

European

Dialogue

THE MAGAZINE FOR EUROPEAN INTEGRATION

JANUARY-FEBRUARY 1997/1

Co-operation between  
regions

Restructuring Europe's  
defence industry

Finland's negotiating  
advice

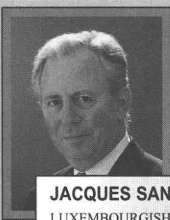
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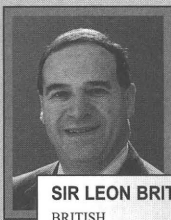
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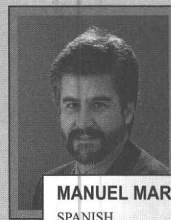
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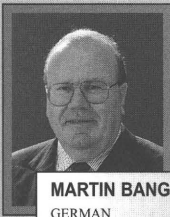
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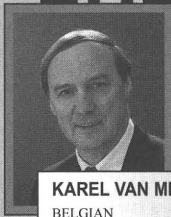
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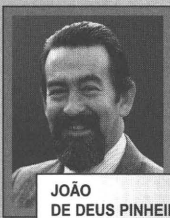
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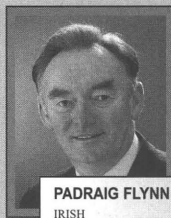
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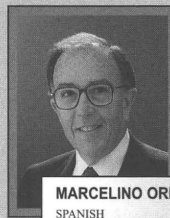
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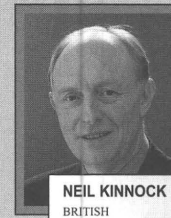
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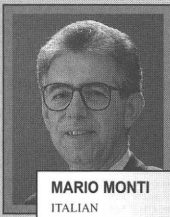
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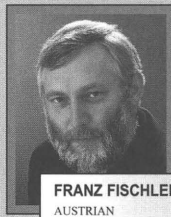
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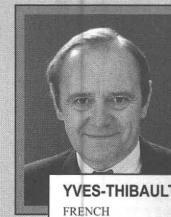
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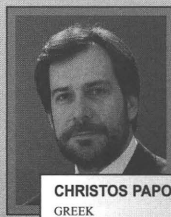
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Happy  
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Year

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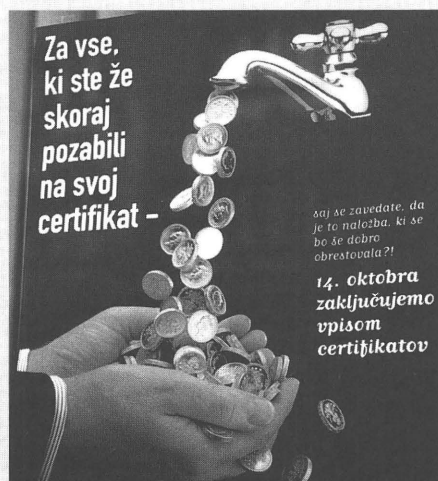
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# Commission regional programmes help promote cross-border co-operation and ease nationalist tensions

The EU is trying to bring Europeans together to promote peace and economic prosperity. Regional co-operation is just one tool which the Union can use to achieve these aims. With 10 candidate countries from central Europe and the Baltic states eager to join, the co-ordination of programmes promoting such co-operation will help speed up the integration process.

Programmes such as Interreg and Phare's cross-border co-operation (CBC) are excellent examples of what

the European Union (EU) is all about. Set up to promote co-operation between neighbouring border regions after bearing the weight of centuries-old national antagonisms, the twin programmes even today are known occasionally to ruffle a few feathers in centralised public administrations eager to preserve control over their national territory.

But no other initiative exemplifies as strikingly the crucial endeavour central to the EU's history of patient community-

**EU programmes such as Interreg and Phare's cross-border co-operation were set up to promote co-operation between neighbouring border regions after bearing the weight of centuries-old national antagonisms.**

building: to erase borders as factors of deep division and bridge the gaps left by centuries of armed struggle, power politics and nationalist fervour.

The history of the Interreg initiative started in 1989 when a series of 14 groups of pilot schemes on cross-border co-operation were undertaken, funded by a small budget of Ecu 21m allocated by the European Parliament. In July 1990 the Commission decided to set up Interreg with four sets of guidelines defining the aims of the new initiative:

- helping areas on the Community's external and internal borders to overcome development problems linked to their remoteness from the centres of national economic activity
- encouraging the development of cross-border co-operation networks
- helping the Community's border areas with non-member states adjust to their role as border regions of the single market
- co-operating with non-member countries on the EU's external borders.

The total funds allotted to the new initiative, later to be called Interreg I, eventually amounted to Ecu 1.08bn, with three-quarters of the money flowing to underdeveloped areas eligible for the EU's highest category of structural funding (objective 1). External border regions in Greece and the border regions linking Spain to Portugal were among the biggest recipients.



The initiative's unique character within the framework of EU policy initiatives were immediately apparent in its funding mechanism. Internal border programmes funded under Interreg became the only initiative where the budget was not allocated to individual countries, but to individual border areas under only one operational programme.

Interreg I distinguished three types of activity: joint implementation of cross-border programmes, measures to further the creation of cross-border networks, and the setting up of joint institutional structures. Concrete measures funded among the 31 selected programmes included measures assisting small- and medium-sized enterprises and co-operatives, tourism development, water and energy supply and telecommunications projects, anti-pollution measures, rural development, improvement of transport infrastructure and promotion of co-operation between training and higher education institutions.

In the least favoured regions, however, three-quarters of funds were spent on improving communication and infrastructure. In the others the programmes tended to further job creation, co-operation between economic and social groups and the exchange of know-how.

A significant difference rapidly emerged between regions where a tradition and structure of cross-border co-operation had already developed and those where that type of experience was almost entirely lacking. Particularly in the south and on the periphery of the Community, few joint cross-border structures became operational and participation by local and regional authorities was limited.

Notwithstanding the practical and sometimes administrative difficulties encountered in getting different national administrations to co-operate on a common project — with national capitals in the EU's more centralised states sometimes wary of giving local bodies the required scope for extensive co-operation with cross-border counterparts — the Commission decided in June 1994 to continue the ambitious initiative into the period 1994-99.

Interreg's increasing political significance also became apparent in the sharp increase in funding. This amounted to well over Ecu 2.5bn by the end of 1995. Thirty-five per cent of the money has been dedicated to the EU's external border regions.

Developing the border area of Portugal and Spain continues to be one of the priorities of internal border regions' spending. The accession of Sweden, Finland and Austria in 1995 significantly raised the total number of border kilometres and 14 new programmes were added to the 45 already existing. This raised the number of operational programmes to 59 of which about half have already been approved by the Commission.

The key co-ordinating mechanism for the EU Phare cross-border co-operation initiative is the joint programming and monitoring committee composed of representatives of relevant central authorities, sectoral ministries and local officials of both EU and central European and Baltic countries.

"Schemes of genuine cross-border co-operation have gained in importance compared with Interreg I," the Commission declared in a presentation of the policy. This was partly due to the Commission's insistence on the creation of common decision-making procedures and to the increasing involvement of regional and local authorities as well as local economic and social partners. However, cross-border programmes where the project budget is actually managed by a single body remains very much the exception.

In the same year Interreg II was being extended until the end of the decade, the Commission proceeded to set up a matching programme within its Phare project of co-operation with countries of central Europe and the Baltic states.

With European Parliament support through the creation of a separate budget line for cross-border co-operation under the EU Phare programme, the Phare cross-border co-operation programme, as it came to be called, was endowed with Ecu 150m in 1994, Ecu 169m in 1995 and Ecu 180m for 1996.

The total for the period 1994-99 is estimated at about Ecu 900m. In addition about Ecu 700m of Interreg II appropriations cover schemes at the borders with central European countries and the Baltic states and approximately Ecu 30m are allocated to schemes with Russia. Again with European Parliament support through the creation of a budget line, the Commission has drafted a specific cross-border co-operation programme for the former Soviet republics, including Russia but excluding Estonia, Latvia and Lithuania which are part of the EU Phare programme.

While experts in the Commission's Directorate-General XVI for regional development and in Directorate-General IA for external relations with Europe and the CIS, consider the overall balance of allocations between Phare-cross-border co-operation and Interreg to be broadly satisfactory, some express regrets about a less-than-optimal coherence in implementation which

suffers from differences in budgeting, programming and decision procedures.

