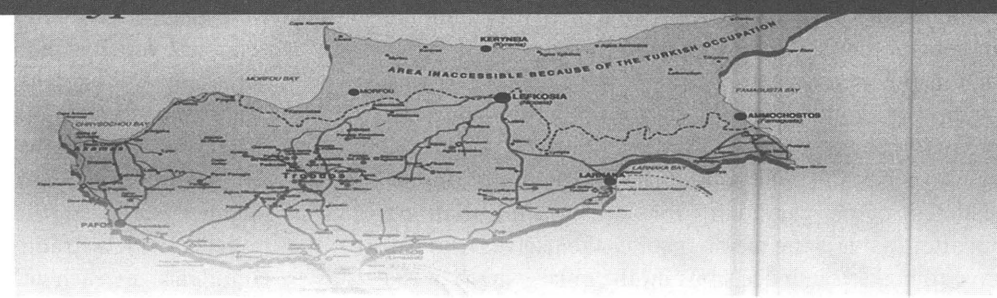
*We have been able to offer the associated countries some special treatment in this area. Over the past two years we have been providing the candidate countries with more information on anti-dumping complaints against their industries, as soon as they are lodged. This has enabled them to help us to identify the companies which would be most affected by proceedings and to ensure better co-operation in the investigation.*

*The Commission is now prepared to go further in elaborating the Essen preference for undertakings. We are ready to consider the possibility of allowing companies who are in a position to make undertakings, more scope to manage these undertakings themselves. This, in practice, would mean that rather than adopting an undertaking in the form of a rigid minimum price for the entire Community, candidate country firms would be given more flexibility to determine their pricing strategies for themselves.*

*From the point of view of candidate country industry, this could be an interesting new development, even if such undertakings are not appropriate in all cases. But it will only work if it can be used as a way of encouraging industry to develop western-style marketing and pricing policies — prices which are not suddenly cut in order to earn foreign exchange and marketing arrangements which do not cause havoc by, for example, selling unprecedentely large quantities at very low prices onto previously stable markets.* ■

# Cyprus bids for EU membership

Although Cyprus's political tensions continue to make its accession to the EU an emotive and controversial subject, on a purely technical level it has for the most part been accepted already.




The European Union (EU) decided in March 1995 that "negotiations with Cyprus will begin six months after the conclusion of the Inter-Governmental Conference (IGC)", marking a turning point for the small island which had been pushing for closer ties for well over two decades.

Cyprus first signed an association agreement with the EU in 1973. This set in motion a phased reduction of tariffs on industrial and agricultural goods, completed at the end of 1987, 10 years later than originally planned. The completion of a customs union began in 1988 and is still in progress. This should be complete by 2002 or 2003.

An EU delegation to the island opened in May 1990. The delegation monitors political, economic and other developments in Cyprus and helps improve contacts between the internationally-recognised government and the Commission on a day-to-day basis.

But these advances fall short of Cyprus's real aim — full membership of the EU. The island presented its formal application to join the Union in the summer of 1990.

Three years later in June 1993, the Commission decided Cyprus was eligible for membership and all the obligations that go with it.

*Cyprus Tourist Board*

According to the opinion (also known by the French word *avis*), already written by the Commission, "Cyprus's geographical position, the deep-lying bonds which, for 2,000 years, have located the island at the very fount of European culture and civilisation, the intensity of the European influence apparent in the values shared by the people of Cyprus and in the conduct of the cultural, political, economic and social life of its citizens, the wealth of its contacts of every kind with the EU — all these confer on Cyprus, beyond all doubt, its European identity and character and confirm its vocation to belong to the Community."

Although not the most concise text, the words marked a clear commitment to Cypriot accession and provided fresh hope for the island's divided people.

The Council of Ministers endorsed the Commission's opinion in October 1993 and again at the Corfu and Essen summits in 1994. In 1995 ministers decided on the six-months-after-the-IGC-ends formula and, in technical terms, little has changed since then.

In broad economic terms Cyprus should not have any major difficulties in being assimilated into the EU. Despite the Turkish-occupied section of the island being generally poorer than that controlled by the Greek Cypriots, both halves are relatively prosperous. Cyprus's official per capita income was over $13,000 (Ecu 11,304) in 1995, making it an upper middle-income country. Its economy is growing faster than most in the EU, despite a flattening out in 1996. There is little unemployment.

**The Cypriot economy is market-oriented, with a flexible and well-educated workforce. Its government claims that, if Cyprus were to join the Union, it would be able to satisfy the Maastricht criteria for economic and monetary union.**

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In its opinion the Commission added that it was "not underestimating the problems that the economic transition poses. However, the economy... seems ready to face the challenge of integration, provided that the work already started on reforms and on opening up to the outside world is maintained."

The Cypriot government claims that "with the aim of minimising the duration of the accession negotiations, and the avoidance to the greatest possible extent of transitional periods", it has already "focused its attention and efforts to the harmonisation of its laws and policies with those of the EU".

This process began in 1973 with the signature of the EU-Cyprus association agreement and the 1987 customs union protocol, but it only really took off this decade. Twenty-three working groups and two special intra-ministerial groups from Cyprus's ministries of the interior and education and culture were set up first to identify the gaps between Cypriot laws, policies and procedures with the *acquis communautaire* (body of EU law) and then to prepare strategies to lessen them.

Progress has been encouraging, to the extent that one Brussels diplomat commented "technically, there should be little difficulty with Cyprus's application to the EU".

Cyprus has divided its pre-accession strategy into 12 major areas. These are agriculture, environment, finance, intellectual property and company law, competition, consumer protection, transport, justice and home affairs, health matters, employment and social matters, statistics and industry (including energy).

The process has proved difficult and has not taken place overnight. In agriculture the government put together a five-year development plan covering 1994-98 to bring the organisation of Cyprus's agriculture sector closer to that of the EU's common agricultural policy (CAP), including a special support fund of Ecu 5m to encourage the stabilisation of agricultural prices and incomes. In early 1996 it set up a new monetary framework which, together with twice monthly auctions of Treasury bills, "brought about greater flexibility in

*Cyprus Tourist Board*

interest rates and allowed the government to borrow on more competitive terms", says Finance Minister Christodoulos Christodoulou.

The financial sector is being steadily liberalised, while a new banking law in line with EU practices is expected to be adopted soon.

Over the past five years the government has introduced or amended laws governing intellectual property and companies and has taken on international law on bankruptcy.

Five new laws have been passed on consumer protection, with four more "at an advanced stage", according to a recent report to EU ministers.

By December 1995, 697 European standards concerning a range of products had been adopted. In 1997 Cyprus intends to implement laws in 15 areas of criminal co-operation.

The government claims it is now pushing hard on public sector reform, looking for opportunities to restructure and modernise.

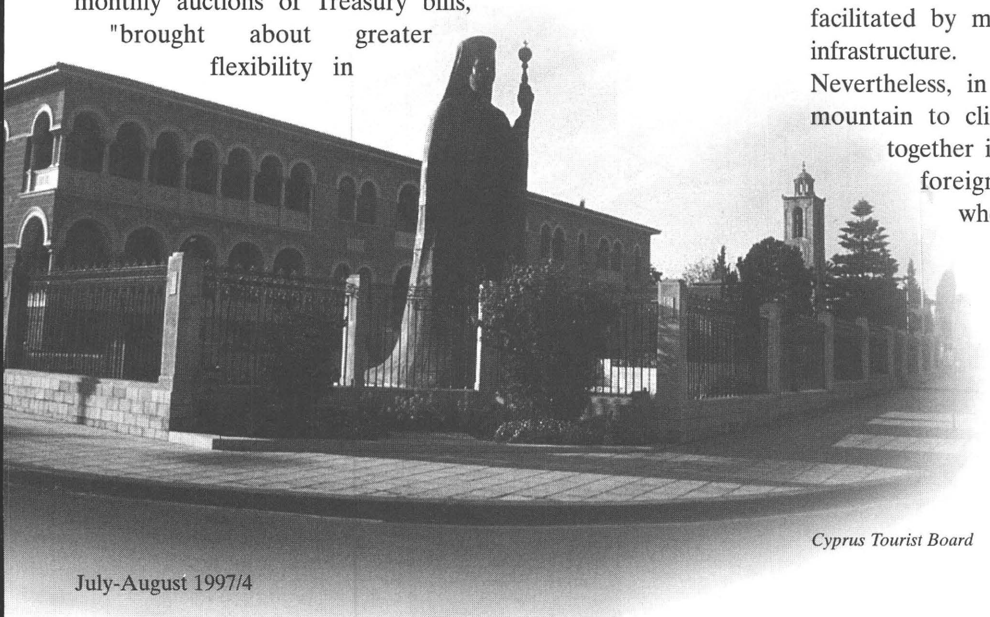
"In numerous sectors Cyprus had already harmonised a good part of its legislation, policies and practices with the *acquis communautaire*," says an association council report. The advantages of this reform spread beyond EU membership.

The island also aims to become a gateway between Europe and the Middle East and North Africa, which will be facilitated by modern and efficient administration and infrastructure.

Nevertheless, in political terms the country still has a mountain to climb. Bringing north and south Cyprus together is likely to prove one of the EU's major foreign policy challenges. It is also unclear whether the advances by the south will be enough to bring the north with it into new prosperity with EU membership.

Politicians still need a lot more information before they can answer the Cyprus question. ■

*Alistair Keene, Brussels*



*Cyprus Tourist Board*

# Physical unification proves a complicated business

Linking two halves of a continent which for political reasons has been severed for the past 40-odd years is proving a difficult business for the European Union. Many officials are pinning their hopes on helping to build a transport infrastructure which will physically and psychologically link the applicant member states to the group they wish to join.

Of all the policy areas falling under the competence of the European Union (EU), the creation of efficient transport infrastructure promises to provide the most tangible proof that European integration is actually working.

Ever since former European Commission President Jacques Delors published his 1993 *White Paper on Growth, Competitiveness and Employment*, the so-called trans-European networks (TENs) have been at the forefront of the EU's efforts to create jobs and provide efficient links between the diverse parts of the Union's massive single market.

"Without respectable infrastructure, we will be unable to develop trade and the movement of goods and people necessary for economic development. The basic philosophy applies even more to the countries of central Europe and the Baltic states. It is a function of international trade that transport demand grows faster than the economy in general," says an official in Directorate-General VII, responsible for transport.

While negotiations are underway with the 10 applicant countries from central Europe and the Baltic states on access to the EU's aviation and road-freight markets, their primary need is for higher quality transport infrastructure — something long neglected under the previous regimes. Transport Commissioner Neil Kinnock is placing more emphasis on this issue.

"I do not suggest that the building and renewal of roads and railways, of airports and harbours are the only necessary components of the advance to prosperity in the east of Europe," Mr Kinnock said recently. "I do say, however, that transport systems are tangible, usable evidence of progress. Whatever timetable of enlargement of the Union emerges in reality, the present process of improving the infrastructure of central Europe and the Baltic states must continue if these countries are to have any chance of catching up economically and if west and central Europe are to gain full mutual advantage from enlargement," adds Mr Kinnock.

As one of his aides put it, "transport is a practical area where enlargement will be judged". It is quite clear that if the Union is serious about bringing in its less wealthy neighbours and helping them to attain similar levels of prosperity to those enjoyed by the current 15 member states, the development of decent infrastructure between the two halves of Europe is of paramount importance.

