

## Special report: Essen

### Essen Council - now for the hard part

The European Council at Essen emerged with a full agenda for those central and eastern European countries with Association Agreements or about to negotiate them.

Accession is the name of the game and the creation of a structured relationship, at working level as well as at the political level, is the basic prerequisite. This relationship has the potential to stimulate many changes in the European Union (EU) and the associated countries, as well as in the way that present EU policies - agriculture, to take just one example - are conceived and managed. But most importantly, it will provide a



permanent forum for these countries to absorb the guidelines for the EU's requirements for their membership.

The message is clear: roll up your sleeves, there is a lot to be done. First of all, there are the challenges of the Internal Market. Associated countries have to adopt and implement competition policies compatible with those of the EU. They will have to bring their state aid and special regime policies into line, in return for a reduction in the use of the EU's commercial instruments (the polite term for tariffs, quotas and anti-dumping duties).

They must also prepare to adopt EU legislation

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## Country report: Romania

Of all Europe's post-communist economies, Romania has had one of the roughest rides to reform.

Its political heritage is characterised by Ceausescu's particular brand of hard-line communism and autarkic economic policies and the continuity in power after the revolution of many figures from the old regime. These factors have combined to make the task of reformers extremely difficult.



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## Special report: Essen

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relating to the Internal Market, for which a White Paper is now being prepared.

Then there are the accompanying measures. Closer physical integration is planned, with Trans-European Networks in transport, telecommunications, energy and the environment to be extended to the associated countries.

Inter-regional and cross-border cooperation will have to be stepped up and a start needs to be made on developing a common approach to foreign and security policy and to justice and home affairs. The structured framework also envisages cooperation in culture, education and training.

Cooperation is fine, but money is better, and Essen promised further support for economic transformation and growth. Armed with medium-term financial guarantees (the 1995 Phare budget of ECU 1.08 billion was accepted as the baseline figure for a five-year period)

more will be done to stimulate growth. Apart from the progressive relaxation of trade restrictions, the Council promised that EU policies would focus on investment promotion, inward investment attraction and the development of intra-regional trade (including trade with the region's old customers, the New Independent States). In all this, Phare's primary concern will be the financing of these policies and of course the accompanying measures to the accession strategy itself. As far as Phare funds for direct investment in infrastructure are concerned, the Copenhagen threshold of 15 per cent was raised to 25 per cent.

Taken as a whole, the Essen Council has begun to put flesh on the bones of the Copenhagen conclusions. Moving from the general to the particular is always difficult for politicians but the Essen agenda was practical, realistic and promised plenty of hard work in the years to come.



From Essen to Europe: 'Villa Hügel' where the pre-accession strategy for six Phare countries was agreed.



# New hand on the tiller

Hans van den Broek, a former Dutch foreign minister, has recently taken over from Sir Leon Brittan as the Commissioner in charge of relations with central and eastern Europe and the New Independent States.

It is already clear that difficult tasks lie ahead in his coming five-year term. The six countries which have signed Association Agreements (Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia) are keen for the Commission to set dates for European Union (EU) membership negotiations. Mr van den Broek, although personally enthusiastic about the process of integration, is only too aware of the many challenges this will entail and refuses to set any dates.

Possibly the biggest of the hurdles which lie ahead is agriculture, an issue which will be difficult enough to resolve within the current EU.

Still, Mr van den Broek hopes to begin negotiations before the end of this century, in which case both he and the associated countries have much work to do. He hopes that by 1999 "these countries have consolidated the process of political and economic transformation successfully and at least a number of them will be meeting all the conditions to make a start on negotiations for membership a real option."

The Commission is preparing a White Paper listing what needs to be done by each aspiring Member State in order to integrate with the EU and aim for membership. This includes regular joint ministerial meetings which aim to discuss subjects of common interest, such as transport and the environment.

Popular support for European integration in the east may be declining and Mr van den Broek understands the serious implications of this development. He is therefore keen to increase momentum and wishes to support the Phare partner countries' governments as much as possible: "political adaptation, cultural adaptation, consolidation and deepening of democratic processes are needed for a free flow and exchange of ideas and initiatives."

Although this so-called 'structured dialogue' is important, support for the transformation process requires more than words. The EU is putting its money where its mouth is: the Phare Programme will commit funds of over ECU 5 billion in the next five years, in the form of investment, investment support and the provision of know-how. In addition to this, cooperation between Phare and international financing

institutions, such as the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), and the International Monetary Fund (IMF), will result in further unlocking of funds for the Phare partner countries.

It isn't just an altruistic desire to recreate the greater Europe artificially divided during the last forty years which drives Mr van den Broek's argument for greater aid. During his grilling by the European Parliament, Mr van den Broek reminded Member States of the benefits which western countries will gain from assistance. "By encouraging people to deepen democratic structures, respect human rights and minorities and develop respect for the rule of law, these societies will prosper and our businesses and people also benefit through investment, trade and in other ways." ■



Hans van den Broek: Commissioner for Europe's post-Essen era.



# Romania

## Romania's road to reform

Romania's road to reform is arguably the most difficult of any of Europe's post-communist economies.

While some observers have labelled Romanian progress as slow when compared with the rest of central and eastern Europe, no other country, with the exception of Albania, has had to undo the effects of an isolationist culture and unbalanced economic structure.

Ultra-centralisation of the economy and all institutions; Ceausescu's extraordinary effort to repay foreign debt at the expense of decreased supply to home markets; the decision not to develop technology and service industries in favour of heavy industry and massive investment in prestige projects - these and other similar policies by the previous regime left reformers with a distorted economy from which little could be salvaged.

Another important issue which sets Romania's transformation to market economics apart, is the abrupt and violent manner in which Ceausescu lost power.

Professor Mircea Cosea, Deputy Prime Minister of Romania and President of the Council for Coordination Strategy and Economic Reforms, explains that the end of the former regime caused a breakdown of many social and political structures which took several years to stabilise.

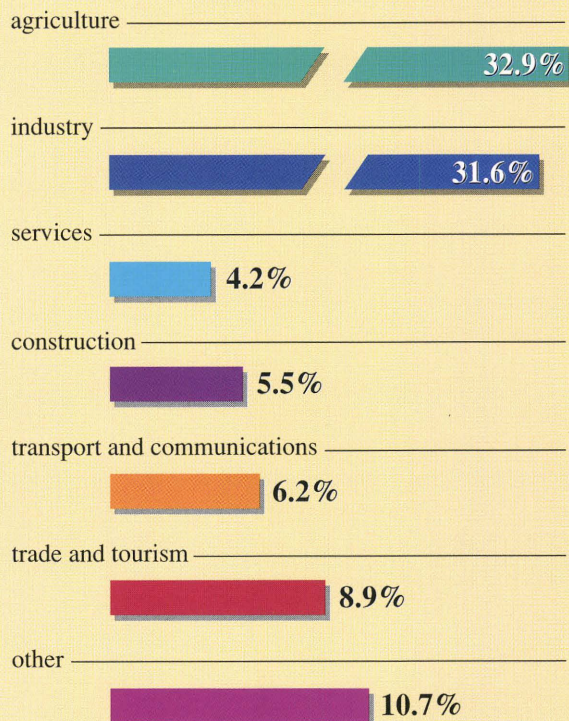
"During the revolution in 1989, the entire Romanian political, economic and administrative system - and the country's balance of values - disintegrated, creating a political and social void virtually overnight," comments Professor Cosea. "The first step in our reform process over the past years was to build a stable social and economic basis on which reform could begin."