Whereas Interreg II is based on five-year-programmes, and funds are allotted on the ground to individual pro-

jects as they are presented, Phare-cross-border co-operation may work on annual appropriations only. Interreg funds are granted by monitoring committees, including national and regional representatives of the region or area concerned. Decisions on the funding of Phare-cross-border co-operation initiatives are adopted by the Commission only, after obtaining opinions from the relevant management committee. Commission staff involved in the two programmes have endeavoured as best they could to overcome structural impediments.

The key co-ordinating mechanism for the EU Phare cross-border co-operation initiative is the joint programming and monitoring committee (known as JPMC), composed of representatives of relevant central authorities, sectoral ministries and local officials of both EU and central European and Baltic countries. Concrete

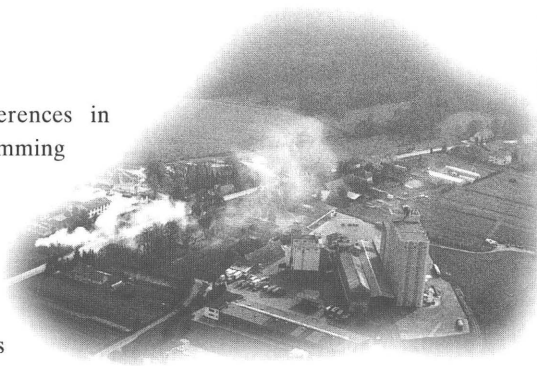
programme proposal are formulated by the Commission on the basis of the committee's recommendations, as communicated by governments of the region.

These committees bring together experts from member states, Phare countries and the Commission.

These committees are supported by specialist working groups which include local representatives from the border regions and sectoral experts (for example, on transport or environment).

Each neighbouring pair of member state and central European or Baltic countries has concluded an agreement outlining developing priorities, common programming and monitoring machinery. To counter the short-termism of the EU Phare cross-border co-operation yearly allocation mechanism, the Commission has drawn up indicative multi-annual programmes for the Phare cross-border co-operation sector in order to improve the consistency between initiatives under each programme. One of the ultimate goals and benefits of the Phare cross-border co-operation programme is the opportunity for candidate countries to get to know something about operating under EU internal cohesion programmes financed by EU structural funds (which are currently Ecu 145.5bn for EU member states for the period 1994-99 and are certain to be of major importance to any future members of the Union).

Perhaps even more than in the case of Interreg programmes,



Sue Cunningham Photographic



Sue Cunningham Photographic



projects triggered and funded by EU Phare cross-border co-operation are also seen to fulfil a crucial political task. The aim is to get regions to co-operate which for decades have been locked in a sullen historical antagonism, which found little expression during the years of official "socialist brotherhood". A legacy of distrust and resentment has to give way to a genuine commitment to close co-operation, if these countries are to become fully participating EU members.

Under the cross-border co-operation programme, Albania, Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia are eligible for help which can alleviate administrative obstacles hindering cross-border exchanges, bring about infrastructure improvements, common waste management projects, the promotion of tourism, rural development measures, health co-operation and support for media disseminating cross-border information. Romania is not included because it does not have a border with an EU country. Planning priorities listed for 1996 included an improved coherence between Phare and Interreg through measures such as the exchange of observers between monitoring committees on both sides of the border, the improvement of central European countries' and Baltic states' implementation structures and the easing of procedures, and the extension of the LACE network. LACE (linkage association and co-operation for the European border regions), launched by the association of European border regions in support of Interreg in 1990, makes use of consultants and local and regional experts and practitioners to help border regions with solving practical difficulties. The programme has been successfully extended to eligible countries under the EU's Phare cross-border co-operation.

For the future the Commission foresees an increased importance in the Phare cross-border co-operation programme of the activities which promote exchanges of experience and joint projects on local economic development, training and administration, although infrastructure projects will continue to account for the main part of the budgets. "The

Phare cross-border co-operation programme will become increasingly important as an integrated part of the pre-accession strategy," says a report recently published by the Commission. "This reflects the shared desire to build a larger family of nations, leading to greater security and prosperity for all."

Thomas Klau, Brussels

The Phare cross-border co-operation programme was endowed with Ecu 150m in 1994, Ecu 169m in 1995 and Ecu 180m for 1996. The total for the period 1994-99 is estimated at about Ecu 900m.

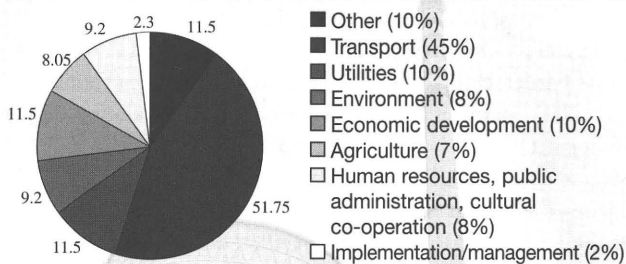


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### Cross-border co-operation

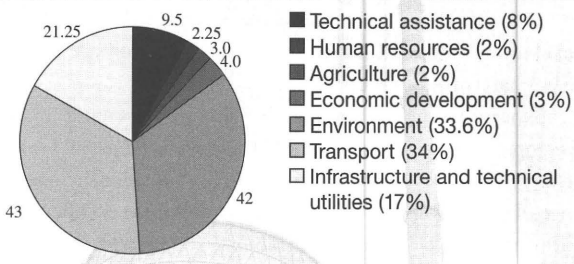
**Bulgaria-Greece**

Breakdown by programme sector in Ecu million (Ecu 115m for 1995-99)



**Czech Republic-Germany**

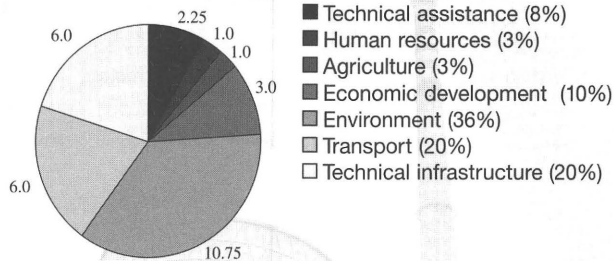
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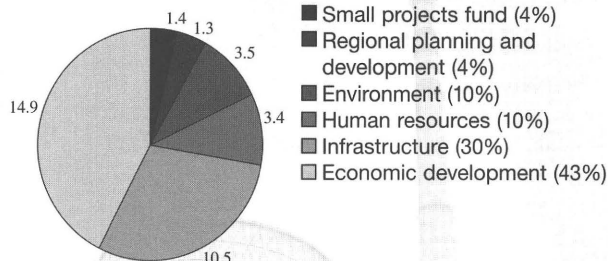
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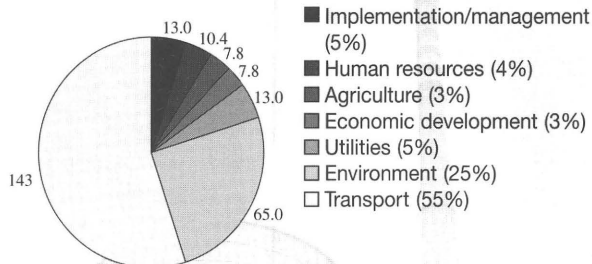
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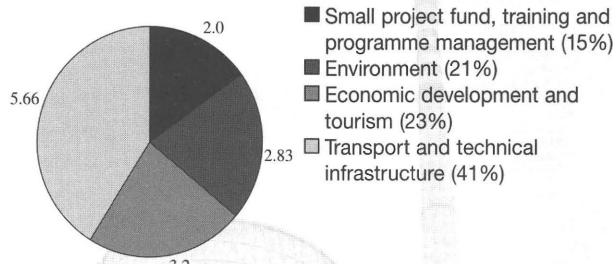
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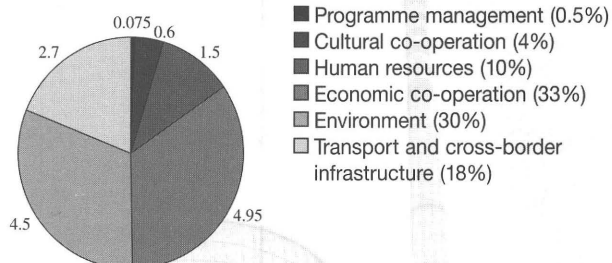
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Breakdown by programme sector in Ecu m (Ecu 13.69m for 1995-99)



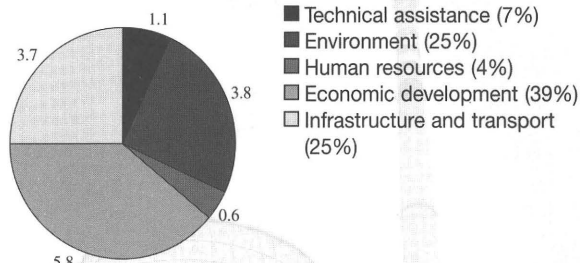
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Breakdown by programme sector in Ecu m (Ecu 15m for 1995-99)



