

▣ Lead story

Community programmes open to eastern neighbours

A naive observer of the relationship between the European Union (EU) and the countries of central and eastern Europe might be forgiven for thinking that the EU is expanding already, albeit by stealth rather than through formal steps. First, there was the Phare Programme. A 'classic' tool of development assistance. Hardly. With time, it evolved to resemble a package of measures not unlike some of the EU's own. Then came the Association Councils: a regular, structured, talking shop for ministers – not a million miles away from the way the EU likes to do business itself. And now, dozens of the EU's internal programmes are to be opened up to eastern participation.

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▣ Country focus: Bulgaria

Post-communist Bulgaria is no stranger to change. Since 1989, it has gone through a succession of governments.

Amidst the revolutions sweeping through central and eastern Europe, the transition to democratic rule in Bulgaria became possible when in November 1989 veteran communist party leaders were ousted.



Bulgaria's first free elections were held in June 1990. The former communists from the Bulgarian Socialist Party (BSP) won the elections. However, they failed to muster a parliamentary majority and were forced to step down six months later amid economic chaos and widespread labour unrest.

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The decision to involve countries which have signed Europe Agreements in the hitherto internal programmes was taken in June 1993 by the European Council, to buttress the Council's former recognition of the ultimate foreign policy goal of these countries - membership of the European Union. It was felt that opening programmes up to central European participation was not just an efficient method of helping these countries solve a series of outstanding issues, but also an appropriate way of allowing many of their institutions to absorb some of the EU's culture of dialogue and consensus at a working level.

By late 1993, the European Commission had completed some of the preliminary steps necessary to launch this initiative. A list of all current Community programmes was compiled (not as easy as it sounds against a backdrop of constant change), interesting programmes were identified, and a game plan was drawn up. In July 1994, the European Commission received permission to negotiate additional protocols to the Europe Agreements to formalise the initiative. These were duly negotiated and initialled with the six countries having such agreements in October (the necessary texts are contained in the body of the Europe Agreements signed with the Baltic States) and should come into force by the end of this year.

The terms and conditions under which associated countries are to participate will be settled by the Association Council, a body consisting of ministers from the associated countries and from the EU Member States.

There is a precedent for this initiative. As part of the deal leading to the creation of the European Economic Area, the EFTA countries were given the right to participate in Community programmes. Not unnaturally, the system built up then served as a model for the opening to the east. The associated countries will thus be able to participate in the same programmes as the EFTA countries, which already cover most fields of Community activity. These programmes, to which others may be added in future, relate to

- research and technological development
- information services
- the environment
- education, training and youth affairs
- social policy and health
- consumer protection
- small and medium-sized enterprises
- tourism
- cultural and audiovisual matters
- civil protection

- trade facilitation
- energy
- transport
- the fight against drugs and addiction.

Every country with a Europe Agreement in force has already expressed an interest in the fields it would like to concentrate on. The following eight Community programmes, dealing with training and education, energy, the environment and the media, do not add up to an exhaustive register, but are on the shopping list of all six countries, and are likely to be pioneering initiatives. The first three; Socrates, Leonardo and Youth for Europe, address the associated countries' need for the fundamental reform of their training and education system. The next set are concerned with energy conservation issues; Altener is a programme to boost the development of alternative energy sources, SAVE, as its name implies, is concerned with energy efficiency, while THERMIE, perhaps the best-known of the Community's energy programmes, supports the application of new technologies to a variety of problems related to energy production. Of the last two programmes to

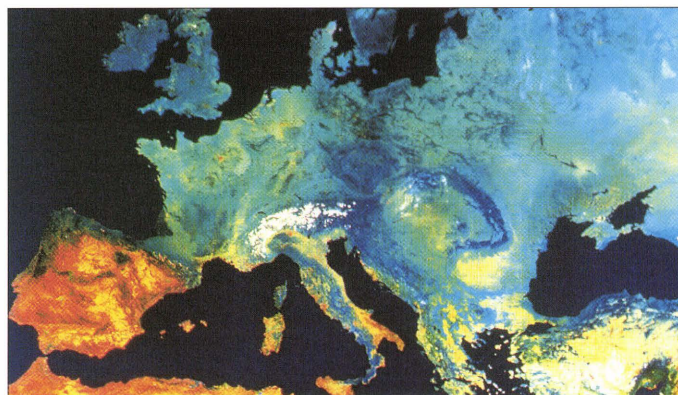
be opened up, LIFE is an environmental financing facility, while MEDIA aims to develop the European audiovisual industry.

With the exception of almost ECU 10 million reserved for preparatory work, the European Union is not putting forward new financing sources for this initiative.

On the contrary, the associated countries will have to finance their participation themselves. As this may prove difficult in some cases, the associated countries may use up to ten per cent of their Phare allocation to finance their participation in this initiative.

Despite their sudden opening up to new countries, each programme will continue to be managed as before. However, the inclusion of representatives of the associated countries to their Management Committees may be envisaged. From the perspective of the potential participant in an associated country, the process will be a fully competitive one. Having ascertained that his country is participating in a programme he is interested in (perhaps through a call to the National Coordinator's office) he will have to submit a formal application and hope that his project is accepted. Clearly, publicity will be the key to draw the attention of potential beneficiaries in the associated countries to these new opportunities. A series of information days concerning the three programmes relating to education and training have already taken place.

More preparatory work has taken place this autumn. Phare's ultimate goal is to have every associated country ready to participate fully from 1 January 1996. ■



Phare is preparing for a larger European family

The fifth Phare Annual Report has recently been published. Its clear and colourful presentation aims to reflect transparency and efficiency. More than a legal requirement, it has now become a working tool for all those interested in the development of the European Union (EU)'s relations with its eastern neighbours.

Phare is not only the largest assistance programme of its kind; it is the Community's main financial instrument for supporting the countries of central and eastern Europe on their path towards membership of the EU. Its nature is changing from being a vehicle for the delivery of emergency aid in 1989 to being an integration tool by the end of 1994.

The performance of Phare increased significantly in 1994. The content of the report speaks for itself, but particularly noteworthy are the higher contracting figures. They show an increase to nearly ECU 650 million, or 15% up on the previous year, and a 38% increase in the amount the programme paid out, to over ECU 720 million.

1994 was also perhaps the most significant single turning point for Phare since its start in 1989. The year ended with the European Council in Essen and the adoption of the pre-accession strategy of which Phare is the main financial instrument.

