



TOGETHER IN EUROPE



EC NEWSLETTER FOR CENTRAL AND EASTERN EUROPE

RELATIONS WITH THE COMMUNITY

STRATEGY FOR ASSOCIATED COUNTRIES APPROVED

The EU General Affairs Council chaired by Klaus Kinkel approved, on November 29, the text of "Strategy for the Integration of the Associated Countries in Central and Eastern Europe". This text will be submitted to the EU Heads of State and Government during the European Council in Essen on 9-10 December.

The adoption of a strategy for the associated countries of central and eastern Europe to prepare for membership, and to strengthen their capacity to assume the responsibilities of a member state was one of the main priorities of the German Presidency. Readers will recall that the Commission submitted the draft text to the Council in July. The Council immediately started to discuss the individual parts. The text which will be submitted in Essen is somewhat more vague than the original proposal, as well as more restrictive. This doesn't result from a some change of the policy towards central and eastern Europe. On the contrary, the will to integrate the associated countries into the EU internal market and to carry out the necessary changes which would permit the enlargement of the EU to more than 20 countries, is stronger than ever before. But it chiefly reflects the budgetary constraints, and the need to reach some balance between the assistance given to central and eastern Europe and to the countries in the Mediterranean region. The Essen Summit will thus not only approve the "Strategy for CEEC", but also the "Europe-Mediterranean Partnership" (see details on pages 11-12).

The difficult policy discussion which accompanied the approval by the General Council of the "Strategy" text for Essen Summit will probably continue there. In fact the decisions concerning the "Financial Assistance" part of the Strategy will only be made after Essen. This is probably a reason for which the much expected first Summit between the EU Heads of State and their counterparts from the Associated Counties, originally to occur at Essen, will now only happen in June 1995 in Cannes, under the French Presidency. On the other hand, in Cannes, the European Council will be able to hand over to the prime ministers of the associated countries, not only the "Strategy for integration", but the "White Paper" which will represent a very concrete list of measures which need to be taken (together with appropriate

(continued on page 2)

CONTENTS

RELATIONS WITH THE COMMUNITY

<i>STRATEGY FOR ASSOCIATED COUNTRIES APPROVED</i>	1
<i>STRATEGY FOR INTEGRATION</i>	2
<i>MEASURES TO REDUCE AGRICULTURAL TRADE IMBALANCES</i>	4
<i>PREPARATORY WORK ON WHITE PAPER</i>	6
<i>BALTIC COUNTRIES WORRY ABOUT 1996</i>	7
<i>EP TAKES POSITION ON FUTURE ACCESSIONS</i>	7
<i>EU STEEL RESTRUCTURING</i>	8

DEVELOPMENTS WITHIN THE EC

<i>PREPARATIONS FOR THE 1996 INTERGOVERNMENTAL CONFERENCE</i>	9
<i>EURO-MEDITERRANEAN PARTNERSHIP</i>	11

(see page 1)

transition periods and specific regimes) allowing the integration of the CEEC into the EU Internal Market (see pages 6-7).

Following the decision not to hold the joint Summit in Essen, Hungary and Poland declared, they will nevertheless present their common position on the Strategy before the Essen Summit.

The General Affairs Council made several other decisions concerning the CEEC:

- **Council approved the negotiations with the three Baltic States with a view to concluding the Europe Agreements.** The preliminary discussion will start already in December. Readers will recall that Free Trade Area Agreements with the Baltic states enter into force on January 1995, thus the negotiations do not need to concern that part of Europe Agreements which is implemented generally in the form of

Interim Agreements.

- **Council approved disbursement of the first tranche of the Ecu15m grant to Albania.** This macro-financial assistance was approved earlier this year, but the disbursement was held back because of veto by Greece. The German Presidency made a considerable effort and put a pressure on Greece to change its position.

- The Council was unable to reach any breakthrough concerning the opening of negotiations with Slovenia on a Europe Agreement. Italy still maintains her opposition.

- The Council was able to approve steel tariff quotas for the Czech and Slovak republics for 1995, as well as reach a common position on the offer on steel volume quotas to be presented to Russia, Ukraine and Kazakhstan (see p.8). ■

STRATEGY FOR INTEGRATION

The strategy reconfirms, that accession of CEEC will take place as soon as the associated country is able to assume the obligations of membership. It recalls the Copenhagen statement on the Union's capacity to absorb new members, while maintaining the momentum of European integration. It says that the associated countries made remarkable progress on the road to political and economic reform and the consistency in this course is the key to successful integration. On the European Union side, the institutional conditions for ensuring the proper functioning of the Union must be created at the 1996 Intergovernmental Conference, which for that reason must take place before accession negotiations begin. The phrase added to the draft text during the 28 November Council, states that the "Council requests to have at its disposal a deep analysis to be prepared by the Commission on the impact of enlargement in the context of actual policies carried out by the Union and their development".

Structured Relationship:

There were no principal changes in the final text. We would like to recall that in addition to the meetings of the Association Councils, starting from 1995 a series of joint meetings will be held:

- Heads of State and Government: annual meeting on the fringes of a European Council (first one to take place in Cannes in June 1995).