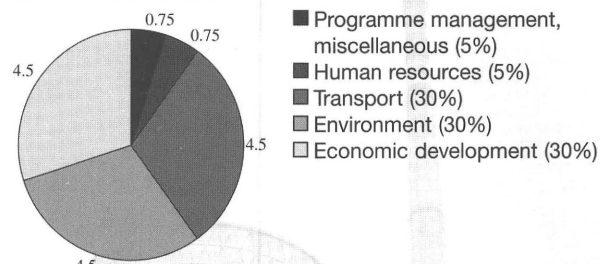
**Slovenia-Austria**

Breakdown by programme sector in Ecu m (Ecu 15m for 1995-99)



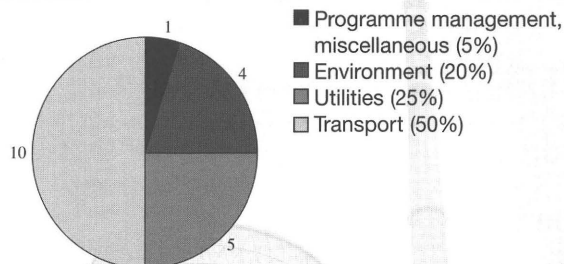
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Breakdown by programme sector in Ecu m (Ecu 15m for 1995-99)



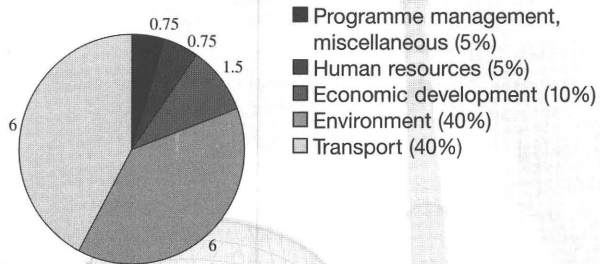
**Lithuania**

Breakdown by programme sector in Ecu m (Ecu 20m for 1995-99)



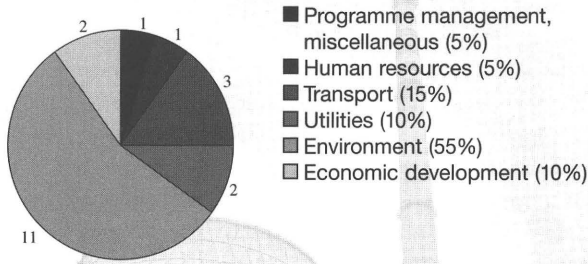
**Latvia**

Breakdown by programme sector in Ecu m (Ecu 15m for 1995-99)



**Poland**

Breakdown by programme sector in Ecu m (Ecu 20m for 1995-99)



Source: European Commission: Phare Cross-Border Co-operation Programme.



## BELGIUM AND FRANCE HELP EACH OTHER

To encourage cross-border co-operation and economic development in the mountainous and economically isolated Ardennes region shared between Belgium and France, the European Commission recently approved a help programme of Ecu 28m, 12.45 per cent of which is financed with EU funds with the rest of the finance coming from national and local authorities.

The programme has been set up to help companies and public administrations engage in cross-border co-operation. Funding goes towards training in traditional local crafts such as carpentry and ironwork and to activities focused around preserving the environment.

To enhance the region's attraction as a tourist destination, the programme finances the creation of hiking paths as well as various tourism and cross-border environment preservation activities.

An international technical team will be created to help design and implement the planned activities. The programme involves the department of Ardennes in France and the arrondissements of Thuin, Philippeville, Dinant, Neufchateau and Virton in Belgium and covers an area with about 700,000 inhabitants.

## WATER IS NO BARRIER TO REGIONAL DEVELOPMENT

Cross-border co-operation as defined through Interreg and the EU Phare cross-border co-operation programme can stretch across the sea. In one of its latest funding decisions, the Commission has unblocked Ecu 33.68m to improve the infrastructure of southern Corsica and the northern Sardinian province of Sassari.

Global spending will add Ecu 39.29m coming from France and Italy and Ecu 1.2m being provided by private investors. The work will focus on easing access to the three ports of Porto Torres, Palau and Bonifaccio.

## WATER SUPPLY SYSTEMS ATTRACT FUNDING

Regional co-operation projects between Bulgaria and Greece are being funded with Ecu 115m for the period 1995-99. One of the concrete projects is an improvement of the water supply system of Madan and Rudozem.

At present, the towns of Madan, Rudozem and Smolyan and 34 other villages in the Rhodopy region in south-east Bulgaria have a water supply of only two hours a day. Despite this, Smolyan is the biggest winter tourist centre in Bulgaria, with the number of visitors swelling up to 160,000 a year.

This EU Phare cross-border co-operation programme project will provide a continuous water supply and involves the construction of water intakes on the Iskreška River, a storage reservoir, a water purification plant and pipelines to Madan and Smolyan.

The aim of the project is to improve the health situation, create employment, better conditions for small- and medium-sized enterprises and tourism and help contacts between Greece and Bulgaria. The cost is Ecu 9m.

## RICH REGIONS ALSO BENEFIT FROM INTERREG

Interreg funding is not restricted to economically weak regions alone. Cross-border co-operation between Germany's wealthy southern land of Bavaria and the neighbouring provinces in Austria (upper Austria, Salzburg, Tyrol and Vorarlberg) is co-financed by the European Commission to the tune of Ecu 24.6m, with Germany and Austria each putting up Ecu 5.1m and private investors providing the remaining Ecu 5.1m.

The funding involves a huge range of activities, ranging from environment, transport, infrastructure equipment, economic development to agriculture, forestry, training and employment.

Among the concrete objectives pursued are the improvement of transport links between the different border regions, the implementation of cross-border tourist marketing programmes and the strengthening of cross-border links through cultural and scientific co-operation.

Financing will be extended to common used-water evacuation and treatment projects as well as to systematic surveillance of areas under an ecological threat.

The dozens of projects under consideration include a communal transport system shared between Salzburg and Berchtesgaden, a cross-border information exchange centre and a transport network in the protected Karwendel area, a shared pricing system for skiing lifts, common media training programmes as well as a common cross-border programme for holidays on a farm.

## EAST-WEST PROJECTS ATTRACTS EU FUNDS

The Swiecko freight terminal on the Polish-German border is situated on the main east-west communicating road linking Paris, Brussels, Berlin, Warsaw, Minsk and Moscow and was opened in July 1995.

The terminal, the largest in Europe, cost over Ecu 40m to build, of which Ecu 5.5m was contributed by the EU Phare programme. Prior to its opening truck queues were tailing back over 5 km. When Swiecko is fully operational, it will process about 4,000 trucks a day.

## EU HELPS TO TACKLE HAZARDOUS WASTE PROBLEM IN THE BALTIC REGION

Two separate projects, one in Estonia and the other in Latvia, aim to tackle the problems caused by hazardous waste in the Baltic Sea region. At present Estonia lacks proper handling and treatment systems.

Specific measures to improve the situation include the establishment of four collection and transfer stations for the waste, including temporary storage facilities in two locations and a safe landfill site.

In Latvia the Danish government has financed studies demonstrating the extent of the problems caused by hazardous waste. EU cross-border co-operation with Estonia and Latvia is being funded with Ecu 30m for the period 1995-99. ■

*Reports by Thomas Klau, Brussels*



# Restructuring Europe's defence industry confronts sensitive political issues

Europe's defence industry is struggling to restructure and is at the same time consolidating its resources. The 10 candidate countries of central Europe and the Baltic states are looking to modernise and integrate their industry with potential Nato partners. *European Dialogue* looks at how the two seemingly conflicting aims may coincide with both industrial and governmental aspirations for the future.

Over the last seven years Europe's defence industry has experienced hard times. With the end of east-west tension, the massive, conventionally-armed stand-off at the centre of Europe has dissolved and cold war levels of defence spending are no longer considered necessary or justifiable.

Defence spending among the 15 European Union (EU) countries fell by about \$24bn (Ecu 20.1bn) in 1993 values between 1985-94 - a reduction of about 12.5 per cent, according to the International Institute for Strategic Studies in London. Savings have been made across the board.

Armed forces have reduced their manpower and in some cases have abandoned conscription. Training budgets have been cut and overseas bases recalled. The procurement of weapons, military equipment and stores has reduced considerably and the funding of defence-related research and development has also felt the pinch.

