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TOGETHER IN EUROPE

EC NEWSLETTER FOR CENTRAL AND EASTERN EUROPE

RELATIONS WITH THE COMMUNITY

ESSEN SUMMIT

The European Council held in Essen on 9-10 December was truly a historic moment for the EU and the Central and Eastern European countries. The approval of a Strategy to prepare for the accession of the associated countries of central and eastern Europe, together with the meeting between the EU Heads of State and Government and their counterparts from the associated countries, started the pre-accession stage. The Strategy aims at both the strengthening of a multilateral framework via "structured relations", and an active policy to narrow the gap so that the associated countries could be integrated into the internal market of the Union.

The Essen Summit also requested the Commission and the Council "to do everything necessary" for the Europe Agreements with the Baltic Sates and Slovenia to be concluded during the French Presidency, "so that these States can be included in the accession preparation strategy". In fact as we go to press, the negotiations with the Baltic States formally started at ministerial level in Brussels.

This means 10 potential membership candidates from CEE, in addition to Malta and Cyprus, and eventually, a Union of 27 member countries. The "Strategy" says: on the EU 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.

In a longer term perspective, the Essen Summit may not go down in history as that which approved the "Strategy", but rather as the Summit which forced a thorough and early discussion about 1996. The "Strategy" will help, but its final result is more than partly conditioned by the outcome of the 1996 Intergovernmental Conference. On Friday evening President Delors during a "chat by the fire" or a rather brain-storming session, raised the most appropriate questions, and in particular "what a Union with 27 members would be like?" There are no proper answers yet. A "deepening" of the Union may perhaps make accession of new members more difficult, but destruction of the institutions which facilitated the progress, together with the re-nationalization of the Union, which may be the aim of some member countries, would negate most of the arguments which make the EU so attractive for central and eastern European countries to join. *(JZ)* ■

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STRATEGY FOR INTEGRATION

In the last issue (cf No 59 of December 1) we reviewed a substantial part of the Strategy for Integration of Central and Eastern European Countries. In this issue we reprint several other important parts of the "Strategy":

Promoting investment

Rapid growth in the associated countries and continuing structural reform in these countries are essential elements for the eventual success of the process of economic transformation in the associated countries. While increasing savings will finance domestic investment, foreign investment is also needed in larger volumes. Therefore the European Union has adopted a programme to stimulate investment from the Union, while recognising that still the greatest effort has to come from the associated countries themselves.

In accordance with arrangements agreed by the General Affairs Council on 31 October, this programme will include continuing support for investment promotion agencies, the establishment of an Advisory Business Council as well as continuing support through PHARE for initiatives such as restructuring and modernisation of productive capacity and small business development and for helping financing infrastructural investment.

Justice and Home Affairs

The "Berlin Declaration" agreed by the Ministers for Justice and Home Affairs participating in the Berlin Conference of 8 September 1994 emphasizes that, in view of the prospect of accession of the associated countries to the EU, cooperation in combating all forms of organized crime takes on particular significance. Along the lines of the "Berlin Declaration", the EU envisages cooperation with the associated countries, inter alia, in the following areas:
- illicit drug trade
- theft of and illegal trade in radioactive and nuclear material
- illegal immigration networks
- illegal transfer of motor vehicles.

The EU will identify those areas where cooperation with the associated countries is especially urgent or especially promising, either from their standpoint or that of the Union. A comprehensive package of measures with proposals for how cooperation in the individual areas named in the Berlin Declaration should proceed, should be submitted to the European Council under the French Presidency. Cooperation in the areas of asylum and immigration should also be taken forward, in particular by establishing links between the associated countries and CIREA and CIREFI (the asy-lum and immigration "clearing houses").

Financial Cooperation

The main role of EU financial assistance under the PHARE programme will be to:

- help the associated countries to absorb the "acquis communautaire";

- complete market reforms and the medium-term restructuring of their economies and societies so as to create the conditions required for future membership.

PHARE needs to be endowed appropriately, taking into account the restructuring of priorities foreseen in this strategy. Flexible and indicative multi-annual planning will be introduced both in general and country by country. The focus will be on a comprehensive framework for the next five years. The Edinburgh financial perspectives, including the planned rates of increase and the increases resulting from EU expansion, will continue to apply for the PHARE programme.

The 1995 budgetary estimates for the PHARE programme will serve as 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 European Council. This will increase the effectiveness of the PHARE programme to assist the integration process leading to accession taking account of the views of the associated countries. The PHARE programme will support measures to promote the approximation of laws and standards as well as the economic reform process and the development of adequate infrastructure. In order to assist infrastructure development, the European Union will increase the 15% limit on PHARE financing agreed at Copenhagen to 25%.