- Foreign Ministers (semi-annual).

- ECOFIN, Agricultural Ministers, internal market: annual meetings.

- Transport, telecommunications, research, environment: annual meetings.

- Home and Judicial Affairs: semi-annual meetings.

- Culture, Education: annual meetings.

Every member state which takes over the Presidency in the first half of a calendar year is requested in agreement with the following Presidency to arrange the meeting with the associated countries for that year.

Entry into the Internal Market:

The Council approved the proposal from the Commission concerning the **anti-dumping and safe-guard measures.** In principle, the EU declares itself ready to **consider refraining** from using commercial defence instruments (for industrial products) in relation to the progress achieved in the satisfactory implementation by CEEC of competition policy and state aid rules, together with the application of those parts of the EU law linked to the internal market.

The short-term policy will be that of non-confrontation. The Commission will offer information to any associated country before the initiation of proceedings (anti-dumping, safe-guard), and the Commission will **give a clear preference to price undertakings rather than definitive anti-dumping duties** in cases in which the injury was confirmed.

The Council approved the proposal of the Commission concerning **outward processing**

operations in the textile sector (see detailed discussion in the previous issues).

The Council approved a final text on the "cumulation of rules of origin". As this is a technically complicated text we will publish the full version in the next issue.

Competition and state aids policy: We discussed the draft text in depth in previous issues.

Agriculture:

This part of the Strategy was the subject of detailed discussions. We indicate the essential elements of the text on p4 in this issue. The Commission is asked to present in the second half of 1995 a study on alternative strategies for the development of relations in the field of agriculture with a view to future accession of these countries. Belgium lodged a unilateral declaration to this text stating that Belgium understands that this study will concern in particular a detailed sectorial study of CEEC agriculture. Belgium will then fix its position in relation to the results of these studies.

In the period needed to implement the results of Uruguay Round and of the enlargement of the EU on 1 January, the EU agrees it would take autonomous measures only on a purely technical basis in order not to disrupt traditional trade flows.

Transport and Trans-European Networks: the preparatory work will continue on 8 projects concerning CEEC. The financial instruments (EIB, PHARE, INTERREG II) will be available, but attention is drawn to the special TEN window announced by the EIB (we will publish list of 8 projects in the next issue).

Financial Cooperation:

This was the most difficult part of the discussion. Readers will recall that the Commission was proposing to establish an indicative medium-term financing for PHARE of Ecu7,072m for the 1995-1999 period. The Commission also proposed to increase the 15% limit on PHARE financing for investments to at least 30%. However, for some countries (the UK in particular), this proposal when combined with a proposal for financing a Euro-Mediterranean partnership would mean exceeding "financial perspectives 1995-1995" which John Major claimed as the major British victory at Edinburgh Summit in 1992 (future increase in EU costs is thus bearable for the tax payer, said the British Premier). Acceptance would also mean a lack of funds for other EU external policies and for aid to developing countries in particular.

The decision made by the Council on 28 November states: "The 1995 budgetary estimates for the PHARE programme will serve as a minimum level also for the next years until 1999. The council will review the rates of increase - which it views in principle as desirable - after the Essen Summit". The Council also accepted a compromise during the COREPER meeting that the 15% limit could be increased to 25% (support to infrastructural development).

The budgetary estimate for CEEC for 1995 was Ecu1.1bn. This would mean Ecu5.5bn over 1995-1999 plus the increase to be decided after Essen.

The ministers had a table (for space reasons we will publish it in the next issue) which was based on 12.1% average annual rate of growth. Thus

the funds available would increase to Ecu1,235m in 1996, and in 1999 would increase to Ecu1,745m.

The total for the 1995-1999 period would amount thus to Ecu7,072m. The commitments proposed for Mediterranean countries are Ecu492m in 1995 increasing to Ecu1.73bn in 1999 and amounting to a total of Ecu5.5bn for 1995-1999.

Thus formally for the Essen Summit, the decision reached at the Edinburgh Council is fulfilled. This decision stipulated that an appropriate balance should be maintained in the geographical distribution of the Community's commitments. It was said now that this applies to both the CEEC and Mediterranean region.

The European Council will invite the European Investment Bank (EIB) to develop its lending operations within its present guaranteed loans ceiling, especially in the area of infrastructural investment, as a contribution to the preparation of accession.

It should, wherever feasible, explore the possibilities of a close cooperation with PHARE and the international financial institutions.

Other: the Council approved the proposed alignment of Europe Agreements with Bulgaria and Romania, (ie time-tables relating to duties and tariff quotas in industrial products, textiles, steel and agricultural products), to those concluded with the four central European countries.

Concerning Intra-regional cooperation and promotion of "bon voisinage" the Commission is invited to present a report on this issue in time for Stability Pact meeting. ■

PROPOSED MEASURES TO REDUCE AGRICULTURAL TRADE IMBALANCES

The European Commission is pushing the EU member countries to take concrete steps which would help it to address the question of current and future relations between the EU and the associated countries of central and eastern Europe in the field of agriculture. The agricultural provisions of the Europe Agreements failed to contribute towards the transformation of associated countries agriculture: their exports declined, while EU exports rapidly increased. The main problem, however, are the future relations: there is a danger that agriculture could become a major stumbling block in future accession negotiations. The lack of liberalization in the agricultural sector has already led to political tension.