Already a massive restructuring of transport demand is underway in the applicant countries in parallel to economic growth. Goods are now flowing increasingly between central and western

Source : European Investment Bank

Europe, where the vast majority of trade used to move around the central axis of the Soviet Union.
"In the past infrastructure used to radiate out from Moscow and tended to peter out as you got near western Europe," explains an official. The 10 applicant countries are also having to adjust to an enormous growth in road transport, at the expense of the railways which are proving less flexible and more complicated to liberalise.
The TENs are now firmly fixed on the EU landscape and have been given new impetus by Commission President Jacques Santer's much-vaunted "confidence pact for employment", which reiterated that they could both create jobs in the short-term and provide the conditions for future employment by assisting links between European businesses. But until the 10 applicant countries actually accede to the Union, projects in these countries cannot be brought formally within the TENs. This has not, however, prevented the Commission from looking into how projects can be linked up in a larger Union.
At the Copenhagen European summit in June 1993 and again at Essen in December 1994, the Commission was asked by heads of state and government to extend the TENs into the 10 applicant countries.
The association agreements with the 10 envisage co-operation between the EU and these countries on the development and modernisation of road, rail, port, air and inland waterway systems.
A series of projects have been financed. Part of the money has come from the Group of 24 richest industrialised countries and in part from the EU's two technical assistance programmes, Phare and Tacis (the latter for the former Soviet republics). International financial institutions, such as European Bank for Reconstruction and Development (EBRD) and the World Bank, have also provided funds.
In 1993-94 the creditor countries, the 10 applicant states and former Soviet republics agreed that projects needed to be given a hierarchy so that scarce resources were not too thinly spread. In the same way the EU identified 14 top projects to benefit from preferential Union financing, a pan-European transport conference in Crete in 1994 identified nine "priority corridors".
To qualify for priority status the projects needed to be ready to begin work within five years, have a rate of return of at least 10 per cent and have a limited impact on the environment.
Responsibility for overall co-ordination of the projects lies with the Group of 24 transport group, chaired by the Commission while, for several of the corridors, memoranda of understanding have been drawn up between the 10 applicants and other states in conjunction with the Commission.
The Crete corridors include rail and road links between Helsinki and Warsaw and Berlin and Moscow, a river link on the Danube crossing seven separate states and a connection between Germany and Turkey via five of the applicant countries.
"The Crete corridors were a first attempt to develop a comprehensive planning system linking central Europe with the Union. The problem is obviously that these countries have enormous needs and very little money. But we wanted to ensure that where money was spent, it went into projects of immediate use," an EU official told *European Dialogue.*
More specifically, the Commission has responded to a joint request of transport ministers from both the EU and applicant states in setting up the Tina (transport infrastructure needs assessment) group to try to identify what measures are needed to meet the infrastructure needs of the applicants. Tina is split into three sub-groups, covering respectively, countries in the north, centre and south of central Europe, in partnership with existing EU member states which have a border with the applicants. It brings together senior officials from transport ministries to discuss projects of common interest.
With the criteria and maps for the existing TENs already long since decided within the Union, the major task is to draw up similar criteria for the applicants and define maps which can be merged later into the existing network.
This is where Tina comes in. At the moment it is compiling detailed statistics of the transport needs in the applicant states, beginning cartographic work and studying changes in traffic flows.
Work is currently underway to establish a much-needed secretariat with a budget of Ecu 1.5m.
Officials involved in the project claim significant progress is already being made in some of the countries, with Poland, for example, beginning to define priorities and requesting money from the EU's Phare programme to improve its major road network.
Crete is supposed to be the skeleton for the networks being worked on in Tina for which Phare has already financed a number of feasibility studies. The Berlin-Warsaw route has a well-established historical pedigree. "The map is already defined. Now we have to build the highways which are missing," one Commission officials explains.
Tina is expected to issue its first draft report by the summer, ahead of the pan-European transport conference planned for Helsinki. This will allow a reassessment of the Crete corridors and a report on what progress the various parties involved have made.
The next big event for ministers from both the EU and the 10 applicant states is a meeting of the structured dialogue in Brussels in September. There the ministers hope to set up a working schedule for the next two or three years. By the end of the year Commission officials hope to see the first outline of the maps which will form crucial physical and psychological links between east and west.
After another year of data gathering, something similar to the TENs guidelines for the applicant states should emerge at the end of 1998. The current TENs are up for revision in 1999 and the ultimate goal is to incorporate the two sides.
With Phare money helping to finance infrastructure investment, the Commission hopes the 10 candidate countries will follow Tina's recommendations, giving them additional leverage in their search for funds from international financial institutions. It should also help them to attract the mix of public and private financing which the Commission is increasingly pushing as the key to the success of TENs.
Under current arrangements if a priority project is being financed by the European Investment Bank (EIB), EBRD, World Bank or a similar lending organisation, Phare can match any money coming from the country's national budget, often adding up to 10-15 per cent of the total amount needed to complete a project.
Small infrastructure projects, such as improvements to border crossings, are a favourite for direct EU support. "This is a very cost-effective type of investment. A few million can speed up a 48-hour delay at a border. To save a day by building a motorway, you would have to spend billions," concludes one Commission official. ■

*Reports by Anthony Anderson, Brussels*

# TENs concept relatively young

The trans-European networks (TENs) concept was born in the 1993 *White Paper on Growth, Competitiveness and Employment.* In this document former Commission President Jacques Delors first came forward with his dream of a massive series of infrastructure projects which would represent the physical manifestation of the single market.


*Sue Cunningham Photographic*

At the 1994 Essen summit, EU leaders agreed to draw up a priority list of 14 transport projects deemed essential to the realisation of a single European entity and to bind peripheral regions to the centre. Transport Commissioner Neil Kinnock describes the rationale behind the TENs in simple terms. "We need to transform a patchwork into a network."

But progress has been mixed. Some of the major projects have been unable to attract sufficient financing while others have been beset with administrative problems. Commission President Jacques Santer's attempts to persuade European governments to raise the share of the EU budget devoted to the TENs fell on deaf ears, as the major budget contributors stressed austerity ahead of monetary union.

What funding is available was briefly jeopardised by discontented members of the European Parliament. They attempted to toughen environmental standards and win themselves more influence over the projects.

But a number of the Commission's most prized schemes — the Øresund link between Denmark and Sweden and Italy's Malpensa airport — are progressing well, thanks to improved co-operation between the public and private sectors.

**Commission President Jacques Santer's attempts to persuade European governments to raise the share of the EU budget devoted to the TENs fell on deaf ears, as the major budget contributors stressed austerity ahead of monetary union.**

The major problems surround the TGV Est rail project through France, Germany and Luxembourg. This is feeling the effects of growing budgetary worries as France gears up for monetary union in 1999. ■

# Linking all of Europe costs a lot

Unlike most of the EU, where transport infrastructure projects need to be huge to make appreciable differences to the Union's economy, relatively minor changes can make all the difference in the applicant countries. Some of them are so far behind in infrastructure provision that small improvements can go a long way.

The 1,830 km Berlin-Warsaw-Minsk-Moscow road and rail corridor is a case in point. Costing Ecu 2.7bn in total, just Ecu 900m has been allocated for increasing the speed on the region's rail tracks, but the effects could be huge.

The second of the Crete corridors, the rationale behind moves to improve the route is given as "the reduction in transport times, safety improvements, the creation of an environmentally sustainable modal balance and the economic stimulation of east-west trade".

Already the German sections have been upgraded to TENs standards. In Poland work is continuing on the

**Unlike most of the EU, where transport infrastructure projects need to be huge to make appreciable differences to the Union's economy, relatively minor changes can make all the difference in the applicant countries.**

Kunowicze-Warsaw railway, with investments financed jointly by Polish State Railways, the European Investment Bank, European Bank for Reconstruction and Development and the EU Phare programme.

The Polish part of the road corridor requires major upgrading and legislation on toll motorways and concessions has been in force since early 1995. In Russia work is in progress to develop bridges and junctions. These projects are supported by the World Bank.

Adtranz, the railway equipment manufacturer created out of ABB Daimler-Benz Transportation, has carried out a technical study into how to increase rolling stock speeds on the railway from the 40-60 km an hour up to medium-high speed of 150-250 km an hour.

"Getting up to medium-high speed could be achievable with signalling improvements and some tilting technology for the trains," says an Adtranz spokesman. "It would be an improvement of 200 per cent on these lines."

A memorandum of understanding was signed in January 1995 by the transport ministries of Germany, Poland, Belarus and Russia as well as the European Commission. Completion is expected to take 15 years. ■

Sue Cunningham Photographic

Sue Cunningham Photographic

# High-speed rail link is ambitious project

One of the European Union's most ambitious TENs projects is the proposed huge Ecu 16bn one to build a high-speed rail line linking Paris, Brussels, Cologne, Amsterdam and London.

Dubbed the PBKAL, the scheme has been planned since 1989 but little has been built. Of the 868-km network, only the line from Lille to the Channel tunnel is operating.

Once it reaches fruition, PBKAL should slash journey times. From Brussels, a trip to London would fall from three hours 10 minutes to two hours, five minutes. To Paris to one hour and 20 minutes and to Amsterdam to one-and-a-half hours.

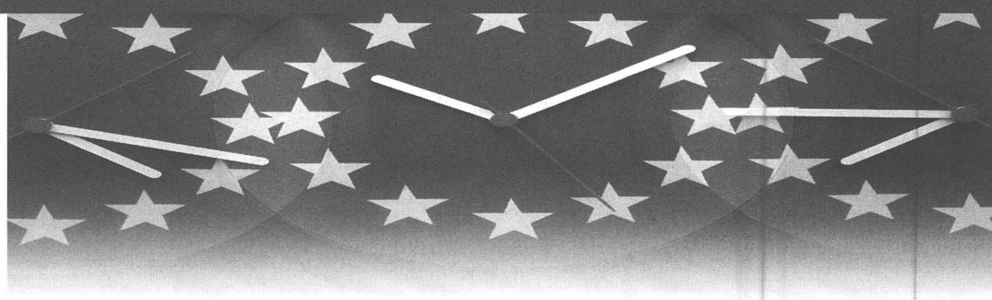
Things have progressed markedly since the British government decision to award the concession to build and operate the link from London to the Channel tunnel to London & Continental Railways (LCR).

LCR, a consortium including Virgin Group and National Express, will build the 108-km British leg of the network. Apart from benefiting from a government subsidy, LCR will also take control of European Passenger Services (EPS), the company that jointly operates the Eurostar service between Brussels-London and Paris-London. This is intended to provide fresh revenue for the new company, although this will take time to come on stream, given EPS's pre-tax losses of Ecu 58m in 1995.

After numerous delays, the Dutch government has finally agreed the route for the Amsterdam to Rotterdam high-speed link. Belgium has been the main sticking point, with the most expensive part of the network running through that country, but the majority of passengers expected to use the system to France, the Netherlands and Germany. Fortunately, a financing deal struck over a year ago should ensure the entire Belgian section will be complete by 2005. ■

# Monetary Committee pulls the policy strings

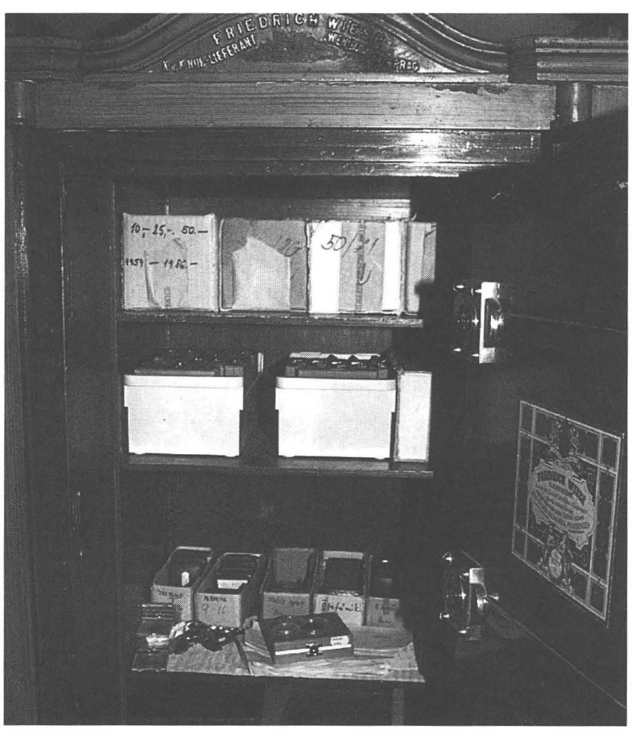
Although it is unusual for an advisory committee to become famous in its own right, the Monetary Committee, responsible for monetary policy matters, has come more into the limelight than any other. *European Dialogue* looks at the committee's work and why it is so important for the smooth running of the EU.



