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TOGETHER IN EUROPE

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RELATIONS WITH THE EUROPEAN UNION

ENLARGEMENT STRATEGY READY FOR MADRID SUMMIT

The European Commission made its bid on 29 November in favour of the next EU enlargement to central and eastern Europe. Together in Europe sees this support of enlargement from the reports approved on 29 November. The reports seek to diminish fears among Member States that enlargement will cripple the EU budget. At the same time the reports carefully suggest the need for reform/evolution of key EU policies, in such a way which promises to prevent early strong negative reactions by those whose situation would be greatly influenced by the enlargement. The reports will be presented to the Heads of State and Government in Madrid on 15-16 December. The three texts comprise :

* an **Interim Report** on the implementation and progress of the pre-accession strategy

and two key reports:

* **Report on the impact which the enlargement would have on the functioning and development of EU common policies**
* **Report on the alternative strategies and impact of enlargement in the sector of agriculture**

The reports help to clear up many of the questions connected with the next enlargement: when, how and with whom ?

The reports also need to be considered in relation to the results of the work of the Reflection Group preparing for the IGC and with the main items on the agenda of Madrid Summit (1) IGC, (2) third stage of EMU, (3) next enlargement

The bid for enlargement is made with the knowledge that the next enlargement to central and eastern Europe will be a most difficult process and by far the biggest quantity and quality change ever faced by the Community. It is realized that the costs will be considerable and will require important changes in the way the Union has been conceived and the way it is run. Finally, the enlargement, to become effective, requires the unanimous approval of the current 15 member countries and the EP.

The principal achievement of the current stage, which will end in Madrid with the Summit's decision on the opening and agenda of the IGC, was that the next enlargement has been;

- (1) accepted as the EU's main political necessity and the goal. The reasoning here is mostly of geo-political character.

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- (2) Every possible effort has been made to clear the way for the start of the enlargement negotiations as early as possible.

As it is clear that no enlargement negotiations could start before the conclusion of the IGC (which needs to agree to at least a minimal institutional and decision making reform allowing the functioning of EU of more than 15 member countries) - the effort has been concentrated on eliminating most of the items which would either threaten the IGC's successful conclusion or prolong its duration over several years from the agenda of IGC.

Thus before the Madrid Summit there is more or less an understanding that items directly linked to the costs of the enlargement and to the budgetary requirements would not be dealt with during the IGC. In particular this implies that the IGC will try to avoid discussion over common policies (structural, regional, common agricultural policy, transport etc) and would avoid discussion on the next EU financial perspectives (i.e. EU budget expenditures and budgetary resources after 1999).

At the same time it was accepted that policy reform is inevitable, but shall be dealt with apart of the IGC. The Commission's papers on the agricultural sector's implications of enlargement and on the implication of enlargement on structural and cohesion policies fit perfectly into this strategy. This shall be regarded as the most important element in the enlargement strategy. Removing the discussions from the IGC over future policies and over future financing and making their reform a subject to "normal Treaty provisions" means to escape the necessity of reform approval by ratification (and by referenda in several Member Countries). Eventual non-ratification of any part of eventual policies and financial reform package would block the start of the negotiations on the enlargement as such. In addition, most of the necessary reforms could be passed in the coming years by majority vote. Unanimity is required only for the next financial package.

When and with whom :

The Commission's Interim Report says that it is premature at this stage to fix the calendar for accession negotiations or the timetable for accession as such.

However, the EU Heads of State already decided that negotiations with Cyprus and Malta will start six months following the conclusion of the IGC. It may be believed that the Heads of Government of the associated countries of central and eastern Europe will go to their joint meeting with the EU on the margin of the Madrid Summit with only one task: that the same timetable is agreed also for the candidate countries of CEE.

The latest decisions on the **Opinions on applications** suggest that the Commission is considering this possibility.

The Commission will start an intensive phase of preparation of Opinions on the accession of individual candidates from CEE countries during the finishing stages of the IGC. Commissioner van den Broek confirmed on 29 November that the Commission will **present the opinions shortly after the conclusion of the IGC.**

On 29 November, both President Santer and Commissioner van den Broek only referred to 5 of the accession candidates from central and eastern Europe, even though the sixth application (from Estonia) was handed into the Council's presidency on the evening of 28 November. The argument was, that it is not yet clear how many central and east European countries will eventually seek accession. It is, however, presumed that all 10 central and east European countries would submit their application before the start of the IGC.

The statements on opinions also suggest some answers on **whom the negotiations will start with.**

Hans van den Broek said, when presenting the accession strategy, that the task of Opinions will be to determine the **progress made by individual countries in their preparation for membership.** The basis for accession would be the **acquis** of the Union, as it exists at the time. Thus, each applicant will be considered on its own merits and on the success in conducting the political and economic reforms necessary to prepare for membership. So there is an economic and the political side of preparation. The principle which could be deducted from the Interim report is that the reforms and restructuring must be conducted in such a way, that at the time of accession, the economies of candidate countries can withstand the effects of membership and that there are some elements of stabilization to allow future participation in the EMU.