Reforms began in late 1990, but successive governments were unable to summon up sufficient support for comprehensive reform. Since the end of 1993 the need for agreement with the international financing institutions led to the introduction of stability-oriented macroeconomic policies geared to expanding exports and building up reserves while maintaining stability-oriented monetary and fiscal policies; these policies have contributed to a marked fall in inflation. Output has stabilised and started to recover slowly after five consecutive years of decline: in the first ten months of 1994,

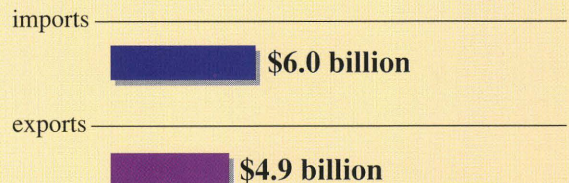
### Republic of Romania

Area: 237,500 sq km  
 Capital: Bucharest  
 (1992 est. pop., 2,064,474)  
 Population (1993): 22,750,000  
 GDP (1993, nominal): \$25.0 billion;  
 about \$1,100 per capita.

#### Labour distribution (1992)



#### Foreign trade (1993)



#### Principal trade partners (1994)

##### export

Germany, Italy, France, China, Turkey.

##### import

Germany, Russia, Italy, United States, France.

Source: National Commission for Statistics

industrial output increased by 2.4 per cent, exports by 29.7 per cent, the inflation rate decreased to a monthly average of 2.5 per cent (compared to 11.5 per cent in the same period of 1993) and the increase in private sector job creation has helped stabilise unemployment at around 10 per cent.



Macroeconomic stabilisation has been threatened by the return of higher inflation in the autumn and early winter of 1994. Fears of renewed inflation have lately been raised by the government's decision to award very large amounts of subsidised credit to the agricultural sector. It is important that these credits be consistent with the government's monetary and fiscal targets for 1995.

A substantial foundation of macro-economic reforms is also in place. These measures include: substantial curbs on state subsidies for various sectors and companies; price liberalisation in many areas of the economy and the recent introduction of value-added tax. The Land Law, passed in 1991 is returning nearly 80 per cent of the country's arable land to farmers and previous owners although there are delays in issuing titles to the land.

Beneath these first successes and macro-economic reform, work must accelerate to modernise the structures and attitudes in the institutional sector.

To date, the privatisation process has been slow. Some 850 enterprises have been privatised, and the mass privatisation programme is now before parliament for approval.

When passed, the programme plans to put the country's 3,000 most competitive state-owned enterprises into private hands by the end of 1995.

Institutional reform is another new and pressing area where the government is expected to act soon. Decreasing



bureaucracy and increasing communication and efficiency between the various institutions is a prerequisite for the process of European integration. It is also a key to creating a climate of confidence for external investors looking for opportunities in Romania.

Today, while the will is there and indicators are looking promising for the first time in five years, it is important for the Romanian administration to continue to drive reform forward - especially in the area of institutional reform to support the process of European integration and increased foreign investment.

## Phare in Romania

### 1991-1994: funding and cooperation overview

Between 1991 and 1994, a total of ECU 460 million in Phare funding was allocated for economic, social and institutional reform programmes in Romania.

Since 1990 Romania also benefited from ECU 82 million for humanitarian and emergency assistance programmes.

Phare funding has been focused primarily on three priority areas: economic and private sector development; human

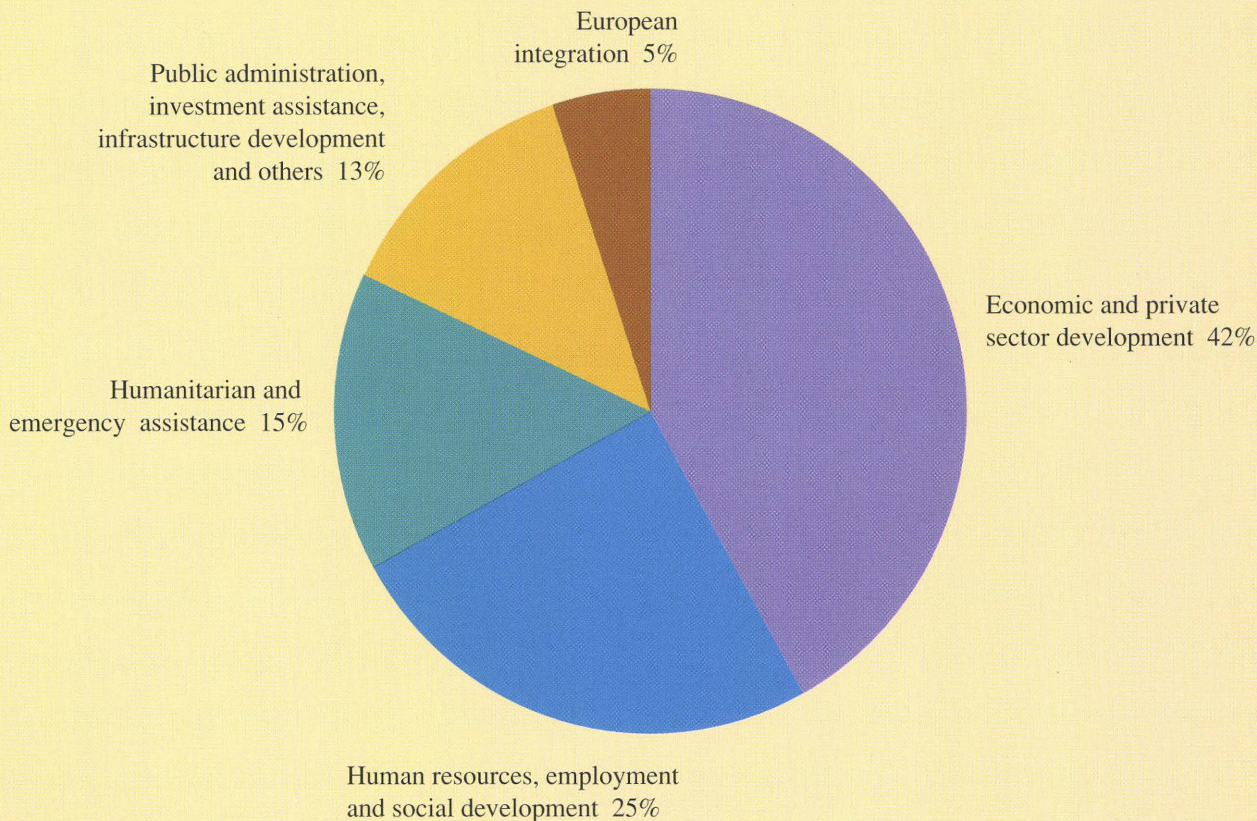
resources, employment and social policy development, and on institutional reform and management of public finances.