Integration means coming into line with the policies of the internal market, the lynch-pin of the European Union. In the White Paper the Commission set out what this means for the associated countries. In order to be able to give the additional support necessary to help the associated countries achieve this alignment, a Technical Assistance Information Exchange Office will be set up. It will house a database on support available to the associated countries and act as a broker for providing internal market know-how. Moreover, a new Phare multi-country programme will be created to provide for advice on implementation and enforcement of internal market measures.

Other aspects of integration are of equal importance. One is physical integration. Through the creation of trans-European networks we can communicate much better with our future partners. That is why 25 per cent of Phare funds are being used on direct investment in infrastructure. And why a large part of Phare is already devoted to cross-border cooperation. As the associated countries prepare for integration into the EU, it is important that they also develop links between themselves as this regional integration will help speed up integration into EU for all.

As far as agriculture is concerned, in the reports on central and eastern Europe published by the Commission in

July it was noted that its partners in central Europe would initially be less in need of a high level of price and income support for their farmers, than of targeted assistance for restructuring, modernisation and diversification. Phare has spent some ECU 400 million on this sector already and is well-placed to continue the work.

As experience elsewhere has shown, in order to compete inside the Community, the countries of central Europe require investment, on a scale beyond the reach of any assistance programme. In 1993, Hungary's foreign direct investment, the highest in the region, was \$ 370 per capita.

However, Portugal's was almost twice that. Attracting foreign investment and promoting exports to aid capital formation therefore constitutes the third major task which Phare has set itself in consultation with its partners.

Environment is an area in which the Commission knows it must help attract the large amount of investment required. That is why over a 10-year period 1989-99 Phare will have put almost ECU 1 billion into the sector and why a series of new initiatives in the field will be launched in the near future.

All of these priorities now look clearly towards the same goal. They focus on the same aim of integration in the fields essential for future members. ■



Bulgaria

A caretaker government stepped into office until a second round of elections was held in October 1991. As a result, a new government headed by the anti-communist Union of Democratic Forces (UDF) was formed but they also failed to win the majority of seats in Parliament.

Like many political groupings that mushroomed in central and eastern Europe, the UDF was a loose coalition made up of 17 parties representing a wide range of political beliefs. Lacking support from the other parliamentary forces its government which was committed to market reform, resigned in October 1992.

Weeks later, an expert government proposed by the ethnic Turks' Movement for Rights and Freedoms (MRF) and backed by the BSP was formed. It lasted until September 1994 when another caretaker government took office.

Further elections held in December 1994 put another coalition, this time led by the BSP, back in charge. The wheel has come almost full circle.

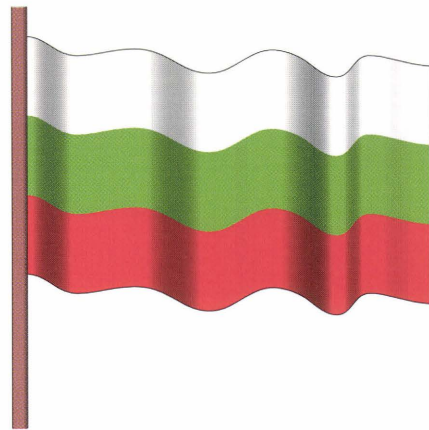
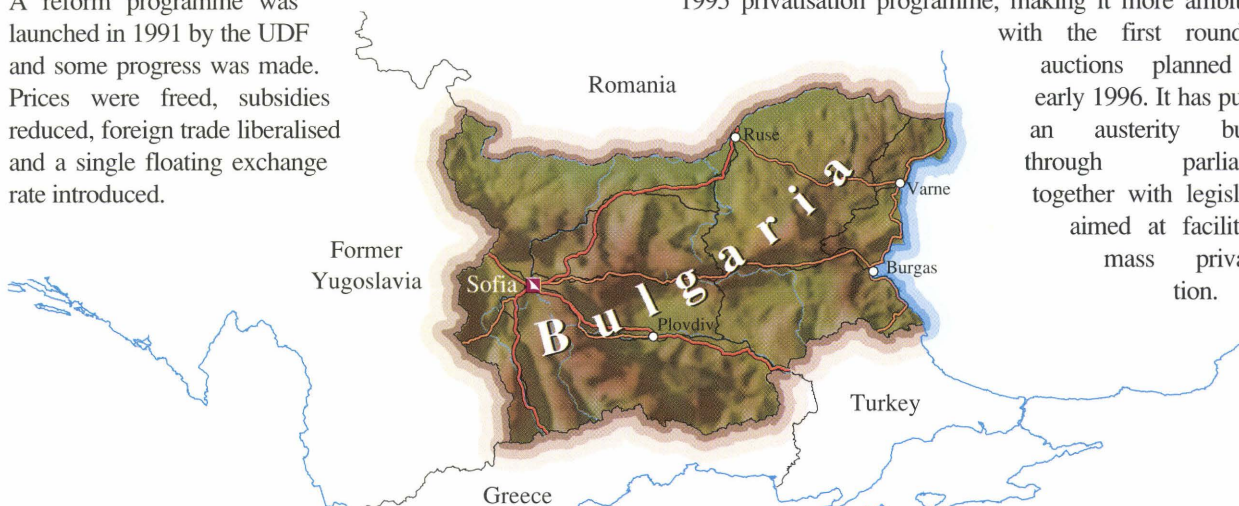
Economic overview

Economically, things haven't been easy for Bulgaria. Under the communist regime, 80 per cent of its trade was conducted within Comecon, so it was hard hit by the collapse of that trading arrangement.

The Gulf War and the international embargo on neighbouring Serbia compounded its economic woes.

When the reform whistle was blown in 1989, the socialists, who were in power at the time, got off to a slow start and Bulgaria has continued to trail behind countries such as Poland, the Czech Republic and Hungary, ever since.

A reform programme was launched in 1991 by the UDF and some progress was made. Prices were freed, subsidies reduced, foreign trade liberalised and a single floating exchange rate introduced.



But much was left undone. The restructuring of state enterprises was neglected, state-owned commercial banks continued to hand out cash to insolvent state enterprises, and privatisation took place at a snail's pace. Barely 100 enterprises out of 1,600 were privatised by early 1994, although the private sector did generate about 35 per cent of GDP in 1993, and expanded again in 1994.

Bulgarians soon found out that the road to a market economy was littered with potholes. As in all transition economies, the national income and industrial output fell sharply at first, while the ranks of the jobless swelled and inflation soared.