The interim report recalls that democracy, the rule of law, respect for human rights and the protection of minorities have all been identified as requirements for membership. It indicates that the protection of minorities so far remains a delicate issue and that greater attention is also needed in some cases to constitutional checks and balances. The will for regional cooperation and integration "are also highly desirable".

The reports on structural and other policies as well as that on agriculture follow the same reasoning. While they deal with the potential 10 candidate countries of central and eastern Europe, they refuse to mention the costs and financial implications of the enlargement, as it is too early to establish now **how many countries** will qualify. The reasoning of these reports is that not all candidate countries will be joining at the same time.

If we accept theoretically that the IGC will conclude sometime during the second half of 1997, in a hypothetical situation it may look as follows:

The Commission must **submit another report in 1996**. This will be a more comprehensive report/follow up on the Interim Report than that submitted to the Madrid Summit. This report will go further concerning the financial implications of the enlargement and could be considered as a preliminary phase of the process of the preparation of **opinions**. The intensive work on the individual opinions would be carried out during the first half of 1997 (taking into account macro-economic results of candidate countries by the end of 1996 and the then current scope of progress towards the ability to assume the acquis). That phase could facilitate the conclusion of the IGC and allow the EU Heads of State, when concluding the IGC, to give the necessary instructions concerning the concrete preparation of accession negotiations. Then the first European Council, which will take place following the conclusions of the IGC, could take the decision over with whom the accession negotiation will start with (taking into account the results of Opinions meanwhile submitted by the Commission). Some Opinions are likely to express the necessity for some countries still to continue and deepen their preparation for the accession.

How ?

The Commission's reports to the Madrid Summit indicate strong pointers on how accession will take place and the key areas for negotiations. The full accession will be gradual and subject to long transition periods. This will allow for a separation of certain fields from the direct and immediate impact of the accession. Meanwhile, hard fought compromises on the reform of policies between the EU 15 could start to be implemented. The transition periods are likely to concern: **agriculture, structural policies, free movement of workers, free movement of capital and, overall, the sector of financial services, transport, social policy and protection of consumers.** However, the actual scope and length of the transition periods will depend on the actual situation of the applicant countries, as well as the impact the country concerned will make on EU policies. It will reflect the concessions actually negotiated during the accession negotiations, as many of the derogations will be due to the new members's inability to absorb the full acquis. The underlying principle is that derogations resulting from the transition periods will not become permanent derogations.

The approach to accession will also depend on both a concrete medium- and long term outlook for economic growth within the Union, and on a somewhat more concrete evaluation of the gains the EU 15 could expect from increased trade and economic activity which the enlargement will generate.

Overall, the Commission's reports prepared for the Madrid Summit went as far as was possible to facilitate the decisions for the IGC and to pave the way for a more concrete blueprint for the next enlargement. Three articles in the current issue look to the subject in more detail: Discussion of the Fischler report, discussion of the report on structural and cohesion funds and discussion of the report by the Reflection Group in the IGC (**J.Z**). ■

COHESION POLICY/STRUCTURAL FUNDS

The part of the Commission communication to the Madrid Summit, which deals with the implications of enlargement on the EU **structural and cohesion funds**, attempts to both : (1) assure the EU poorer countries and regions, that the principles of economic and social cohesion will continue to be the fundamental feature of an EU future policy, (2) try and establish that, despite the new costs linked to the enlargement, the application of structural and cohesion funds would not be an obstacle to enlargement. This is because the new members will start to benefit from transfers of structural/cohesion funds only very gradually and over a long transition period.

The Commission says that the current cohesion policy will be subject to review starting in 1996 and the EU of 15 member states would have to agree on a gradual reform. The current arrangement for regional policy

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covers 1994-1999. The new arrangement will have to be agreed in 1999 together with EU financial perspectives. The reform will probably direct the concentration of funding to specific regions or policy priorities. It will also aim at stricter budgetary discipline.

The Commission has wisely refused to include an estimate of the cost of enlargement. The position is that the calculations made on the base of an extension of current structural policies to new members do not make sense. The structural policy would be different when the individual countries would join. While the principle of cohesion would in principle be applied to new members, there will be transitional arrangements allowing their gradual integration. The justification for new members to integrate very gradually is based on the consideration, that the volume of the assistance, to which they would otherwise be entitled to, would be too high in relation to their GDP. It would create considerable economic and political difficulties for them. In short, they would be overwhelmed by the influx of funds. The new countries would not have the ability for co-financing on which the allocation of structural and cohesion funds is based. Furthermore, the supply of funds would be too large for their absorptive capacity. The point is also made that not all candidate countries will be joining the EU at the same time.