In 1994 the Phare Programme allocated ECU 100 million in Romania. The areas of funding for this initiative cover: economic and private sector development; human resources, employment and social policy development; institutional reform and public finance management; regional development and European integration.



# Phare funding in Romania

Total funding ECU 542 million (1990-1994)



- 42% economic and private sector development**
  - privatisation & restructuring
  - banking & finance
  - agriculture
  - SME and regional development
  - tourism
  - investment promotion
  - research policy

- 25% human resources, employment and social development**
  - health
  - social sector
  - Tempus
  - vocational education

- 15% humanitarian and emergency assistance**

- 13% public administration, investment assistance, infrastructure development and others**
  - institutional reform and public finance
  - management
  - infrastructure
  - customs/statistics
  - public administration reform
  - public investment prioritising
  - fiscal reform
  - transport
  - energy
  - telecommunications
  - environment

- 5% (only 1993 and 1994) European integration**
  - transport
  - approximation of legislation



Some examples of the programmes and initiatives funded by Phare in Romania since 1991 are:

### **Enterprise restructuring, banking and private sector development**

Phare is supporting government agencies with the preparation of financial recovery plans for 26 major enterprises and has allocated substantial funds to help with their implementation.

Funding in this area is being applied to strengthen the banking and financial sector in terms of institutional development and training of personnel; to establish investment funding to support technical assistance to the largest loss-making enterprises; to facilitate industrial policy-making and to other related areas.

### **Privatisation, restructuring and investment promotion**

Support to the state in its privatisation efforts, interfaces with investors, legal assistance and the analysis of various potential sectors for privatisation are among the areas of Phare involvement in this area. Funding of training for government personnel responsible for managing the privatisation process is another important aspect of Phare funding.

Phare has reserved considerable sums to support the implementation of the mass privatisation scheme once it becomes law.

### **Agriculture**

In the first year (1991) most agricultural assistance was used to import essential supplies (machinery, spares, feedstuff ingredients, etc.) to help Romanian farmers survive the economic shocks of transition. Later assistance helped to develop land registration and land markets, privatisation of agro-industry; provide loan insurance funds for private borrowers and to strengthen the ministries and other institutions involved with agricultural reform and development.

### **Small and medium-sized enterprise (SME) development**

A new three-year SME programme to cover the years 1995 to 1997 was approved in late 1994. It will continue to support the Business Innovation Centres set up under the 1992 programme. Regional loan schemes designed to support investment will be introduced as well as assistance to the Romanian Development Agency, the institution in charge of SME policy.



Reorganising for business: the economy is rebuilding on a new model.



## Country report: Romania



Natural promise: mountains, sea and the lush Danube delta promise to bring more tourist spending every year.

### Tourism

While continuing institutional support to the Ministry of Tourism and to training activities, additional components will focus on the development of rural tourism and the strengthening of associations of private enterprises active in tourism. By supporting non-governmental organisations (NGOs), the second phase of the tourism programme (1995-1996) will seek to promote decentralised development.

### Science and technology

The restructuring of Romania's science and technology system began with an audit of research institutes in three sectors: chemicals, machine building and light industry. Criteria were established for reorganising the institutes and procedures prepared for the competitive allocation of funds. Information and documentation systems are also being upgraded.

### Employment and social development

The first phase of Phare support to this sector in 1991 focused on restructuring the labour market institutions to make them effective at promoting employment. A series of staff training courses have been completed for employees of the Ministry of Labour and Social Protection, which included visits to their European Union counterparts. More recent programmes covered health and safety at work and improvement of the institutional structures and inspection methods. In addition support is being provided for local initiatives to assist job creation in areas of high unemployment.

### Energy

Phare supports the Agency for Energy Conservation and has helped to prepare a medium-term strategy for a national

energy efficiency policy. The Ministry of Industry and the Romanian Electricity Company have been provided with advisors to support in the structural and institutional reorganisation of the energy sector. Several specific projects are underway to improve efficiency in the industry the tertiary sector and to prepare conditions for rehabilitation and investment in the electricity and heating sectors.

### Telecommunications

A feasibility study was funded as a prerequisite for an European Bank for Reconstruction and Development (EBRD) loan for the installation of 1,800 km fibre optic cable network, the installation of 4,000 public pay phones and a master plan for the development of a digital network. A second study recommended improvements to the existing analogue network, and a third examined telecommunications policy, strategy improvements, and set out recommendations for organisational improvements within ROMTELECOM, the Romanian telephone operator.

### Transport and infrastructure

Phare involvement in the transport sector began in 1991 with an ECU 9 million import programme of critical spare parts for the Romanian Railways and the National Administration of Roads. In 1992 and 1993 the transport programmes provided support for the institutional development of the Ministry of Transport as well as the development of an appropriate institutional regulatory and legal framework.

In 1994 ECU 21 million was provided - in the framework of the Copenhagen Co-financing Scheme - for the ongoing Romanian roads rehabilitation programme financed by the



Natural resource: Romanian oil reserves are among the only reserves on the European continent.



World Bank, the EBRD and the EIB. In addition ECU 4 million was provided for the provision of know-how related to the integration of Romania in the trans-European transport system and the implementation of European standards.

## Environment

Phare has supported a major programme for the Environment Ministry and its associated institutional development organisations and the development of a national masterplan for monitoring air, water and soils. An air pollution monitoring project has been carried out, and more recently, the Ministry has been provided with a long-term adviser while a significant amount of equipment is being purchased to develop the national monitoring system. Training in various areas of environmental management and the development of new environmental legislation are also being provided.

## Education

The reform of higher education has been supported by Phare on a continuing basis through Tempus (Trans-European Mobility Programme for University Students) which supports projects in priority areas for curriculum development, institutional reform and development of international links. In the area of vocational education a reform programme of ECU 25 million was agreed in 1994. This programme will, among other things, include curriculum reform, teacher training and provide support for the upgrading of equipment in 75 vocational schools.



Better transport: Romania is being integrated into trans-European networks.

**For complete details of Phare sectoral programmes in Romania, please contact Andrew Rasbash at the European Commission Delegation in Bucharest, tel (+40-1) 211 18 02; fax (+40-1) 211 18 09.**

# Inside privatisation

**Professor Mircea Cosea, is Romania's Deputy Prime Minister and the President of the Council for Coordination Strategy and Economic Reforms. He recently shared his thoughts with InfoPhare on the current state of privatisation and reform in his country.**

## InfoPhare

What is the privatisation situation today?

## Professor Cosea

Up to the end of October 1994, some 810 commercial companies were privatised.

The mass privatisation law is now in the process of being approved by the Romanian Parliament and we expect final approval soon. Nine months from now, we expect to see some 3,000 of the most attractive and profitable Romanian companies privatised.