The Monetary Committee is unique. It was set up by the Treaty of Rome to advise both the Commission and the Council on monetary policy. It groups together senior civil servants from finance ministries and central banks. The committee has become synonymous with extraordinary and mystical economic power.

The committee advises the Commission and prepares meetings of the Economic and Finance Council (known as EcoFin), and any decisions reached by it are usually adopted by the ministers. This is because the members are close advisers to ministers. Due to the participation of central bankers, they also have more in-depth expertise in monetary economics than do the politicians responsible.

The secretariat, headed by Günter Grosche and including two secretaries and three experts, is based on the fourth floor of the Commission's Beaulieu building in Brussels. The Committee's meetings are usually confidential, although its work has become more widely known, mainly as a result of a series of crunch meetings in 1992-93 to save and then abandon the old-style exchange rate mechanism (ERM) of the European monetary system (EMS).



*Sue Cunningham Photographic*

The committee, which was chaired by French Treasury chief Jean-Claude Trichet before he left to head the Bank of France, is now under the control of British Treasury official Sir Nigel Wicks — a highly respected civil servant.

The committee itself was established by the Treaty of Rome in 1957 as an advisory committee intended to "promote co-ordination of the policies of member states [in the monetary field] to the full extent needed for the functioning of the common market". It was assigned the task of keeping under review the "monetary and financial situation of the member states" as well as the Communities themselves, the general payments system of countries and report regularly on these to the Council and Commission.

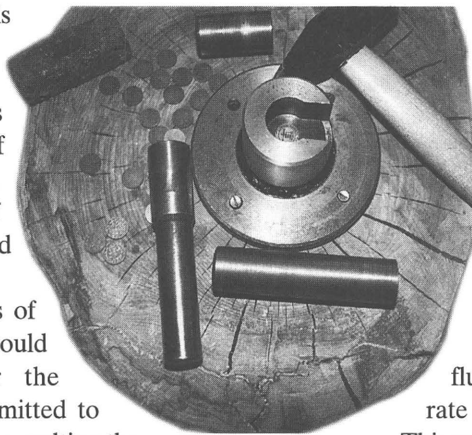
**The Monetary Committee is unique. It has become synonymous with extraordinary and mystical economic power.**

It can also deliver opinions at the request of the Council and Commission or on its own initiative for submission to these institutions.

Member states and the Commission appoint two members each, usually the chief of the central bank's international affairs department and his equivalent at the finance ministry. Under the Treaty on European Union, which came into force in November 1993, the committee was given extra powers to prepare meetings of EcoFin, although this was "without prejudice" to the powers of EU ambassadors (grouped together in Coreper). This has led to turf battles between the ambassadors and the committee members who report directly to their ministers and often by-pass the Brussels-based missions.

"Country delegations can resent the fact that they are not invited to attend and there is no formal procedure to brief them," explains one official at a mission.

The Monetary Committee can monitor and make recommendations in the area of balance of payments



between member states when this threatens to undermine the single market. When balance of payments between member states disappears with the start of monetary union, these powers will remain in dealing with balance of payments issues vis-à-vis third countries.

In some circumstances movements of capital to or from third countries could cause "serious difficulties" for the operation of EMU. EcoFin is permitted to take measures for six months after consulting the European Central Bank.

Before EMU gets underway, a member state with major balance of payments problems which threatens the single market can ask the Commission to investigate its problems. After consulting the Monetary Committee, the Commission can recommend mutual assistance and even, eventually, authorise protective measures.

If a member state is "seriously threatened with severe difficulties" caused by "exceptional occurrences beyond its control", the Council can grant financial assistance to the member states. This it did for both Italy and Greece at the beginning of the 1990s, authorising multi-billion-Ecu balance of payments loans. The market confidence generated by these loans was so strong that neither country used much of the money to stabilise its currency.

The committee helps to draft the Union's broad economic guidelines which are meant to guide economic policy for all member states over a three-year time frame. It plays a key role in the excessive deficit procedure. This decides whether member states are sticking to the budgetary rule of the treaty, making sure that their deficits are below three per cent of gross domestic product and their public sector debts are below 60 per cent of GDP.

The committee plays a central role in multilateral surveillance and multi-annual programmes "to ensure closer co-ordination of economic policies and sustained convergence of the economic performance" of member states. Every year the committee also examines the situation on the movement of capital and freedom of payments.

At the start of the third stage of EMU an Economic and Financial Committee will be set up and the Monetary Committee dissolved. This new body will deliver opinions, keep under review the economic and financial situation of member states and the EU and report to the Council, particularly on financial relations with third countries and international institutions.

The committee has steadily taken on greater informal powers. In the early 1980s realignments of ERM were negotiated and authorised by ministers, but this started to pass over to the committee, before being ratified at a political level.

In August 1992, the Portuguese government asked to bring the escudo into the system and much of the preparatory talks were carried out on the telephone. Similarly, in September 1992, when the British pound and Italian lira withdrew from ERM, it was the committee which negotiated the terms of departure.

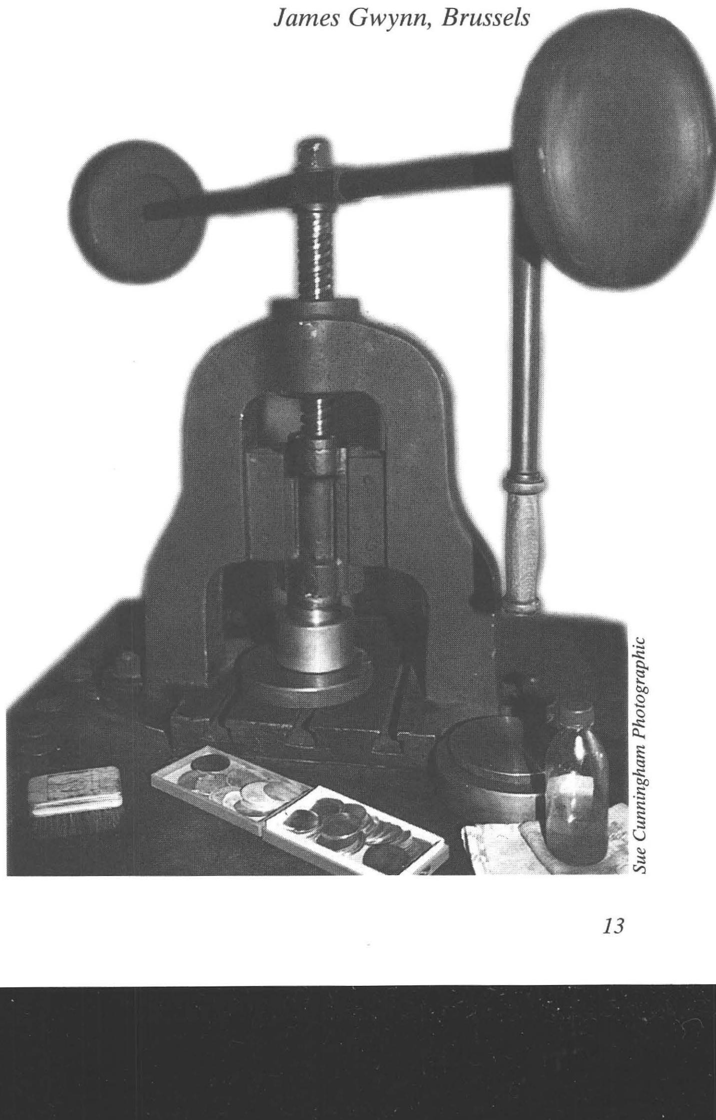
Only once, in August 1993, did the committee have to call the ministers in together with the central bank governors. This was the seminal occasion when the ERM bands, which had allowed most currencies to fluctuate only 2.25 per cent either side of a central rate against the Ecu, were widened to 15 per cent.

This was done to cope with massive speculative attack on the system. The Monetary Committee had been incapable of reaching such a highly charged political decision. Also in November 1996 when the Italian lira re-entered the mechanism, the committee advised ministers and central bank governors to meet in order to mark the political importance of that event.

The chairman of the committee has two important powers: to set the agenda and make the concluding remarks. When he goes to meetings of EcoFin, he makes short recommendations to the meeting, which sets the tone for the political discussions. The meetings are held in English, although French and German are also spoken.

Routine meetings begin with a general discussion about current issues, such as the rate of growth in the EU, inflation prospects, currency movements and interest rate projections. ■

*James Gwynn, Brussels*



*Sue Cunningham Photographic*

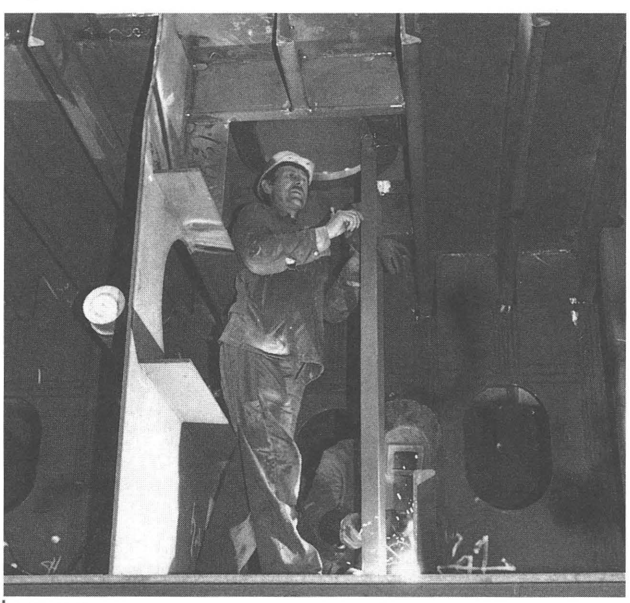
# EBRD lends a helping hand

All 10 candidate countries are also members of the European Bank for Reconstruction and Development, set up to help countries make the difficult transition from planned economies to free markets. As this process progresses, the bank's role is also changing.

When the European Bank for Reconstruction and Development (EBRD) was first set up in 1990, many questioned its role, seeing it as an institution which could all too easily duplicate the role of the World Bank and International Finance Corporation, the World Bank's private sector.

EBRD's central purpose is to advance the transition to a market economy and it pursues this role primarily by providing finance for investments.

Several years later, the bank has shown that it does have a role to play in the transition economies. But that role differs widely from that of the European Union (EU). Nick Stern, chief economist of the bank, believes EU membership is not a central concern of the bank. "We will help with the accession process. The transition to which we're devoted automatically promotes accession. One of the essentials of the economic *acquis* is a well-functioning market economy. We'll help countries in this as that advances the transition and that is our job," explains Mr Stern.



Sue Cunningham Photographic

*EBRD's central purpose is to advance the transition to a market economy and it pursues this role primarily by providing finance for investments.*

But there are many forms of a market economy. "These countries have made a choice and have chosen EU membership so their economies will need to be consistent with the EU. We'll help in pursuing this choice." However, EBRD's definition of a functioning market economy differs slightly from that of the EU. "Our definition is not defined solely by the EU *acquis*. We have strong views on private ownership, mainly because of the history of these countries. Our view of the transition goes beyond EU membership. There are no specific obligations. But we are obliged, for example, to support the environment. But that doesn't mean we define the environmental standards or targets exactly the same as EU regulations or laws. However, if a country seeks to do that, that's OK with us. We don't adopt as a definition of a market economy a specific *acquis*. But we are reasonably close to the spirit of the EU," says Mr Stern. "We probably take a stronger view on the financial sector than the EU. But it does not follow that we would be in conflict. We follow in essence the choice made by the country itself."