Together in Europe discussed structural funds and its 6 objectives, as well as the cohesion fund in No.77 pp 10-11. It may be estimated that at the time of accession of the richest of the central and eastern European countries, their GDP would still be lower than that of Greece or Portugal. The magnitude of potential transfers could be appreciated from the fact that both Greece and Portugal (countries of similar size to Hungary and the Czech Republic) are each due to receive about ECU14bn during 1994-1999 from structural funds and some ECU1.8bn from the cohesion fund. However, Spain, a very large country, is due to receive some ECU32bn from structural funds during 1994-1994 and over ECU15bn from cohesion funds. ■

FISCHLER'S AGRICULTURAL STRATEGY PAPER

Commissioner Fischler's report on the Agricultural Strategy with a view to the next enlargement will tell the EU Heads of State in Madrid that the integration of the 10 central and east European countries' agriculture sector into the CAP will be costly, but the impact on the CAP budget will be much lower than many unreasonably predicted in the past. However, even without enlargement, it will be necessary to begin to consider what CAP changes are needed for the beginning of the next century. Thus enlargement is only one element among others.

This has lead the Commission to examine the different options for the future development of the CAP: (1) Status Quo; (2) Radical Reform; (3) Further development of reform started in 1992.

The Commission is not in favour of maintaining the status quo because such a policy, in the broader external and internal context, could prove to be short-sighted around the year 2000. Firstly, it would stimulate the future growth in production too much, secondly, possibilities of subsidized exports would become even more restricted and finally, surpluses would bring new major market imbalances. Enlargement to the East would increase these imbalances further, making a major reform of CAP unavoidable in the end.

The Commission is not in favour of radical reform proposed in relation with the debate on the enlargement. This reform would only imply a number of social and environmental risks bringing about negative effects. To offset the negative effects, the necessary compensatory payments would require huge volumes of additional public expenditure in the preliminary years.

The Commission favours a third option i.e. the **further development of the 1992 reform.** This would imply a further reduced reliance on price support, compensated where necessary by direct payments in various form. Compensatory payments would compensate farmers for significant price support cuts. This development would favour the orientation of agriculture into a market system and will facilitate future integration of central and east European agriculture. The gap between the EU internal prices and world market prices would be reduced. At the same time the agricultural prices in candidate countries will inevitably be moving up. This would further diminish the gap between their prices and EU prices and the gap would either no longer exist, in the time of their integration, or could be bridged more easily.

The continuation of the 1992 reform would also bring the EU closer to an integrated rural policy seeking to strike a more sustainable balance between agricultural activity, other forms of rural development and the conservation of natural resources. Such an approach is of key importance for central and east European countries. They have important development problems in many rural areas.

"Together in Europe" discussed reasons and individual elements of this approach in the leading article of the last issue (c.f. No 78,pp1-2 and 12).

Fischler's report then turns to the agricultural sectors of the candidate countries and its impact on the enlargement.

10 central and east European countries would add 100 million consumers increasing the number of consumers by 26%. But 10 countries would also double the agricultural labour force, and would expand the arable area by 55%. The combined GDP of 10 candidate countries amounts to 3% of the EU current GDP (Commissioner van den Broek said it equals approximately the GDP of the Netherlands). GDP per capita amounts to 11% of the current level in EU. In terms of purchasing power parity, average GDP per capita of four central European countries and Slovenia amounts to some ECU5,635 as compared with nearly ECU15,900 in the EU.

Two-stage approach :

In the last issue we mentioned a two stage approach likely to be suggested by Commissioner Fischler. This approach has been confirmed by the final report.

The report firstly makes references to the conclusions of the DG-VI analyses on the agricultural situation in individual central and east European countries (see detailed discussion of the reports in No74,pp3-4).

The first stage (the pre-accession stage) requires that the candidate countries themselves try to carry out the necessary structural reform and adopt their agriculture to the new tasks. The Commission, however, concluded that despite differences in the price levels between the EU and the CEC, and despite the sensitivity of a number of agricultural sectors, the EU shall try to improve **market access.**

The Commission thus proposed the following additional measures:

* reduction of tariffs to the **final level as bound in GATT** (i.e. accelerated implementation of GATT results for candidate countries) for all agricultural imports from the associated countries;

* increase in tariff quotas to go beyond the 50% increase over 5 years proposed by the Commission (only a 25% increase was approved by the last Council);

* the reduction **of the in-quota-tariff rate to 20% of the MNF rate** applied to all quotas;

* the entry price for fruit and vegetables should not be applied within existing quotas;

* associated countries should be authorized to transfer unused quotas among themselves.

The Commission indicated its readiness to examine further requests on a bilateral basis.

Concerning **export refunds,** the position is that experience has shown that a reduction or abolition of refunds by the EU can simply lead to a **situation where other exporting countries take over the place of the EU with their subsidized exports.**

The Commission's main emphasis is on the **pre-accession modernization programme for the CEC agro-business sector.** The EU shall help to finance this from PHARE funds.