The EIB is invited to develop its lending operations within its present guaranteed loans ceiling, especially in the area of infrastructure 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. ■

RULES OF ORIGIN OPEN NEW ERA FOR INVESTMENT DECISIONS

The EU's "Strategy for the Integration of Central and Eastern Europe" aims at substantial improvement in **rules of origin**. The Commission requested the Essen European Council to approve its proposal on simplification and extension of rules of origin to **allow for cumulation between the European Union, the associated countries of CEE and EFTA members**. This move will encourage the companies to invest or subcontract according to comparative advantage throughout the whole region and without losing **preferential access** to the European market.

Essen Summit's decision:

The "Strategy" adopted in Essen set up the following guidelines:

1. Diagonal cumulation with four central and eastern European countries will be extended to Bulgaria and Romania, but implementation will depend on the will of these countries to adopt a single system and to conclude agreements between themselves.

2. Flexible system shall allow the addition of the Baltic States and Slovenia.

3.Diagonal cumulation introduced between EC/EFTA treated as single territory for the purpose of rules of origin and the associated countries. The result will be "European Cumulation".

4. The end of the process will be "full cumulation" but before introducing the full cumulation into Europe Agreements, a thorough evaluation of the sectorial and regional consequences on European industry would have to be made taking into account the effects of the previous stages.

This important step towards a truly free trade area without artificial origin barriers was requested by the EU and EFTA industry. The central and east European countries and their companies will have a full share in the benefits, as the proposed cumulation of origin will have a favorable effect on employment there and on new investment, because one of the direct results would be a stronger trend towards transfer of manufacturing to the CEEC.

The realization of the proposed change will be of particular importance to all industries for which **successive stages of processing are typical.** The best examples are the vehicle industry, white goods and other household equipment, consumer electronics and textile industry. "The proposed strategy is based on a process which will be realised by successive stages, and the passage of one stage to another will be achieved after a thorough evaluation of the results of the previous stage" according to Christiane Scrivener, European Commissioner in charge of customs. The rules have been expanded to all associated countries of central and eastern Europe. This is an important measure as far as investors are concerned, in that it will allow them to take definite decisions on making investments in these countries. The original agreement (Visegrad countries) has been extended to include Bulgaria and Romania, and this "full" area, should improve the climate for investment by Community companies. There will now be cumulation of origin between an enlarged - fifteen member state - EU, EFTA and the six associated countries.

In order to be able to benefit from the preferential access to the market, products must "originate" ie must fulfil the prescribed conditions and be accompanied by certificates documenting their origin. In general, Europe Agreements contain about 100 pages of a special protocol which defines the originating products and the procedure of certification. Its annex (some 50 pages) determines working or processing which is required to be carried out so that the products made from non-originating materials can obtain originating status and benefit thus from the preferential access to the market.

Three types of cumulation

The choice of system depends on political relations, geography, regional; cooperation and economic interests of those countries involved.

Bilateral cumulation is the least developed system, and operates between two "partners". For example, between the EU and Bulgaria (Interim Agreement) products can originate in either of the two partner countries for the rule to apply. Thus integrated circuits assembled in Bulgaria **from EC originating microchips of the same category would be considered as originating in Bulgaria and entitled to preferential tariff treatment on importation to the EU**, even though assembly in Bulgaria would not be considered as a sufficient process according to the basic processing criteria.

Diagonal cumulation concerns cumulation when several countries are party to an agreement or

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linked by several similar agreements and where the use of materials originating in any of the countries concerned is permitted. For example, TVs assembled in Hungary from components originating in Hungary, the EU and Poland would be considered as originating in Hungary (or Poland, depending which content was greater, 60% composition being the yardstick) and **would be entitled to preferential tariff treatment on importation to the EU.**

In both bilateral and diagonal cumulation, there is a restriction that the cumulation provisions apply only to "originating materials".

Full cumulation is the system which represents a more advanced form of economic integration. It provides for the cumulation of **processing between two or more countries. Account is therefore taken of all processing or transformation of a product within the trade zone without the products being used necessarily having to originate in one of the partner countries.** One of the results of "full" cumulation might lead to an origin common to all partners (EEA Agreement). For example, US cotton fibre is spun into yarn in the EU, exported to Austria and woven into cotton fabric. Within the EEA rules of origin for textiles, a **double transformation** is required on non-originating materials for products to be considered as originating. Full cumulation allows the processing in Austria and the EU to be counted together: the cotton fabric is considered to originate in the EEA and can benefit from preferential tariff treatment on importation into any EEA partner country. The system is more flexible in that in the case of the Austrian manufacturer, although processing a non-originating yarn, can include the earlier process in calculating the origin of the cotton fabric.