One hot topic at the moment is the policy of graduation. This is the idea that as countries progress towards a market economy they will "graduate" from needing the bank. Mr Stern believes that day is still far away for all the central and east European members of the bank, including the 10 candidate countries for EU membership. "Some are more advanced than others in the transition. But I am confident that all of them could make EU membership, although at different times. It is important to recognise that there are a lot of problems within the EU which need solving."

The EBRD believes that its member countries will graduate in phases. Some have already shifted away from needing the bank's help in some transitional areas, but still require a helping hand in others. "We have a specific view of graduation. We think in terms of graduation of bank activities, not the country. Our primary focus is activity," says Mr Stern.

According to an internal bank document, "the more advanced of the transition countries will continue to suffer from the immaturity of local financial institutions and capital markets for a considerable time. Even in those countries of operations which are most advanced in transition, the lack of longer-term financing remains an important constraining factor for the enterprise sector. Looking ahead, substantial further development of financial markets and associated institutions will be required to underpin the continued growth in finance to enterprises from outsiders (in the form of loans and equity). These problems and requirements create demands for mediation which the bank, with its emphasis on work with local financial institutions, is well equipped to supply."

There are four areas where the bank believes its activities will focus as the transition progresses. These are:

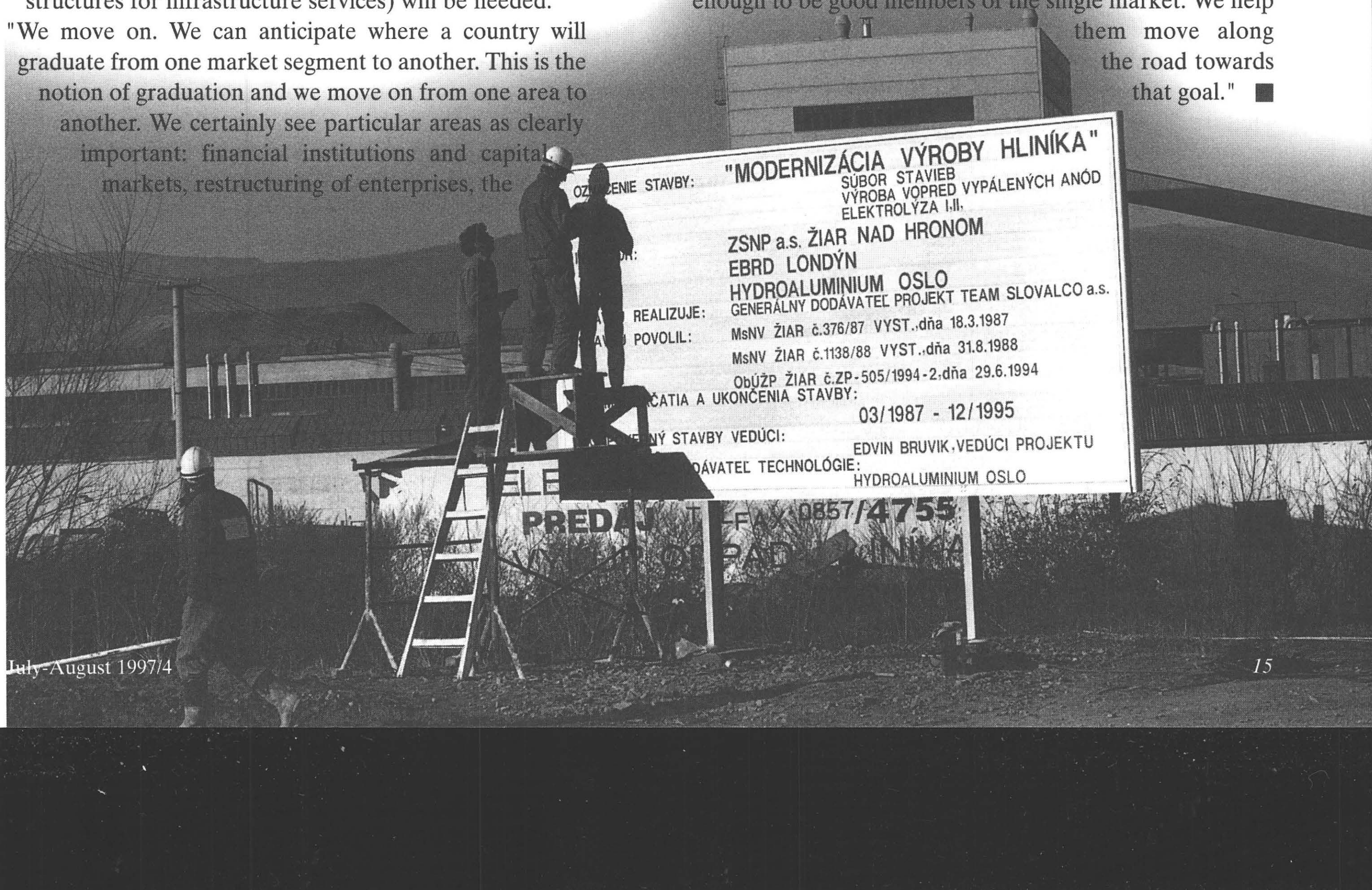
- privatisation, restructuring and corporate governance: demand is growing for direct private financing of local corporates, direct equity investments, equity funds, regional venture funds, special restructuring programmes, post-privatisation funds and multi-project facilities
- development of financial institutions and capital markets: projects in this area will foster the development of local banks and enhance development of non-bank financial institutions, such as mutual funds, life insurance companies and private pension funds
- infrastructure: demand may increase for long-term capital, equity and technical assistance for the commercialisation of infrastructure and municipal services and for private infrastructure projects
- environment and energy efficiency: in some countries, demand will increase for projects in environmental enhancement and protection and in energy efficiency (complementing policies to reform tariff levels and structures for infrastructure services) will be needed.

"We move on. We can anticipate where a country will graduate from one market segment to another. This is the notion of graduation and we move on from one area to another. We certainly see particular areas as clearly important: financial institutions and capital markets, restructuring of enterprises, the environment and private infrastructure," says Mr Stern. "This is a natural, organic process. We are nowhere near completion in these areas in any country. We're not about to leave any country."

The future, believes Mr Stern, will see the bank focus in specific areas. "In many countries there is no effective taxation system and what has been inherited is geared to heavy expenditure rather than revenue collection. Over the medium-term we'll be pressing for public financing targets even stronger than the EU. We'll also put emphasis on public infrastructure. We are keen to play our part in this area and we work closely with the European Investment Bank in this area. Transport, too, is another area where work needs to be done particularly on development of ports, airports and roads. But we are oriented to the consumer of services. We look at the revenue/cost structures. Our loans are oriented to project financing. We're broadly trying to achieve the same thing. It's just a question of emphasis."

At the end of the day, Mr Stern sees the bank as a partner of the EU. The EU member states collectively and singularly own over half of the EBRD. "It is not surprising that we work closely together. We see some things in the same way, but differ in emphasis. We are following a specific mandate — to promote market economies," says Mr Stern. "The EU helps us do our work, in general not only by providing the capital of the bank but helping through technical assistance through both the Phare and Tacis programmes."

In conclusion Mr Stern adds: "No market economy functions perfectly. These countries have a long way to go before they function as well as the main economies in the EU, but I think they are not far away from functioning well enough to be good members of the single market. We help them move along the road towards that goal." ■




Sue Cunningham Photographic

# EU plans ahead for enlargement

Before facing the complexities of enlargement, the EU needs to address internal problems as well as come up with a strategy for the future which includes the uncertainties of enlarging the Union.


The Commission will table its opinions after the conclusion of the Inter-Governmental Conference (IGC). At present all applicant governments' eyes are firmly focused on their particular opinion (also known by the French word *avis*), in which the Commission will judge the strength of their country's application to the EU. The Commission will assess all candidates on an objective basis.

Some applicants as well as the Commission stress that they should be assessed on individual merits, rather than being linked to those of their neighbours.

But while that is an understandable position to take, it is clear that regional considerations are also crucial to the success of each single country.

The Commission expects applicants to have good relations with their neighbours.

Although less important in symbolic terms, two other papers from the Commission will be just as influential in determining who does or does not enter the Union in the first wave.

The first is an impact study which will take a sector-by-sector look at the effect and cost of enlargement on existing EU policies. The second is the horizontal or composite paper which will attempt to provide a strategic overview of the enlargement process.

While Poles, Estonians, Romanians and other applicants are clearly very concerned about their personal chances of EU accession, the present citizens of the Union are, in many ways, more concerned about the general issues of enlargement.

What will happen to the common agricultural policy (CAP)? Will the Union be able to afford current levels of regional support with 10 substantially poorer new members? What will happen to international criminal co-operation, Union-wide transport systems, or environmental rules?

It is possible in this turbulent and uncertain stage of the proceedings that enlargement as a whole will be delayed due to one of these horizontal issues, rather than any particular circumstance in any one country.

The Commission officials are faced with an important and complex task in analysing those issues. Assuming they now have enough objective information following consultations with the governments for technical clarification, they still face two major difficulties.

The first is that the applicant countries are unlikely to join all at the same time. A horizontal analysis of the impact of enlargement has to take account of the fact that, as countries join one by one, so will their effects on Union policies be felt in stages.

The second is that each new EU member will be expected to have implemented the *acquis* or at least a minimum of it or to be sure of fulfilling most of the membership obligations.

This creates a Catch 22 situation. The Union cannot decide which new members to take on until it knows what impact enlargement will have on its policies as a whole. But neither can it determine what that impact will be until it knows exactly which countries are going to join.

**While Poles, Estonians, Romanians and other applicants are clearly very concerned about their personal chances of EU accession, the present citizens of the Union are, in many ways, more concerned about the general issues of enlargement.**

It is also difficult to know how the various applicant economies will look in five to 10 years.

The pace of political events in the region makes any long-term forecasts a major challenge, especially given that nothing quite like the transition of these economies has ever happened before.

Officials from the various Commission directorates-general are working on different scenarios such as all candidates joining together or only a small number of countries joining in the first wave.

Although they accept that this will produce far from a perfect analysis of what is likely to happen, they argue that it is necessary to avoid being swamped by a tidal wave of variables. But, despite the complexities, some messages are emerging.

As far as the Community budget is concerned, the two major challenges of enlargement are the CAP and structural funds. Together they account for between 80 and 90 per cent of its funds and are especially sensitive to the rural, lower-income character of many of the 10 applicant countries.

What is increasingly clear is that neither of those policies will be able to absorb 10 new members without significant reform. The need for change has been accepted publicly both by Agriculture Commissioner Franz Fischler and Regional Commissioner Monika Wulf-Mathies.

CAP, if current thinking is taken to its natural conclusion, will probably have to move towards more of a rural development-type policy, accepting the natural lowering of food prices that the Union will need to make.

The regional funds will need to become more focused on areas of particular need, avoiding the scatter-gun approach to development they take at present.