The second stage will start at the moment when the first of the new countries join the Union. At that time the deepened 1992 reform would be in full swing. Transition periods would be applied to new members.

During this period, it is estimated, that price cuts (being applied to EU farmers) are not likely to be applied to farmers from the CEC. On the contrary, accession is likely to lead to moderate price increases for some of their products. Compensation is not a part of the ideology beyond the 1992 reform.

Thus, from the EU side it seems reasonable **not to pay compensatory payments to farmers from the CEEC** during the transition period. Instead a significant amount of money should be made available for additional programmes of **integrated rural development and environmental protection.** This also follows the reasoning that national or regional authorities in new member countries could make much better use of money available for compensatory payments for **additional programmes of structural improvement in agriculture and in particular in downstream sectors directly linked to it.** These sectors chiefly involve processing, storage, marketing and services to agriculture.

Costs of enlargement :

The Commission worked with the hypothesis that all 10 candidate countries would join in the year 2000 and would **gradually align their price levels to those of the EU over a 5 year transition period.** The estimate took into account a certain boost in production and at the same time a dampening of demand, both leading to an increase in CEC net export potential for the main agricultural commodities.

The Commission carried out balance projections for 2005 and 2010 in which it is assumed

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DEVELOPMENTS WITHIN THE EU

COMPROMISE ON AGRICULTURAL PROTOCOLS

The EU General Affairs Council's compromise, adopted by qualified majority vote on 20 November, unblocked the situation with the additional agricultural trade protocols to the Europe Agreements. It also raised a number of questions about the commitment of several EU member states to the opening of their markets to the CEEC inspite of far reaching declarations to this effect which included declarations in favour of enlargement. "Together in Europe" outlined in No.78, p6 the situations with additional protocols as it was just before the Council's meeting on November 20.

The compromise (formulated by the Spanish Presidency) has not yet resulted in giving the Commission a firm negotiating brief. On 20 November COREPER was entrusted with finalizing the mandate so that the Council may formally try and adopt the Commission's mandate at its next session (December 4 ?). This would allow the Commission to finish negotiations with the associated countries of central and eastern Europe. The additional protocols could then be applied from the beginning of 1996.

The compromise :

We indicated in the last issue that the majority of EU countries consider a 5% increase in tariff quotas each year for five years sufficient instead of a 10% annual increase which has been proposed by the Commission. The Council only adopted a **5% annual increase and added 5 exceptions to which the 5% tariff quota increase will not apply: live cattle, live sheep and goats, fresh strawberries, preserved and prepared tomatoes and onions.** In general, the exceptions represent products of key importance for the central and east European countries' agricultural exports.

The reader will recall that in November 1994 the Commission proposed to the EU Heads of State at the Essen Summit to address the short- and medium term problems of imbalances in agricultural trade with central and east European countries in view of a rapidly increasing EU surplus. This development questioned the EU policy of asymmetric advantages in favour of associated countries on which the Europe Agreements were built up.

The Commission proposed at the Essen Summit :

1. the reduction of all custom duties by 80% where preferential access to the EU market has been provided by tariff quotas
2. the application of all the concessions already granted in the Europe Agreements from 1 July 1995 rather than the later dates foreseen in the Europe Agreements
3. **an increase in tariff quotas by 10% for 5 years**
4. 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 Essen Summit gave its political approval to this proposal. In addition, it requested the Commission to prepare a report on the utilization of tariff quotas. The Commission presented this report in June 1995 (see details in No73,pp4-5). The report concluded that the utilization of tariff quotas often falls short of maximum take-up due to a number of internal and external factors.

On 1 July 1995 the EU took the first step and already applied **point (1) of the 1994 proposal independently (i.e. reduction of custom duties by 80 %).** This step reflected one of the conclusions of the report on the utilization of tariff quotas, that the gradual reduction in duties resulting from the Europe Agreements was initially not high enough to promote higher utilization of tariff quotas.

Meanwhile, a series of bilateral negotiations on adapting the agricultural chapter of Europe Agreements were held. These negotiations attempted to adapt the agreements to the new conditions arising from the results of the Uruguay Round and the 1995 enlargement of the EU by 3 new countries. The Commission, however, was not able to conclude the negotiations as it lacked a firm mandate on how far it could go in granting new concessions.

The compromise, adopted on 20 November, approved all proposals made by the Commission in November 1994 (see points 1 to 4) with the exception a 5% increase in quotas (instead of 10 %) and stipulating 5 exceptions to which an increase is not allowed. We believe, that COREPER is now mainly trying to solve the problem of **the regrouping of quotas**. The Council politically accepted the principle, but details are yet to be worked out respecting the principle of regrouping. But there is still no real stimulas for a rise in imports.