EU defence companies have been trying to re-configure themselves and remain afloat. One response has been to reduce the labour force. According to a January 1996 study by the European Com-

mission, defence industrial employment (direct and indirect) has fallen since 1984 by 37 per cent from 1.6m to 1m. Although cutting staff brings some

EU defence companies have been trying to re-configure themselves and remain afloat. One response has been to reduce the labour force. According to a January 1996 study by the European Commission, defence industrial employment (direct and indirect) has fallen since 1984 by 37 per cent from 1.6m to 1m.

savings, it is at best a short-term response addressing only the symptoms, rather than the structural causes of the problem.

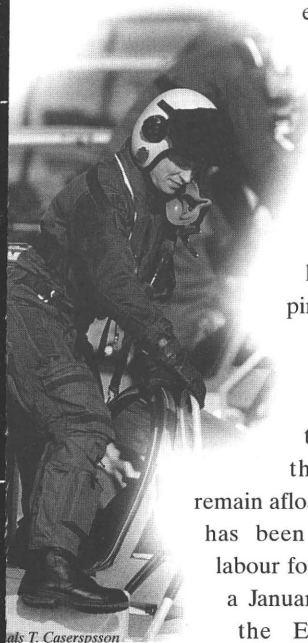
The current industrial crisis is simply caused by over capacity: EU defence manufacturing capacity is far in excess of what customers might need, either nationally or regionally. West European defence manufacturing, compared with US competitors, has at its disposal an overall procurement budget of only about half the size in all major sectors, including armoured vehicles, warships and fighter aircraft. The result is that US manufacturers, even if they look no further than their domestic market, can enjoy significant economies of scale not presently achievable in Europe. Various strategies to deal with this over-capacity have been suggested. In the early 1990s the idea of converting manufacturing plants from military to civilian production (making television sets in a defence electronics factory) was widely discussed but soon seen not to be a cure-all.

EU governments favouring a free market, non-interventionist approach to defence industry and its adaptation argued that the healthiest way to adjust was to allow the market to take its course (closures and mergers). For central Europe and the Baltic states, weapons and military equipment were marketable, export-earning commodities. The result is that defence

conversion programmes have met with little success, but some interest remains in the idea.

The various options which have been considered in recent years all point in one direction: the uncompetitive nature of Europe's defence manufacturing base needs to be tackled by consolidation and rationalisation. But confronting this approach are the weaknesses, frustrations and peculiarities of defence manufacturing in Europe. To talk of EU defence procurement and manufacturing assumes a degree of coherence, direction and unity which does not yet exist and which could take years to develop.

The EU member states contain many separate defence sectors, organised and oriented according to national preferences and industrial practices. There is a vast army of prime and sub-contractors, and a complex set of intra- and extra-European co-operative ventures. Some sectors have weathered the end of the cold war better than others, but all are in a state of flux and



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Sue Cunningham Photographic



are experiencing or expecting major structural changes.

National defence sectors have been contracting and rationalising steadily and there has also been a certain amount of industry-led consolidation across the EU. Cross-border collaboration comes in a variety of forms:

- strategic alliances such as Eurofighter 2000 (Germany, Italy, Spain and Britain) — the largest such project ever undertaken in Europe
- co-marketing arrangements such as that between British Aerospace and Saab in Sweden
- joint ventures such as the Future Tank Main Armament alliance between French, British and German companies to design, build and market a new 140mm main armament for tanks
- cross-border mergers such as the joining of the helicopter divisions of France's Aerospatiale and Germany's Daimler-Benz Aerospace to form Eurocopter and the merger of the missile divisions of Matra of France and British Aerospace
- acquisitions such as those in Britain and around Europe by CSF Thomson of France.

Many more industry-led collaboration projects are in the pipeline. To complement all this industrial activity there have been top down efforts by organisations such as the Western European Armaments Group and the Franco-German Armaments Agency

(with Britain about to become a member), keeping alive the idea of a European armaments agency.

Given the huge reductions in the defence manufacturing labour force across the EU, many politicians are eager to defend the interests of their constituents — parochial and commercially unwise though this may be — and will fight hard to keep jobs.

With defence industry constrained so tightly and viewed largely through national prisms, the problem of manufacturing over-capacity is compounded. Surpluses and inefficiencies do not automatically prompt market-led restructuring, as might be the case in other industrial sectors. As long as governments resist the discipline of a Europe-wide market for national reasons, distortions in Europe's defence industrial base will persist. These distortions will also remain and make the overall reduction and rationalisation of manufacturing capacity slow and difficult, perpetuating competitive disadvantage, especially vis a vis US competitors.

The problem of what to do about the EU defence industry is as old as the founding Treaty of Rome. For some the only way out of the dilemma is to modify the treaty by deleting Article 223 which provides the legal basis for governments to be as parochial and protectionist as they wish about national defence manufacturing.

But article 223, along with articles 224 and 225, also makes clear that whatever governments do in the name of national security, must not damage the common market and undermine non-military commercial and industrial policies. The legal and commercial application of article 223 is strictly circumscribed and is not quite the escape clause for national defence industrial protectionism which might be imagined.

The practical relevance of article 223 is diminishing in any case. Many defence companies are already trans-European and often come under EU competition rules when manufacturing and exporting dual-use and non-military goods. Its retention is a manifestation of the reluctance of some governments to support a European

defence industry project and a desire not to lose national control of a vital strategic asset.

If the political will existed to co-operate and integrate in the policy areas of common foreign, security and defence, then the EU-wide consolidation of the defence industry would be much less of an issue and would follow relatively easily.

In May 1995 the Brussels-based European Defence Industries Group (EDIG) published a position paper in advance of the Inter-Governmental Conference (IGC). Although Europe-minded defence industrialists might have been expected to have a less than charitable view of article 223, the paper recommended that the clause should be maintained "for the moment . . . during the transitional period leading to the establishment of a common European defence policy".

The EDIG comment reflects the position of the defence industry. Europe's defence manufacturers are determined to make the best of what is available, consolidating across the EU wherever possible. As they do so, their industry may become a little more competitive in the regional and global markets.

Their governments' scope for protective policies under article 223 will de facto diminish and the practical relevance of article 223 will fade still further away. But the relevance and likely fate of article 223 is a delicate subject which should, preferably, not be discussed.

If both industry and government can agree not to bring the article 223 issue to a head, industry will be able to achieve a little of the consolidation it seeks and certain EU governments, although steadily losing control over defence manufacturing, will be able to sustain the electoral rhetoric of national prerogative in matters of security, defence and defence manufacturing.

**Defence spending among the 15 European Union (EU) countries fell by about Ecu 20.1bn in 1993 values between 1985-94 — a reduction of about 12.5 per cent.**

However, the EDIG comment reveals how, at the highest levels, the case for EU defence industrial consolidation begins to rely on visionary politics as much as hard-nosed commercial logic.

The various national defence sectors have three features in common: there are too many of them, they are too productive and there is massive and heightening competition for national, European and world markets.

For industrialists the ultimate prize is a genuine EU-wide defence industrial base able to compete realistically with the US. The prize is conditional on a common European defence policy which is still embryonic and may take many more years to mature, if ever.

Defence manufacturers must work within the constraints set by governments. These constraints are loosening to some extent, with cross-border industrial co-operation and some multilateral procurement programmes. But to go much further, to begin constructing the European defence equipment market which the EU

defence industry needs, will require a degree of coherence and common purpose among EU government which is presently lacking. Industry alone cannot force the pace of an issue which is central to the post cold war development of the EU.

EU members may have abandoned the use of military force against each other, but they are still far from combining their military forces effectively in the pursuit of common goals and without US assistance. Commonality in purpose and execution of security and defence policies is the necessary antidote to the over-capacity and fragmentation which plagues the EU's collection of national defence sectors and the only conceivable way of creating a single customer with something like the

purchasing power of the US Pentagon. But commonality in these areas seems as unlikely as it is necessary. With their US competitors going from strength to strength, it is clear that the EU's defence industries cannot afford to wait. ■

*Paul Cornish, London*



*Sue Cunningham Photographic*

## Buying US may help Nato membership but hurts European integration

**D**efence industrial activity in central Europe and the three Baltic states can be described on three levels: military, industrial and political. The military level concerns the acquisition of new or updated equipment and weapons. In what may at first seem to be contrary to the interests of indigenous defence industry, there is great interest throughout the region in importing foreign equipment.

Procurement of foreign weapons and military equipment is not as straightforward as it may at first seem. In the first place competition for contracts is intense, particularly between US and European suppliers.

Some western analysts estimate this market could be worth as much as \$15bn (Ecu 12.6bn) over the next five years and more as these economies continue to grow. In some cases procurement budgets have been brought forward and condensed: Slovenia, for example, could spend 10 years' worth of procurement budget over the next two or three years.