But other policies, too, face considerable adjustment. Not least is the highly sensitive area of justice and home affairs — concerning EU-level policy from free movement to organised crime. EU governments will need to convince their electorate that they will be safe, as well as continue to be wealthy, when new countries join. Although there is no doubt that each country will, in the final analysis, stand alone, the impact of the Commission's horizontal analysis of enlargement should in no way be underestimated. ■

*Alistair Keene, Brussels*

| | In favour | Not in favour |
|---|---|---|
| *Switzerland* | 72 | 14 |
| *Norway* | 70 | 15 |
| *Iceland* | 57 | 25 |
| ***Hungary*** | **51** | **30** |
| *Malta* | 50 | 29 |
| ***Poland*** | **49** | **33** |
| ***Czech Republic*** | **44** | **36** |
| ***Cyprus*** | **43** | **36** |
| ***Latvia*** | **38** | **39** |
| ***Romania*** | **38** | **42** |
| ***Slovakia*** | **38** | **41** |
| ***Bulgaria*** | **37** | **42** |
| ***Estonia*** | **37** | **40** |
| ***Lithuania*** | **37** | **40** |
| *Turkey* | 36 | 44 |
| ***Slovenia*** | **34** | **43** |

*Source: Standard Eurobarometer Number 44.*

Countdown to membership

## What EU citizens want

Support for new members by the citizens of existing EU member states was measured in early 1996. People were asked if they were in favour of certain countries becoming part of the EU in the future. The two countries most acceptable to present EU citizens were Switzerland (72 per cent) and Norway (70 per cent), despite the Norwegian referendum rejecting EU membership. There is then a gap of about thirteen percentage points separating these two from the second group of countries where around half of EU citizens say they will support membership: Iceland (57 per cent), Hungary (51 per cent), Malta (50 per cent) and Poland (49 per cent). Just over four out of 10 EU citizens support membership for the Czech Republic and Cyprus. Everywhere else, support is under 40 per cent.

This survey of EU citizens was undertaken in January-March 1996. ■

# in brief

## Luxembourg makes plans

Luxembourg took over the European Union presidency in July for the next six months. Jean-Jacques Kasel, personal representative of Luxembourg's Foreign Minister for the Inter-Governmental Conference (IGC), says his country wants to tackle five main issues during its presidency. These include:

- incorporating the social protocol into the main body of the treaty
- speeding up the EU's response to environmental issues
- increasing internal and external security through the strengthening of the common foreign and security policy
- a special council meeting on enlargement
- strengthening the EU's ability to negotiate better on issues of international trade.

## EU agrees to support FYROM

The EU has agreed to lend the former Yugoslav republic of Macedonia (FYROM) Ecu 40m ($46m). Part of the money is the EU's contribution to the donors' conference which settled its $30m debt to the European Investment Bank. The failure to pay off that debt had held up the signing of the trade and co-operation agreement reached with the EU in June 1996. The EU decision paved the way for additional contributions from the international financial institutions to cover a projected $85m balance-of-payments shortfall this year. Delegates to the Brussels donors conference sponsored by the EU and the World Bank promised the country $65m in loans for 1997.
Meanwhile, Italian President Oscar Luigi Scalfaro on a visit to the country said he supported FYROM's bid for full EU and Nato membership.


*Sue Cunningham Photographic*

## Single market action plan agreed

The single market action plan drafted by the Commission for the Amsterdam European Council "will only be effective if all member states are ready to renew their commitment to the single market, and this may require difficult political decisions," according to Single Market Commissioner Mario Monti.
"Member states should show the same degree of commitment vis-à-vis market integration as they do in trying to meet the single currency convergence criteria.
The action plan must clearly define the specific measures required to achieve the objective of a fully integrated and dynamic single market, and a detailed timetable for implementing each of these measures," says Mr Monti.
"Much of the emphasis will be on practical, non-legislative action to make sure that the rules agreed are respected and that they are as simple and as clear as possible. Businesses and people need to be well informed about how to make the most of single market opportunities," concludes the Commissioner.

## Romanian PM makes historic trip to Hungary

Romania's Prime Minister, Victor Ciorbea, says he expects legislation on local administration and education to be amended soon to meet Hungarian ethnic demands.
Mr Ciorbea also says the local administration law should provide for bilingual signs and the education law should lift remaining restrictions on instruction in national minority languages.
Mr Ciorbea became the first Romanian prime minister to visit Hungary since the collapse of communism. He chose Hungary for his first official trip abroad as "proof of how important we regard our bilateral relations and what enormous importance we give to the active partnership with Hungary".
Romania wants both Hungary and itself to be admitted to Nato at the same time. Hungary supports that position as long as it does not slow down its integration into the alliance.

## Association councils stress positive

Bulgaria, Slovakia, and Romania recently participated in association council meetings. During the meeting on Bulgaria, the council supported the government's anti-crisis programme and commitment to reach an agreement with the International Monetary Fund (IMF) on a macroeconomic stabilisation programme which would be accompanied by comprehensive structural reforms, including price liberalisation, more privatisation, restructuring of

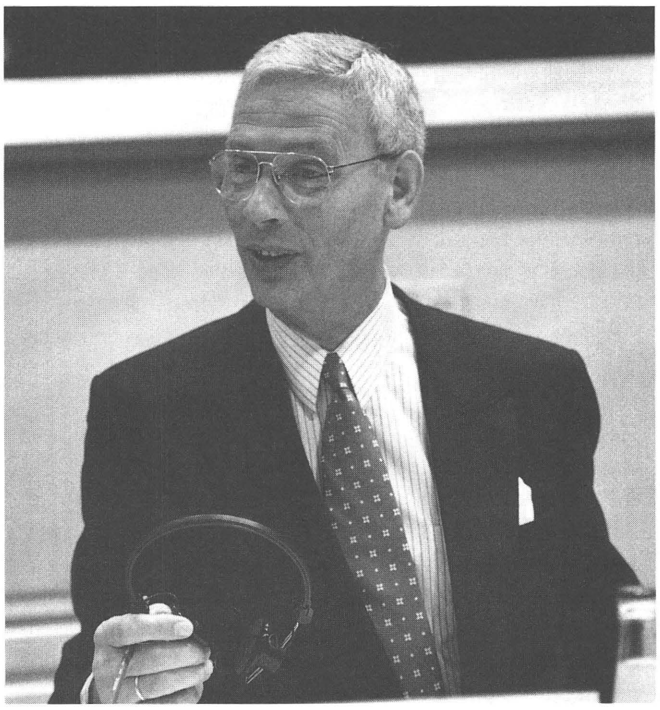
the banking and enterprise sectors and reform of agriculture.
The EU has provided Bulgaria with over Ecu 72.5m since May 1996 and a further Ecu 20m in emergency social assistance under its Phare programme.
During the council meeting agreement was reached on extending the cumulation of rules of origin system to Bulgaria. This is an important element in the pre-accession strategy. Together with the completion of free trade agreements between Bulgaria and the other candidate countries, this should help boost trade and industrial co-operation.
During the Slovakia association council, the EU was encouraged by the country's positive macroeconomic growth. The country's national approximation programme was welcomed by the council, but the meeting pointed out that approximation needed to be supported by effective enforcement.
The council was also pleased with the developing trade between the EU and Slovakia, although Slovakia would like to see more concessions from the EU. The council was also supportive of Slovakia's efforts to widen the scope and membership of the Central European Free Trade Agreement (Cefta).
The EU-Romanian association council held its third meeting in Brussels. The council reviewed the implementation of the pre-accession strategy and considered the priorities for future proceedings. It also stressed the importance of each applicant country's performance in the economic and political fields, stressing the importance of alignment of legislation on the Union's internal market. The meeting encouraged Romania to conclude bilateral free trade agreements with all the other associated countries and welcomed the fact that Romania will join Cefta in July. The council also welcomed Romania's commitment to regional co-operation, in particular in the context of Black Sea economic co-operation and the central European initiative.

## Van den Broek trips yield results

Foreign Affairs Commissioner Hans van den Broek visited Lithuania, Latvia and Estonia recently. During his trip he discussed these countries' preparations for EU membership and explained the situation from the Union's point of view. He outlined the situation with regard to the opinions on the applications for membership and updated the countries on the latest developments.
Meanwhile, Commission President Jacques Santer on a recent visit to Slovenia urged at that time authorities there to ratify the Europe Agreement signed in June 1996 as soon as possible. If the agreement is not ratified, the EU cannot open accession negotiations with Slovenia. The accord is expected to be ratified before the end of the summer.

## First joint advisory group set up

The Economic and Social Committee (ESC) has set up the first joint advisory committee with a candidate country. The EU-Hungary committee is made up of six ESC members and the same number of members from the Hungarian national council for reconciliation of interests. The group will meet twice a year to comment on all economic and social aspects of relations between the EU and Hungary and will help in monitoring the accession process.
Tom Jenkins, president of ESC says, "Above all the accession strategy must not stress the economic dimension to the exclusion of the social dimension. It has to pay constant attention to the interests of citizens and ensure they are kept fully informed."
The committee intends to establish co-operation with the EU-Hungary association council, too. The two co-presidents are to exchange information on the implementation of the pre-accession strategy and structured dialogue.
Similar joint advisory committees are being planned for the other candidate countries.
ESC has a home page on Internet (http://europa.eu.int/ces/ces.html). The main site is in French but it is possible to have information in English by logging through the main entry and then clicking on "opinions of the ESC". This includes a list of original ESC documents which can be accessed and downloaded in their entirety or by accessing another Internet site directly in English (http://www2.echo.lu/ces/ceshome.html).



Sue Cunningham Photographic

# News in brief ... News in brief ... News in brief ... News in brief ...

The Commission has adopted a proposal establishing a framework for EU action in the field of water policy. It is designed to prevent further deterioration and to protect and enhance the quality and quantity of aquatic ecosystems. It is hoped this will contribute to the provision of a supply of water suitable for sustainable development.

The Commission has approved an aid scheme for small- and medium-sized enterprises (SMEs) in difficulties in eastern Germany. Aid will be in the form of extensions of loans and guarantees, waiver of loans and some new loans or outright grants. Up to DM 3m (Ecu 1.6m) per beneficiary may be available. Around 150 and 200 SMEs are expected to benefit from the scheme which will run until the year 2000.

Estonia and Finland have introduced visa-free travel between the two countries starting May 1. Half of the 200,000 visas issued by Estonia's representations abroad come from its embassy in Helsinki. Estonia already has visa-free travel with Denmark and is expected to sign similar agreements with Sweden and Norway later this year.

Latvia and Turkey have signed agreements on protection of investments, on economic and trade co-operation and agreed to work on a free-trade agreement.

Bulgaria has set up a centre for encouraging exports and has begun talks with European Bank for Reconstruction and Development (EBRD) for assistance in creating a facility to provide export credits, insurance and guarantees. Bulgaria also intends to sign agreements on the protection of investment and to join the Central European Free Trade Agreement (Cefta).

Norway, which has twice rejected EU membership, says it supports the efforts of the Baltic states to join the Union, as this will strenghten Baltic security. Norway also says Nato's door should be open to all democratic states and that Russian fears concerning Nato's enlargement to the east are groundless.

Hungary and Romania have signed an accord on the protection of military secrets. The two countries also agreed to set up a joint peacekeeping battalion for use with Nato, the UN and the OSCE. The battalion, scheduled to be operational by the end of the year, will have bases in both countries, with joint command and joint exercises. The two defence ministries will have periodical consultations on military matters.

A special 400-strong narcotics bureau has begun operating in Poland. The bureau fights drug-related crime by stamping out international drug trafficking routes across Polish territory, closing down laboratories that manufacture amphetamines (of which Poland is Europe's main source) and co-ordinates the activities of other state institutions involved in combating crime. Last year 97 cases of cross-border drug smuggling were registered, compared with 69 in 1995. A special unit may also be created to fight child abuse and trading in women for prostitution.

In an attempt to encourage foreign investment, Romania's upper house has passed a law allowing foreign companies to buy land. Direct foreign investment in Romania totals just over $2bn (Ecu 1.7bn) since 1990.

A UN report says Hungary continues to rank first in foreign investment in the transition economies. Total direct foreign investment in the region topped $46bn (Ecu 40bn) from late 1989 to mid-1996. Of that amount Hungary received about $14bn, Poland $9bn, Russia $6.6bn and the Czech Republic $6bn. About 70 per cent of all direct foreign investment in the region has gone to Hungary, the Czech Republic, Poland, Slovenia and Slovakia.