These enterprises will be offered to corporate bodies or private individuals - both Romanian and foreign. By the end of this period, we expect that all eligible Romanian citizens

will have exercised their rights to become shareholders in one or more of these companies, or in one of the mutual funds that will be established following the reorganisation of Private Ownership Funds. A large number of shares will be sold against cash to anyone wishing to invest.

## InfoPhare

As far as privatisation is concerned, what in your opinion are Romania's most urgent needs?

## Professor Cosea

As you probably know, Romania achieved macro-economic stability last April, as a result of the government's strict financial and monetary policy. We must now drive this stability down to the micro level, to commercial companies in all fields.

Certainly, privatisation is the most appropriate way to achieve this goal, but we must pay great attention to the individual circumstance of each privatised company. The most important elements of this process are to help these companies make the right changes in areas such as: improving their managerial and market focus; technology



## Country report: Romania

upgrades; creation of monetary and financial policies; training and changing the attitudes of personnel; and building a sound capital and securities market. In many companies we will be looking at the entire technological chain - from raw material to final product.

The important players in this process are the various international organisations which offer investment, technical and financial support, as well as direct investments in the Romanian market.

### InfoPhare

What are some of the 'bright spots' in the Romanian economy?

### Professor Cosea

These can be found in industries such as electronics, electro-technics, agricultural machinery and automotive industries, light industry, oil processing, footwear and leather manufacturing, and food processing.

## The economist's view

In a recent interview, Daniel Daianu, Chief Economist at the National Bank of Romania recently spoke to InfoPhare to outline his view of the challenges that lie ahead for the Romanian economy.

### InfoPhare

How is the economy doing?

### Daniel Daianu

Considerably better than last year. Inflation is substantially lower - down from more than 300 per cent in 1993 to an expected 70 per cent this year. Our trade balance has improved remarkably over the past year and industrial output has increased slightly, despite the stabilisation measures. Another major achievement is the restoration of the credibility of our currency.

These results are encouraging but still fragile, because the restructuring process of our economy is going very slowly, and there is considerable pressure on the system.

### InfoPhare

What do you think are the most pressing priorities to be addressed by government policy?

### Daniel Daianu

Our policy-makers pay full attention to the consistency and credibility of our policies and how they are perceived by the outside world. We must accept that no programme can be perfect, and that we can fine-tune the process while a programme is underway. In most cases the most important thing is to get started.

### InfoPhare

What economic challenges do you face that are specific to Romania?

### Professor Cosea

Unlike some of our neighbours, Romania started from a low level of economic readings. During the communist era our economy was not underdeveloped, but misshapen - and this is what we have been reorganising over the past four years. Our first priority was to create and develop the instruments required for a functioning market economy. This is why privatisation is beginning now, later than in some of our neighbours' economies.

As for foreign investment, it is my belief that Romania represents too high a risk factor when set against the provisions of our legislative framework, which today provides all the necessary guarantees for foreigners to do business here.

Our policies must be seen to be credible and consistent over time. Officials should always be concerned with the realism of their policy, and the signals that their decisions are sending out to the market. This is especially important in our fairly volatile environment which investors may perceive as risky.

Other imperatives are: keeping high-level policy consistent and coherent and including a greater degree of strategic thinking; and that institutional development must focus on making institutions function more effectively. In this context our country's financial system needs to be revamped more rapidly. For example: the difficulties agriculture creates for monetary policy partially stem from the inadequacy of our financial system. We also need to fight red tape and corruption.

### InfoPhare

What can be done to encourage further investment?

### Daniel Daianu

There are three imperatives for attracting domestic and foreign investors: clear property rights, a functioning foreign exchange market and a stable macro-economic environment.

Today many potential foreign investors are maintaining 'wait and-see' practices, to see when our framework will become a bit clearer.

In my opinion, high-level policy-making should be directly responsible for concluding deals with major international companies. This would bypass the various local interests, and bring on a critical mass of high-quality foreign direct investment which Romania so badly needs. ■



# The importance of energy

Energy is an essential step in economic reform in Europe's developing market economies

**The creation of an efficient and competitive energy market structure is essential for economic reform to be completed in central and eastern Europe. Some observers view energy as a problem to be addressed separately. This will not work, say the specialists: energy affects every significant part of a country's economy. Inefficient energy utilisation means an inefficient economy.**

Energy efficiency is one of the most important economic factors for industrialised countries.

Because energy is an essential part of human activity at every social and economic level - from the home to the largest industries - it has a strong influence on virtually every micro- and macro-economic aspect of life in today's world.

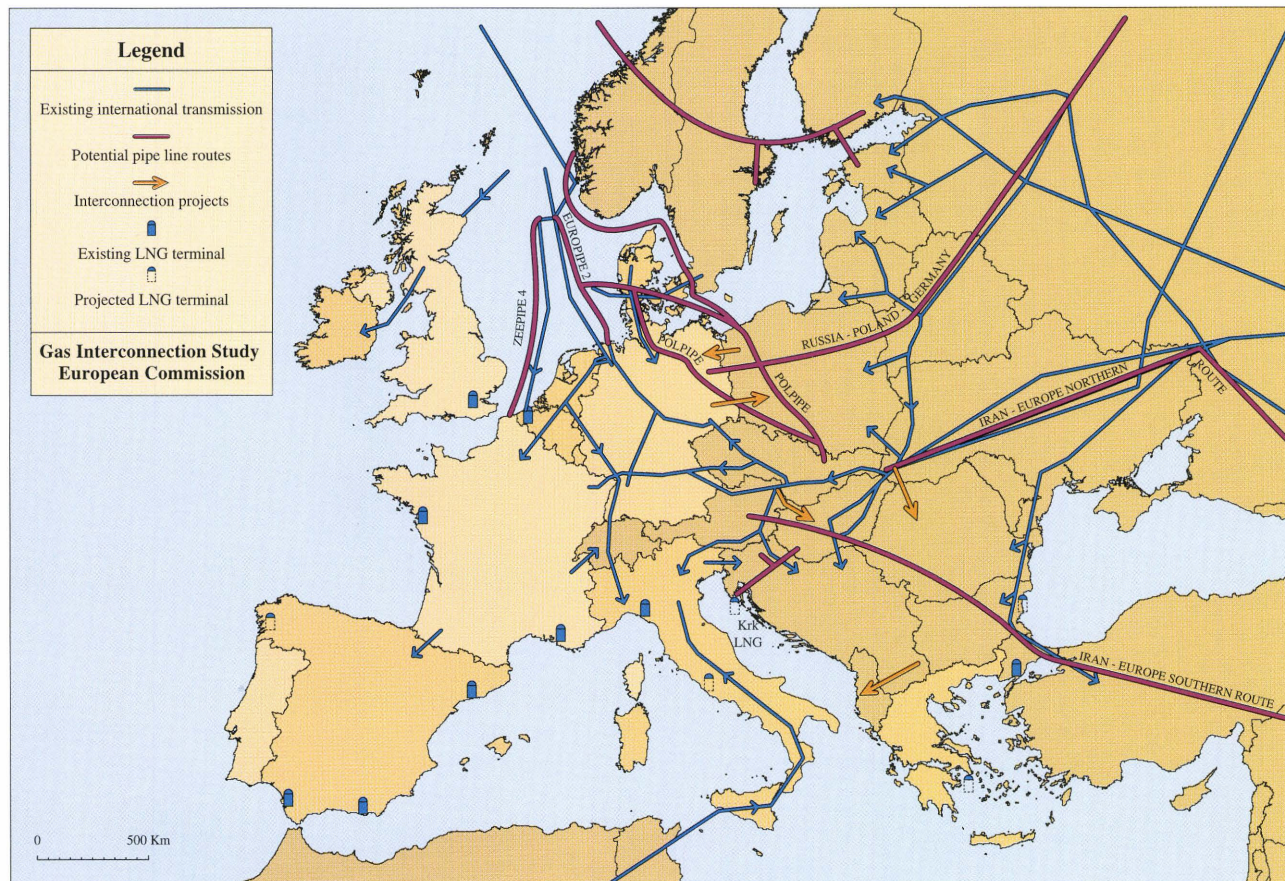
The cost of energy touches the economic fabric of every industrialised society, including the country's inflation rate, debt, the competitiveness of its industries and the price of its end products.