Economy picking up ...

Happily for the people of Bulgaria, whose reputation for patience has been sorely tried in recent years, it looks as if there might be some light at the end of the tunnel. Recent figures show GDP growing by two per cent in the first quarter of 1995, inflation falling to below four per cent over the same period, trade moving into surplus, and the Lev holding steady.

... and reform process on track

Early signs from the BSP government show that it is likely to steer a steady course on reforms. It has overhauled the 1995 privatisation programme, making it more ambitious, with the first round of auctions planned for early 1996. It has pushed an austerity budget through parliament together with legislation aimed at facilitating mass privatisation.

Basic facts about Bulgaria

Land area	110,099.6 km ²
Population	8.5 million

A key challenge facing the Government is the management of Bulgaria's elephantine debt to western commercial banks. While a deal reducing Bulgaria's \$8.2 billion debt by an estimated 47 per cent was struck in 1994, meeting interest payments on the outstanding amount is likely to prove difficult. Interest payments are expected to amount to about \$250 to 270 million per annum for the next seven years, and Bulgaria has signalled its intention to seek IMF assistance. The quid pro quo is likely to be a firm commitment to maintaining its restructuring momentum.



There's no looking back.

Conclusion

Eastern Europeans are trying to put in place in a few years what has taken half a century to evolve in western Europe, and understandably they are not finding it easy.

All things considered, not least the bloody war raging on its doorstep, Bulgaria's reform process has progressed reasonably well.

Democratic institutions and procedures are up and running and competitive politics has made its debut.

A new constitution, guaranteeing freedom of expression, private ownership and protection of minorities has been

drafted; policies designed to discriminate against the Turkish minority have been suppressed, and relations with its neighbours have been stable.

But the road to economic prosperity is still uphill. The BSP must remain committed to the reform process if Bulgaria is to reap the benefits of a democratic society it has so dearly paid for in recent times.

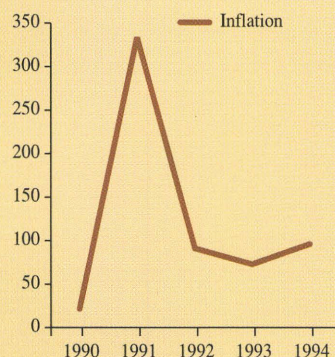
As a former Polish ombudsman, put it, "Democracy is not fancy window shopping...it's back-breaking work."

Bulgaria, proud of its reputation as "the Prussia of the Balkans" has shown that it is not frightened of that sort of challenge. ■

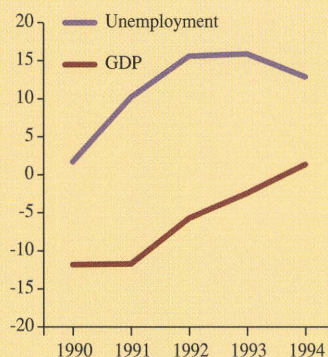


Pro-democracy supporters in 1989.

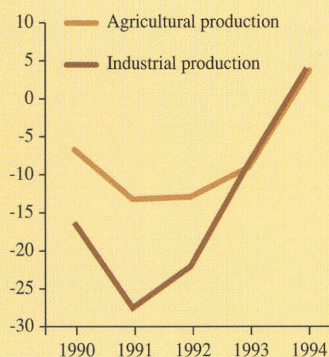
Inflation (%)



GDP and unemployment (%)



Industrial and agricultural production (%)



Source: European Commission

Phare and Bulgaria

The Phare Programme began providing grant aid and expertise to Bulgaria in 1990. While Phare was initially directed from Brussels, it quickly became a decentralised operation with Bulgarians and their EU partners working together to decide how best to invest their resources.

Since 1990, a total of ECU 393.5 million have been committed to Bulgaria to bolster its economic restructuring, develop human resources, employment, and social policy, and to reform its institutions. An additional ECU 20 million have been committed to humanitarian aid and ECU 11.5 million allocated to improve nuclear safety.

Almost a quarter of this money, ECU 102.5 million was used on infrastructure projects, including the development of the E79 north-south highway. Infrastructure also features prominently in the cross-border cooperation programme with Greece, and includes railway modernisation and telecommunications projects. ECU 66.5 million have been used to speed up privatisation, help restructure state enterprises, support emerging small and medium-sized enterprises (SMEs), modernise banking and financial services and reform the labour market and social sector.

Privatisation, banking, finance and SMEs

Restructuring economies is a costly business and so considerable Phare effort has been put into reforming tax systems in Bulgaria and improving revenue collection with a view to providing the government with much-needed cash.

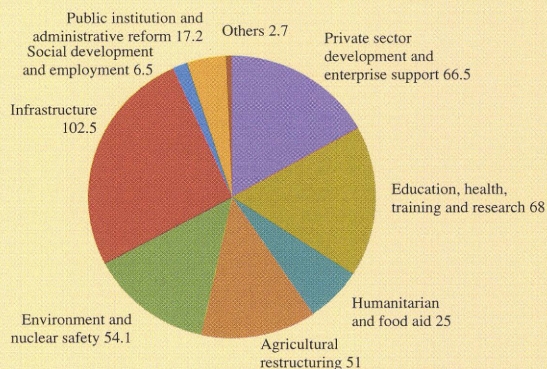
With Phare's help, a Bulgarian Privatisation Agency has been set up and privatisation laws have been drafted and adopted. Bank employees have sharpened their technical skills by participating in EU-run training schemes. Assistance has been provided for bank restructuring and consoli-



Farmers are potentially among Bulgaria's largest group of independent economic operators. Phare is helping them to understand the workings of a market economy to ensure their self-sufficiency.

Funds committed by sector 1990 to 1994

ECU 393.5 million



dation as well as for support to the National Bank supervision functioning.

Agriculture

A substantial amount of money has been ploughed into Bulgaria's agricultural sector since 1989. In the beginning, Phare funds were being used simply to keep the sector afloat. Phare helped farmers through a particularly rough period by providing inputs, such as animal fodder, plant protection chemicals, veterinary products and seeds.

A total of ECU 51 million has been spent on land restitution thus providing grounds for the development of private farming. This has by no means been easy because it has involved changing attitudes as well as systems.