The principal problem was the attitude of Germany which was strongly concerned about the negative impact that the new concessions would have on the German agricultural sector (in particular producers of live stock, producers of strawberries and onions). The German position was strongly attacked by several member countries (Germany battles against concessions that are as ridiculous as a half a load of strawberry jam from Bulgaria or 14 tonnes of Polish lettuces per year, according to one diplomat).

On the other hand, Germany's negative attitude (as well as that of several other countries) was highly predictable. Important pointers were given during the very complicated conclusion to the negotiations with Morocco on the association agreement recently. In these negotiations in particular, three countries (Germany, Holland and Belgium) joined forces to defeat relatively minor concessions offered by the Commission, concerning generally minimal additional volumes of cut flowers, or tomatoes.

France was not so anxious about the direct impact of imports from central and eastern Europe on its agricultural sector (as Germany), but rather worried that higher imports from associated countries would have a negative influence on the outlook for French exports to other EU states. Italy also felt that east European products may compete with Italian products on other EU member states markets.

The Commission protested against the compromise (5% increase) and said it still seeks a higher increase. The last Commission's position during the Council was somewhat less generous than initially in order to save the bulk of the initial proposal. However, only four countries refused to support the Spanish presidency's compromise (U.K., Denmark, Holland and Sweden).

As we go to press, it is not clear, whether the Council's decision on tariff quotas made on 20 November would be reflected in Commissioner Fischler's **White paper** on the pre-accession strategy in the agricultural sector due to be presented to the Madrid Summit.

The text of Fischler's White Paper (at least the draft we were able to study before the final approval of the text by the Commission on 29 November) put a considerable emphasis on **improved access to EU markets for products from CEEC.** In particular, it called for five concrete measures, of which one was: **"raising existing quotas by more than a 50% increase currently proposed"**. The Council's compromise of 20 November reduced this quota increase to only 25% (i.e. 5% a year over five years). Another measure proposed in draft Fischler's White paper was suggesting merging individual country quotas into global quotas to ensure full utilization of quotas. This is also the point still being discussed by COREPER and the EU Council who will approve a new compromise on this point only after the Commission has already approved Fischler's White Paper. ■

ESTONIA APPLIES FOR EU MEMBERSHIP

Estonia applied for full membership of the European Union in Brussels on 28 November. Mr. Clyde Kull, Ambassador and Head of Estonia's Mission to the EU, underlined in discussion with Together in Europe, that his country's application was made in view of the forthcoming EU Summit in Madrid on December 15-16, and in view of the 1996 IGC. Thus, the next EU General Council meeting can take note of the application and can formally request the Commission to prepare the Opinion on Estonia's accession. Estonia's diplomats suggested that the timing of the application, ie. before the Madrid Summit which has to decide on the 1996 IGC in relation to the next enlargement, has been important. It would also facilitate the work of the forthcoming Italian Presidency which would be busy with the preparation of the IGC.

The 9-page Memorandum prepared in connection with the accession application underlined that "in only three years Estonia was able to rebuild the bridge to Europe". It may be recalled that the EU and Estonia signed the Europe Agreement on 12 June 1995 and the EU decided, at the same time, to include Estonia in the pre-accession strategy. The European Parliament ratified the Europe Agreement with Estonia one month ago. To date the Agreement has already been ratified by both the Danish and Swedish national parliaments, but the ratification by all EU member countries' national parliaments is unlikely before the end of 1996.

Overall the position is that Estonia's accession ought to be less difficult than most other candidate countries. Their accession would not generate additional costs for the EU budget, in view of both, Estonia being a small country and Estonia pursuing a liberal economic policy. The share of the agricultural sector in the GDP has already declined to 9.7% and no

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subsidies are given. Only 6.2% of the population work in agriculture.

The Memorandum reviews the political and economic reform. It underlines an extremely liberal economic policy which has been pursued by Estonia since 1992. The establishment of the free-trade area between the EU and Estonia under the Europe Agreement is without a transitional period and "is even asymmetrical in its substance to the advantage of the European Union. The Kroon is freely convertible and pegged to the DM. The memorandum says that Estonia is pursuing a policy with the objective of fulfilling the criteria for the third stage of the EMU.

Estonia's position on IGC:

The 3-page "Aide Memoire" by Estonia's Foreign Affairs Ministry gives a clear indication of the country's attitude to the 1996 Intergovernmental Conference:

The IGC shall concentrate on institutional reform; the review of EU common policies would take place **after** the IGC and within the framework of the Union's normal business. Estonia seeks a swift IGC and the subsequent commencement of accession negotiations with **all the qualifying candidates, 6 months after IGC.**

The Aide Memoire sees the Union as a "union of independent states into which Member States have concentrated part of their powers for achievement of commonly agreed objectives". It seeks the respect of the right of small member states. The role of national parliaments should remain central, while the possibility of increasing the efficiency and powers of the European parliament shall be discussed during the IGC. The Council shall retain its decisive role. Estonia favours an eventual move towards collective EU Presidency for one year, where in principle all Member States are treated equally. Each Member State shall have one member of the European Commission.