For this reason, technical experts and economists believe that full economic transformation in central and eastern Europe cannot become a reality without the successful reform of the energy sector in these countries. The term "energy" encompasses all forms of production, transformation, distribution and utilisation of electricity, natural gas, coal and oil.

The primary requirement for a truly open and competitive market economy is a reliable supply and a clean and efficient use of energy.

Western Europe has been developing and interconnecting its natural gas and electricity grid for the past fifty years. Today this grid has an efficient supply structure and contacts between west European countries' energy supply boards are well established. A single energy market has been created in the European Union (EU). In light of their accession to the EU, the Phare energy programme's main objective is to help the energy utilities of central and eastern Europe prepare themselves to be able to operate in such a competitive environment.

## Potential supply routes and interconnections



New sources: Siberia and the Caspian Sea area may provide the 'New Europe's' increasing gas demands in 10-20 years time, predicts the Phare-funded Gas Interconnection Study.



An important challenge for today's Europe is to bring together east and west under a unified energy supply grid for electricity and natural gas.

Because of the strong historic energy links between eastern Europe and the former Soviet Union, a new European energy infrastructure must also enable energy exchange with the grid of the New Independent States (NIS) - Belarus, Moldova, Russia and Ukraine.

Nearly all of the central and eastern European countries' energy infrastructures suffer from chronic problems of low efficiency, low levels of service and distribution quality, and poor environmental performance. But there are some bright spots. Some energy grids (especially those for electricity in Poland, Hungary, the Czech Republic and Slovakia) are well structured and nearly ready for integration into the western European network.

Many observe that the difficult part of bringing together the east and west European grids will be the maintenance

of an even rate of integration between the advanced and less developed energy infrastructures in central and eastern Europe.

Even more problematic are the links with the NIS. All parties agree that this energy link is vital to the economic development of Europe - it would be economically unwise to exclude any one area from a common European grid. But the technical and practical complexities of bringing the NIS grid up to speed with its neighbours may take longer than some of the more advanced east European countries are willing to wait.

These are the main energy-related issues being tackled by the Phare Programme, The European Investment Bank, the World Bank, the European Bank for Reconstruction and Development, Eurelectric, UCPTÉ (Union pour la coordination de la production et du transport de l'électricité) and other international institutions who are cooperating to create a common European energy grid.

## East-west interconnection of energy networks

### How Phare is helping to create the single European energy network

The implications of eastern Europe's energy sector reform are far-reaching - economically, geographically, and above all strategically. This is why the first priority for the Phare energy sector programme is to lay the foundations on which all Phare partner countries can work together to create the European energy infrastructure that will help these economies grow together in the next 30 years.

According to Jean-Luc Delpuech who is the European Commission task manager dealing with the Phare energy programme, Phare's initial role is to build consensus and not to start an industrial conversion. "We are working with the partner countries to define and agree on the problems in the energy sector, the proposed ways of solving them and how each country can measure its progress," he explained.

The first step was the drafting by Phare specialists of a strategy paper outlining how they see the energy situation in central and eastern Europe. This document, says Delpuech, is intended to stimulate review and discussion by all the governments involved. When this review process is

completed, each government will have documented the shortcomings of its energy sector and proposed a solution for reform.

The second phase of this process, which is currently underway, is the completion of several Phare-funded master plans and feasibility studies which focus mainly on energy projections for the coming years. The recently-completed gas interconnection study and several studies on electricity networks are helping to build the foundation of a future east-west European energy policy.

A total of ECU 135 million has been provided through the Phare energy sector programme since its creation in 1991.

### Gas interconnection

Europe's demand for natural gas is expected to explode over the coming two decades. The Phare-funded gas interconnection study examines future gas consumption patterns and looks at several scenarios for future supply to Europe.



Potential new supply routes to Europe would be a new pipeline from Siberia through Poland and Germany, or through a southern route from Iran through Turkey and the Balkans, approaching Europe from the south.

The phasing-out of the highly polluting lignite-burning power stations across central and eastern Europe, combined with the projected growth of eastern economies will create a demand several times higher than the normal yearly progression of past years. Added to this is the continually growing demand in western Europe.

Alternate sources of gas are important for economic as well as strategic reasons. Today 30 per cent of the gas used in France and Germany comes from Russia. Russian gas supply to the former Warsaw Pact countries totals nearly 100 per cent of all usage.

### **Electricity grid interconnection**

Electricity supply in the EU is interconnected through the UCPTE network, through which electricity supply despatchers in each country are in constant contact, ready to exchange supplies when necessary. In communist times, the central and eastern European countries were connected to the Soviet Union by a similar common grid.

The CENTREL association has recently been created. It is a new common electricity network bringing together Poland, Hungary, the Czech Republic and Slovakia, four countries whose levels of electricity management and generation standards are close to those of the EU.

The managers of the Phare energy sector programme feel that there is no need for further feasibility studies and that all EU electricity boards and their eastern counterparts should be looking toward gradual interconnection in the near future.

A Phare-funded study by a Czech firm defined the terms of reference for Phare support in this area.

### **East-west electricity compatibility study**

A Phare-funded study, carried out by a consortium of German companies, concluded that the electricity standards of the CENTREL partners were very close to EU standards. It recommended that some smaller projects which would bring technical improvements to these countries' electricity networks should be undertaken and confirmed that an UCPTE-CENTREL interconnection would be feasible by 1997.

This programme has also funded numerous exchanges of know-how and training sessions for electricity despatchers in the partner countries and their colleagues in the EU.

Phare is presently evaluating different possibilities for co-financing these projects with the European Investment Bank and other partners.

### **The Balkan dilemma**

UCPTE links have been cut in the Balkans since the beginning of the war in the former Yugoslavia, causing a loss or decrease of supply to Greece, Albania, Bulgaria and Romania.