There is a broad range of requirements and acquisition patterns. The former Warsaw Pact countries, for example, have large stocks of serviceable cold war vintage equipment and are not in the market for armoured vehicles and the like. But they do consider themselves lacking in key areas such as combat aircraft and command and control systems and are looking to buy from western and Russian manufacturers.

For others, such as the Baltic states, it is almost a matter of starting from scratch as with Estonia's purchase of a border surveillance system from France's

Thomson-CSF. There are also one-off arrangements, such as the US gift of four C-130 transport aircraft to Romania.

Procurement of foreign weapons and military equipment is not, however, as straightforward as it may at first seem. In the first place competition for contracts is intense, particularly between US and European suppliers.

The US has begun to take a more flexible approach to leasing and selling US weapons to central Europe and the Baltic states and has developed an arms export financing programme similar to the systems already in use in Britain, France and Germany. There is also a good deal of Russian and Israeli interest in the central European/Baltic markets.

To complicate the picture, the buyers are motivated not simply by the requirement to modernise their armed forces, but also by the need to sustain and improve their defence industry.

The defence industry across central Europe and the Baltic states is generally over-manned and often lacking in sophisticated management and marketing skills.

Some national sectors are in a particularly bad condition. The Czech aerospace industry, for example, a major producer during the cold war, is in a state of near collapse and the Czech government is looking for foreign joint venture partners and even outright buyers.



Slovakia is looking for foreign partners for armoured vehicle upgrades and aircraft engine development.

Partnership with foreign manufacturers is seen to be the way to resurrect defence manufacturing, modernise arsenals,

**In a buyer's market the 10 applicant countries can insist on exacting off-set concessions from any potential weapons supplier.**

**Under this they acquire not only the weapons, but also the technical/industrial means to make them for the export market.**

preserve jobs and begin to earn from exports. These considerations often determine foreign purchases.

Central European and Baltic manufacturers can offer a highly skilled and relatively cheap workforce to potential partners. But in spite of these attractions some European and US manufacturers see risks in teaming with these companies. To delay, however, could be to lose out.

With vigorous Russian and Israeli competition, especially in aerospace, central European and Baltic buyers have the initiative in the market place.

In a buyer's market the 10 applicant countries of central Europe and the Baltic states can insist on exacting off-set concessions from any potential weapons supplier. Under this the 10 acquire not only the weapons, but also the technical/industrial means to make them for the export market.

Poland, for example, does not want merely to buy 60 or more combat aircraft; it wants to build them in Poland. It is also insisting on substantial off-set arrangements from prospective European, Israeli and US clients for the contract to upgrade the PZL-Swidnik Huzar combat helicopter, which Poland might then sell to the Czech Republic.

Off-set conditions have become so stringent that US industrialists have invented a special term — pre-emptive off-sets — for contracts where manufacturing capacity is transferred before a sale is even made. A good example of this new, strong-arm tactic is the joint venture between Romania's Intreprinderea Aeronautica Romana (IAR) and Bell Helicopters of the US to manufacture cobra attack helicopters under US State Department licence. The plan is for IAR to begin building Cobras for export and then use the

proceeds to buy 100 for their own use.

After military modernisation and industrial survival the defence industry has a third element to consider. The main defence manufacturers in central Europe and the Baltic states all have

their eye on Nato membership and it is this which arguably is the main motivation in seeking foreign weapons and partners. These governments often

assume, not unreasonably, that by buying Nato standard equipment and seeking industrial partnerships with Nato members, they may improve their chances of membership.

Nato's main interest is not in heavy equipment suitable for land warfare, which candidate countries have in abundance, but in combined air power, mobile reaction forces, logistic and fuel compatibility and effective command and control all leading to the precise and controlled use of multinational forces in rapid reaction and intervention scenarios.

Nato has recently embarked on a far-reaching programme of further standardisation in these fields. Anxious not to be left behind, candidate countries see purchases and industrial teaming arrangements as a means of staying with developments and keeping their Nato candidacy alive.

For a variety of reasons candidate countries are determined to buy foreign equipment and forge industrial

partnerships. Given their wish to join Nato, they have a bias towards dealing with Nato members. Given that US manufacturers have competitive advantage over their European counterparts, it is possible that the US could dominate the defence industrial modernisation of central Europe and the Baltic states.

There are a number of reservations to be made about this scenario. Although, from a military security point of view, it may make sense for these countries to look towards Nato rather than the EU, some would argue that real, long-term security for the region lies not so much in Nato as in integration into the EU.

Defence research, development and manufacturing are becoming increasingly civilianised. It might be more sensible for candidate countries to seek collaborative arrangements more consistent with eventual EU membership since this is where, in the long-run, both their civil industries and the civilianised functions of their defence industries may be oriented.

A second reservation is that although candidate countries are receiving generous aid from the US to integrate their air traffic control, air defence and surveillance systems, too many bilateral procurement and manufacturing ties with the US could simply perpetuate the industrial fragmentation which existed and was fostered in the region during the cold war when no country was self-sufficient in military production.

Collaboration with the US and purchase of US weapons could bring closer the prize of Nato membership but could also make eventual integration into a common European manufacturing base — if and when such a thing becomes likely — a much more difficult and protracted undertaking.

If the goal of the US is a united and militarily capable European partner in international affairs, it might be advised to forego commercial opportunities in the candidate countries and let the Europeans get on with it. If central Europe and the Baltic states aspire to become full EU members, they might be advised to forego the kudos of owning a fleet of F-16s. ■

*Paul Cornish, London*

January-February 1997/1



Sue Cunningham Photographic

*Buyers are motivated not simply by the requirement to modernise their armed forces, but also by the need to sustain and improve their defence industry.*

# Finland's EU membership binds it to Europe

Following the momentous changes which began in 1989, Finland pursued a foreign policy aimed at EU membership. Commissioner Liikanen tells *European Dialogue* what Finland's objectives were during EU negotiations and how the present candidate countries can learn from this experience.

Finland's accession to the European Union (EU) was the culmination of a process which began with independence from Russia in 1917. After World War II its precarious position next to the Soviet Union dominated foreign policy. Only with the loosening of Soviet power in Europe and its consequent break-up did Finland's politicians believe it possible for the country to join the EU.

mutual assistance with the USSR which governed Finland's relations with its eastern neighbour up to that point. "That [security question] was always important, but the Finns put it in such a way that the key question in the EU negotiations was to have a safe round-table where decisions are taken. What membership gives you is a say on many issues, but of course it also gives you obligations," Mr Liikanen told *European Dialogue*.

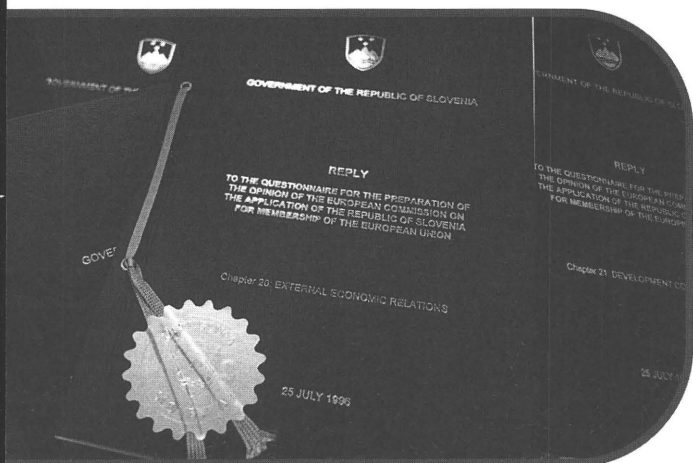
Opinion polls showed that support for Finland's membership among its people was stronger than the case in Sweden and Norway. In the October 1994 referendum on EU membership, it was clear the Finns were keen to anchor themselves to the West (56.9% of them voted for membership).

A couple of years later, most people still believe EU membership is beneficial to the country. "Public opinion remains solid. Membership has not created big surprises," says Mr Liikanen. "The key point was that food prices went down — by more than 10 per cent. That was very important for public opinion — what was said would happen, was implemented."

Apart from security considerations, simple economics also help to persuade Finns to tick the "yes" box. With the collapse of the USSR, Finland's sales to the east dropped even further. At its height, trade with the USSR accounted for 25 per cent of total exports and in the late 1980s it was averaging 15 per cent. From 1989 to 1991 it dropped to 5 per cent, coinciding with Finland's deepest recession since the end of World War II. Taken together people saw EU membership as a way out of the economic doldrums.

Economically Finland was linked to the EU long before membership - first through the European Free Trade Association and then later through the European Economic Area. Both drew Finland into the western trading group, but did not satisfy the country's political ambition to link itself firmly to Europe.