In 1990-1993, EU exports to the six associated countries of CEEC expanded by 102.8%, while imports declined by nearly 8%. In 1990 the EU had a trade deficit with the six associated countries of nearly Ecu1bn. In 1993 it had a surplus of Ecu451m. Our calculations from the Commission's data base indicate that the trade surplus in agricultural products during the first five months of 1994 amounted to Ecu302m. This suggests a further expansion in the EU trade surplus in 1994 in full. The protectionist steps taken earlier this year by Poland (countervailing duties) and on 1 November by Hungary (higher import duties) do not resolve the situation.

The Commission has embarked on a two-fold strategy:

short term policy improvements
medium term policy for pre-accession stage

Medium term:

The **medium term** strategy will be that to be approved during the EU Essen Summit on December 9-10 and will be contained in the Chapter on Agriculture of the "Strategy for preparation on accession". The aim here will be a convergence of agriculture on both sides. This, naturally would be a lengthy process. Meanwhile it could be expected that the decisions to be taken at Essen would address some more immediate trade problems.

The Commission has made several concrete proposals to the Council, and it will be the Council who will approve the final version of the proposal for Essen Summit. Nevertheless, we believe that:

a) The European Council in Essen will formally request the Commission to study the problem of adaption of the agricultural part of the Europe Agreements to the outlook for the associated countries future accession. The Commission would be

requested to present the conclusions of this study to the European Council which will be held in Cannes under the French Presidency in June 1995.

b) The EU heads of state and government would deal with the problem of export restitutions. This has been the primary source of complaint by the associated countries. In Essen, we believe, the final text of the "Strategy paper" will indicate that the problem of export restitutions needs to be seen in respect of price levels in both the EU and the associated countries. The individual differences (ie by products and by individual associated countries) would have to be taken into account when fixing export refunds. The Commission will have to produce a concrete report to the Cannes Summit in June 1995.

Short term policy:

The short term policy is contained in the Commission's proposal to the Council to "negotiate adaptations to the agricultural aspects of the Europe Agreements".

As we go to press, it is not yet clear whether the EU Council on November 28-29 will accept in full the proposal which asked for a mandate to allow:

- adapting the Europe Agreements to take account of the new situation arising from the Uruguay Round. This adaption should not merely be technical but should also examine the agreements from the point of view of balance in the agricultural sector;
- adapting the accords to take account of the forthcoming enlargement of the Union and to integrate existing bilateral arrangements between the new members of the Union and the associated countries;
- analyse and establish why some existing tariff quotas granted by the Union to the associated countries are not being fully utilised and to improve the existing situation;
- establish the reason for the significant increase in agricultural exports from the Union to these countries and to correct serious imbalances.

With the specific objective of rebalancing trade in agricultural products between the Union and the countries concerned, the Commission has made some specific proposals including:

- the reduction of all customs duties by 80% where preferential access to the EU market has been provided by tariff quotas;
- the application of all the concessions already granted in the present agreements from 1 July 1995, rather than at the later dates foreseen in the

agreements;

- an increase in tariff quotas by 10% per year for 5 years;
- the introduction of flexibility on the uptake of tariff quotas by regrouping the individual tariff quotas for a particular sector into one global quota.

The Commission is already having discussions with the CEEC in order to establish framework agreements on sanitary and phytosanitary matters based upon equivalence, cooperation and better communication, so as to allow trade to be facilitated.

Notes on trade developments:

The improvement of the EU agricultural trade balance with the six associated countries of CEEC by nearly Ecu1.5bn during 1990-1993 and probably by Ecu1.7bn (if estimated trade in full 1994 is taken into account), was caused by a rapid rise in EU exports of processed agricultural products (prepared foodstuffs, beverages, tobacco products). Their exports expanded by over 124% over the four year period. In absolute terms exports of prepared foodstuffs increased by over Ecu600m. EU imports of prepared foodstuffs/beverages from the associated countries increased by 33% in 1991, but stagnated at 1991 level in 1992, decreased by 13% in 1993, and will probably further stagnate in 1994. However, the EU exports of primary agricultural products expanded absolutely by