A Phare-funded feasibility study is examining two solutions: firstly the renewal of the former-Yugoslavian link when the conflict stabilises, or secondly the creation of a new link through CENTREL.

In the latter case, the Romania-Hungary network bridge would need reinforcing. A possible future step would be to study the technical requirements of this interconnection need.

### **EU/eastern Europe/NIS links**

The third electronic interconnection programme is examining the interaction between the interconnected UCPTE-CENTREL grids and the electricity grid serving Belarus, Moldova, Russia, the Ukraine and the Baltics.

This is the first joint Phare/Tacis project. Financing will be equally divided between the two programmes. ■

### **Progress and strategy paper, Energy**

The Phare strategy paper covering energy issues in central and eastern Europe is now available.

This report gives a detailed account of the problem areas of each country and proposes steps toward building a common European energy supply and distribution infrastructure.

The paper was drafted by energy and economics specialists at Phare, together with specialists from the Phare partner countries. It is designed as a working document, to stimulate discussion between all those involved in the dialogue on the future of the European energy infrastructure.

**Those directly concerned with energy problems may contact the Phare Information Office in Brussels, fax (+32 -2) 299 17 77.**



## Teaching managers to manage

Refocusing eastern business from production to customer requirements

As managers in Europe's post-communist economies experience the realities of competing in a customer-driven economy, numerous Phare-funded management training programmes are teaching them to use concepts such as innovation, teamwork and planning as competitive weapons.

Hearing of tales of merciless competition or the never-ending quest for quality and customer satisfaction is one thing. Actually seeing how western European companies work is an eye-opening experience for the 150 managers from central Europe who are taking part in Phare's training attachments scheme.

Managers like Marlgorzata Glowani, export specialist for a Polish shoe manufacturer felt the pulse of Western Europe's do-or-die market rules first-hand when she visited two counterparts in the United Kingdom. She watched them present their spring/summer 1995 collections to potential Asian customers, while the Polish firm was still working hard on its winter 1994 range.



Turnaround tycoons: top management team and advisers of Krenholm Textiles, Estonia.

Julia Virag, General Manager of a Hungarian clothing producer had a similar experience, when she calculated that the western company she visited took 10 minutes to complete the same operation her workers need 50 minutes to do.

"Actually seeing how a company works with your own eyes is better than hearing the same thing 100 times," said Anna



Hands-on management: Phare specialist Kay Brock (right) with managers of the Utenos Trikotazas Knitwear during management training.

Gubisova, technical director of a Slovak paper company, after watching a German paper mill in action.

Through training and exchange sessions funded by Phare, these managers and hundreds of others across the Phare countries are learning how western businesses manage and produce in today's continually-evolving business environment. The training is helping to change the mindset of eastern managers from production to profitability, and from autocracy to team-building and a search for new ideas. ■



Clear solutions: Turnaround management team of Sitrom Glass Romania (from left) - Mihai Tudorache, engineer; Mihai Popescu, general manager; Andy Icleanu, dept. manager; Ioana Filipescu, turnaround team resident assistant.

## Building a new economic culture

ACE programme bridges the east-west divide in economic thinking

If the basis of a market economy is reacting to customer and consumer demands, then an important challenge for the central and eastern Europe governments is to develop economic policies which allow this transformation to happen.

An important stimulus in building this new economic culture in the Phare partner countries is the ACE

programme - Action for Cooperation in the Field of Economics.

The objective of the ACE programme is to help economists in the Phare countries address the new dynamics of their markets. ACE does this by creating opportunities for economists and senior managers from government institutions, commercial



enterprises and universities to participate in exchanges, conferences and research projects together with their colleagues and counterparts in the European Union (EU).

Through ACE, economists and senior managers in the Phare countries can receive grants for research projects, educational fellowships, scholarships, and participation at conferences and seminars. ACE also funds the creation of 'centres of excellence' which aim to establish internationally recognised PhD programmes in economics and management.

Since 1990, 424 ACE research and networking project budgets have been supported. The results of many of these efforts have already been published as books, or as articles in widely-read academic journals and business publications. The next stage for ACE is its 1994 programme, whose project proposals have been received. Evaluations have been completed and winners are being notified.

"An important part of each ACE-funded project is the dissemination of key research results to academic and professional economists in the European Union and the Phare countries", says Jean Trestour, the Head of Unit in the European Commission responsible for the ACE programme. "Our research projects are an effective way of giving economists and managers in the partner countries the opportunity to work on policy-related issues alongside their counterparts in the European Union."

All ACE research projects require a consortium of at least two partners from EU countries, and two (but preferably more) partners from Phare countries.

The scope of ACE-funded work covers a range of economic viewpoints - from modelling and forecasting to the more day-to-day business concerns of managers in central and eastern European companies. ■

## ▣ Case study

# Creating new legal structures

## How Phare closes the legislative gap with central Europe

In virtually all of the Phare partner countries, the creation of a market economy simply happened. Freed from the constraints of a socialist command economy, people quickly began trading, exporting, importing and opening businesses - well ahead of the creation of a true democratic infrastructure or legal framework.

In these countries, economic development is progressing steadily. But legislators are finding that the process of designing, drafting and approving an entirely new legislative framework is not that simple. Today, five years after the collapse of communism, the countries of central Europe are still untangling the web of communist legislation, and progressively replacing it with new laws in line with the needs of the democracy and the market-oriented economies.

One of the preconditions specified in the Europe Agreements which have been signed by these countries and the European Union (EU) - is that their legislation matches that of the EU. This process is called 'approximation of legislation'. It is one of the basic prerequisites for the associated countries to be able to enjoy closer economic and political ties with the EU and ultimately proceed to EU membership.

The Phare Programme is the main instrument of support for this legislative reform in the 11 Phare partner countries.

Together with specialists from other areas of the European Commission, Phare currently supports this process in many different ways.

**Intellectual property** - The development of trade mark, patent and industrial design protection. This programme is being implemented in cooperation with the European Patent Office and the national patent offices of most EU Member States. A parallel effort in the area of copyright protection is being coordinated with the Association of European Copyright Organisations and the International Association of Audio-visual authors. European Commission Directorate General (DG) XV (Internal Market and Financial Services) is also involved.

**Consumer protection** - The funding of institutional and legislative assistance to bring consumer protection in central and eastern Europe into line with EU standards. This activity also covers training programmes and an intensive documentation and information initiative in cooperation with the International Organisation of Consumer Unions the Consumers' Rights Centre of the University of Leuven (Belgium) and the European Commission's Consumer Policy Service.

**Harmonising standards and technical regulations** - This initiative seeks to build awareness and implement European standards, norms and to integrate European technical directives and regulations in the institutional structures of the Phare partner countries. This programme has been defined together with the European Commission's DG III (Industry).

**Customs and statistics** - Here the Phare partner countries receive help with drafting new customs legislation that is



compatible with EU structures - with emphasis on facilitating transit and trade. Statistical cooperation is also being pursued, to help the partner countries build a statistical base that serves a market economy. This work is being done together with the European Commission's DG XXI (Customs and Indirect Taxation) and the Office of Statistics.