"That is where the 10 new applicant countries have something in common with Finland, although they were much more dependent on Russian trade [than Finland]. Their recession lasted from 1991-93, which was due [in part] to this total



Sue Cunningham Photographic

"Often the Community does not exactly know what the real problem is. In negotiations you have so much diplomatic language that it can cloud the issue."

This membership had a profound change on both Finland's political and economic outlook. "Finland is closer now to western Europe. There is a wider range of contacts on all levels," says Erkki Liikanen, formerly Finland's ambassador to the EU during the accession negotiations and now Budget Commissioner.

Economically Finland was linked to the EU long before membership — first through the European Free Trade Association (Efta) and then later through the European Economic Area (EEA). Both drew the country into the western trading group, but did not satisfy the country's political ambition to link itself firmly to Europe.

In late 1990 discussions on EU membership heightened, with one question dominating the debate: how to make Finland's foreign policy compatible with EU membership. At that time agriculture was only a background issue, says Mr Liikanen.

The Finns applied for membership in March 1992 after Finland signed a new treaty with Russia replacing the 1948 treaty of



reorientation of foreign trade. That was what happened in Finland on a lesser scale. In Finland GDP is higher and Finnish foreign markets have been more diversified," says Mr Liikanen.

Although the EEA enabled Finland to establish tight economic ties with the EU, membership made it possible to get closer to its major markets. "Of course Russia remains important for Finland," adds Mr Liikanen. "When its economy starts growing again, it will be an important market."

Although political concerns were uppermost in the initial approach by Finland to the EU, membership negotiations centred on agriculture. The EU's common agricultural policy (CAP) is bound to be a topic of fierce debate when the 10 present applicants begin accession talks, even though the starting points will be different, predicts Mr Liikanen.

"When EU agricultural policy was created there were no Arctic areas in the Community. That is why new solutions needed to be found to guarantee that Finland was also compensated in this area," notes Mr Liikanen.

On the political side, deep rifts appeared within the government coalition Centre Party, under pressure by the agricultural lobby which did not want to lose their generous state subsidies. By maintaining price levels of 25-100 per cent higher than the EU, Finland wanted to ensure that its Arctic farmers could support themselves.

"The basic difference in agriculture is that when Finland joined, our price levels were higher and the adjustment had to take place to a lower level. In the new applicant countries it is the other way around. Their price levels must go up," notes Mr Liikanen.

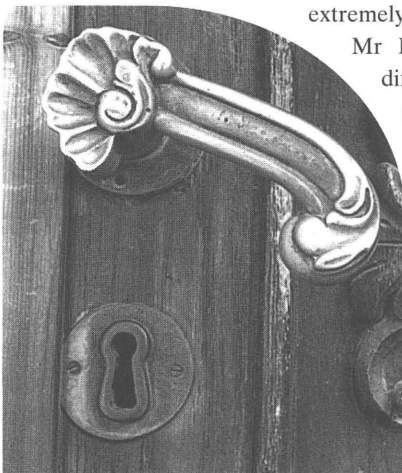
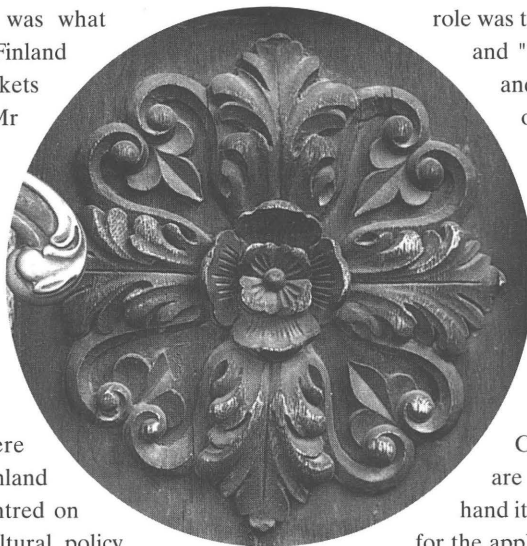
Advice for the new applicant from Mr Liikanen centres around research and preparation. "Study first the history of the European Community and try to understand the idea of how the EU functions. That is important in the negotiations. Then try to create a broad expertise at home, in all ministries you need experts who have studied all the Community legislation in every field," he advises. "Second, it is important to study how earlier negotiations took place. There are certain ways in which they function and knowing that is extremely fruitful."

Mr Liikanen adds: "The difficulty with joining is not only accepting Community legislation, but knowing how to implement it, its administration and the infrastructure to apply with the Community norms."

Then, as Finnish ambassador to the EU, Mr Liikanen's

role was to try to explain Brussels to his countrymen and "to meet as many people as possible to try and explain where the problems lay. This kind of background work is very important," he advises. "Often the Community does not exactly know what the real problem is. In negotiations you have so much diplomatic language that it can cloud the issue." Now as a member of the Commission, Mr Liikanen's comments are more guarded. "The Commission always tries to defend the homogeneity of the Community and its legislation, so that there are no holes and exceptions. On the other hand it tries to find solutions which are acceptable for the applicant countries because it is in the interest of the Commission that the new countries are not totally unhappy with their choice." ■

Caroline Jacobs, Brussels



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Sue Cunningham Photographic

# Is peaceful monetary coexistence possible?

Not all EU members will enter economic and monetary union in 1999. What should be the relationship between the "outs", still with their own national currencies, and the "ins" with their new single currency, the euro? These and other questions are explored in this series of articles.

At the latest by the spring of 1998 — the time to decide who participates in the final stage of EMU by

January 1 1999 — EU members will have to reach an understanding on the currency relationship linking the "ins" and "outs". Three elements will determine the understanding reached: the scope defined by the Maastricht Treaty, the likely preferences of the "outs" and the common interests of the "ins". The treaty is vague in its wording on outsiders. There is a presumption that some EMS arrangement will continue for the "outs": participation in "normal margins of fluctuations" is listed as one of the entry requirements for EMU. Since entry was presumed to be a prime ambition for the "outs", the treaty drafters did not see the need to be more specific. There are no provisions for obliging the "outs" to enter an arrangement, only the incentive to do so in order to retain the rights to enter EMU if economically qualified.

The preferences of the likely "outs" will range widely. At one extreme if the British government chooses to exercise its right not to opt into monetary union initially, it will not be interested in any exchange rate arrangements with the "ins". The current British preference is to regard a tough domestic inflation objective as a substitute for participation in an EMS-like arrangement. This argument is hardly acceptable to the "ins" since it could not guarantee that misalignments would not arise between sterling and the single currency.

Other likely "outs" show less reluctance to consider an explicit currency link, although Sweden shows some sympathy for the British position. Spain and Portugal have shown a preference for managing their currencies inside the EMS. Denmark, which has opted out of EMU, has indicated that it will seek a tight arrangement with the "ins". Italy and Finland may declare a central rate in the EMS.

What should be the response of the "ins"? Their common interest is to get some hold on the exchange rates of the currencies of the "outs" vis-à-vis the single currency in order to contain misalignments. In particular they will be anxious to avoid anything



like a repetition of the large and rapid currency changes of 1992-93 and on a lesser scale, 1995. Free-riding by the "outs" on those who have joined EMU could mean the end of the single market for all EU countries. The general formulation in article 109m of the treaty that "each member state shall treat its exchange rate as a matter of common interest" is clearly not enough to prevent exchange rate misalignments and volatility.

Since the "ins" cannot oblige the "outs" to enter into a formal arrangement, there should be incentives for them to join additional to preserving their candidacy for entry. The "outs" will be concerned that their initial non-participation in EMU would further lower the credibility of their monetary policies, merely declaring a central rate against the euro within margins so wide that they are unlikely to be tested before they have to be given up would not constitute a boost to credibility. To make the bargain attractive for the "outs" something firmer may have to be offered.

Unfortunately the logical additional element — foreign exchange interventions with a mandatory component for both the European Central Bank (ECB) and the central banks of the "outs" — has a bad reputation since the futile attempts in 1992-93 to defend the old EMS rates largely by this means. The Bundesbank claims that heavy use of interventions at that time resulted in a significant loss of monetary control in Germany.

But even accepting this argument, one that is not well underpinned by empirical evidence, two changes will have occurred between 1992-93 and 1999:

- the degree of asymmetry will be much larger between the European Central Bank and the individual central banks of the "outs" than existed between the Bundesbank and the smaller central banks; the "outs" will have to tailor their interest rate policies very closely to that of the European Central Bank
- the fluctuation margins will be wider than in 1992-93 (though the author believes they should be

The "outs" will be concerned that their initial non-participation in EMU would further lower the credibility of their monetary policies. Merely declaring a central rate against the euro within margins so wide that they are unlikely to be tested before they have to be given up would not constitute a boost to credibility.