The difference between diagonal and full cumulation is that in the latter system, all processing operations count towards obtaining origin. In the example, the product would not have obtained origin under the diagonal system. Regarding the CEEC, the type of cumulation, full or diagonal, would have an influence on the production structure. In the diagonal system, the cumulation of origin would only be possible with products which have already obtained preferential origin status. If the 60% threshold was not met, the products would not obtain preferential origin and could not be considered for cumulation purposes. Therefore the diagonal system requires significant input in each country that participates.

On the other hand, under full cumulation, no such restriction exists, and any amount of value added, even when inferior to 60% would be taken into account and carried forward to the next stage of production. This system therefore would maximise the use of available resources but would reduce the substance of each of the consecutive processing operations. Full cumulation tends to favor the use of third country materials whereas diagonal cumulation is less liberal and encourages the use of materials originating within the free trade zone.

The economic advantages of extending cumulation can be summarized as follows: improved Community and EFTA market access for products from the CEEC as well as increased incentives for intra-CEEC trade; increased economic cooperation between EU, EFTA and CEE countries; enlarged sourcing potential for materials and products; improved possibilities for producers to realise a cut in costs by organizing activities on a Europe-wide scale.

The progressive nature of the strategy is emphasised: initially, simplification of the origin aspects of the Europe Agreements with the four Visegrad countries, incorporation of Bulgaria and Romania and consideration of full cumulation to Switzerland. Secondly, diagonal cumulation between EU/EFTA and the CEEC and possible generalisation of the "non-drawback rule". Finally, the implementation of full cumulation. The aim is to ensure that existing cumulation provisions can be exploited fully by economic operators.

The structure of the Agreements between the EU and Poland, Hungary and the Czech and Slovak Republics should be modified to incorporate Bulgaria and Romania. The successful implementation of the new system would be dependent on the associated countries all agreeing on one system, and on concluding an agreement between themselves. The structure should be flexible and allow the future addition of further countries who become associated countries such as the Baltic States and Slovenia.

Extending diagonal cumulation between the Community and all CEEC would be a first stage towards an integrated system of European cumulation. The extension would be fairly simple *once all the CEEC concerned concluded an agreement containing rules of origin that were identical to those contained in the Europe Agreements.* ■

JOINT MEETING OF THE G-24 TRANSPORT AND CUSTOMS WORKING GROUPS

Under the co-chairmanship of the Bulgarian Transport Minister, M. Kovatchev and Mr. Hahn, senior EC official, the second meeting of the G24 Transport Working Group was held in Sofia on 1-2 December. Present were representatives from Albania, Bulgaria, FYR of Macedonia, Hungary, Romania, Slovakia, Slovenia, and Croatia; Moldova, Russia and Ukraine attended as observers, and the G-24 countries were also represented. World Bank, EBRD, EIB and representatives from major private banks also took part.

The meeting has to be considered as a follow up to the CSCE Conference of Vienna, last January, on priorities in matters of infrastructures in the Balkans region, especially in the light of difficulties for transit due to the international sanctions taken against Serbia and Montenegro.

In this context, and having noted a report by the G24 working group responsible for questions of customs, the group i) welcomed the functioning of the two priority customs corridors since 1 June 1994, and endorsed the decisions taken by the G24 Customs Working Group with their main goal being to further reduce bottlenecks for transit traffic; ii) satisfactorily noted the implementation of the short-term infrastructure projects which were introduced during the CSCE Vienna Conference, and, notably, the entire commitment of more than Ecu100m from the Phare budget, and participation by other international organizations; iii) the G24 Transport WG noted with satisfaction the report provided about the workshop on Crete Corridor (Trieste-Ljubljana-Budapest-Bratislava-Lvov) and stressed its importance in linking South-eastern European countries to Adriatic areas, as well as western and eastern Europe; iv) raised the possibility of linking the three multi-modal priority corridors in the Balkans to the trans-European networks; v) discussed the three multi-modal corridors (Budapest-Arad-Craiova-Sofia and extensions; Danube and the Durres-Tirana-Skopje-Sofia-Varna corridor) in the Balkans within the framework of the follow-up to the second Pan European Conference of Ministries of Transport in Crete in March. ■

EIB FINANCE

*The EIB has provided an Ecu100m loan to Magyar Távklözlési Rt (Matav), the Hungarian telecommunications company for expanding and modemising the national telecommunications system. The agreements were signed at the beginning of December in Budapest. The seventeen year loan will help install 1 million new lines by 1996 and increase telephone density from 14 to 26 lines per 100 people. The EIB plays a major role in the financing of telecom schemes in CEEC, supporting them to develop internal and external communications on a cost effective basis and linking them up with the trans-European networks (TENs). For this reason the EIB already has made available its financing for developing this sector in Bulgaria, the Czech Republic, Poland and Slovakia, in addition to Hungary.^*