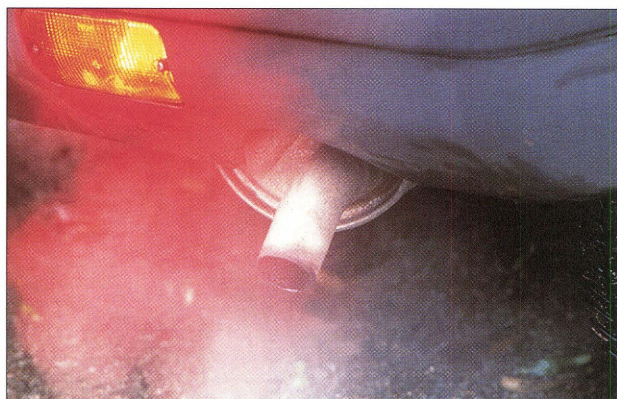
To help farmers understand how private farms should work and demonstrate the value of new farming technology, 32 model farms have been set up in Bulgaria. In addition, farmers can now tap into information systems providing them with up-to-date information on which products are likely to sell on world markets and which are not.

Environment

One of Communism's most lethal legacies to Bulgaria was a severely damaged environment. Understandably therefore, slashing unacceptably high levels of air and water pollution has been one of Phare's priorities. It launched, together with the local authorities in Bulgaria, a major clean-up operation in 1990.

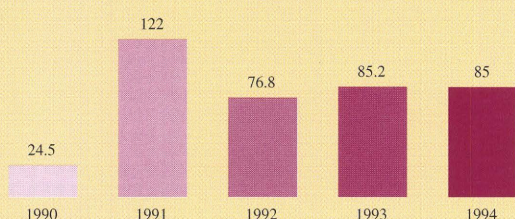
Before any pollution problem can be tackled, reliable information as to the extent and type of damage is required. Consequently, Phare's first step was to set up effective air, water and radiation monitoring systems. It helped the Ministry of the Environment establish monitoring stations and re-equipped the National Centre of Environment and Sustainable Develop-

ment with modern analytical equipment and data-processing facilities. Phare has financed quite a number of pollution reduction projects in order to raise environmental awareness. It has also contributed to two major regional programmes for the Danube river and the Black Sea region.



Cleaning up the environment – exhausting work.

Phare funding for Bulgaria 1990-1994 ECU 393.5 million



Energy

Until 1989, fuel flowed freely into Bulgaria. Under the Comecon trading system, Russia had ensured that energy was cheap and plentiful. But once Bulgaria had cut the umbilical chord with Russia, the fountain of energy dried up. What's more, the Government, under pressure from international financing institutions like the World Bank and the International Monetary Fund, was forced to edge up Bulgarian energy prices closer to world levels. Bulgarians, used to a certain degree of profligacy, had to learn to watch their consumption for the first time.

Since 1990, Phare has helped Bulgaria adopt a two-pronged approach to its energy problem. It has focused on improving both the security and the diversity of energy supplies while at the same time helping Bulgarians learn to use their energy resources efficiently. Phare, keen to help Bulgarians make the switch to greener forms of energy, has financed research into environmentally friendly fuels.

Phare has also installed a new high-tech information system in the Thermo-Electric Power Plant 3 in Galabovo near Stara Zagora. This system guarantees the provision of accurate information on all technological processes from the warehouse to the power distribution system and should have a dramatic effect on the plant's production levels.

Civic society

If democracy is really to take root in Bulgaria, it must permeate the whole of society. Free and fair elections alone will not guarantee its survival. Bearing this in mind, Phare has invested considerable resources in stimulating Bulgaria's fledgling civic society - the collection of clubs, associations and unions which form the backbone of healthy democracies. The focus of the Phare effort in this area has been the capacity building of the Bulgarian non-governmental sector. Under the 1994 Indicative Programme ECU 1.2 million have been allocated for the establishment and operation of the Civil Society Development Foundation that is supporting information, training and projects of interest to the NGO community as a whole.

In 1993 a Social Dialogue programme was initiated with a view to establishing, slowly but surely, a modern system of industrial relations.

Conclusion

Despite the fact that Phare has been hampered considerably by the inability of successive fragile governments to push through key legislation and restructure institutions, much has been achieved.

The signing of the Europe Agreement establishing closer political and trade ties with the EU, sent a positive signal to Bulgaria. But the battle has not yet been won. A number of tough conditions must be met* before Bulgaria can hope to become an EU Member State. Much of Phare's attention then will be focusing on preparing Bulgaria for its integration with the EU, a union which both parties want to achieve under the best possible conditions. ■

* See article on White Paper in InfoPhare N° 8



Land restitution works on the principle that owners are entitled to the same amount of land as they owned at collectivisation in 1946-1948. Phare is helping the authorities to set up a new national land registry.

A medical examination

Health in most central and eastern European countries has been steadily declining due to poverty, bad housing, limited amounts of poor quality food, alcohol, smoking, pollution, accidents and suicide. The gap between east and west is wide and growing, particularly in the health sector.

Adult males in the Baltic States and Hungary, are expected to die up to seven years earlier than in the European Union (EU); babies are up to four times more likely to die by their first birthday in Albania and Romania than in the west, and in some countries women are up to three times more likely to die during pregnancy. Heart disease is increasing partly through a lack of health education, and environmentally-linked diseases are also taking their toll. Overall, average life expectancy is four to seven years lower than in the EU.

This general bad state of health has mainly been the consequence of inadequate national health services which are still dogged by the philosophies of the old regime. They are incorrectly structured, inadequately financed and too inflexible and old-fashioned in their approach to medical care to consider efficiency and affordability. The crux of the problem lies in the approach to the management of health care in these countries. In public health terms, management has come to mean not only management of the resources and their delivery, but management of the entire financial chain to ensure a socially-just, affordable and foreseeable service. Whereas in the west, health care centres and hospitals are usually managed by specially-trained managers, members of the medical profession have been in charge of health administration in the east. This has led to considerable problems. In the west, too, health financing has been under scrutiny. With an ageing population and increased medical technology, the socialist promise of a service free at the point of delivery has meant either delay or disappointment. With no comparable financial infrastructure in central and eastern Europe, the delay and disappointments are even more pronounced.

Although most partner countries have a sufficient number and a good geographical spread of health services, they are too hospital-centered and pay insufficient attention to community-based services. Local community health centres concentrate not on prevention and care but on simple diagnoses, and then refer the patient to a specialist in a hospital, who administers the care. This human resources problem is due to the over-specialisation of staff and the concept of the general practitioner being almost non-existent at the outset of reforms.