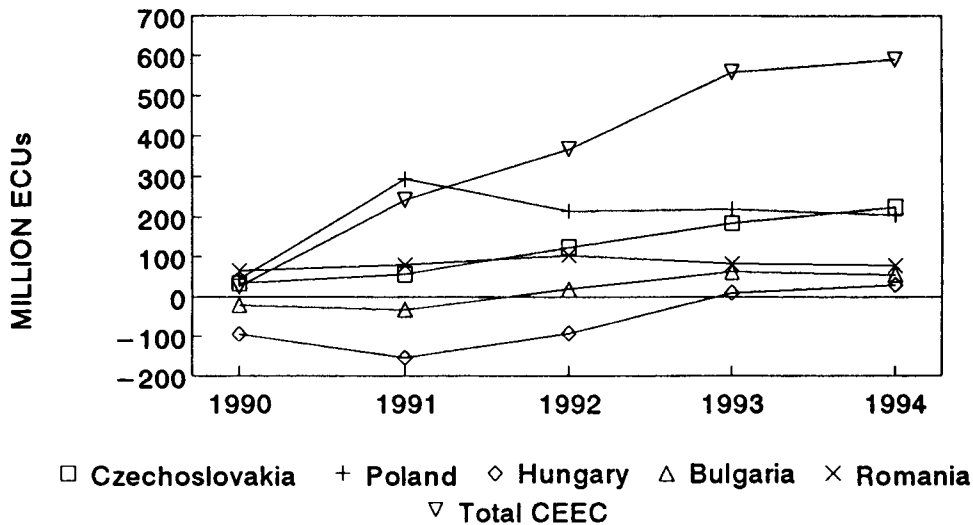
Ecu658m in 1993 as against the 1990 level. EU imports of primary agricultural products from the associated countries were worth Ecu1.75bn in 1990 and Ecu1.5bn in 1993.

The biggest rise in exports of prepared foodstuffs and beverages was to the ex-Czechoslovakia: from some Ecu74m in 1990 to nearly Ecu260m ECU in 1993, and an estimated Ecu314m ECU in 1994. The bulk of this went to the Czech Republic. In per capita terms, the EU now delivers prepared foodstuffs/beverages worth some Ecu25 per head of the Czech population. Conversely, Czechoslovak exports of prepared foodstuffs/beverages increased from some Ecu41m in 1990 to Ecu73m in 1993, and will probably grow to some Ecu90m in full 1994. The EU thus supplies three times as much foodstuffs to Czech Republic than vice versa.

Similar developments took place in EU trade with Bulgaria. The EU was traditionally a net importer of Bulgarian foodstuffs/beverages and in 1990 it had a deficit in this trade with Bulgaria of over Ecu20m. In 1993, the EU surplus was already Ecu88m due to an Ecu100m rise in exports of foodstuffs to Bulgaria.

Hungary had a traditional surplus in prepared food/beverages trade with the EU, which was maintained until 1992, but in 1993 it turned into a deficit, and Hungary will probably have a deficit also in 1994.

**EU TRADE BALANCE : PREPARED FOODSTUFFS *
1990-1994**



* Prepared Foodstuffs; beverages, spirits & vinegar; tobacco & manufactured tobacco substitutes.
The trade balances for 1994 are estimated on the basis of trade data for the first five months of 1994.

(continued on page 6)

(see page 5)

On average, EU exports to six associated countries twice as much of prepared foodstuffs/beverages than it imports. The biggest market for EU prepared food, in absolute terms, is the Polish market. But in per capita terms, by far the biggest market is that of Czech Republic (Ecu25/head of population) followed by the Bulgarian and Hungarian (nearly Ecu18/head of population) markets. In contrast EU imports of processed foodstuffs/beverages from the six associated countries represent some Ecu1.6 per head of the EU population. A large part of imports, however, are concentrated in Germany.

Association Councils:

Trade in agricultural products was on the agenda of the EU-Hungary Association Council held in Brussels on November 25-26. The EU was expected to raise the problem of an introduction by Hungary on

November 1, of significantly higher import duties on 279 types of food and agricultural products. When announcing this measure, Hungary said the higher import duties will be applied on a temporary basis, and in 1995 they will be replaced by new import duties resulting from the Uruguay Round of trade negotiations (the results of the Uruguay Round allow CEEC to increase import duties somewhat against their current level).

This step raised a number of protests among other central and east European countries (members of CEFTA), but the reaction from the Commission was rather low key. Hungarian diplomats indicated to us that higher import duties concerned some \$40m worth of EU food imports.

The issue of agricultural trade will also be on the agenda of EU-Poland Association Council which is to be held during the first week of December. ■

PREPARATORY WORK ON "WHITE PAPER"

The European Commission and senior officials of the six associated countries of central and east Europe held the first (informal) exchange of views on the "White Paper" which is to be prepared by the Commission. The aim of the White Paper is to outline the measures which the associated countries will need to adopt (with appropriate transition periods and special regimes) in order to be ready to participate fully in the EU's Internal market. The White paper shall identify the relevant "acquis communautaire" in individual sectors. Their respective adoption by the associated countries would contribute to the creation of conditions for the establishment of a single market.

This multilateral meeting was held in Brussels on November 21. The Commission is expected to prepare the final draft version of the White Paper by April 1995. During May it will be discussed and finalized by the EU Council so that the final text of the White Paper will be ready for the approval of the European Council in Cannes in

June 1995.

It seems that this first multilateral meeting will also be the last such gathering. The further consultations between the Commission and individual associated countries will be held within a bilateral framework.

Discussions the editor had with officials of the associated countries indicated a general satisfaction with the first informal meeting. In particular the representatives of the associated countries welcomed the Commission's proposed approach: because the structure and progress in legislation in individual associated countries differs, the EU will develop an individual approach to each country. The concrete recommendation will be adopted to each individual country and the scope of technical assistance will depend also on each individual case.