The country favours strengthening of the Union's common foreign and security policy, but considers that the Second Pillar should remain in the competence of the sovereign member States with principal decisions taken on the basis of consensus. It also supports the establishment of a planning and analysis unit, but at the Secretariat General of the Council. Concerning the Third Pillar (justice and home affairs), Estonia is ready to transfer some of the issues here to the Community competence (first pillar), but the decisions of the IGC shall assure that the national interest of member States are not adversely affected.

The reading of the "Aide Memoire" brings a number of other features documenting that Estonia's position to the IGC has been broadly influenced by attitudes so far taken by the Nordic countries.

Estonia's diplomats suggested to us that they do not consider that the unresolved issues surrounding the Estonia/Russia border, or the human rights and citizenship issue, could have some adverse impact on the accession negotiations .

Estonia is the second Baltic country to apply for EU membership. Latvia handled over its application in October (see No.77 pp) Lithuania is believed to be trying to resolve, before handling over her application, the constitutional issue of the right for foreigners to acquire real property. ■

SLOVENIA CALLS FIFTEEN TO SIGN THE ASSOCIATION AGREEMENT

Slovene Prime Minister Janez Drnovsek has launched an appeal on EU Member States for them to rapidly decide on signing the EU/Slovenia Association Agreement (which was already initialled in June), preferably still under the Spanish Presidency. In a letter he addressed to the fifteen Heads of Government, Mr. Drnovsek says that "the association process of Slovenia to the European Union has been delayed essentially because of the blockage by Italy which is trying to obtain concessions from Ljubljana linked to the past". The Slovene Prime Minister is alluding to the dispute between the two countries on the purchase of Slovene goods by the Italians which had been expropriated after World War II in Istrie and which were then installed in Italy. For this reason, Italy had blocked the opening of negotiations on an association agreement between Slovenia and the EU for several months; it finally lifted its veto and negotiations began in March and ended in June. But Italy said that the signing was dependent on a satisfactory solution.

In his letter of 28 November to the EU15, Mr. Drnovsek affirmed that "it would simply be absurd should the signing of the agreement be delayed for this reason when Slovenia has proved that it has had excellent economic results and that it was a politically stable country".

The President of Slovenia, Milan Kucan is on an official visit to Brussels since Tuesday. He met, among others Commissioner Van den Broek on 28 November, European Parliament President Klaus Haensch on 29 November and

European Commission President Jacques Santer 1 December. The signing of the Association Agreement is the main subject of the talks.

Protests in European parliament: On 29 November the European Commission and the Council had to face a long series of questions and resolutions tabled by all political groups about the delay in signing the association agreement with Slovenia. This was several hours before the president of Slovenia Milan Kucan addressed a joint meeting of the foreign affairs and external economic relations committees. The EP asked the agreement to be signed by the end of this year to allow Slovenia become subject to the pre-accession strategy.

The Spanish Presidency has been working towards a compromise decision but with little success. Carlos Westendorp, speaking on behalf of the Spanish Presidency, said that Italy maintains that Slovenia has not yet complied with the demand (accepted by the Council when issuing the negotiation directives in March) that Slovenian legislation be brought into line with that of the EU. The Slovenian Government had presented a law to modify the constitution with respect to access to property for foreigners. This, however, has not yet been judged adequate. The Spanish presidency hopes that at the next Council meeting in early December, Italy will accept a compromise based on an exchange of letters under which Slovenia would agree to modify its law after the fourth year of the agreement.

Ms. Susanna Agnelli, Italy's foreign affairs minister, said she was surprised by Janez Drnovsek's statement. She recalled the compromise package brought to Slovenia by the Spanish Presidency which had been rejected by Slovenia. Ms. Agnelli said that bilateral negotiations between Italy and Slovenia in late July resulted in an agreement in principle. Italy had been ready to present the agreement to the Italian parliament but the Government of Slovenia never approved the "agreement in Principle" of July 28. ■

EIB IN HUNGARY

The European Investment Bank(EIB) announced loans totalling ECU200m for industry, tourism and infrastructure projects in Hungary:

- a global loan of ECU150m for financing industry, tourism and infrastructure projects in Hungary is going to two Hungarian banks, K&H Bank and OTP Bank, and to four Hungarian affiliates of Austrian, Italian and Dutch banks: Creditanstalt (Hungary), ING Bank (Hungary), Inter-Europa-Bank, and Unicbank.
- an ECU 50m loan to Magyar Tavkozlesi (MATAV), the Hungarian telecommunications company, is for expanding an modernizing the national telecommunications network.

Large loans were previously granted for the rehabilitation of electricity generation and distribution and road improvements as well as for the modernization of telecommunications. The new loans bring total EIB lending in Hungary since 1990 to ECU 737m.