Sue Cunningham Photographic



narrowed in 1999), changing the balance in interventions further towards those inside the margins. A higher degree of discretion is necessarily attached to such interventions. In short the "ins" should be generous in offering the "outs" mutual support facilities with the European Central Bank in order to keep currencies stable while preparing them for subsequent entry.

The case for such bold arrangements is stronger, the closer an "out" country is to joining. If there is a firm determination to enter, but interest rates remain stubbornly far from those in

**EU members need to reach an understanding on the currency**

**relationship linking the "ins" and "outs". Three elements will determine**

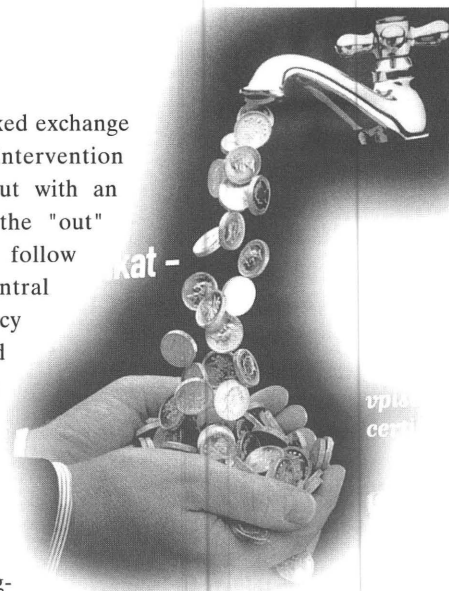
**the understanding reached: the scope defined by the Maastricht Treaty,**

**the likely preferences of the "outs" and the common interests of the**

**"ins".**

the monetary union, hence keeping a country on the wrong side of one or more of the convergence criteria, there may be a case for offering that country associate status. That would

mean a fully fixed exchange rate with an intervention arrangement, but with an obligation for the "out" country to follow European Central Bank policy rigidly and without voting rights in the European Central Bank council. Such a currency board arrangement could generally facilitate rapid full entry into EMU. ■



*Niels Thygesen, Professor of Economics, University of Copenhagen and formerly a member of the Delors Committee on EMU 1988-89*

## Maastricht criteria vs inflation targets: how will ECB resolve the contradiction?

**H**ow should the European Central Bank (ECB) operate and how should its monetary policy be coordinated with outside countries after the birth of the euro? Both questions remain open. At the Verona meeting it was agreed that a new EMS will link some of the outside countries to the euro. But participation in this new EMS is optional and some likely outsiders have already declared that they do not intend to join.

The details of how such a system would work remain to be decided. Some of the most controversial aspects are whether the burden of defending the exchange rate will also fall on the European Central Bank, the width of the exchange rate band and the procedure for realignments.

Consensus on these difficult questions will not come easily because there is an unavoidable contradiction between the inflation objective given to the European Central Bank by the Maastricht Treaty and stabilising exchange rates. Fixing any exchange rate is a daunting task unless there is unlimited bilateral support by both the European Central Bank and outsiders; national central banks. But unlimited support by the European Central Bank would undermine the credibility of its anti-inflationary policy and is ruled out by the treaty.

Some of the most controversial aspects of EMU are whether the burden of defending the exchange rate will also fall on the European Central Bank, the width of the exchange rate band and the procedure for realignments.

For this reason a system of mandatory inflation targets is a better answer than any other mechanism. It is a symmetric arrangement and one that facilitates holding the European Central Bank accountable for its actions. A regime with strict and symmetric inflation targets helps solve the problems of monetary cohabitation in three distinct ways:

- it removes the incentive to engage systematically and deliberately in competitive devaluations
- a target regime restores domestic credibility to a low inflation policy. This in turn makes monetary cohabitation easier because it reduces the volatility of speculative shocks to the exchange rate
- inflation targeting forces monetary policy to respond to shocks in a way that stabilises the exchange rate.

But how could a European system of inflation targets be implemented in practice? All EU members would have to participate. They would jointly have to announce precise quantitative targets for a well-defined measure of inflation, though not necessarily the same targets.

Their inflation performance would be monitored by a European institution, most naturally by the European System of Central Banks (that is, the European Central Bank plus the national central banks not participating in the single



currency). The penalties for missing the target would also be recommended by a European institution. For this the most natural candidate is the Council of Ministers, since this is the only body that comes close to being a European principal for the European Central Bank.

In this respect the arrangement would be similar to the "excessive deficit" procedure described in the Maastricht Treaty. Unlike the excessive deficit procedure, however, the penalties for missing the announced target would have to fall on the central banks, and not on the country involved. A mild penalty would be public blame; a harsher penalty would be a recommendation to fire the governor, although in this case, national legislation may be required to make the sanction legal.

To what extent is a system of generalised inflation targets consistent with the Maastricht Treaty? In some ways the



Sue Cunningham Photographic

*A system of mandatory inflation targets is a better answer than any other mechanism. It is a symmetric arrangement and one that facilitates holding the European Central Bank accountable for its actions.*

treaty provides a useful underpinning. Except for the opt-out countries, central banks are required by the treaty to be independent and to pursue price stability as a goal. Inflation is one of the convergence criteria and this imposes an implicit penalty for the countries that would like to join the euro but have excessively high inflation compared to the other EU countries.

The idea of imposing accountability for inflation differences is thus already an important ingredient in the treaty. The system could be thought of as strengthening some provisions in the treaty. It makes inflation convergence an overriding objective of monetary policy and it forces each central bank to give that

objective operational and quantitative contents and to announce them clearly in advance. It also gives institutional content to the exercise of accountability by making inflation targeting a requirement for all central banks, including the European Central Bank and those opting out of the single currency, by spelling out more clearly who is responsible for hitting the target and by prescribing penalties for poor performance.

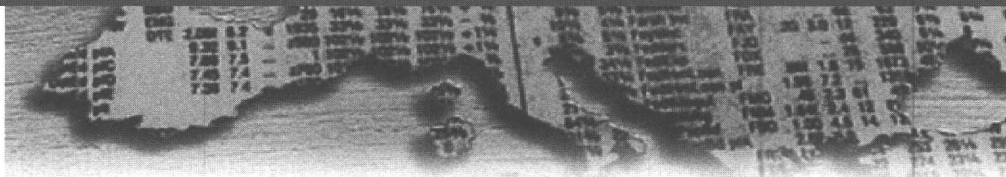
The Maastricht Treaty also contains two references to the exchange rate. It says the exchange rate is a matter of common interest and exchange rate stability (in the sense of no realignments) is one of the convergence criteria. But under the current EMS, with fluctuation bands of plus or minus 15 per cent, the exchange rate criterion is almost meaningless. It should, therefore, remain meaningless. Any attempt at implementing this part of the treaty by giving the exchange rate criterion a stricter interpretation should be avoided as much as is legally possible.

Even with a system of generalised inflation targets, the exchange rate would remain a matter of common interest. A major reason for institutionalising inflation targets at the EU level rather than at the national level is precisely because of the desirable repercussions for the exchange rate. But exchange rate stability ought to be the result of successful monetary policies not the explicit target for these policies ■

*Torsten Persson, Professor of Economics at the Institute for International Economic Studies in Stockholm, and Guido Tabellini, Professor of Economics at the Università Bocconi in Milan and director of IGIER, Milan.*

The articles were based on papers first presented at a Centre for Economic Policy Research workshop in Rome in February 1996 hosted by Banca Nazionale del Lavoro. They were subsequently revised and were first published in a special issue by CEPR in June 1996. More information from CEPR (Tel: (44 171) 878 2900; Fax: (44 171) 878 2999; E-mail: cepr@cepr.org).

## in brief



## Air transport issues take off

European Union transport ministers have given a mandate to the Commission to negotiate air agreements with the 10 associated countries. The main aim of the accords is the eventual creation of a common air space between the EU and the applicant countries. This would include full liberalisation of traffic, progressive harmonisation on air safety, technical, social and environmental regulations and other EU regulations. Opening the markets must, say the minister, be part of the 10 applicants' move to adopt the EU's *acquis communautaire* (EU law) in the area of air transport.

Meanwhile, the second structured dialogue meeting of transport ministers discussed rail and combined transport and transport tariffs. The EU members plus the applicant countries exchanged views on a common strategy for establishing a transport tariff system within the context of a future EU enlargement and integration of the candidate countries into the EU's transport system.