This is the way a Phare Health Sector task manager describes the characteristic features of the region's health care systems with their emphasis on specialist care. "When someone has a headache, for example, they are sent straight to a neurologist,

with all the tests and additional costs that this entails. In the west, of course, we go to our general practitioner, an option which really wasn't available in the region before reform." He said that the panoply of community-based health care

systems familiar to westerners, with district nurses, social workers and general practitioners working together in local districts and day surgeries, were an unknown quantity in the old communist world.

Previously, the emphasis in Phare partner countries was always on curing rather than preventing medical problems, since internal costs did not figure in planners' calculations. With specialist hospital-based consultants providing care, costs of treatment are

grossly out of proportion with the limited resources of these countries. Consequently, money for crucial preventive health care programmes is in short supply, especially in the vital areas of family planning, non-infectious diseases, vaccination and prenatal care. Smoking, drug and alcohol abuse are now on the increase. HIV infection has also quickly taken hold in Poland and Romania. Cutting back on preventive activities and health promotion schemes, when these should be a priority, is not the answer.

Just as worrying for the Phare partner countries is the steep rise in price of drugs and medicines brought about by the liberalisation of the pharmaceutical market and the privatisation of drug supply and distribution networks. Many essential medicines are now prohibitively expensive for the majority of people and are also of questionable quality. The pharmaceutical sectors in central and eastern European countries urgently need regulation and reorganisation - a priority which Phare has quickly taken on board.

As the Phare Health Programme Implementation Unit Director in Hungary confirmed, "We totally support the World Health Organisation's 'Health for all' declaration. But whereas in the European Union you have differing systems of health care, we in Hungary and the other Phare partner countries are still deciding which systems to adopt." Many countries favour a health insurance system, but the uncontrolled costs within these countries' current health services must be addressed and resolved before for new funding methods can function effectively. Unfortunately, doctors are reluctant to face up to the need for change and to lose their chances of increasing their incomes as more disposable wealth is directed to obtaining priority treatment. Replacing some of the plethora of medical staff with managers is also considered too difficult to tackle. ■

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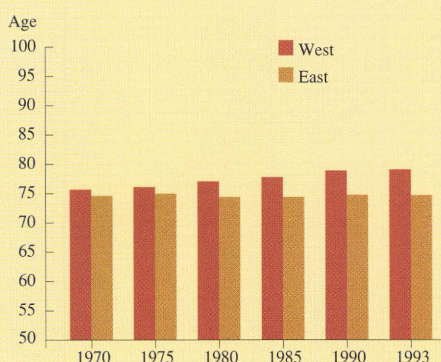
Phare cautions - health before wealth

Since 1991, Phare support for reform projects in the health sectors of partner countries has amounted to ECU 130 million. And it's money well spent, according to Phare health sector staff. After all, they know that a healthy region is more likely to become a wealthy one and that no lasting economic development is possible without a corresponding social development. With the prospect of implementing the pre-accession strategy now looming, some form of explicit links will have to be made between improved tax collection, improved health insurance systems and more effective delivery.

Initial activities targeted by Phare in the post-communist 1989 to 1991 period, were based on declared short-term needs: the training of general practitioners in Poland, essential drugs for Romania or emergency medical aid in Bulgaria and Albania, for example.

One project which has just started to bear fruit in Albania, and which reveals the basic nature of its current requirements, is the installation of the very first plant to manufacture saline solution, a basic and essential fluid for intravenous rehydration. It is used, particularly, for the rehydration of hospitalised patients that cannot take fluids orally. Until Phare's intervention, Albania was dependent on local supplies manufactured under such poor conditions that they were themselves a health risk. Now the capital, Tirana, will shortly open its own production facility financed by a Phare grant and supported through the expertise of the French Hôpital de Libourne.

Average life expectancy of individuals living in the European Union and in central and eastern Europe.



As Phare Health Sector task manager explains, "Phare's philosophy on health reform is to render the health services of the CEECs viable in the context of a market economy so that they are socially acceptable and financially sustainable. This implies, among other things, the promotion of sustainable health financing, primary health care delivery, an affordable pharmaceutical policy, adequate human resource management

and preventive systems, many of which (like health and safety at work) are part of the 'acquis communautaire'. We do not provide highly sophisticated medical equipment - though we have had frequent requests for it. Our prime aim has always been to help the greatest number of people."



The daily work of a family doctor.

Following this initial provision of funding for partner countries, and after much burning of the midnight oil by both Phare personnel and respective health ministries, a plan geared to meet the medium-term needs of structural reform was devised and agreed. It satisfied the essential criteria of reform; social acceptability and economic and financial viability.

The five key areas that the plan identified remain those already mentioned:

- ▣ health service financing
- ▣ reorganisation of health services
- ▣ pharmaceutical policy
- ▣ training of health personnel
- ▣ developing preventive medicine and health promotion.

The financing of health services covers the creation of health insurance schemes, public insurance contributions and payments for some services, the development of pay structures for staff, the decentralisation of financial management and the provision of systems for monitoring and controlling health costs. All of this is in itself a massive task.

According to someone directly involved in the reform of the health sector, "We are still focusing on planning, with actual implementation another two years down the line. We are currently working on health insurance study tours."

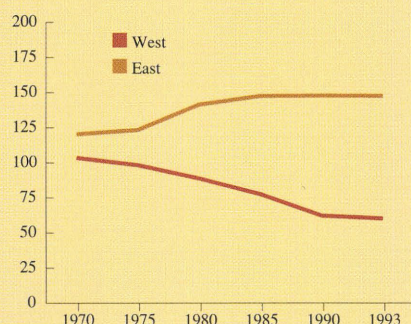
■ Sector focus

The reorganisation of health services involves, for example, developing networks of community and outpatient services and increasing the status of staff at community level, especially the position of general practitioners. It also includes planning hospital services, the maintenance of equipment, and the creation of a mixed public and private system for both public and private medicine.

Phare activities in the priority pharmaceutical field include setting up a legal framework for the pharmaceutical industry; establishing a pricing policy and developing the supply and distribution system.

Training is crucial to the success of all these health reforms. A wide variety of courses are being held which respond to locally-identified needs; community medicine, general management, training programmes for health professionals. University curricula too are being updated.

Average numbers of cases of diseases of circulatory system per 100,000 people.



