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BACKGROUND NOTE

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EC ENLARGEMENT: RESOLVING THE 'YES' AND THE 'BUT'

The European Community, which in 1973 expanded from its original six members -- Belgium, France, Germany, Italy, Luxembourg and the Netherlands -- to include Britain, Denmark, and Ireland, is planning another enlargement.

The new members will be Greece, Portugal and Spain, three southern European nations that only a few years ago threw off dictatorial regimes and instituted democratic governments.

The applications of these Mediterrannean nations to join the Community of nine have already been accepted by the European Council, the heads of government of the current member states. The Council made it clear that they view the welcome of these nascent democracies into the Community as a political necessity for the Western world. Roy Jenkins, president of the Community's executive and administrative branch, the European Commission, said succinctly that it would be "impossible to slam the door."

To reaffirm their own adherence to democractic principles, and to underpin and sustain the democratic governments in the applicant nations, the European Council late last year explicitly stated what had previously been implicitly accepted: they confirmed a will "to ensure that the cherished values of their legal, political and moral order are respected and to safeguard the principles of representative democracy, of the rule of law, of social justice and of respect for human rights."

The statement concluded with a declaration that "respect for and maintenance of representative democracy and human rights in each member state are indispensable for membership" in the European Community.

Political necessities apart, there is no doubt that accepting these new members will pose considerable problems for the Community. The Community must reconcile what Vice President Natali,the Commissioner in charge of enlargement has described as "the dilemma between the political 'yes' and the economic and institutional 'but' of enlargement."

The main difficulties spring from economic disparities between the new applicants and the Community.(see box)* Despite varying standards of living and economic development, the three applicant countries are each poorer than any of the nine Community nations. The disparities within the present Community are already troubling. But while the differences in terms of gross domestic product per inhabitant is 1 to 5 between Calabria, Italy, and Hamburg, Germany, it will be 1 to 15 between Vila Real and Braganza, in Portugal's poorest region, and Hamburg.

The 53 million population that Greece, Spain and Portugal will add to the Community's current 260 million citizens have a gross domestic product amounting to only about 10 per cent of the current Community GDP. Agricultural compatibility is a particular problem. In Greece, 39 per cent of a 9 million population is employed in agriculture. In Portugal 28 per cent work on farms and in Spain 22 per cent. This will mean, upon accession of the three, an increase in the Community's current farming population by 55 per cent, the land area under cultivation by 49 per cent and the production by 24 per cent.

Many of the agricultural products of the applicant countries -- wine, olive oil, citrus fruits and vegetables -- will stiffen the competition for sales of similar products from current member countries, particularly Italy and France. The applicant members will increase the Community's self-sufficiency in agriculture, but they will also add to surplus "lakes" of wine, olive oil and tomato paste. The total vineyard area in Spain, for example, is greater than in France, and Spanish wine is sold more cheaply than French. Spain and the other two applicants will, however, buy more cereals, butter and wheat from their northern neighbors, thereby reducing current surpluses or near-surpluses in these products.

Regional imbalances are acute within the three applicant countries -- in Greece, the Athens-Piraeus zone has a per capita GDP that is almost double that of other regions. In Portugal, the poorest region's GDP is three times lower than that of Lisbon, and in Spain 4 per cent of the land produces 39 per cent of the total GDP.

In the current Community of the nine, 42 per cent of those employed work in the industrial sector, but the figures are considerably lower in the applicant countries. In Spain industry accounts for 38 per cent of those employed, in Portugal 33 per cent and in Greece 28 per cent.

Spain is a major industrial power -- the world's 10th biggest -- but its spiraling inflation and a mammoth trade deficit are worrisome. Spain already imports 64 per cent more from the Community than it exports to it. To make matters worse, the industrial products in which the applicant countries are most advanced -- textiles, shoes, shipbuilding and steel -- are precisely those sectors of industry that are already in trouble in the Community of nine. Some economists fear that Portugal's economy, the weakest of the three applicants, may be too fragile to expose to the common market competition that Community membership will mean. Portugal's current GDP per capita is $1,500, compared with the EC average of $5,370. The majority of its factories are tiny -- of a total of 43,000 firms, only 1,100 employ more than 100 workers.