Former British deputy Defence Minister, Frederick Howe, says his country supports setting up Baltron, a joint Baltic destroyer squadron, which will help protect the Baltic region. Britain will assist in the training of seamen and donate some equipment. Germany, the US and several Nordic countries have also promised to help.

Bulgaria has abolished visas for west Europeans. The move is aimed at strengthening the country's position in seeking visa concessions for Bulgarian citizens and at fostering tourism from EU countries. The government also took measures to restrict the illicit trade in Bulgarian passports. A criminal check will be required before a new international passport is issued.

Poul Nyrup Rasmussen, Denmark's Prime Minister, has set out a blueprint of an energy resources network linking the states around the Baltic Sea. It is a development of a plan for a power-supply ring around the Baltic Sea that was formulated in the Baltic States Council.

## News in brief ... News in brief ... News in brief ... News in brief ...

The first step will be to establish a natural gas network. Poland could receive natural gas from Denmark and Norway. Mr Rasmussen outlined his plans during a recent visit to Poland, the first by Danish prime minister in 21 years. The prime minister also signed an agreement on Danish economic and technological assistance to Poland.

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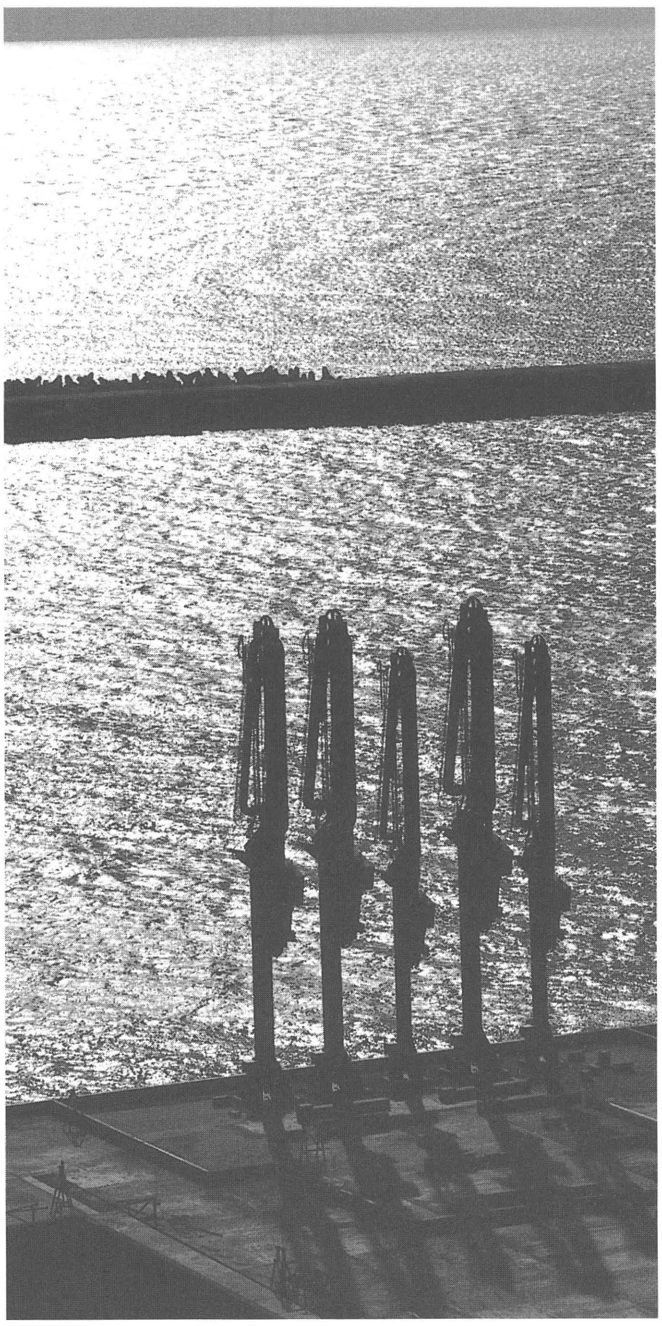
Latvia has agreed to recognise the current border with Russia. Latvia is no longer demanding that the border agreement include a reference to the 1920 Riga Peace Treaty, which stated that the Abrene district belonged to Latvia.



Sue Cunningham Photographic

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During a visit to Greece by Lithuanian President Algirdas Brazauskas, the two countries signed an agreement on educational, cultural and scientific co-operation. Greece is soon expected to ratify Lithuania's association agreement with the EU.

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The lower chamber of the Czech parliament has approved a constitutional amendment delineating the Czech-Slovak border. Under the accord Slovakia is giving up the village of Sidonie. The amendment still has to be approved by the parliament's upper chamber.

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Donald Johnson, secretary-general of the Organisation for Economic Co-operation and Development (OECD), says Slovakia should be the next OECD member. Although there are several applicants, "there are no other imminent members except for Slovakia," Mr Johnson says. The Czech Republic, Hungary and Poland have already joined the organisation.

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Russia is to invest $1bn (Ecu 870m) in Bulgaria. Projects include the reconstruction of a gas pipeline ($600m-650m) and a nuclear plant ($250m) as well as participation in privatising Balkankar, Neftohim and other companies.

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The music industry has asked the Commission to urge Bulgaria to stop producing pirate compact discs which it says is costing the industry $100m (Ecu 87m) a year. Bulgaria is second only to China in the export of pirate CDs, producing around 15m pirate discs a year.
The government has now agreed to strengthen regulations for registration of audio, video and CD-ROM production equipment. It has also closed down production facilities and destroyed some pirate CDs and videos. Production orders must now be licensed by the copyright department of the Culture Ministry.

# EU offers helping hand to build civil administration structures

Imagine being asked to build a state-of the-art spacecraft using nothing more than a cheap screwdriver and a handful of nails. This is the scale of the task facing many of the 10 candidate countries from central Europe and the Baltic states waiting to join the European Union, who need to put in place an efficient public administration system capable of coping with EU legislation.

While all 10 candidate countries want to join the European Union (EU) as soon as possible, many do not yet possess the necessary administrative structures to ensure that treaty articles, regulations, directives and recommendations which make up the *acquis communautaire* (body of EU law) are enforced at a grass-roots level.

"All of the applicant states have theoretical programmes in place for taking on the *acquis*, but that is not necessarily the point. It is relatively easy to adopt legislation in national parliaments. Making it function on the ground is another matter," notes one Commission expert on the problems of the applicant states.

In many cases the public officials and infrastructure needed to ensure that regulations are respected do not yet exist.

"Take a theoretical example — car emissions. If the rules are to be enforced, you need to be able to check cars regularly and you need the machinery to do it. In many of the states these resources simply do not exist," explains one official. There are similar sorts of problems for a whole range of policy areas, she adds.

The Commission points to the state of regional and local government in the 10 states as a sector in need of urgent reform. Specific problems differ between the 10, but all have one thing in common — their existing structures were never designed to cope with the rigours of western-style democracies and the internal market.

"You are talking about countries which were running under completely different systems to any other states which have joined the Union," explains another official.

Less than 10 years ago all the applicant states were centralised economies. State aid, for example, far from being outlawed as in the EU, was very much in evidence. Frequently government ministries and local government departments had similar titles to their counterparts in the EU, but historically performed entirely different functions.

**While all 10 candidate countries want to join the EU as soon as possible, many do not yet possess the necessary administrative structures to ensure that treaty articles, regulations, directives and recommendations which make up the *acquis communautaire* are enforced at a grass-roots level.**

"If you have a trade and industry ministry which doesn't understand how a market economy works, then clearly there are problems," explains one expert. "We are having to teach people what it is like to work in a free market democracy with an independent judicial system," she adds.

Beyond these more general problems, individual applicant states have their own particular difficulties to overcome. Estonia, Latvia, Lithuania and Slovenia are effectively starting from scratch as far as their public administrations are concerned. The four were previously part of much larger federal states (in the case of the Baltics, the former Soviet Union and for Slovenia, part of now dissolved federal Yugoslavia).

As far as the Commission is concerned, this state of affairs has actually proved to be a positive advantage. "These states have no 'chips on their shoulders' as regards the past and have made very creditable efforts to create new administrations," says one official. Other states, such as Poland or the Czech Republic for example, face the problem of adapting extensive administrative systems which have been in place for years.

The Commission admits that its efforts to help in the transition process under the EU Phare technical assistance programme have not always been well received. "If you have been working in local government for 30 years and some 25-year-old consultant fresh out of university comes in one day and tells you you've been doing it all wrong, clearly there is the potential for misunderstanding," says one expert.

In a bid to remedy this, Phare is being re-directed. Until now the scheme has been demand-led with applicant states telling the Commission in which areas they need assistance.

"Under the reorientation we will be moving to a more accession-driven approach," says one expert. This means that future assistance will depend to a far greater extent on the applicant states showing they are fulfilling accession criteria.

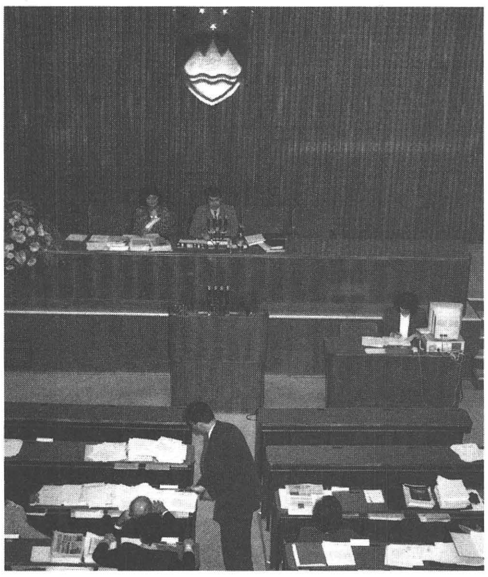
With regard to public administration the Commission is likely to move away from paying consultancies to train civil servants in the applicant states. "We would like to involve the EU member states to a greater degree in this particular area. Our plan is to set up exchanges between civil servants in the applicant states and their opposite numbers in the Union," says one expert.

It is hoped this approach will be more effective and more sensitive to the needs of the applicants.

One of the biggest tasks the Commission and member states face in preparing the applicants' public administrations is the image such institutions have. "Public bureaucracy is often associated [in these countries] with the old regimes, so people are not particularly keen to work as civil servants," explains one official. Linked to this is the problem of the brain drain from administrations. Often the brightest potential civil servants taking part in Commission-sponsored training schemes leave public office for more lucrative posts in the private sector.

As far as the Commission is concerned, despite the enormity of the tasks ahead, the challenges facing all 10 applicants are not insurmountable. ■

*Timothy Davidson, Brussels*



Sue Cunningham Photographic

*"All of the applicant states have theoretical programmes in place for taking on the* acquis, *but that is not necessarily the point. It is relatively easy to adopt legislation in national parliaments. Making it function on the ground is another matter," says one Commission expert.*

Public administration

# British efficiency is key to fast communications

"The British government has the most efficient distribution system of information within the EU," proudly claims an official in the British government office responsible for the European Union in London. Its main task has been to organise the methods and structures needed to pass on information from Brussels down to local government level.

**The reason the British believe their system works so well is that it is based on simplicity. The lines of communication of government policy to and from Europe often, but not always via the European Secretariat, work smoothly and simply.**

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Essentially all information is passed to the department responsible for a specific area. It then in turn becomes responsible for passing on information to those further down the chain, if needed.

That the communications lines within the civil service are short is an added bonus. If there were a regulation with no implications at all for any other department (something which is generally unlikely), civil servants simply work on it at a department level, cutting out great swathes of bureaucracy and passing it only to the people directly involved. If, for example, there were a regulation on the environment that needed discussion, there is a defined channel through which to ask for feedback and inform all bodies involved about the proposal before it becomes law or when new regulations are issued.

A standard set of consultation lists and letters can be sent to all groups, offices and departments which are potentially affected by any Brussels legislation. This has been developed over the years both prior to and after membership.