Environment - Support to enable each country to create an appropriate legal environmental framework. Legal documentation centres are being set up in the countries to build up basic documentation on environmental matters. This includes drafting of environmental guidelines for investors and a guide book to western European environmental standards. This work is being implemented in close cooperation with European Commission's DG XI (Environment and Civil Protection).

Public procurement - Support for the reform and development of public procurement legislation, including drafting legal advice, training and documentation. This work is being done in conjunction with the European Commission's DG XV (Internal Market and Financial Services).

For further information on the Phare/OECD SIGMA programme for institutional reform, see InfoPhare issue 5.

Competition and state aid - Support for the reform of the laws governing state aid to industry, competition and restructuring

of monopolies. This work includes the provision of training and documentation. A series of programmes is being implemented in cooperation with the European Commission's DG IV (Competition policy).

Framework programmes for reform and approximation of legislation - Following the decision at the EU Copenhagen Summit that a more comprehensive approach was required for the approximation of legislation, a series of framework programmes has also been created. Through them, the Commission provides support, equipment and the transfer of know-how to the legislative reform process in specific areas. Special attention has been paid to making these programmes flexible, so that this funding provides assistance that could be applied quickly and aimed at the specific needs of each country.

Similar legislative reform programmes funded by Phare and supported by the relative DGs of the European Commission are also underway in the following sectors: transport, post and telecommunications, health legislation, banking and tax legislation.

The European Commission and Phare are not alone in their efforts. Their work is being complemented by legislative reform programmes of other international organisations, such as the G-24, the Council of Europe, the OECD, the European Bank for Reconstruction and Development, the World Bank, the WIPO (World Industrial Property Organisation), the EPO (European Patents Office, Munich) and others. ■

## ▣ Programme update

# Funding update

## Czech Republic

Contracts valued at some ECU 8 million were awarded in the Czech Republic through the Phare Programme in the third quarter of 1994. These funds were committed primarily in the sectors General Technical Assistance Facility (GTAF), small and medium-sized enterprises (SMEs), for the privatisation and restructuring programme.

### Project overview:

#### Privatisation and restructuring



A feasibility study to support investment in a proposed spiral-welded tube facility at Nova Hut, in the Ostrava region.

Training and education of Czech managers in a series of Czech industrial companies by western European

professionals. This work will be done through the Czech Association of Management and the Training Institutional Network, where local trainers will also be trained.

Environmental auditing to identify potential liabilities at the sites of the Vitkovice steel works.

Advice to assist the management of the Zbrojovka Vsetin company to identify the most suitable structure for a financial information system and to set up market research procedures.

#### SMEs



A small loans scheme to provide up to CZK 1 million to SMEs, focusing especially on the country's areas with the highest unemployment figures.



Financial support to help Czech SMEs participate in trade fairs and commercial exhibitions in the border regions and the neighbouring countries of Austria, Germany and Poland.

The creation of a venture capital fund to encourage the development of local commercial ideas.

Funding for the creation of a regional development strategy, called "Action Plan for North Bohemia".

### Banking



An advanced training programme focusing on advanced foreign exchange skills. This is a continuation of a similar 1993 programme, which developed the skills of the foreign exchange back office staff in Czech Banks.

### Energy



Energy efficiency in schools. Development of a new monitoring system, training of school personnel and municipal energy authorities. Similar programmes are underway in the brewing sector and in other areas of industry and agriculture.

### Labour market restructuring



The supply of ECU 1 million of information technology systems to upgrade the Czech National Security System.

Training of the Czech Employment Office employees.

### Local government



The supply of educational equipment for use by the Foundation for the Development of Local Administrations.

Professional exchange fellowships to send 20 Czech civil servants to the United Kingdom and Germany for training and to visit local administrations in the host country.

### Transport



A project reviewing and formulating recommendations for the institutional and financial requirements for restructuring of the public transport infrastructures in Brno, Ostrava and Prague. This project is looking at improving the efficiency of these local networks and providing human resources development.

### GTAF

Land registration and mapping programme. Nearly ECU 2 million was allocated for the supply of computer systems to the National Office of Geodesy and Cadastre. These systems will be used for the land registration pilot project.

## Slovakia

In Slovakia, a series of projects valued at over ECU 12 million was recently approved. The majority of these projects are in the fields of privatisation and restructuring, development of small and medium-sized enterprises (SMEs), environment and regional investment.

### Privatisation



ECU 1 million has been allocated to the Slovak National Property Fund which is managing the privatisation of Slovak companies. These funds are being used for the preparation of public tenders, flotations and direct sales of specific Slovak companies - especially to foreign investors.

Some ECU 800,000 have been allocated to the restructuring of a number of companies that have the largest debts with Slovak banks. It is expected that a World Bank loan will also support work in this area.

A series of other projects supporting the privatisation effort are also underway, covering work such as information campaigns, turnaround management and restructuring advice. Together, these projects total nearly ECU 500,000.

### SMEs



More than ECU 5 million have been allocated for projects to help develop the SME sector. The main project is a loan scheme for SME entrepreneurs in manufacturing, services and tourism. Other initiatives in this field cover venture capital and the funding of Business Innovation Centres, which serve as 'incubators' for small businesses.

### Regional investment

ECU 1.5 million was allocated through Phare to the Foundation for Regional Development, which provides venture capital for various SMEs.

### Environment



A series of projects covering various environmental initiatives received more than ECU 2 million in Phare funding. These projects range from the provision of testing equipment to food quality monitoring systems, the protection of natural resources and systems for monitoring drinking water quality.

Other sectors which received funding in this round of Phare grants include: foreign investment promotion, agriculture and land registration, energy, General Technical Assistance Facility (GTAF) (public administration); labour market restructuring, civic society development and educational system renewal. ■



## Romanian democracy programme

# New 'micro' project chosen

In Romania, some 18 non-governmental organisations (NGOs) will receive special funding through the Phare democracy programme to further their work toward building a stable democratic foundation for their country.

The projects funded include: the creation of a mini-Parliament to inform students and young politicians of the workings of the democratic process; reinsertion programmes for minor delinquents; furthering open dialogue between the police and local communities; promoting better knowledge of women's rights in a post-totalitarian society; education on the concepts of democratic reform and market economics; promotion of youth involvement in community decision-making; and promotion of inter-ethnic relations.

Another innovative project uses theatre presentations of common democratic themes to bring the message of reform to prisoners, the unemployed, the poor and the handicapped in several rural communities.

These projects are in the democracy programme's new 'micro-project' category, which allows direct funding for



Tomorrow's decision-makers in training today.

NGOs without the requirement for a European Union partner. ■

## Programme update

# A local focus on job creation

A series of local community initiatives aimed at creating jobs in various areas of Romania has recently been launched as part of a Phare-supported programme on active employment measures (PAEM).

The first seven projects to be financed are located in the towns of Bacau, Caransebes, Craiova, Deva, Sibiu, Sighetul and Marmatiel.