In Budapest, EIB-Vice President Wolfgang Roth commented on the new ECU 150m global loan facility by saying that the provision of loan-term foreign currency funds to a number of competing intermediaries, including several affiliates of banks form EU countries, will improve considerably the financing possibilities for promoters of projects in Hungary and enhances the country's chances for EU membership in a not too distant future. ■

EIB IN SLOVENIA

The EIB is providing a twenty year loan of ECU32m for the modernization of the Slovenian road network. The funds are going to Dars (Dubzba za Avtocest v Republiki Slovenjii), a company recently set up for financing, building and managing motorways.

The loan will finance the upgrading to motorway standard of some 55km of secondary road of the Lubljana bypass and of the Lubljana-Celje corridor to facilitate traffic, improve safety and reduce noise levels in and around the capital.

The loan brings to ECU 120m the total provided so far under the first EU/Slovenia Financial Protocol providing for EIB loans up to ECU150m between 1993 and 1997. ■

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that the CEC fully incorporated the CAP **in its current 1995 form.**

These assumptions give the following results concerning the additional costs to the EU budget from integrating the CEC into CAP (only in terms of EAGGF Guarantee Expenditure):

*** the additional costs are likely to amount to ECU9bn in 4the year 2000 and increase to some ECU11.7bn in 2005 and to amount to slightly over ECU12bn in 2010 ***

It may be noted that current EU farm spending amounts to ECU38bn and is expected to increase to ECU42bn in 2000.

Data in the table below outlines individual expenditures. The reader may note the "accompanying measures". These are the funds estimated to be more beneficial than compensatory payments to farmers, but better used for direct income aid and additional rural development programmes.

EAGGF GUARANTEE EXPENDITURE ON CEC-10:

mio ECU	2000	2005	2010
market organizations:			
arable crops	5794	6127	6323
sugar	49	-81	-46
milk	581	789	726
beef	846	2113	1877
pork	12	22	41
poultry	3	36	40
all market org:	8485	10231	10197
arable	5789	5864	5864
beef	808	806	793
accompanying measures	500	1500	2000
Total	**8985**	**11731**	**12197**

FISCHLER REPORTS TO AGRICULTURAL MINISTERS

On 29 November Franz Fischler, Commissioner for Agricultural policy, gave an oral presentation of his strategy for the adaption of the Common Agricultural Policy (CAP) to a changing context and to prepare the enlargement of the European Union to the East. As expected (cf. Together in Europe No.78 p1), Mr Fischler avoided presenting the ministers with a written document as the report is intended for the Heads of State and Government attending the Madrid Summit on 15-16 December and not for the Agricultural Ministers at this stage.

After the meeting, Mr Fischler said he "had the impression that the path proposed was acceptable to everyone". The Spanish minister, Luis Atienza, who chaired the session,said "Agriculture must not serve as a pretext for holding back enlargement, which is something we want for both political and economic reasons". However, making references to the many shades of opinion expressed by the Fifteen, he also said that neither must this serve as a pretext for dismantling or renationalizing the CAP, which must evolve "without any break, according to a pace that comes from within rather than from outside."

Only the Swedish delegation felt that a radical reworking of this policy would be appropriate. The British minister abstained from participating in the evaluation. Other delegations pointed out, some quite emphatically, that it is up the candidate countries to adapt their agricultural sectors to the CAP and that this would require a rather long transition period. During previous enlargements, the prospective members "all had to adapt to the CAP, not the contrary," recalled the Irish minister, Ivan Yates, echoing the sentiment expressed by his counterparts from Spain, Portugal, Greece, Germany, Austria and France. The French minister, Phillippe Vasseur, has already indicated the pre-conditions which he feels must prepare for the CEEC's integration, ie.: i) aligning their prices with Community prices; ii) making plans for controlling production; iii) aligning their tariff protection with the duties applied by the Union; iv) controlling their budgetary expenditures; v) at least temporarily, monitoring trade between the Ten and the Fifteen. Many feel that a transitional period of at least ten years will be necessary. Some countries - Portugal, Spain and Ireland - felt this should be even longer. When should this transition period begin? During the negotiations with the CEEC's or later? ■

EU ASSISTANCE FOR DEVELOPMENT OF BALTIC SEA REGION

The European Commission announced on 29 November that it will continue to develop the Baltic Sea Region initiative proposed in late 1994. The assistance to the region during the coming years 1995-1999 should amount to more than ECU4.5m channelled into the Region for the period 1990-1994.

The Commission will put emphasis on the further growth of total assistance but a change in its composition:

- **less technical assistance** (including sector aid for economic reform) is likely to be reduced in favour of both loan- and grant based investment (including export credits, private investment support and sector aid for public investment in infrastructure).

- **more investment assistance** in the infrastructure sectors

- **support to foster the process integration of the Baltic states into the European Union** (the implementation of the Free Trade and Europe Agreements and the Partnership and Cooperation Agreements as it concerns the development of cooperation with St.Petersburg and Kaliningrad).