The approach corresponds to the interests of the associated countries seeking accession. In particular Hungary, Poland and the Czech Republic declared on a number of occasions that they want

to be treated individually on their own merits, so that the developments in one or several countries do not prevent the other from more rapid progress in accession. The bilateral approach towards the preparation of the White Paper is thus judged as a firm sign that this approach will be maintained for the entire process of accession.

The preparation of the White Paper, however, is the Commission's responsibility. The Commission will work in liaison with specialists from each associated country, but it will be the Commission who will prepare the concrete recommendations. The White Paper adopted in June 1995 will also be a single overall document addressed to all associated countries.

The meeting chaired by Mr. H. Krenzler, Director general of DGI of the Commission, underlined that the Europe Agreements already request a number of legislative adjustments in individual areas: corporate law, banking law, tax law, intellectual property, worker protection, financial

services, indirect taxation, health protection, environment protection, transport etc., but that the White Paper will have to bring both a much broader list of laws which need to be aligned to the "acquis communautaire", and a more precise timetable. ■

BALTIC COUNTRIES WORRY ABOUT 1996

It is generally expected that negotiations between the European Commission and the three Baltic countries on the Europe Agreements could be concluded by around March-April 1995 so that these Europe Agreements could be signed by mid-1995 and thus the lengthy process of their ratification could begin. In late November, the Latvian Prime Minister Mr. M. Gailis expressed the fears of the Baltic Countries over the slowness of the ratification process. Mr. O. Pavlovskis, Latvian foreign affairs ministers said "We would like to be in line (for membership) then. We will not be in the discussion unless the agreements have been ratified". ■

EP STARTS TO TAKE POSITION ON FUTURE ACCESSIONS

In late November, the European Parliament's Committee on Foreign Affairs and Security adopted an interim report on the preparation for the accession of the associated countries of central and eastern Europe into the EU. The report was drafted by Arie Oostlander (Dutch member of EPP Group).

The rapporteur demands that:

- all further enlargement is preceded by a solution to the EU's institutional problems (1996 Inter-governmental Conference). The enlargement requires an improvement in the EU's decision making process, and it requires an increase in the EU's financial means.

- The EP will examine the candidacy of each associated country separately on their own merits. The EP will approve the enlargement by CEEC in the light of progress in reforms which are necessary in the EU.

- The European Commission shall produce a report on budgetary and political implications of the next enlargement. This should take into account the consequences of the EU's common agricultural policy (CAP) and regional policy.

- The report underlines the importance of a need that the populations of the candidate

countries are fully informed about the whole process.

"Together in Europe" will return to the Report in the next issue.

REX Committee:

Commissioner Hans van den Broek told the European Parliament's Committee on External Economic Relations (REX Committee) that it would be appropriate if the associated countries of central and eastern Europe could attend meetings of the European Union Council (but with no right to participate in decision making). The Commissioner suggested this in a speech in which he spoke about strategy the European Council meeting in Essen needs to define for future relations with the central and east European countries.

EU/Hungary Joint Parliamentary Committee:

As we go to press the first meeting of the Joint Parliamentary Committee set up under the terms of Europe Agreement between the EU and Hungary is being held in Brussels. The members of the Joint Parliamentary Committee will also have a meeting with Commissioner Hans van den Broek. The Commissioner will also have separate discussions with the President of the Hungarian Parliament's delegation (detailed report in the next issue). ■

EXTERNAL CHAPTER OF FORMER RESTRUCTURING PLAN TO BE EXTENDED BY INCREASING IN 1995 QUOTAS OPEN TO STEEL FROM CZECH AND SLOVAK REPUBLICS

The General Affairs Council on 28 November decided, without much deliberation, on the restructuring of the Community's steel industry (following the conclusions of the Industry Council on 8 November) and in particular on the external dimension of the accompanying measures of the former plan, i.e. the tariff quotas which regulate certain ECSC and EEC steel imports from the Czech and Slovak republics.

For 1994, these arrangements include the following tariff quotas for the ECSC and EEC products concerned, in tonnes:

Products	Czech republic	Slovak republic
a) ECSC: - hot-rolled coils	-	167,000
- cold-rolled plates	21,960	100,040
- wire rod	220,000	-
- hot-rolled strip	4,400	39,600
- cut length	-	102,000
Total ECSC products	246,360	408,640
b) EEC: - tubes	111,240	23,760
Total	357,600	432,400

For 1995, these quotas will in principle be increased by 30% for 1995. This increase is part of the gradual liberalization of the steel trade.

As for the adaptation of quotas to the enlarged Community, the Commission has calculated increases for some 25,000 tonnes for ECSC products and roughly 40,000 tonnes for tubes, with most of these increases to benefit Austria. The system of tariff quotas is based on an agreement between the Community and the two exporting Republics. However, these figures are subject to change following the proposals that the Czech and Slovak authorities may present.

Considering the fact that only 70% of the tariff quotas vis-a-vis Member States have been used up - globally - and that the increases resulting from the Community's enlargement will be relatively small, a consensus should be possible among Member States, especially since the Czech partners, and to a lesser extent the Slovaks, appear to see the positive side to a system that protects them from anti-dumping complaints.