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Country	Population m	% of labor force employed in agriculture	GDP per head (1976)	Total GDP $ billion
Spain	35	22.0	$ 2,886	104.6
Greece	9	38.9	2,400	22.0
Portugal	9	28.1	1,530	14.7
EEC	258	9.7	5,370	389.9

The European Commission's "fresco" or overview of the enlargement process emphasizes the necessity of gradual resolutions to these problems. Britain, Denmark and Ireland had a transitional period of more than four years before fully integrating their economies into the European Community; with Greece, Spain and Portugal the Commission has proposed that the transition last a minimum of five years and a maximum of ten.

It is expected to take place in two stages. During the first five years, the new members will implement Community policy to the fullest possible extent in the free circulation of goods, competition rules, agriculture, free movement of workers, Community budget contributions and external relations. After five years, the Commission and Council will review each new member's progress, and determine whether a continued transition period of up to five years is necessary.

To pave the way for agricultural harmonization, the Council has accepted a 1978-79 farm price policy that increases subsidies for farmers in the French and Italian Mediterranean areas relative to subsidies for northern farmers. Increased preference was also given to horticultural products in an attempt to stimulate diversity in the Mediterranean regions. For the Community as a whole, the new price policy also offers lower price supports, providing further stimulus for farmers to increase farm marketing and efficiency.

Current estimates indicate that the Community budget --12.36 billion European units of account (EUA= U.S. $1.23 on April 24) for the Community of nine -- would have to be increased about 3 billion units of account with the accession of the three applicant countries. Expenditure in connection with Spain is estimated at 1,300 to 1,400 million u.a., with Greece at 700 to 750 million u.a. and with Portugal at 350 to 500 million u.a.

Payments to the Community budget from the applicant countries through customs duties, agricultural levies and value added tax (Greece, Spain and Portugal will have to introduce the VAT) are not expected to be sufficient to finance the additional Community expenses required. The nine current members would be required to pay the balance -- about a billion units of account (per year).

The Commission "fresco" emphasized that, while Community planners sought to be realistic about the negative aspects of enlargement, the positive elements of political commitment, additional markets and the growth dynamism of the applicant countries should also be taken into account. Enlargement poses an additional challenge to the already sluggish economic picture in the nine member countries -- annual growth among the nine of about 4.5 per cent and of 6 to 6.5 per cent for the applicant countries would make a gradual resolution of the difficulties possible. If Community growth should decline to less than 2 per cent, theorize the economists, the applicant countries would be dragged down to near-stagnation.

The Commission proposals therefore urge that all Community financial instruments be involved in the transition periods to carry out macroeconomic objectives and priorities.

Enlargement will also present the Community with constitutional problems. With the accession five years ago of Britain, Denmark and Ireland, Community institutions remained essentially the same as those that had operated for the original Community of six. But three further members will double the original number of nations for which the institutions were designed and criticism has already been voiced about the creaking institutional machinery.

The arithmetical changes will be relatively easy -- in the Parliament, Greece and Portugal (with 9 to 10 million inhabitants) will be allocated 24 members each (the same as Belgium), and Spain (with 35 million population) will have 58 parliamentarians. The Court of Justice probably will have the number of judges increased from 9 to 13 and the Commission has proposed limiting its number (now 13, with two from Britain, France, Germany and Italy) to a single member from each country.

Unanimity is required in some instances on Council votes but the Commission has proposed a more flexible application that would require Council unanimity only on vital national interests and allow a majority vote on issues such as approximation of laws, amendments to customs duties, economic policy, financial regulations, free movement of workers, right of establishment, Social and Regional fund decisions.

No definite dates for accession of the three applicant countries have been set, but negotiations with Greece are already underway and it is expected to join by 1980 or 1981. Spain and Portugal could become members of the Community by the mid-1980s.

The challenge of enlargement is considerable, and it comes at a time when Europe is economically weakened. Jean Durieux, chairman of the Liberal and Democratic group at the European Parliament and rapporteur on the enlargement of the Community, recently offered this assessment of its implications: "Enlargement of the Community in any case proves that the European Community is an attractive proposition and has considerable external influence. The European Parliament is particularly pleased in that the Community owes its prestige more to being the best guarantee of democracy than to being a trading power alone."