*The EIB also announced two loans totalling Ecu163m for telecommunications and industry projects in **Poland**. The loans bring total EIB lending to Poland to Ecu716m, and illustrate the institution's commitment to financing the extension of TENs into Poland. Ecu150m will go to Telekomunikacija Polska SA and will help connect over two million new subscribers by 1997. Ecu13m will be granted to the Export Development Bank to finance small and medium sized industry and tourism projects. Schemes for protecting or improving the environment, fostering more rational use of energy and commercially managed infrastructure are also eligible.*

***Estonia** was granted two loans totalling Ecu35m for a new deep sea bulk terminal (Ecu15m to the state owned Port of Tallinn) and the modemisation of the air traffic control system in Estonia (Ecu20m to the Civil Aviation Administration).* ■

POLAND - EU ASSOCIATION MEETING

The second meeting of the EU-Poland Association Committee was held in Brussels on 1-2 December 1994. The Polish delegation was headed by Jacek Saryusz-Wolski, Government Plenipotentiary for European Integration and Foreign Assistance, and included representatives of the Polish governmental institutions. The EU side was headed by Alan Mayhew, Directorate General I of the European Commission, and included representatives of the European Commission and delegates of the Member States.

The main agenda included examination of the economic situation in Poland and the EU as well as an analysis of the state of application and functioning of the European Accord and its additional protocol. Particular attention was paid to trade, agriculture, services, harmonization of law, cultural cooperation, cooperation in the nuclear sector, cooperation on environment. The problem of certification of the quality of products was also raised.

The Polish delegation made reference to the current traded deficit with the EU to argue in favor of a greater opening of the EU market to Polish products, especially agricultural products, textiles and steel. It also requested that Polish companies had access to EU public contracts and markets, as well as the suspension of anti-dumping and anti-subsidy measures imposed by the EU on Polish cement and fertilizer exports. The EU delegation indicated that they would maintain these measures. The delegation did however announce projects aimed at liberalising outward processing traffic (OPT). It brought up the matter of the protection measures adopted by the Polish government towards imports of agricultural and industrial products from the EU. It was agreed to appoint other sub-committees and working groups for a series of items: provision of services, establishment of enterprises, certification, science, research, education, transport infrastructure and the environment.

Parallel to the Association Committee, a meeting of the sub-committee on Coal and Steel was held. A report by this committee was adopted by the Association Committee. ■

ESSEN: TRANS-EUROPEAN NETWORKS

At the European Council in Essen, a report was submitted by the Group of Personal Representatives in the transport, energy and environment spheres. It welcomed the progress which has been made in selecting major transborder projects, particularly with the CEEC and countries from the Mediterranean Basin. The European Council stressed the importance of traffic management systems, particularly regarding air traffic.

The Council welcomed the creation of a Special Window at the European Investment Bank for the financing of trans-European networks. The purpose is to maintain or increase the momentum of EIB lending which was achieved under the Edinburgh facility. This will cover transport, telecommunications, and energy investment in the public sector, the private sector and partnerships between the two, as well as environmental lending for projects of a trans-European nature. The window will be available for lending not only within the Union, but also in central and eastern Europe, Scandinavia, the Mediterranean and trans-alpine crossings. The main features of the Special Window are the provision of longer maturities and longer capital grace periods, provision of refinancing facilities to the banks at the outset of a project, involvement of the EIB in the earliest possible stages of the structuring of a project in cooperation with Member States and the Commission and an extension of the Bank's normal eligibility rules to provide for a more systemic inclusion of transport, energy and telecommunications network infrastructure irrespective of whether it is located inside or outside the Assisted Areas.

The Member States, the Commission and the EIB will continue to monitor progress made in financing priority projects. It shares the Group's view that the financing requirements for each project must be examined individually.

In our last issue, we said that preparatory work will continue on eight projects concerning CEEC. The projects are:

Berlin-Warsaw-Minsk-Moscow (rail and road; Dresden-Prague (rail and road); Nuremburg-Prague (road); permanent connection over the Danube between Bulgaria and Romania (rail and road); Helsinki-St. Petersburg-Moscow (rail and road; Trieste-Ljubljana-Budapest-Lvov-Kiev (rail and road); Russia-Belarus-Poland-EU (natural gas pipeline; and a Baltic Sea telematic platform and Baltic ring electricity network. ■

BALANCE OF PAYMENTS ASSISTANCE TO SLOVAKIA

As we go to press, Mr. Bartho Pronk is reporting for the European Parliament's budget committee on a proposal to grant Slovakia a seven-year balance of payments loan of ECU 130 million. The attitude which the European Parliament will take during the debate on Slovakia will be of crucial importance for the granting of the balance of payments assistance.