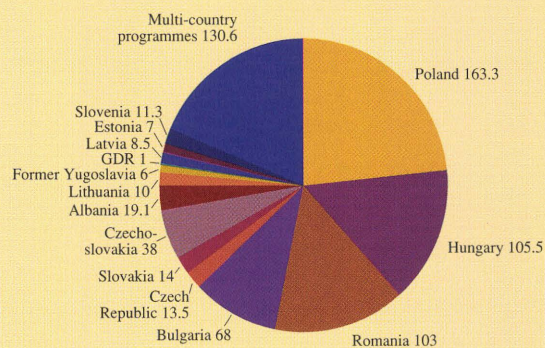
As a former Phare Health Sector task manager explains, "People in Bulgaria, for example, are very committed to health care reform. For the first time ever in Sofia, at the start of this academic year, there will be a Faculty of Nursing Studies in operation to train 120 nurses a year. Also, a new speciality - family medicine - has recently been introduced and it is progressing very well."

Developing preventive medicine and health promotion - taken for granted in western Europe - is the ultimate Phare

priority. This includes legislation for improved public health, national health promotion programmes, developing family planning policies and health and safety at work regulations similar to those in the EU.

Phare funding for education, health, training and research by country 1990-1994.

In ECU million



"Health reform is progressing well" says one local doctor who is committed to reform. "Perhaps not always as quickly as we might wish. Unpopular decisions have to be made."

And Phare is not against taking unpopular decisions either. The person responsible for health in the Commission's Phare unit explains, "We can refuse to extend the expiry date of budget allocations for programmes if national governments do not stick to previously agreed strategy or established guidelines."

This was the case in Romania where, for the first time, an extension of the 1991 programme has been refused. "Should Romania's lack of commitment to health reform visibly improve, Phare could review its stance later this year".

So much depends on the commitment of national governments to the success of health sector reform in partner countries. Currently, in some countries, commitment is still lacking. For this reason, Phare is continuing to work with governments on the five key reforms. Hungary, Slovakia, Bulgaria and the Czech Republic have made great strides forward. But integration of their health care with that of the European Union, is still a long way off. There can never be a precise calendar for such a huge undertaking as this. ■

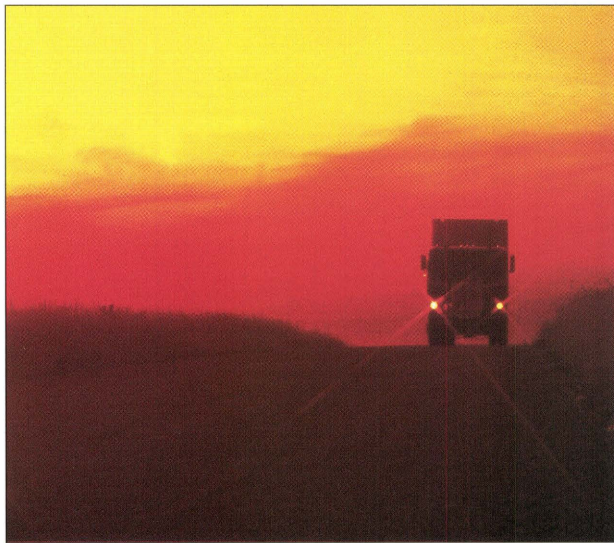
Phare main activities for the health sector 1991-1993

	Albania	Bulgaria	Czech Rep.	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovak Rep.
Emergency supplies	■	■							■	
Health service financing		■	■	■		■	■			■
Reorganisation of health services	■	■	■		■		■	■	■	■
Pharmaceutical policy	■	■				■	■		■	
Preventive medicine and health promotion		■			■					
Training and retraining	■	■			■	■		■	■	■

■ Areas covered by Phare support

'Made in...': the rules of origin puzzle

Rules of origin are sometimes perceived as being little more than a particularly vicious hoop for companies with international operations to jump through. Yet they also happen to be the foundations upon which international trade is built, and are likely to stay with us until the Utopian day of universal free trade is at hand. Precisely because of their fundamental importance, understanding rules of origin can be a nightmare: after all, armies of ingenious minds have been devoted to their creation and enforcement. Despite the rise of trade blocs such as the European Single Market or the North American Free Trade Area, there are still almost as many different rules concerning a particular product as there are countries in the world.



Goods imported from a country with a trade agreement with the EU, benefit from preferential tariffs.

Rules of origin are needed whenever a state or trading bloc wishes to discriminate between the products of different third parties. They contain a set of criteria by which an investigator can define the origin of goods, and, in particular, allow him to distinguish goods originating in third countries from goods produced in the country from which the goods were shipped. Once their origin has been defined, goods fall under an existing heading of trade policy and are treated accordingly. They may be subject to no barrier at all, or instead to anti-dumping duties, quantitative restrictions, tariffs etc.

The rules applied by the European Union are particularly important for the countries of central and eastern Europe which benefit from preferential trade arrangements with the European Union. Trade arrangements form the bulk of the Europe Agreements and are essential for the orderly development of the economies of the partner countries.

Community legislation on preferential rules of origin is found in the Community Customs Code and in protocols

attached to bilateral or multilateral agreements. Wherever they are found, however, the rules contain the same basic elements: a definition of what is considered to be an originating product and administrative measures to allow these to benefit from preferential tariffs. Originating products are not only those that indisputably come from a given country, such as ore mined there, but also those that have been sufficiently transformed in that country, such as a car assembled using imported gearboxes. Predictably, plenty of arguments arise in trying to define what degree of transformation is sufficient to allow a good to become an originating good. Often, officials try to deal with this problem by preparing annexes containing product-by-product lists of the required transformation processes. There are lists of insufficient processes (such as packaging), different cumulation systems (to allow goods assembled from parts originating in different countries with trade agreements to have their origin defined favourably), non-manipulation certificates to be used in transit, and other administrative measures.

That these work in favour of countries with trade agreements is obvious. For example, televisions made in Hungary from Hungarian, Polish and European Union components qualify for preferential treatment in the EU because all three have preferential agreements with each other. Bulgarian integrated circuits, made with components imported from many countries, qualify as well - because most of these components come either from the EU or from countries with preferential trade agreements. ■

Rules of origin also affect the way Phare does business. Because funds from the EU budget are used, all goods and services purchased using Phare funds must originate from within the European Union or from the Phare countries themselves. The detailed rules of origin contained in the Community Customs Code apply. Therefore, a personal computer assembled in Ireland with American, Taiwanese and EU components can be bought by Phare if it qualifies under the code. A service company with an American name, ownership and manager will qualify as long as it is registered within a Phare or European Union country and does not employ too many nationals from outside these countries. However, because Phare is a foreign aid programme, certain cumulation rules usual for export to the Union do not apply. For example, goods or services originating in an European Economic Area country such as Switzerland, which would qualify within the European Union, will not qualify under Phare.