New quotas for next year will be governed by provisions for the new Member States, and will more or less represent traditional flows supplied by Czech and Slovak suppliers to those countries.

The Council on 28 November agreed on the position to be submitted to **Russia, Ukraine and Kazakhstan** in view of setting for 1995 and 1996 Community import quotas for steel products from these three countries. It is accepted that the quota for the ex-Soviet Union will be divided among Russia, Ukraine and Kazakhstan. The quota will be increased by 35% in 1995 and 15% in 1996. This is a more gradual increase than originally envisaged by the Commission. The current quota of 333,000 tons, will be apportioned at the current percentages of 60% for Russia, 35% for Ukraine and 5% for Kazakhstan. Discussions will start immediately with the three countries concerning the problem of traditional exports to East Germany. For this there was a special arrangement which guaranteed Soviet exports. A likely compromise will be that the EU Member States will agree to expand it for another year but volumes will be reduced (exports of 3m tons reduced to 500,000 tons). This mostly covers semi-products which are used by Ekostahl for further processing. The German Presidency wants to prolong this arrangement but it is still unclear. ■

DEVELOPMENTS WITHIN THE EC

PREPARATIONS FOR THE 1996 INTERGOVERNMENTAL CONFERENCE

Without making much noise, most Member States of the European Union have started their preparation for the 1996 Intergovernmental Conference on the Maastricht revision.

Italian Foreign Affairs minister Antonio Martino recently pointed out that several meetings on this issue had already taken place in his country, involving not only diplomats but also experts from the academic world, in order to explore the main fields which will be covered in 1996. We want to give our partners a series of "position papers" on all the main issues which will then result in a sort of White Paper, he said.

In France, ministers have already brought forward more precise ideas about institutions: thus, European affairs minister Alain Lamassoure, having pointed out that 1996 should bring about an "institutional revolution", also suggested the setting up of an institution which would analyse, define, propose and coordinate the common foreign policy in the future (doing in this field what the European Commission does as far as Community policies are concerned). And Foreign Affairs minister Alain Juppé launched another (controversial) idea: emphasizing the need to strengthen the role of Council, he said that the presidency of the Council should be in the future longer than the present six-months, at least as far as foreign relations are concerned because, he stressed, Europe must be able to present itself to its partners as a single interlocutor.

European commissioner for foreign policy, Hans van den Broek, spoke against increasing the Council's role (it would encourage intergovernmental tendencies, he

noted) and made another suggestion (also controversial), saying that in the future Treaty's changes should be possible without unanimity, simply with a "yes" vote of four fifths of the Member states representing four fifths of the population.

Jacques Delors, who has been up to now very discreet about institutional reforms, said in a closed session at the French National Assembly that, for the sake of efficiency, it might be a good idea to have in the future a two and a half year Council presidency perhaps with half yearly vice-presidencies. In an interview, he added that, in the case of an enlargement to 20 States or more, "two Europes within the large Europe would naturally emerge", thus accepting the idea of a two-speed Europe. At the same time, he stressed the need for a large Europe. Indeed, he asked: "Why not close the door?" and answered himself: "Because the duty of my generation and those following is to extend our values of peace and mutual understanding to all European countries and make sure that what is happening in Yugoslavia cannot happen again".

Monetary Union

In mid-November, the European Monetary Institute set up by the Maastricht Treaty had its first regular meeting in Frankfurt, and its President Alexandre Lamfalussy, explained his ideas about the role of the Institute and the prospects of monetary union. As far as the entry into the final

stage of EMU is concerned, Mr Lamfalussy said that "all in all, passage to stage three in 1997 has not been ruled out, but does not seem very likely to me", while "for 1999, the chances seem good". Indeed, practically everybody seems to believe that the final stage will not be reached until 1999, even if some experts insist that one should not give up in principle all hope of getting there already in 1997 (as Giovanni Ravaio, Director general for economic and financial affairs at the European Commission, recently said in London).

Convergence criteria

Mr Lamfalussy pointed out that the convergence criteria laid down in the Treaty for the passage from stage two to stage three are not yet fulfilled: thus, while noting that the inflation criteria might indeed be respected (in 1994 average prices rise should be only 3%, which is one of the lowest rates of recent years) and the budget deficit criterion (which should be less than 3% of GDP) might be attained by a sufficient number of countries, the criterion of cumulative public debt (which should be below 60% of GDP) will be "extremely difficult" to fulfill.

The absolute need to stick with these criteria has been stressed again recently from different quarters, such as, of course, the Bundesbank. Its president Mr Tietmeyer said the budget deficit criterion must be attained not only thanks to the recovery now under way, but for a sustained period of

(continued on page 10)

(see page 9)

time, and Commission Vice-President Henning Christophersen, who is in charge of economic and monetary policy, agreed with him, and also said: "I don't think that anyone will want to renegotiate these criteria, and I would warn them not to do so, because this would jeopardise the credibility of the enterprise". Mr Christophersen, who confirmed at the end of November that the present European recovery is at the same time vigorous and balanced (the new Commission's figures foresee a 2.6% growth in 1994, 2.9% in 1995 and 3.2% in 1996, if not more) admitted that budget deficits remain excessive in several Member States, and the average should be 5.6% of GDP this year, 4.7% in 1996 and 3.9% in 1996 (still more than the required maximum of 3%). If convergence programmes are applied, however, already in 1996 several Member States could have budget deficits below 3% of GDP, said Mr Christophersen, quoting not only Germany, Luxembourg, the Netherlands, Ireland and Denmark, but also France, Spain, Belgium, Austria and Finland, if they make the necessary effort.