The ECOFIN Council gave it's "political agreement" on December 5 to a proposal from the Commission to grant additional macro-financial assistance to Slovakia. ECOFIN's decision was that COREPER shall finalize the legal texts on the basis of this "political agreement" and **taking into account the opinion rendered by the European Parliament.** The EU ministers of finances further linked the practical implementation of the loan to continued effort by the Slovak authorities to maintain and progress with the economic reform programme which was agreed with the IMF and supported by G-24 countries.

Last month, the European parliament's Committee on External Political Relations and Security already took a stance against granting the loan to Slovakia and preferred to wait and see what the Slovak policy would be from the political and human rights point-of-view. Earlier there were proposals in the EP's Bud-gets Committee to change the legal basis for the loan. This change would mean that Slovakia would be treated as developing country.

One day before the debate in the EP a new Slovak Government was finally formed after more than two months of attempts to form a broader coalition government following the elections. Premier Minister Mr. Meciar's HZDS Party has been joined in the restricted coalition by the Slovak Nationalists, by the small leftist Worker's Party and by similarly oriented Farmers Party.

However, when ECOFIN made its political decision on December 5, this was already after a "demarche" which the EU member countries diplomatic representation in Bratislava delivered to Slovak Government, to the Slovak President and to the Chairman of the Slovak National Council. ECOFIN was apparently satisfied with the Slovak answer, which appreciated a sincere interest by the EU in continuation of the transition process in Slovakia and assured the EU that Slovakia respects and keeps to all democratic standards, conventions and commitments resulting from the international conventions and the Human Rights Charter. The Slovak answer indicated that Slovakia already prepared a draft of a bilateral agreement on friendship and cooperation with Hungary and that it is now a matter of when Hungary will approach efficiently the proposals of Slovakia. The Slovak answer assured that the Hungarian minority has all the rights and obligations equal to other citizens of Slovakia and that the Slovak Republic would welcome similar respect of the EU concerning the position of the Slovak minority in Hungary.

Readers will recall that in June, the Slovak Government requested additional financial aid in support of balance of payments for 1994 and 1995 and that ECOFIN already took a favorable position to this request in early July. Slovakia requested from the EU and G-24 assistance of $300 million and supplementing funds to be provided by the IMF and the World Bank during 1994-95.

The European Commission proposed to the Council to take a decision (on the basis of Article 235 of the Treaty) to grant Slovakia a medium term loan in support of balance of payments of a maximum of ECU 130 million for seven years. The loan is to be provided in two tranches. The first instalment shall be released to Slovak National Bank after confirmation by the IMF.

The economic analysis in support of the granting of the loan indicated that despite a decline in internal demand and despite devaluation of the Slovak Koruna, the country faced balance of payments deficit which is difficult to finance by inflow of private capital in particular, the inflow of direct foreign investment remains modest. It is estimated that Slovakia will face a current account deficit in both 1994 and 1995. ■

KOHL SPEAKS IN THE EP ON ASSOCIATED COUNTRIES.

*Chancellor Kohl in his report to the European Parliament on the results of Essen Summit said that rapprochement with central and east European countries must be speeded up but no false expectations shall be created. "The preliminary condition is and remains the internal reform of the Union... accession will be opened once they have met our conditions, **individually and independently from one another**".* ■

DEVELOPMENTS WITHIN THE EC

EUROPEAN COUNCIL MAKES MODEST PROGRESS

The Essen European Council, on 9 and 10 December 1994, was a truly "historic moment" for the European Union as well as for Europe as a whole, said Helmut Kohl in his final press conference after the summit. The summit was indeed attended not only by the Twelve, but also by the three new Members States, Austria, Finland and Sweden (the German Chancellor regretted the absence of Gro Harlem Brundtland, Prime Minister of Norway, after the "no" to accession at the 28 November referendum, but said that the door remained open to Norway), and it endorsed a strategy aiming at bringing Central and Eastern European countries closer to the Union, with a prospect of later accession.

Moreover, the Prime Ministers and Ministers of Foreign Affairs of these countries were able, immediately after the summit, to spend a few hours with their Western counterparts and to discuss with them the measures suggested in order to prepare an eventual enlargement (see other pages in this issue). Some Central and Eastern European leaders would have liked the summit's recommendations to include firmer commitments, especially about the timescale of eventual accession, but most of them declared themselves satisfied and stressed the strong symbolic significance of the Essen meeting. "If we had suggested such a meeting five or six years ago, we would have been considered crazy", said Chancellor Kohl, thus measuring the ground, despite difficulties and delays, that has been covered since the fall of the Berlin Wall. And he thought that the Union's leaders had given Central and Eastern Europe a "clear political signal", with their offer of a joint summit meeting once a year and meetings at Foreign Affairs Ministers' level twice a year.