There is a checklist for all ministers, officials and individual departments for notification to ensure that everything runs smoothly.

Now that most of the measures ensuring the single market are in place, most officials expect the EU information system will speed up, rather than slow down, as the volume of directives has decreased. ■

*Adrian Murdoch, London*

# Spain keeps things simple

"The most difficult step was at the beginning," says a foreign ministry official, describing how Spain's machinery of government adapted to the demands of EU membership. "The change of mentality necessary for all government officials took several years to penetrate to all levels of public administration. We had to change completely all our habits. But after numerous visits to Brussels, and great educational efforts within the ministries, we eventually got our brains round the idea."

Spain's accession to membership in 1986 was achieved relatively smoothly, for two main reasons. First, because of the long lead-in period (seven years) before Spain formally signed up. Second, because of the simplicity of the machinery set up to transmit Brussels laws and directives into the Spanish system.

The foreign ministry established a special department for EU relations well before membership, which orchestrated the long process of negotiations conducted by a small, closely knit team. "We set up co-ordinating units within each ministry that were responsible for transposing and implementing Community laws and promoting the process within that ministry. After 1986 an inter-ministerial commission on EU relations, on which all ministries were represented, met every two or three weeks to analyse every aspect of the process. It still meets, and has a very good record."

Most ministries were affected, the official recalls, but mainly those of economy, industry, trade, transport and agriculture. "At that time the ministries now so closely involved in the Maastricht process — health, consumer protection, social affairs — were less involved."

The foreign ministry's EU department was the nucleus that co-ordinated everything, the sole interlocutor with Brussels. Now it is more selective, as each ministry has built up its own contacts. Two years before joining, teams were established in each ministry to translate all EU law into Spanish, the accumulation of some 30 years of Community experience. It was a formidable task, the official recalls, "one of the most complex in that early stage, but was made easier by two factors".

All Spanish legislation since the 1975-76 transition to democracy was adopted with a view to eventual membership and made compatible with EU norms and laws. Second, extensive bilateral contacts with other members helped Spain converge with EU interests.

"The fundamental thing was to start as early as possible, before union, to adopt our legislation to that of the EU, to avoid the trauma of having to change everything all at once. This was not difficult because our system was similar to those of most EU countries. The seven year transition period was important, particularly for our agriculture, but in some sectors we were ready sooner," the official says.

It helped, too, that there was political unanimity. "All political forces were completely committed. There was no dispute or polemic over the main objective."

The success of the co-ordination rested on the simplicity of the structures, which once in place remained more or less unchanged. The acclimatisation process was further encouraged by mountains of books, leaflets and courses and seminars for officials and business sectors. The universities and private companies mobilised to educate entrepreneurs so they could adapt to new demands and new opportunities. "There was huge enthusiasm for entry and that made all the difference," the official remembers.

But even with all the keenness and careful orchestration, January 1 1986 was a blinding moment of truth. "It's like driving a car. You get the maximum practice and theoretical preparation, but until you're out on the road on your own, you don't really know what it's going to be like." ■

*Elizabeth Nash, Madrid*

# Hungary finds the devil in the detail

When it comes to co-ordinating the link between two massive bureaucracies, Hungary's relations with the European Union (EU) prove the devil is in the details.

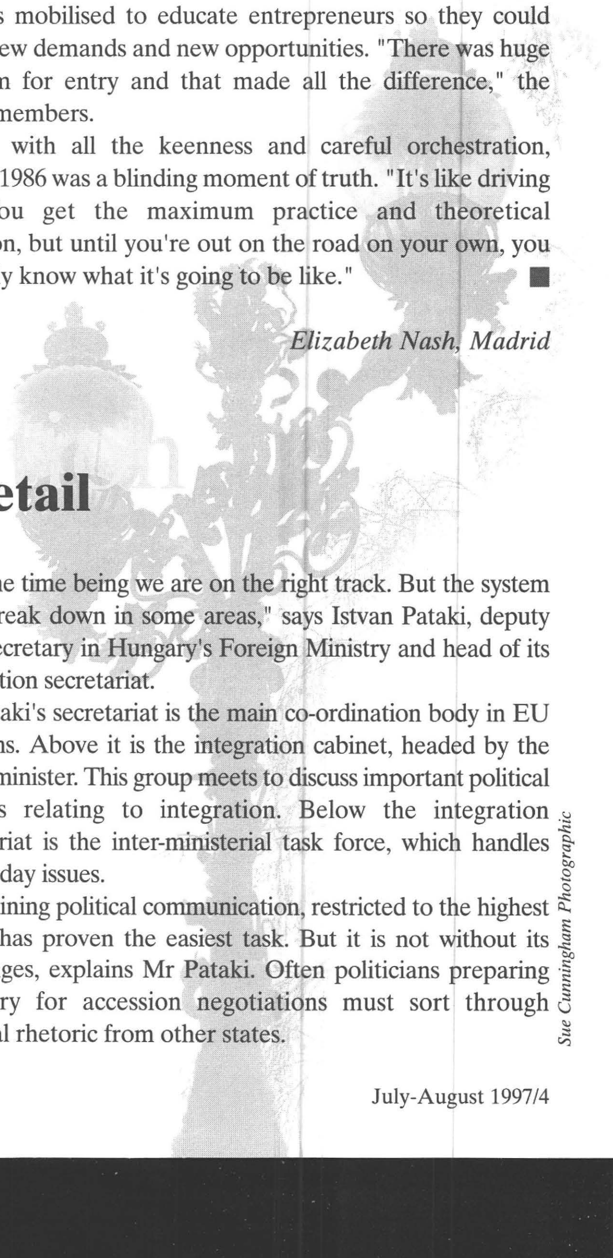
The broad apparatus Hungary now has in place is a good model. At the highest levels, it works well in managing three key areas: keeping up two-way political communication, distributing necessary information that comes from Brussels and orchestrating the task of law approximation.

But good models do not always fly the farthest. Political rhetoric can confuse and frustrate. Information that makes change possible does not always reach all its intended destinations. New regulations are not always enforced and some organisations simply lack the resources to take advantage of new opportunities.

"For the time being we are on the right track. But the system does break down in some areas," says Istvan Pataki, deputy state secretary in Hungary's Foreign Ministry and head of its integration secretariat.

Mr Pataki's secretariat is the main co-ordination body in EU relations. Above it is the integration cabinet, headed by the prime minister. This group meets to discuss important political matters relating to integration. Below the integration secretariat is the inter-ministerial task force, which handles day-to-day issues.

Maintaining political communication, restricted to the highest levels, has proven the easiest task. But it is not without its challenges, explains Mr Pataki. Often politicians preparing Hungary for accession negotiations must sort through political rhetoric from other states.



*Sue Cunningham Photographic*

"We hear statements that are directed to specific interest groups, like miners or farmers," he says. Hungary tries to react to such challenges by presenting an argument showing that enlargement will help, not hurt, EU member states.

"There are no major misunderstandings," Mr Pataki continues, "but we constantly have to present our case that the EU — and Europe — needs EU expansion."

The political communication issue includes the crucial element of timing — making sure officials from Hungary and the EU have similar expectations for when enlargement may actually occur.

The integration secretariat's problems become less straightforward in making sure all of the government's ministries, as well as other public institutions and local governments get the information they need and abide by regulatory and policy changes originating in Brussels.

"Basically the problem stems from a shortage of professional personnel. We just need more trained people in certain ministries, particularly people who can speak one or two foreign languages," Mr Pataki explains.

Sometimes the lack of trained personnel not only delays the implementation of changes, but also leads to lost opportunities. "If we have a project in need of support at the ministerial level, there's no problem in arranging the proper proposals and applications. But if the project is in the countryside or even a small city, there often isn't anybody in the project who can write a proper proposal, never mind a proposal in English," he says.

Another problem area is legal harmonisation. Activity that must occur at the highest level is not the problem. But passing a law does not always ensure enforcement.

"Application is always a problem. In order to apply a law, you need police and lawyers and judges who will understand the law and put it into practice," Mr Pataki says.

The answer to each of these challenges, Mr Pataki concludes, is time and a lot of hard work. "It's very tiresome. We have to co-ordinate so many different interests. It takes time and work and meetings. But altogether the basics are not bad. We're on the right track, it just takes more work." ■

*Christopher Condon, Budapest*

Public administration

## Estonia plugs the information gap

Estonia has made headway in preparing a regulatory framework in expectation of European Union membership. In March 1995 Estonia set up a separate Minister of European Affairs. The stress is on getting the structures in place and working smoothly. Despite several governmental changes, the country is still committed to EU membership.

Although many countries opt for the EU office to work within the foreign ministry, Estonia has kept it independent, although some foreign ministry officials are not happy about this.

**Although many countries opt for the EU office to work within the foreign ministry, Estonia has kept it independent, although some foreign ministry officials are not happy about this.**

The country operates a three-tier system to make sure that all parts of government are aware of changes related to EU regulations, but can also play a role in carrying out these instructions. In the front line is the Council of Senior Civil Servants. This group meets every other week and is presided over by the deputy permanent under-secretary at the foreign ministry. Until the beginning of 1996, EU talks were on a fairly ad hoc basis.

There is the minister's council which discusses issues less regularly and eight working groups which deal with issues such as technical standards, training of civil servants, the EU logo and information.

Help in setting up structures has come mainly from EU member states, usually from Denmark and Sweden.

One of the difficulties of pushing information down to local government level has been a lack of understanding. Senior government officials are usually both knowledgeable and enthusiastic about EU membership, but at a lower level there is widespread ignorance about what EU accession means.

The government's first strategy has been to inform people of what is happening. ■

*Adrian Murdoch*

# Sustained growth accompanied by rising external imbalances

The Commission's directorate-general for economic and financial affairs responsible for preparing the latest six-monthly forecast of the economies of the 10 applicant states presents the results of the spring 1997 forecasting exercise and gives an analysis of the future prospects for these economies.
General developments in 1996 and the expected evolution in 1997 are significantly blurred by the exceptional economic situation Bulgaria and Romania. The stabilisation process in Bulgaria has been disrupted by important balance of payments problems, combined with severe exchange rate difficulties, hyperinflation and rising budget deficits. In Romania the implementation of a stabilisation and restructuring programme to correct imbalances that had developed over several years is expected to turn growth negative in 1997.
The distortionary effect of the evolution in these two countries on the average inflation rate for the region is even more outspoken. The expected inflation rates of 1,500 per cent in Bulgaria and almost 100 per cent in Romania push up average inflation to almost 65 per cent in 1997 compared to only 13 per cent when these uncharacteristic cases are disregarded. Because of this, Bulgaria and Romania are not included in the discussion of the aggregate evaluations.
As expected, average GDP growth in the applicant countries in 1996 was somewhat lower than in 1995. The slowdown of economic growth in the EU and in particular the decline of the growth rate of EU imports, has negatively affected economic developments in the 10 candidate countries. Because of continued strong domestic demand, overall economic growth slowed down by only one half a percentage point, taking abstraction form the atypical cases of Bulgaria and Romania.
The decline in Hungary is somewhat larger than in other countries, because Hungary has been implementing a restrictive policy package to overcome its 1995 budget and current account deficits. In most countries, investment and private consumption are the driving forces behind the increase of domestic demand.
Given the better economic outlook for western Europe in 1997 and 1998, the contribution to growth from net exports should become less negative in the 10 candidate countries. Also the anticipated start of the economic recovery in the countries of the former Soviet Union should create additional export opportunities in the candidate countries. Combined with sustained domestic demand, this should result in an acceleration of economic growth in most of the 10 candidate countries. However, the predicted recovery in Bulgaria and Romania in 1998 depends on the crucial assumption that implementation of the current stabilisation programmes will be complete and on schedule.
This assumption of a successful, rapid turnaround makes the current forecast for these countries probably the most optimistic, but not necessarily unrealistic, scenario that can be painted.