'Democracy created lasting bonds'

One-year parliamentary exchange programme

"There's no better way of learning the workings of democracy than by taking a look from the inside."

This is exactly what a group of parliamentarians from Hungary and the Czech Republic have been doing for the past year in a special training initiative funded by the Phare Democracy Programme. The course welcomed parliamentarians to observe the European Parliament in action through a series of workshops and exchange schemes. The main topic of the programme was the role of national parliaments and the European Parliament in European politics - an issue which is already affecting these two countries who are now firmly engaged in the process of integration with the European Union (EU). The initiative was a joint effort of the Institut für Europäische Politik (IEP) in Bonn, the Trans-European Policy Studies Association (TEPSA) in Brussels, the Institute of International Relations (IIR) in Prague and the Budapest-based Hungarian European Movement (HEM).

According to Susanne Klunkert of the IEP, the programme initiated a host of interesting discussions on the possibilities and limitations of the involvement of national parliaments in shaping European politics.

One participant, Dr Milan Uhde, President of the Parliament of the Czech Republic, found that the programme provided an interesting insight into the parliamentary traditions of other participants' countries, and a good opportunity to make personal contact which will ease future cooperation. "I would like to see similar activities in the future," he says.

A two-phase approach was used to provide as much useful information as possible for participants. Phase one involved a series of discussions with high-ranking officials of national parliaments and the European Parliament. Key facts exchanged between eastern and western parliamentarians included discussions about the European Parliament's

relations with external Parliaments, the influence of national parliamentarians on the European policy-making of their governments and anticipated future relationships between national Members of Parliament, European representatives and the local electorate.



Phase two of the programme offered a more academic approach. Here the IIR, HEM and EIP developed a 'reader' which documented in detail the working relationship between the European Parliament and national parliaments. Through a series of charts, tables, key words and short explanatory texts, this reference document retraced the complex decision-making process through which national governments and the European Parliament interact.

Following the discussions during these sessions, the reader was modified to reflect the local Czech and Hungarian views. The finished version was then translated into Czech and Hungarian and will be published locally by these local partner organisations. "It is important that this programme generated a lasting piece of information that can be used as a reference over the coming years in these partner countries," comments Klunkert.

Grésa Raffy, administrator of the Hungarian Parliament commented that the reader offers a valuable insight into the complexities of the European Parliament's inner workings. "It is a very helpful guide to the daily work of a parliamentarian at European level," she says.

A post-programme review showed that the Czech and Hungarian participants have gained considerable insight into the workings of the European Parliament. Another interesting finding was that participants from these countries were anxious to retain a degree of national independence as their countries integrate into the sphere of the European Parliament. Various forms of models were discussed which specified varying scenarios for European involvement and local autonomy in these countries' future relationship in an integrated Europe.

But perhaps the most significant long-term benefit of this programme is the new relationships it has cemented between east and west. Now a professional network exists between the Czech and Hungarian parliamentarians, their west European counterparts, and members of the German and Brussels Institutes that ran the courses.

Papp Pal, Member of the Hungarian Parliament Foreign Affairs Committee echoes this view, "In addition to official meetings, this type of informal seminar gives us a chance to deepen the relations between parliamentarians and administrators in the European Union and Hungary."

"This type of non-governmental activity makes the legal form of association very concrete and visible," concludes Hans Beck, Head of the European Union Delegation in Budapest.

Even in today's open, post-communist Europe, these are the types of lasting bonds that many of today's formal legislative bodies would be hard-put to recreate. ■

About the Phare Democracy programme

The Phare Democracy programme, which originally was part of the European Democracy Initiative of the European Parliament, aims to build the principles of democracy into the societies of central and eastern Europe and the New Independent States.

The Programme funds the efforts of selected non-governmental organisations (NGOs) and promotes cooperation between NGOs in the European Union and in central and eastern Europe. The programme's priorities are to familiarise societies with democratic principles; and to transfer technical skills to professional associations and similar organisations. This is the largest programme of its kind in the world and provides grants of up to ECU 200,000 per project.

Actions under the Phare Democracy programme cover a broad scope of disciplines, ranging from training, communication and journalism, to legal reform, minority rights, parliamentary reform, or trade union and social issues. But all these projects have an underlying goal – to inject basic democratic principles into the work and daily lives of the citizens of Europe's emerging democracies.

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News

Seeing the wood – and the trees

Slovenia – Kamnik, north of Ljubljana

Wood plays a special part in Slovene life. Forests cover 50 per cent of its territory, and the wood processing industry accounts for 6.2 per cent of Slovenia's exports - larger shares than in any Member State of the European Union outside Scandinavia.

The industry has been as deeply affected by the disintegration of Yugoslavia as any other. The production of building joinery, for example, fell by over 40 per cent from 1989 to 1993. Today, however, the industry is beginning to revive. Exports are growing. Germany is by far the biggest market for Slovene wood products, consuming almost three times as much as Italy, the second biggest market. Croatia, which used to be the largest market in the former Yugoslavia, is a distant fifth in the league table.

Phare, recognising the importance of the wood sector to Slovenia's economy, got involved by commissioning several studies of the industry, which were carried out by A T Kearney of the United Kingdom and Cast of Italy. The first recommendations were clear; predictably, there was a pressing need for more capital, more personnel skilled in management, and improved company structures. Foresters and makers of semi-finished products were advised to abandon exports markets and concentrate instead on supplying the



local furniture and building industries. But it is in the finished-product area where Phare chose to concentrate its efforts. Cast, acting under a Phare-financed contract, undertook a detailed study of five companies active in the sector. It then helped each company implement its recommendations through a series of workshops.

The furniture industry is changing throughout in Europe. The power of distributors is increasing, and they are not merely looking for a well-designed product. They expect a complete package including logistics, delivery systems and promotional support. Consequently, the importance of efficiency to manufacturers is steadily increasing.

Slovene furniture makers are highly integrated, usually being involved in every step of the production process, from tree-felling to selling bedroom suites. Their productivity is too low. Managers, although committed, use outdated management techniques and often have to depend on an unmotivated workforce. To compete and win in the European market-place, they will have to do more than rely on their low labour costs and abundant raw materials. Productivity must rise, which points to painful lay-offs and expensive investments. The industry must position itself, first to survive - which means delayering and specialisation - and then to compete head-on with the best of western Europe, which will involve a relentless pursuit of total quality - in products, management, design and logistics.