At the same time, Helmut Kohl also stated, in his press conference, that the Twelve, soon Fifteen, made quite clear to their Eastern neighbours that they do not want to "raise false hopes", and that the process envisaged does not mean "bringing negotiations forward". And he added that negotiations, when they start, will deal with each country individually (the Romanian delegation, on the contrary, expressed the wish that they proceed more or less simultaneously).

European Commission President Jacques Delors also found the decisions made on future relations with the Eastern neighbours one of the main success of what he called an "impressive" summit. Mr Delors said that he retained, among the main "images" of this summit, the image of "twenty-one countries meeting together without, as President Mitterrand said, any difference between East, Centre and West" (Mr Delors was also pleased to note that, in order to keep a balance between Eastern and Southern neighbours, the summit had also endorsed the launching of a new "ambitious" policy for the Mediterranean). A couple of days earlier, after the summit of the European Socialist Party, Jacques Delors had stressed the need to do something "now, not later", in order to take into account the security needs (both at home and abroad) of the countries of the former Soviet bloc. On the economic front, though, he found it very difficult for these countries to become Members of the Union very soon, and said that the countries concerned, in the meantime, realize themselves better than before the efforts that this would require from them (one should only think about the competition between the most developed countries, he said).

Enlargement:

The Union's enlargement beyond 1996 was one of the main issues of the very free discussion that the leaders had during their traditional "chat by the fire", on the first evening of the summit (some participants defined it a "brainstorming" session). President Delors clearly stated the institutional and decisional problems which would arise from an enlargement to, for example, 27 Members, meaning by this figure not only the six countries which already have "European" agreements with the Union, but also the three Baltic States and Slovenia (with which, as the Presidency's conclusion emphasized, European Agreements should be concluded under the French Presidency in the first half of 1995, "so that these States can be included in the accession preparation strategy") as well as Cyprus and Malta.

The Presidency's conclusions confirm that "the associated States of Central and Eastern Europe can become members of the European Union if they so desire and as soon as they are able to fulfil the necessary conditions", but also stress that "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 exchange of views in Essen clearly convinced the Union's leaders (one of the new Members, Swedish Prime Minister Mr Carlsson, was one of the most active participants in this debate) of the need to start discussing the 1996 Conference "in good time", and Felipe Gonzalez' suggestion to dedicate a special summit to this issue, perhaps in September, was warmly welcomed, especially by Chancellor Kohl.

Trans-European networks:

The Essen summit also made some timid progress on the issue of trans-European networks, endorsing the list of fourteen priority transport projects (three projects, concerning the Nordic Triangle, the Ireland/United Kingdom/Benelux Road link and the West Coast Main Line in Britain, were added to the eleven agreed upon in Corfu) and ten energy projects, two of which concerning "neighbouring countries" (the Russia-Belarus-Poland-European Union gas delivery pipeline and the Algeria-Morocco-European Union gas delivery pipeline).

The final text is rather vague about the financing requirements, simply saying that the European Council "calls upon the Ecofin Council to adopt the necessary decisions, acting on proposal from the Commission, to top up the funds currently available", but the discussion in Essen was more specific. Thus, French Prime Minister raised the issue of the TGV (rapid train between Paris and Metz), saying that 500 million Ecus were lacking, and asking the Commission whether it could find extra funds within the 1995 Union's budget, and Commission's Vice-President Henning Christophersen told him that about 1.2 billion Ecus could indeed be made available.

Employment:

Jacques Delors was also satisfied about the conclusions of the debate on unemployment, and about the fact that the Council has requested the Labour and Social Affairs and the Economic and Financial Affairs Council, together with the Commission, to (as the Presidency's conclusion state) "keep close track of employment trends, monitor the relevant policies of the Member States and report annually to the European Council on further progress on the employment market", starting with the European Council of December 1995 in Spain.

Thus, employment is considered as important as macroeconomic issues, and it is clear that it is a "priority of priorities", he said. Mr Delors was also pleased about the endorsement by the European Council of a suggestion that he made, which is the setting up of a "Competitiveness Council" consisting on a group of Wise Men, who would pay particular attention to the competitiveness of the European economy and submit reports on this issue.

Europol & Transborder crime:

The summit was not able to reach an agreement on a Europol Convention, which was blocked by France for "sovereignty" reasons. But the Presidency's conclusions stress that the convention establishing Europol "is to be concluded at the latest by the European Council in Cannes", at the end of June 1995, and that the Justice and Home Affairs Council will be requested to examine the inclusion of terrorism in Europol's competencies (this was a demand by Spain). In the meantime, the Europol Drugs Unit already in function in The Hague as a "forerunner" to Europol, will see its mandate extended to the fight against trade in radioactive and nuclear materials, the smuggling of persons and associated money-laundering operations. Jacques Delors - who has consistently stressed that the European Union must be able to act "at the same level as international crime", noted that President Mitterrand's intervention had greatly helped, in Essen, to this compromise solution.