Monetary Institute & Single currency

In his interview, Mr Lamfalussy also explained the "dual mandate" of the Monetary Institute which, he recalled, must on the one hand do the necessary to be ready to become in due course the European Central Bank (here, he stressed, we have the ability to design the "key in hand" bank), and, on the other, coordinate monetary policies, with the priority goal to ensure price stability (here, on the contrary, noted Mr Lamfalussy, the Bank has no power of decision, since Member States remain responsible for their

monetary policy as long as Monetary Union is not completed).

As far as the future single currency is concerned, Mr Lamfalussy has made no formal proposals yet, but he has asked himself many questions, such as: should Ecu be circulated alongside other existing currencies or on its own? Should the introduction of the single currency and the "irrevocable setting" of exchange rates happen simultaneously?

Mr Lamfalussy spoke himself of the Ecu as of the future single currency, but recently Mr Tietmeyer noted that, having experienced a series of devaluations, the Ecu would be difficult to present to Germans as a currency as stable as their DM. On this subject, Mr Christophersen said: "For the Commission this is clear, the name is Ecu; the worst problem we could have with that would be some difficulties of pronunciation".

Referendum on EMU?

In connection with EMU, another problem was recently raised by French gaullist leader Jacques Chirac (who has announced that he will run in next Spring's presidential elections), who called for a referendum on Economic and Monetary Union. French Foreign Affairs minister Alain Juppé was more cautious and said that there could indeed be a vote, but in Parliament, on the completion of Monetary Union, while a referendum might be appropriate for the revision of whole Maastricht Treaty. A referendum on EMU would have "dire consequences", said Jacques Delors, adding: "Why did we want a timetable on EMU? Because they were afraid ... that Germany one unified, would drift ... And it is now the country which wanted this timetable, which wanted to attach Germany to Europe which is now

putting everything into question... Thankfully, this was not taken up by those who govern the country".

Transeuropean networks

Henning Christophersen, Vice-President of the European Commission, confirmed a couple of weeks before the Essen European Council that the group that he chairs on transeuropean networks (while Martin Bangemann chairs the group on the information society) has decided to add to the list of eleven priority transport projects which are already on the table three more projects, which will take into account the repercussions of enlargement to the North and tend to improve the links between the Continent and more peripheral areas. Thus, the "Nordic triangle" project, involving a railway link (and also better motorway links) between Stockholm and Copenhagen and Oslo and Stockholm will improve the links with new Member States, while the West Coast Main Line will establish a railway link from Glasgow, in Scotland, to the South of England, and the motorway between Ireland and the United Kingdom will create a link with Belgium, the Netherlands and Luxemburg, through the Channel Tunnel.

Mr Christophersen, who was speaking to the Regional Affairs Committee of the European Parliament, again stressed the problems raised by the financing of the priority projects, which, he admitted, are in some cases very large projects which will be profitable only in the longer term (up to 30-40 years).

Indirectly criticizing Member States who have consistently been reluctant to envisage, for the financing of transeuropean networks, new instruments such as, European loans, Mr Christophersen pointed out that several

countries have showed that they have great expectations from the European Union: the countries concerned, he noted, wish to receive financing from the Union for more than Ecu 2 billion for just three priority projects. What would happen then to the other eleven projects?, he asked himself, stressing the limits of possible interventions by the European Investment Bank. The Bank, he noted, has already done a lot, and is ready to set up a sort of "network counter"

which will be able to give loans for up to 25 years, but some projects are very expensive indeed (he quoted the Brenner route, which should cost Ecu 12 billion).

Apart from this financial difficulty, Mr Christophersen also stressed problems deriving from the fact, that in some ways "we are still in the 19th century Europe, where the nation-State decides everything": these obstacles (differing administrative and legal procedures, tender procedures,

tariffs, taxation) are also difficult to overcome, he admitted.

Mr Christophersen also hoped that the Essen European Council will be able to endorse another project in another field - air traffic control. The goal is to establish a common air traffic control system for the countries of the European Union, where "different and sometimes incompatible systems coexist", which is "scandalous", said Mr Christophersen. ■

THE COMMISSION PROPOSES A EURO-MEDITERRANEAN PARTNERSHIP

The EU Heads of State and Government who will meet in Essen on December 9-10 will have to approve not only the "Strategy for preparation of associated countries of CEE on accession, but also the concept of Euro-Mediterranean Partnership. This region is of primary strategic and economic importance for the EU. Cyprus and Malta are on the candidate lists for next enlargement and the Customs Union with Turkey will probably be established in 1996. A number of EU southern member states felt that the EU concentrated too much on expansion eastward. They consider that the problem of the EU's southern borders will be the main political problem at the end of this century and may need to be solved with at least the same urgency as the consolidation of the situation in eastern Europe.