Of the manufacturers who received Phare support, one makes bedroom sets, three make chairs and one specialises in office furniture. All the companies benefit from the good reputation that Slovene products enjoy in central and eastern Europe. The chair makers export much of their output to the United States, where their products are positioned between cheap far eastern imports and expensive, high quality locally-made products. However, the price to quality ratio of



Stol has won several design awards for its office furniture.

Slovene products, although varying from company to company, is insufficient to compete head-on with western manufacturers in the long term. All five companies have problems in common; inflexible structures, inadequate technology, production processes geared to large, standardised lines (when the market increasingly demands short runs of customised products). The designs of all these companies, except Stol, the office furniture maker, are weak.

In each case, Phare helped the company, firstly to identify problem areas and, secondly, to define new business strategies. For example, Mr Svetlin, Stol's Managing Director, became aware of the need to streamline his sales operation

and find new marketing personnel. Experts from Cast helped him and other company directors implement their new strategies. The problems they tackled ranged from the specific - the sanding operation of Meblo, or the assembly processes of Kli, both chair makers - to the global, such as management structures and sales operations.

The companies now have a clearer grasp of their own future. "We want to become number one in eastern Europe, and with a leaner organisational structure, we can do it," said Mr Svetlin. ■



From trees to tables - Stol's factory.

Czech General Technical Assistance Facility

The Minister of the Economy of the Czech Republic, Karel Dyba, and the Head of the Delegation of the European Union in Prague, Leopoldo Giunti, recently signed an agreement concerning the Phare General Technical Assistance Facility (GTAF IV). The GTAF programme supports the implementation of the obligations of the Europe Agreement for the Czech Republic and prepares the country for gradual integration and full membership of the EU.

The main focus of the programme is the approximation of Czech legal and other standards with those of the EU; such as educating civil servants about the relevant mechanisms and institutions of the EU, the acquisition of a complete library of European law, the organisation of seminars to facilitate the exchange of information on the integration process, and the commissioning of studies on various aspects of the realisation of the Europe Agreement.

The programme also supports the development of public administration and the creation of a civil service training institution. A reserve fund has been incorporated into the programme to support further activities as the integration process intensifies and to allow Czech participation in other EU programmes. ■



Karel Dyba, Minister of the Economy, and European Commissioner Hans van der Broek.

Source: Your Artillery



European Union presence in Slovakia



The European Commission's stand at the INCHEBA exhibition.

At the INCHEBA exhibition held in Bratislava earlier this year, the European Commission took the opportunity to present various European policies and the Phare Programme to Slovakia.

The Slovak Ministers of the Economy (Mr Ducky), the Interior (Mr Hudek) and the Environment (Mr Zlocha), as well as the Mayor of Bratislava (Mr Kresa'nek) were greeted by Mr Deprelle of the European Commission. They took a great interest in the European Union (EU) stand and said that "the EU's presence in the Slovakia is very important".

Following this, the 'livre d'or' (a record of distinguished visitors) was signed by the Ministers and Mayor. ■

News round-up

- On behalf of Commissioner van den Broek, the Commission has adopted, for transmission to the Council, draft negotiation directives for a cooperation agreement and a transport agreement between the European Union and the Former Yugoslav Republic of Macedonia.
- The General Affairs Council adopted a negotiating directive for the adaptation of the Europe Agreements. Having failed to get a qualified majority for the Commission's proposal they adopted a compromise from the Presidency which provided for:
 - 5% increase in tariff quotas each year for 5 years
 - 80% reduction in tariff which will apply
 - flexibility on quota transfers
 - 5 exceptions to the tariff quota increase i.e. live cattle, live sheep and goats, fresh strawberries, preserved and prepared tomatoes and onions.
- The Commission regretted that Council could not accept its proposal as it felt that it better reflected and political commitment given by the European Council in Essen. However, as this is only a mandate for a negotiating directive, it was possible to adopt it by a qualified majority without the approval of the Commission.
- The World Bank and the Commission have decided to set up a task force in Sarajevo to coordinate the forthcoming construction efforts. From the European Union's budget in favour of the reconstruction for Bosnia-Herzegovina, ECU 400 million can be made available for the period 1996-99 from the Phare budget. In addition, ECU 200 million for the period 1996-99 could be used for the whole of former Yugoslavia (except Slovenia) in the context of the national programmes related to Phare.
- In August, Foreign Trade Ministers of the Czech Republic, Hungary, Poland and Slovakia signed an agreement to set up a free trade zone for industrial goods in 1997, a year ahead of plan. The four-nation Central European Free Trade Agreement (CEFTA), also changed the 1992 CEFTA, thereby paving the way for Slovenia to join the group later this year.
- The United States recently welcomed the Czech Republic as the 26th member of the OECD, the first formerly communist country to win acceptance into the capitalist nations' exclusive economic club. Jean-Claude Paye, secretary general of the OECD group also said that he expected that Poland, Hungary and Slovakia would join the organisation by 1996.
- The Polish Government began selling vouchers to ordinary Poles this month, in a scaled-down privatisation involving more than 500 former State enterprises. More than 27 million Poles are eligible to buy the vouchers at a fee of 20 zloty. They can later sell the vouchers or exchange them for one share in each of 15 investment funds. Next year, the vouchers will be listed on the Warsaw Stock Exchange.
- Central European shares fell in November, following news of the Polish presidential election victory of ex-communist Aleksander Kwasniewski over market-favourite Lech Walesa and the resignation of Hungary's finance minister Lajos Bokros.
- Stocks traded in Romania this month for the first time since the stock exchange was closed by the communist government in 1948, with seven stocks in the inaugural session and 45 transactions involving 905 shares worth about 15 million lei. The Latvian stock exchange in Riga also starting trading earlier this year.
- Slovak President Michal Kovac signed a controversial language law, making Slovak the only state language and overriding previous laws on the languages of minorities.

Important announcement

- Following the reorganisation of DG IA, the Phare Information Office has now become part of DG IA's Information Office and is located at new premises in office 3/80, 34, rue Montoyer, 1040 Brussels, only a short walk from our previous address. The literature stocked in rue d'Arlon will remain as before and people are of course most welcome to come and visit us and collect documentation in our new offices. We would like to hear from anyone, Phare staff, regular or potential visitors, as to what steps we can take to maintain the quality of our services. ■

Editor: P. Vinther Editorial coordination: E. Chamberlain



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