The Essen summit was indeed a summit of transition (from Twelve to Fifteen, and later more) and also of farewell to some of its main actors. French President François Mitterrand (because of the next Spring presidential election, where he will not run) and Commission's President Jacques Delors (who will be replaced on 19 January 1995 by Jacques Santer) both took leave from their partners, after ten years of joint work with some of them. Helmut Kohl had many words of praise for François Mitterrand, recalling that the French President and himself were perhaps the only ones in the group who had personal memories of he horrors of World War II, and for Jacques Delors, of whom he said "Jacques, you were the soul of the enterprise". ■

COUNCIL DECIDES THAT 15% BAND WILL BE USED TO EVALUATE COMPLIANCE WITH MONETARY CRITERIA FOR ENTRY INTO THE FINAL STAGE OF EMU

The Economy/Finance Council (ECOFIN) held in Brussels on December 6, noted that there was no need to modify the current exchange mechanism used in the European Monetary System (EMS). "The decision of 2 August 1993 by which the fluctuation band was raised from 2.25% to 15%, has been crowned with success and we plan to keep to this procedure", declared Council President Theo Waigel, and the ministers "recognized the importance of the exchange rate stability as well as the necessity to avoid tensions in the system". On the basis of an "interesting opinion" by the European Monetary Institute, the Council declared that it was "satisfied with the functioning" of the EMS. The decision of 2 August 1993, commented Theo Waigel, made it possible to obtain "very stable exchange rates" since "the grass was cut under the feet of speculation". For passage to the final stage of EMU, the Council still intends to "proceed on the basis of Article 109" of the Treaty of Maastricht, added Mr Waigel.

French Finance Minister Mr Alphandéry stressed that, from now on, "the only legal bands are those set on 2 August 1993. The old margins have completely disappeared and no longer have legal existence". Spanish Minister Mr Solbes noted that "we can say today that the 15% band is the normal band" (very important from the point-of-view of compliance with the Maastricht conditions). According to Belgian Minister Mr Maystadt, the 15% band is theoretical (in the sense that no country participating in the EMS uses it) but "it is preferable not to change it to avoid a resurgence of speculation".

The consensus by the Ministers on maintaining the wide band of fluctuation (which required no formal decision) implicitly means that this band will be considered to represent the "normal bands of fluctuation" established by the EMS exchange rate mechanism. These margins must be respected for at least two years before a country can enter into the final stage of Economic and Monetary Union. This condition, in the Treaty of Maastricht, is as explicit as those pertaining to budget deficits or inflation, even though it is mentioned less often. It is obvious that none of the countries in the EMS will have difficulty complying with the 15% band. In practice, sheltered from attacks of speculation, these countries have been respecting the old band of 2.25% since August 1993, and Mr Alphandéry emphasized that the exchange system would remain stable as long as the convergence criteria and the cohesion programmes are respected.

Problems could possibly arise in the case of less stable currencies acceding to EMS, like for example, the Italian Lira; Italy's Minister to the Treasury Mr. Dini acknowledged that the Lira was currently undervalued compared to the DM and other EMS currencies and confirmed the intention of returning to the system;

The EMI has announced that the representatives of the central banks of the Member States, and of Austria, Finland and Sweden, have signed the Instruments relating to the accession of the central banks of the new Member States to the Agreement laying down the operating procedures for the EMS of 13 March 1979. Similarly, the central bank representatives signed an instrument relating to the accession to the Agreement of 9 February 1970 setting up a system of short-term monetary support. This financing facility among Community central banks is designed to cover short-term balance of payments disequilibria which may arise in Member States. Its last actual use was in 1974. The instruments of Accession will take effect as from the day on which Austria, Finland and Sweden join the EU. ■

MEDITERRANEAN POLICY

The European Council in Essen welcomed the intention of the future Spanish Presidency to convene in the second half of 1995 a **Euro-Mediterranean Ministerial Conference**. It also welcomed the intention of the forthcoming French Presidency to give high priority to its intensive preparation.

We discussed principal elements of the Commission's proposal on "Euro-Mediterranean Partnership" in No 59 of December 1. As well as the financial implication of this initiative for the allocation of PHARE funds to central and east European countries.

Following the Summit, most of the reactions were that it was logical for the European Council to decide simultaneously to boost cooperation with the Southern Mediterranean countries. Up to now Germany and generally northern EU countries felt responsible for relations with eastern Europe, and southern countries for relations with the Mediterranean. Thus what the Essen Summit established is that both the CEE and Mediterranean Region are the joint responsibility of all the EU states.