As we go to press the EU Council is finalizing the document on the Euro-Mediterranean Partnership. In a way this discussion is closely linked to the finalization of the "strategy" for CEEC. During the COREPER meeting on November 24, a number of southern members felt that "CEEC are far away and Mediterranean (countries) close".

It is no secret that the positions taken by Portugal, Italy Greece, Spain, and partly by France have made the approval of strategy for associated countries more difficult (especially as concerns the terms of financial cooperation). But it seems that the biggest problems have been from the side of the United Kingdom to which the Ecu7bn proposed for 1995-1999 for the associated countries of CEE and Ecu5.5bn proposed for the Euro-Mediterranean Partnership are unacceptable. Their acceptance in Essen would threaten the 1992 compromise on "financial perspective" for 1995-1999 (Delors II). John

Major claimed a victory during the Edinburgh Summit in 1992 in limiting the annual increase in member states' contributions to the EU budget, stipulating that in 1999 this should not be more than 1.27% of the GDP of member countries.

The Commission proposes the creation of an Euro-Mediterranean Economic Area, comprising as its main features the *progressive* establishment of free trade and closer economic integration through adequate support from the Union for the economic and social adjustments which this process will entail, as well as closer cooperation in the political and security fields. A ministerial conference should be held in 1995 to discuss the long-term prospects of a Euro-Mediterranean partnership for economic and political cooperation.

In June 1992, the Lisbon European Council recognised the southern and eastern shores of the Mediterranean, as well as the Middle East, as being geographical areas to which the Union has strong interests in terms of security and social stability. Then in June 1994, the Corfu Council invited the EC to submit guidelines for the short and medium-term strengthening of the Union's Mediterranean policy for peace, stability, security and the socio-economic development of the region. The present communication (Com(94)427) represents a contribution to discussion at the 1995 ministerial conference. It deals primarily with relations with the Maghreb and Mashrak countries and Israel, while noting the importance of the Union's relations with Turkey, Cyprus and Malta, in the perspective of accession to the Union.

The Mediterranean basin constitutes an area of strategic importance for the Union, peace and stability

(continued on page 12)

(see page 11)

being of high priority. Instability there would have negative consequences for all Union countries. The population in the Mediterranean non-Member countries could reach 400m by 2035 with an increasing income gap. The main point of EU Mediterranean policy is to achieve peace and stability in the region, through common foreign and security policy.

The document says that the Union's policy should be directed towards support for establishing a zone of stability and security and creating conditions for lasting and sustainable economic development of the Mediterranean countries. The vehicle for this would be the progressive creation of a *Euro-Mediterranean Economic Area*, comprising as its main features progressive establishment of free trade and closer economic integration, accompanied by Union support. To achieve the objectives of Mediterranean policy, more EU involvement in the socio-economic development of the partner countries is required.

Exploratory talks have been going on for the last two years with Morocco, Tunisia, Egypt and Algeria. The thinking being these discussions is to integrate these countries into the emerging pan-European *free trade network* in order to raise competitiveness, attract investment and notably to accelerate economic and social development. To ensure their entry into a free-trade system with the Union, the Mediterranean countries insist that there would have to be long transitional mechanisms and safeguards, improved access for their agricultural exports, an increase in financial flows (from public and private sector) to boost their economies and Union aid to modernise their social and economic systems. Within the WTO framework, Europe and the Mediterranean are heading towards a vast free trade area of 600-800 million people from 30-40 countries, the biggest such area in the world. Such a system will provide for reciprocal free trade in all manufactured products, preferential and reciprocal access for agricultural products and free trade among the Mediterranean countries themselves.

The EC recommends an increase in *financial support* for the Mediterranean countries in order to achieve the objectives of its Mediterranean policy. Finance should focus on support for: economic modernisation and restructuring of those countries prepared to open their markets in the context of new Association Agreements. The Commission is prepared to enter into economic and industrial policy dialogue with all the countries with whom such agreements have been concluded; structural adjustment in countries less advanced in this process with a view to preparing them for entering into free trade; regional cooperation, particularly in the environment; strengthening North-South economic and financial cooperation, and in southern and eastern Mediterranean countries themselves; and support to the Middle East peace process.

The Commission has submitted operational recommendations, whereby it hopes, in the short term, to conclude negotiations for new Agreements with Israel, Morocco and Tunisia as the first step towards establishing a free trade area in the region. The ongoing talks with Turkey on customs union (Together in Europe Nos. 35 & 38), also need to be finalised. In the medium term, the Commission says that changes in the area will require a substantial increase in technical and financial assistance by the Union. With PHARE as a role model, the Commission

recognises that it will need to put into place a MED programme of cooperation.

In order to implement the far-reaching policies, a figure of Ecu5.5bn of budgetary resources for the 1995-1999 period will be required for all the Mediterranean non-member countries (excluding Albania and the ex-Yugoslavia). This would be in addition to increased lending from the EIB and other international financial institutions and any other forms of investment. A ministerial Mediterranean-Conference, would offer a platform for discussion of the long term prospects for a Euro-Mediterranean partnership for economic and political cooperation. ■

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