## *GDP (real percentage change)*

| | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|
| Bulgaria | 1.4 | 2.6 | -9.0 | -6.7 | 2.9 |
| Czech Republic | 2.6 | 4.8 | 4.4 | 4.6 | 5.0 |
| Estonia | -2.7 | 2.9 | 2.3 | 3.0 | 3.0 |
| Hungary | 2.9 | 1.5 | 0.5 | 1.5 | 3.0 |
| Latvia | 1.9 | -1.6 | 2.5 | 2.8 | 3.2 |
| Lithuania | 1.0 | 3.0 | 3.6 | 4.0 | 4.5 |
| Poland | 5.2 | 6.9 | 6.1 | 6.5 | 7.0 |
| Romania | 3.9 | 7.1 | 4.1 | -3.6 | 0.9 |
| Slovakia | 4.9 | 6.8 | 6.8 | 5.9 | 5.4 |
| Slovenia | 4.9 | 3.9 | 3.5 | 4.2 | 4.8 |
| 10 candidates | 4.0 | 5.2 | 3.9 | 3.6 | 5.2 |
| 8 candidates* | 4.1 | 5.0 | 4.5 | 5.0 | 5.6 |

* excluding Bulgaria and Romania.

## *Inflation (private consumption deflator)*

| | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|
| Bulgaria | 53.8 | 110.0 | 1500.0 | 50.0 |
| Czech Republic | 9.1 | 8.8 | 8.5 | 8.4 |
| Estonia* | 34.0 | 24.0 | 15.0 | 10.0 |
| Hungary | 26.3 | 23.0 | 18.0 | 13.0 |
| Latvia | 16.7 | 17.0 | 11.7 | 8.4 |
| Lithuania | 39.7 | 24.7 | 10.5 | 8.0 |
| Poland | 28.7 | 19.9 | 15.0 | 12.0 |
| Romania | 33.3 | 57.0 | 98.0 | 38.0 |
| Slovakia | 9.7 | 5.8 | 6.0 | 5.5 |
| Slovenia | 14.3 | 9.7 | 8.2 | 9.2 |
| CEC-10 | 25.2 | 25.5 | 64.6 | 14.0 |
| CEC-8** | 22.6 | 16.9 | 13.0 | 10.7 |

** GDP deflator. ** excluding Bulgaria and Romania.*

The combination of fast import growth as a consequence of high domestic demand, and slower export growth resulted in a substantial widening of external imbalance in 1996. The overall trade balance deteriorated from a deficit from 4.2 per cent of GDP in 1995 to a deficit of almost 7.5 per cent.

Half of the countries now have a trade deficit that exceeds 10 per cent of GDP. Although it is expected that export growth will pick up again in 1997 and 1998, this will probably be insufficient to compensate for the continuing strong import growth. Consequently the trade balance will further deteriorate, although a slower pace.

External imbalances can be considered as a normal phenomenon for countries in transition, because of their high need for mainly imported investment goods. So far these high external deficits have also been easily financed. Persisting deficits are a sign of an overheating of the economy which could put in jeopardy the recent reductions of inflation. In order to avoid such an overheating, domestic monetary and fiscal policies should be kept restrictive.

When large external deficits are mainly financed by speculative short-term capital inflows, there is a risk that a sudden withdrawal of these funds might create a balance of payments crisis.

The gradual disinflation process has been continuing in all countries with the notable exception of Bulgaria and Romania. Especially the countries which still had relatively high inflation rates (Baltic states and Poland) recorded higher than expected reductions of inflation in 1996. Despite sustained high real wage increases and relatively high GDP growth, inflationary pressures will probably ease further in the coming years.

This will be possible thanks to productivity improvements, resulting from the rapid investment growth of the previous years and on condition that strict monetary policies, leading to a real appreciation of the exchange rates, are maintained.

It is not expected that the reduction of inflation rates in the most advanced countries will proceed as fast as in the past or that they would reach inflation rates as low as in EU member states in the short-term. Because in these countries the prolonged period of high domestic demand could start to have inflationary effects, further inflation reduction is expected to be more moderate. ■

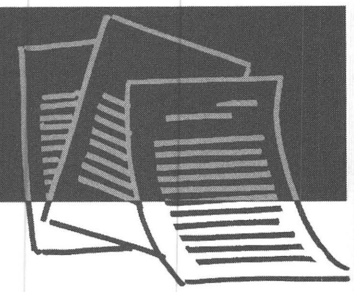
*In the framework of its six-monthly forecasts of the economic situation in the EU member states, the directorate-general for economic and financial affairs (DGII) also produces forecasts for the associated countries. A summary of these forecasts is published in Supplement C of European Economy, which also contains more detailed country notes on the most recent economic evolution in these countries. More information on Supplement C and DGII forecasts from Bernard Naudts, DGII (Tel: (322) 296 1537; Fax: (322) 295 2791).*

## *Trade balance* *(percentage of GDP)*

| | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|
| Bulgaria | -0.2 | 0.9 | 1.6 | 1.2 | 1.1 |
| Czech Republic | -1.5 | -8.0 | -11.5 | -12.0 | -12.4 |
| Estonia | -15.3 | -19.1 | -26.2 | -30.8 | -30.6 |
| Hungary | -8.7 | -5.8 | -6.1 | -6.3 | -6.6 |
| Latvia | -8.2 | -13.0 | -17.6 | -20.5 | -22.2 |
| Lithuania | -7.5 | -15.8 | -12.7 | -11.1 | -10.2 |
| Poland | 1.4 | -1.6 | -6.2 | -7.8 | -9.5 |
| Romania | -1.7 | -4.6 | -4.6 | -4.2 | -1.4 |
| Slovakia | 0.6 | -1.1 | -11.1 | -13.4 | -14.9 |
| Slovenia | -2.4 | -5.0 | -4.5 | -4.4 | -3.9 |
| CEC-10 | -1.9 | -4.2 | -7.4 | -8.4 | -9.0 |


Sue Cunningham Photographic

# Letters to the Editor



## TO THE EDITOR

*The launch of* European Dialogue *represents an opportunity to inform present and future integration experts.*

*Although information about the problems in the EU and its member states is helpful in forecasting what's likely to happen it would be useful if the magazine were to concentrate also on immediate problems concerning the specific preparations necessary for pre-accession.*

*I suggest some new information be included. This might refer to the national experience of states which joined the EU earlier and which have a level of development closer to that of the associated countries.*

*It would be useful to have information about the institutional structures built with a view to membership, their powers and relationships, how the mechanism works and the difficulties which appeared.*

*Another aspect would relate to the practice of the negotiations themselves. The Swedish experience, examined in 1996/6, approaches these requirements.*

*The training of staff would be another subject. The countries which became EU members trained several categories of experts for internal problems and negotiations. How did they get ready and what did the preparation consist of?*

*Publishing some comparable studies with concrete indicators of the advantages and disadvantages of integration would also be useful.*

Narcis Dobru
Chief of the Office for European Integration of the Prefecture in Buzau County, Romania

## TO THE EDITOR

*I am the director of a non-governmental organisation, Zelený kruh (Green Circle), which is a platform of green initiatives in the Czech Republic. Last year we carried out several projects, including one called "women and the environment". This project led to a conference on the subject of women, their participation in public life, and to a decision that I should be a candidate for a seat in the Senate. At that time there was no woman minister in the Czech government, although now the Justice Minister is a woman, and only 15 per cent of MPs are women.*

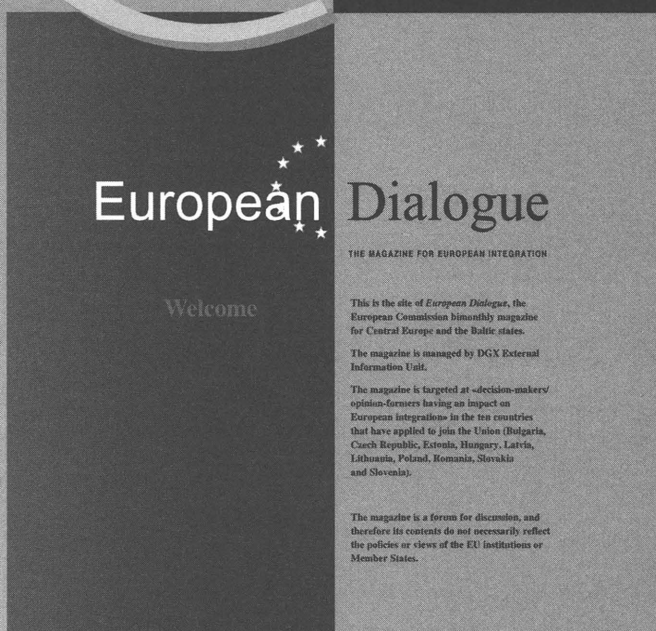
*The presence of women in politics is not essential because women are better than men but because they are different. They look at the world from another angle. Their preferences are different.*

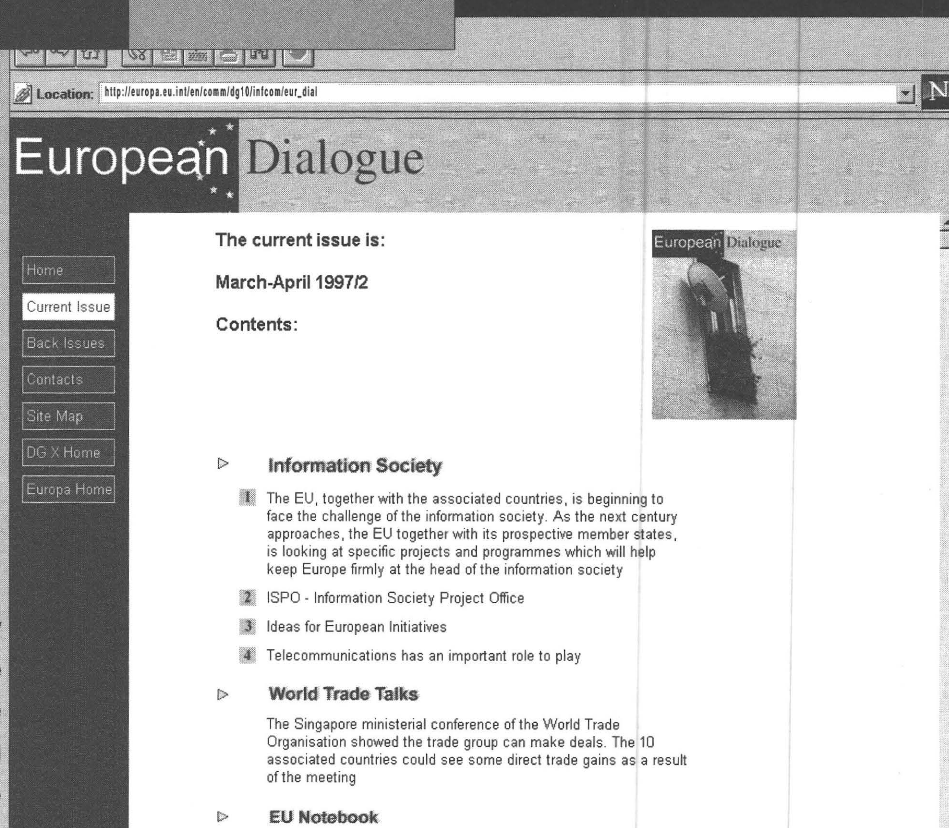
*Men see the world as a source for creating and transforming. Women see the world mainly as a social area in which they seek a place and task for themselves. Men transform the world from the outside; women from the inside.*

*Both views are needed. Czech politics at present resembles a male mono-culture and as ecologists w e know that mono-cultures damage the soil.*

Marie Haisová
Director, Zelený kruh
(Green Circle)
Prague, Czech Republic

# We @re on the net

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