In order to allow readers in CEE to appreciate the relative importance of the both regions, we publish some basic statistical indicators. It may be recalled that the EU has a population of over 340 million, the Mediterranean region a population of some 210 million, and central and eastern Europe some 110 million. GDP in the EU amounted in 1992 to nearly $6.7 trillion, in Mediterranean regions over $330bn dollars and in CEE to over $210 bn. The commitments within the EU budget in favor of CEE and Mediterranean countries were as follows: CEE in 1993 Ecu1036m and in 1994 Ecu985m. In favour of Mediterranean region it was Ecu407m in 1993 and Ecu473m in 1994.

The trade interdependence is clearly seen from the table.

Trade between the EU, Mediterranean and CEEC, in million Ecus

	1990	1993
Exports: MED		
Total	**36.2**	**45.6**
Of which:		
Agriculture	4.6	4.7
Manufacturing	28.5	37.4
CEEC		
Total	**12.1**	**26.1**
Of which:		
Agriculture	1.5	2.9
Manufacturing	9.6	21.4
Imports: MED		
Total	**34.5**	**33.2**
Of which:		
Agriculture	3.4	3.3
Manufacturing	11.9	14.0
CEEC		
Total	**13.0**	**20.3**
Of which:		
Agriculture	2.7	2.6
Manufacturing	8.0	15.2
Trade Balance:		
MED	+1.7	+12.4
CEEC	-0.7	+5.8

The Essen Summit considered that Israel shall enjoy special status with the EU, based on reciprocity and common interest and that the process of regional economic development in the Middle East including the Palestinian areas shall get a financial boost.

It was confirmed that the next stage of enlargement shall include Cyprus and Malta and on December 20 the Association Council with Turkey will discuss the establishment of customs union. On December 5, ECOFIN gave political agreement for an Ecu200 million loan to Algeria. ■

OUTLOOK FOR ENLARGEMENT OF THE EUROPEAN UNION
Committment appropriations (in Mecu) - current prices; annual deflator of 3% for the period 1995-1999

	Present Financial Framework					Commission Proposals		
Financial Year	*External Action Ceiling*	*Emergency Aid Reserve*	*CEEC*	*Medit-erranean Countries*	*Amounts left for other External Actions*	*Increase (8.6%) in category 4 ceiling*	*Additional increase in category 4 ceiling*	*Increase: emerg-ency aid reserve*
1994	4.523.000	212.000	985.000	449.850	3.088.150	N/A	N/A	N/A
1995	4.928.000	323.000	1.106.000	492.000	3.330.000	394.000	-	27.000
1996	5.332.000	330.000	1.235.000	700.000	3.397.000	428.000	-	31.000
1997	5.796.000	339.000	1.400.000	1.080.000	3.316.000	467.000	106.000	32.000
1998	6.378.000	350.000	1.586.000	1.495.000	3.297.000	516.000	328.000	33.000
1999	7.072.000	360.000	1.745.000	1.733.000	3.594.000	574.000	338.000	34.000
TOTAL 1995-1999	29.506.000	1.072.000	7.072.000	5.500.000	16.934.000	2.379.000	772.000	157.000

FINANCING FOR PRE-ACCESSION STAGES

The proposal submitted to Essen for financial aid in preparation for the accession of CEEC was mentioned in our last issue. The enclosed table was at the disposal of the ECOFIN Council on December 5 (cf No.59). The decision taken (p2 of this issue) is that 1995 figures are to be taken as a basis, from which possible increases will be decided at a later date.

1995 figures of Ecu1,106m for CEEC, Ecu492m for Mediterranean countries and Ecu3,330m for other external actions are the basis from which later increases will be implemented. The Ecu3,330m accounts for among others, Russia, Ukraine and other CIS countries, and includes Ecu500m aid (TACIS), food aid of Ecu850m, third world aid of Ecu470m, a specifically approved amount for Israel-Palestine, as well as finance for other Commission external policies.

The Commission proposed for Essen an average annual growth rate for 1995-1999 of 12.1% in relation to CEEC. This would mean a total budget for the period of Ecu7,072m. However it is rumoured in Brussels that perhaps a rate of 6½% will be applied, in which case the total for the period would be some Ecu6,297m. Any divergence in the rates used will be balanced with the growth rates applied to Mediterranean countries (37% in the table). Therefore a decrease in the 12.1% growth relating to CEEC, would mean that the Mediterranean countries would not be budgeted for on a 37% basis.

As we go to press, the European Parliament is discussing the modified 1995 budget. The EP had already approved (at second reading) a 1995 budget based on the accession of four states in January 1995. As Norway will not be joining the EU, discussion will centre around the new budget, and it remains to be seen what implications there will be for external finance actions. ■

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