The projects include vocational training courses; a centre for the promotion of employment in agriculture; job clubs; job mediation centres; information and documentation centres, and business incubator centres. The structure of each project is designed in the context of a local development strategy drawn up and managed by a partnership of public bodies, local bodies, local business, NGOs, etc.

Altogether some 70 projects are envisaged. The programme is run by the International Management Foundation (FIMAN). Phare provides up to ECU 50,000 - 40-80 per cent of the total cost of each project. Local contributions usually cover staffing, the donation of buildings, equipment, promotional support, curriculum development, etc.

**For further information please contact the PAEM/FIMAN office: (fax) (+40-1) 211 19 37. ■**



She likes her job and it's part of a strategy too.



## Gone but not forgotten

### Phare environmental action in Germany's eastern Länder

The former German Democratic Republic (GDR) experienced the most peculiar transition of all the former Warsaw Pact states: it simply ceased to exist. However, many of the problems of the other post-communist economies have persisted in this region, and Phare funding remained present in eastern Germany from 1990 to 1994 to support transition here.

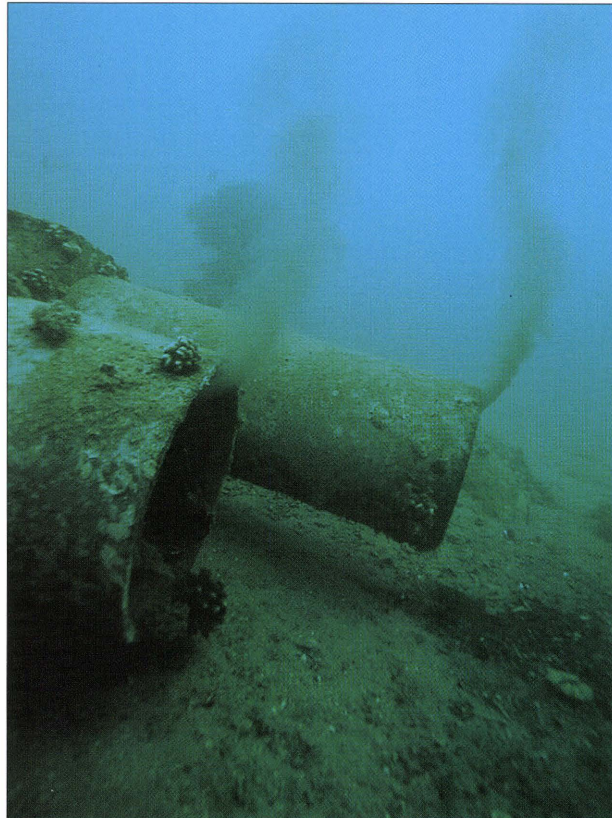
An important Phare activity in eastern Germany was an extensive environmental programme which provided ECU 20 million since 1990 for a series of environmental management, protection and clean-up projects. This support was awarded through Phare to the former GDR. Funding continued until the conditions of the original projects were completed. Most were completed by 1993 and the rest in 1994. These projects were managed by the German Ministry of Environment.

The projects focused on five areas: investment in waste-water management; the supply of equipment for laboratories; extension of air pollution monitors; building of water quality monitoring stations in Saxony; and ecological studies.

The first step in this programme was a comprehensive environmental and ecological audit of the region. These findings helped define precise requirements for the various projects.

Examples of some of these projects are as follows.

- Funding for equipment to help laboratories in Dresden and Magdeburg identify harmful substances in the water and the ground, in the commuter belt of the Elbe River.
- Provision of three mobile sewage treatment systems for each of the five new 'Länder'.



Pollution's hidden depths.

- Equipping of the Saxony air pollution monitoring system with computer equipment and extending the network through the addition of 13 new monitoring stations. ■

## Stability Pact tries to encourage good relations between neighbours

In April 1993 French Prime Minister Edouard Balladur proposed that the European Union (EU) institute a forum which could foster good relations between the countries of central and eastern Europe. Ten months later the idea was adopted by Brussels and the Stability Pact was born.

Described by one western diplomat in Prague as the EU's "first far-reaching initiative in the field of common foreign and security policy", its remit was to encourage the Phare partner countries to resolve mutual historical grievances concerning ethnic minorities and frontiers. This was, and remains, a necessary pre-condition for EU membership. The EU could not consider candidates which have the potential to bring destabilising elements into the fold.

It should be remembered, however, that some EU members themselves have historical problems with neighbouring countries to resolve. Italy continues to block an EU association agreement with Slovenia, a former Yugoslav republic, on the grounds of Italian restitution claims for property expropriated by Yugoslavia in World War II. Greece is being prosecuted by its EU partners in the European Court for its policy towards another ex-Yugoslavia republic, Macedonia.

Under the auspices of the Stability Pact, a series of regional round table discussions got underway. Participants included Russia and the Baltic States and the six countries with EU

(continued on page 20)



(continued from page 19)

Association Agreements - the Czech Republic, Slovakia, Bulgaria, Hungary, Poland and Romania. Diplomats claimed that these discussions had a positive impact on the settlement of questions between Russia and the Baltic States, and had positively influenced Hungarian-Romanian and Hungarian-Slovak relations.

At the end of March responsibility for the Stability Pact will be transferred from the EU to the 53-member Organisation for Security and Cooperation in Europe (OSCE). It is too early to envisage what form the Stability Pact will take thereafter. Will it be a separate and identifiable programme coordinated by the EU within the OSCE's conflict prevention remit? If so, how will American and Russian interests influence its development? Or will it become a somewhat inconspicuous component of the OSCE's overall programme?

Whatever the future holds for the pact itself, the need to cultivate tangible stability and security within central and eastern Europe is now more pressing than at any time since the collapse of the Berlin Wall. The failure of the EU and

other multilateral organisations to bring an end to the Yugoslav war, Russia's ruthless military action in Chechnya and Moscow's publicly expressed mistrust of Nato's eastern expansion are obvious signs of regional insecurity. Less obvious is the underlying potential for diplomatic (or more serious) squabbles to erupt throughout central and eastern Europe.

The EU considers the Stability Pact to be a useful "mediating tool" in the quest for regional stability. But as a western diplomat in Prague pointed out, "ultimately, the main initiative must come from the countries themselves." ■

### Erratum

In the last issue of InfoPhare a contact number for further information on the Phare Blue Danube programme was published. Unfortunately one of the digits was omitted, resulting in a wrong number. The fax number should have read: (+43-1) 213 45 58 36. The Editor apologises for any inconvenience caused.

## Forthcoming events

Date	Organiser	Place	Subject
27-29 March	Adhésion & Associés	Bruxelles, Belgium	Inter-regional cooperation
30-31 May	UNECIA (Universities of England Consortium for International Activities)	Athens, Greece	Phare conference
26-27 June	European Council	Cannes, France	to be announced
23-27 October	Ministry of Environment	Sofia, Bulgaria	Environment in Europe conference

Publisher: G. Burghardt Editor: P. Kalbe



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