The report presents an overview of the total of foreign assistance provided under the initiative to the Baltic States (Estonia, Latvia and Lithuania), Poland (in as far as its Baltic Coast is concerned), and the Russian federation (specifically, the St.Petersburg region and Kaliningrad). It includes the funds provided by the EU, the Member States (on a bilateral basis), the other G-24 members and the international financial institutions. The overview includes both grant and credit resources made available in the period 1990-1994. The total assistance of all types from all donor countries and organizations for the Baltic Sea Region amounts to ECU4,534m .

The conclusions of the Commission in the light of this report are the following:

- on the basis of currently availabel resources and the orientations highlighted in the report, the Commission, as a member of the Council of the Baltic Sea States (CBBS), **proposes to develop a long-term based Baltic Sea Region Initiative**

- this regional initiative will prövide a framework for individual donors, including the Union, for assistance to the Region

- the initiative will be discussed with all those involved for presentation to the meeting of Heads of State and Government of these countries at their conference scheduled to be held in Visby, Sweden in May 1996. ■

EUROPEAN OPINION IN FAVOUR OF TRANSFER OF SOVEREIGNTY

In a survey carried out by the European Commission over the months of July, September and October, 66% of Europeans think that their **country should certainly or probably share more of its sovereignty** in order to achieve greater European integration. Worth noting is the British response, usually famed for their resistance to the deepening of the Union and sharing sovereignty with other Member States, there 51% were in favour of sharing more sovereignty. With regard to the institutional organization of the Union, one out of two Europeans think that **Member States should undertake more joint action.**

According to the most recent results **public awareness of the 1996 Intergovernmental Conference,** where the major decisions will be taken by Heads of State and Government on the future of the union and enlargement, is still low. 78% of those interviewed said that they had not heard about it, against 20% who said that they were aware of it. The Danes with 35% were the most informed with the British being the least informed with 16%, close to the Germans with 17%. Despite the lack of awareness of the IGC, Europeans feel that decisions taken in the context of the reform of the European Union's institutions will be important for their lives.

On the other hand, the idea that **all provisions of the Treaty on European Union must apply to all Member States** demonstrated clearly that a majority of Europeans would like an **a-la carte** Europe, with the Scandinavian countries most in favour of such an option.

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A majority of Europeans think that **the European Parliament plays either an important or a fairly important role in the life of Union.** 49% were in favour of an increase in its powers.

According to 53% of Europeans, the weighting of votes within the council should not depend on the population of Member States alone but in four of the most populated countries (germany, France, Spain and Italy) one inhabitant out of four would like weighting in proportion to population size.

68% of Europeans think that the EU should have a common foreign policy and 82% think it should have a common defence policy.

In the case of further enlargement, the States most welcomed would be Switzerland (82%), Norway (81%), **Hungary (65%)**, Malta (63%) and **Poland (62%)**. ■

POSTAL SERVICES

The Telecommunications Council on 22 November debated Commission drafts for the postal sector, ie. the draft directive on common rules Member States should provide for, and the notice explaining how the Commission intends implementing the rules of competition in the sector.

Mr. Van Miert stressed that in the absence of agreement on the directive, he would ask the Commission end-1996 to formally adopt this communication. He recalled that the Commission had proposed that the directive be based on Article 100A of the EC Treaty (Parliament/Council co-decision). ■

TELECOMMUNICATIONS

Karel Van Miert said the Commission will adopt the directive on mobile telephony "before the end of the year", probably on 20 December, and the more controversial one on the total liberalization of telecommunications networks and services, "at the beginning of next year, probably in January", once Parliament has expressed itself.

Following adoption, in January, the directive on the networks and services (like the one on mobile telephony) will be applicable 20 days after publication in the EU's Official Journal. Member States will have nine months to notify the Commission of measures taken to transpose it into national law, and it is not impossible that the Commission should receive complaints on the part of companies even during this period.

The Telecommunications Council achieved the following:

1. Trans-European telecommunications networks. The Council reached consensus on its common position.

2. ONP - Telephony. Accepting Parliament's amendments, the Council adopted the directive on the application of the principle of Open Network Provision to vocal telephony, with Portugal voting against. ■

IGC

The Reflection Group on the 1996 IGC, chaired by Carlos Westendorp, will approve the final text of its report to the Madrid Summit on 5 December. It will also approve a political paper prepared and presented by its Chairman. Mr. Westendorp, who assumes full responsibility for its contents.

Mr Westendorp presented his 44-page paper on 13 November. The subsequent meetings requested that individual positions adopted by the members of the Reflection Group are defined more precisely in the paper. The Commission said it is not satisfied with the way in which the 44-page Westendorp paper treated the role of the Commission and its position within the IGC. The Commission is thus presenting its own separate paper, which they believe will be more precise. A large part of the next issue will be devoted to the detailed discussion of the final outcome of the Reflection Group's work since June. ■

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