## European Parliament wants a greener Europe

The European Parliament wants closer co-operation between East and West on energy and nuclear safety. A report by Gordon Adam (Labour, Britain) adopted by

MEPs says both the EU Phare and Tacis programmes should give a higher priority to these areas. The report calls for urgent measures to be taken on the construction and treatment of nuclear matter in Ukraine, particularly at Chernobyl. The MEPs also want to see concrete measures adopted to help the coal-producing areas of central Europe carry out needed restructuring.

Meanwhile the Council of European People's Party meeting in Vienna last year adopted a resolution on the next EU enlargement. The resolution puts emphasis on the need for longer transition periods in some cases but that this should not lead to a "pick-and-choose Europe" or bring into question the principle of equality between member states.

## Library networking expands

Electronic publishing and library networks (DGXIII/E-4) is a project which comes under the fourth framework programme for research and technological development (formerly known as the libraries programme). It runs around 50 research programmes and a number of concerted actions and studies across the EU.

The fourth programme has now been opened up for participation by the 10 candidate countries. Discussions on co-operation between EU and candidate country libraries, however, began in 1994 and since 1995

there has been an external consultant for the unit to research the state of library development in the 10 candidate countries, to develop a strategy and to suggest ways to encourage and stimulate closer library co-operation across the European continent.

The Commission believes efficiently working, modern, networked libraries are an important tool during the economic transition and will also help to strength democracy as well as develop the information society in the 10 countries. A number of events have been organised to achieve these aims, including a conference on library automation (Budapest, April 1996 jointly organised with the Open Society). Studies, the most recent of which is an econometric survey on library activities in the candidate countries, have also begun.

For more information on the library programmes and networks contact the consultant to the project, Monika Segbert, Infopartners, 4, rue Jos Felten, L-1508

Luxembourg (Tel: (352) 40116 2491; Fax: (352) 40116 2330) or DGXIII/E-4 Electronic Publishing and Libraries, Euroforum, rue Alcide de Gasperi, L-2920 Luxembourg (Tel: (352) 40116 2491; Fax: (352) 40116 2330 or the project's World-Wide Web site at <http://www2.echo.lu/libraries/en/libraries.html>.

## Croatia enters Council of Europe

Croatia became the fortieth member of the Council of Europe on November 6. Membership, first approved in April and then delayed over misgivings about Croatia's human rights record, was granted because of the country's co-operation over the Bosnian peace accord, improvement of human rights and a "satisfactory" record of co-operation with the UN International Criminal Tribunal for Former Yugoslavia.

While the government welcomed the Council of Europe's decision to admit



Sue Cunningham Photographic

Croatia, others in the government took the opportunity to voice their opposition to the European Union's "regional" approach on membership. Croatian Foreign Minister, Mate Granic, said Croatia does not approve of the EU's approach to membership by countries of former Yugoslavia. Mr Granic said that making Croatia's entry into the EU conditional on an association with the countries of south-east Europe was unacceptable. Croatia wants an individual approach which takes "into account the level of development and democratisation of each of the states concerned", Mr Granic told his Italian counterpart, Lamberto Dini. Messrs Granic and Dini were meeting to sign a treaty protecting Croatia's Italian minority and an accord on the promotion and protection of bilateral investments.

## Slovak president wants EU membership

Michal Kovac, Slovakia's president, told EU Commission President Jacques Santer that internal political disagreements should not be the only factor in evaluating Slovakia's bid for EU membership. Mr Kovac says the country's macroeconomic results, including GDP growth of over seven per cent last year, are indicators of the country's ability to join the club. He also believes the West's view of the political situation in Slovakia is broadly correct and objective and that

"the West is criticising the same things I myself have been criticising".

Mr Kovac, in Brussels to meet both EU and Nato officials, reconfirmed that Slovakia wants to join both organisations as soon as possible. On the question of the Hungarian minority in Slovakia, Mr Kovac said "their rights in Slovakia correspond to European standards and are even greater than them. I will not say that there are no problems, but the minorities can use their language in administration." He also touched on the concerns over the safety of Slovakia's nuclear power plants and said that because of the current economic situation it was not possible to close them.

## Priorities for information society

Following the Prague meeting on the information society in September 1996, the EU's Industry Council held its first meeting with industry ministers from the 10 candidate countries under the structured dialogue and devoted discussions to this subject. Ministers discussed an action plan of 27 projects launched in Prague. The Commission is to help the candidate countries draw up their national telecommunications policies prior to EU membership. Ministers also agreed to organise four working groups on specific subjects and headed by one of the associate countries. The third meeting of the Information Forum took place in Brussels in the autumn.

## Romania meets with EU

Romania's work on its preparation for accession was reviewed during the EU-Romania association committee in October 1996. "Preparations for joining the Union had not been affected, despite the fact that 1996 was an electoral year in Romania," Romanian officials told the committee.

The Association Committee reviewed progress in implementing the pre-accession strategy, progress in the process of Romania joining the Central European Free Trade Area (Cefta) and practical implementation of the Europe agreement. The committee noted that there has been a marked increase in trade with the EU since the signing of the agreement. Progress on negotiations on agricultural goods and processed products were discussed as well as import and export restrictions on both sides.

On the topic of visas, the Romanian delegation reiterated the importance it attaches to having its citizens treated the same as others from central European countries. Bulgaria and Romania alone of the 10 candidate countries have visa requirements when entering all EU countries.

- An agreement on setting up a post-privatisation fund was signed. The fund will be financed jointly by the EU's Phare programme (Ecu 15m) and European Bank for Reconstruction and Development (Ecu 25m). The fund will operate for 10 years.

## News in Brief ... News in Brief ... News in Brief ... News in Brief ...

The EU has signed its first convention on extradition. The accord was signed by justice ministers and will simplify procedures and make it easier to extradite those involved in organised crime. The agreement must now be ratified by national parliaments.

Nato is expected to admit its first wave of new members in April 1999 — corresponding to the fiftieth anniversary of the Washington Treaty which brought the alliance into existence. Robert Hunter, US ambassador to Nato, says "There's going to be more than one round, the doors will remain open."

Scandinavian members of the EU are lobbying hard for inclusion in the revised Maastricht Treaty of a "jobs chapter" which would try to tackle unemployment in the Union. The idea comes from the EU summit communique of Essen (December 1994) and would set out common aims and common procedures in labour market policy to help young people without qualifications, invest in training and lower non-wage costs; a multi-annual programme monitored by the Commission and Finance and Social Affairs Ministers; and creation of an employment committee.

The Commission has begun a consultation process on plans to decentralise monitoring of some competition rules, including cartels and price-

fixing cases to national competition authorities. The Commission wants individual member states' competition and judicial authorities to make more use of existing power to handle such cases. The Commission expects to present its ideas as a draft paper early in 1997.

The second forum on the information society in central Europe and the Baltic states ended in Prague with a call for the 10 applicant countries to ensure that an environment favourable and positive for the development of the information society is created, to appoint national co-ordinators to oversee the process and to adopt the regulatory framework for the information society.

External Affairs Commissioner Hans van den Broek has proposed a series of basic principles to cover future contractual relations between the EU, Croatia, Bosnia-Herzegovina, the Former Yugoslav Republic of Macedonia (FYROM), Yugoslavia (Serbia and Montenegro) and Albania. Slovenia, which has signed a Europe agreement, is not included in the Commission proposal. Mr van den Broek wants to see regional co-operation develop and says future agreements with these countries will not necessarily be identical. Overall he wants to see respect for an full application of the Dayton Peace accord.

Poland has been granted a Ecu 180m loan from the European Investment Bank to help with the conversion of a depleted gas deposits in an underground gas storage area in Wierchowice, near Wroclaw in the western part of the country. The loan has been granted to the Polish oil and gas company, PGNIG, and will finance the drilling of oil deposits, the installation of conduits and construction of a gas processing centre as well as two gas connections to the national gas transport network.

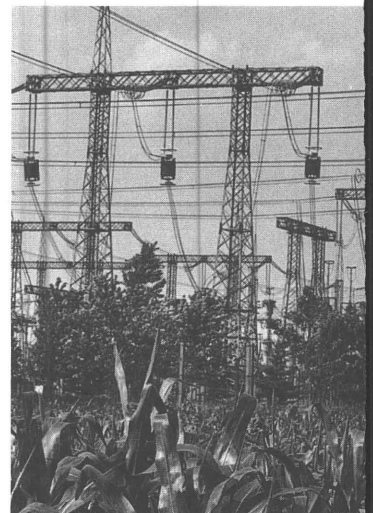
The most recent joint parliament committee meeting between MPs from Estonia and MEPs ended with a call for the rapid accession of Estonia into the EU.

The EU consumer lobby BEUC wants to see the EU legislate against advertising aimed at children, particularly on television. The call came following a pan-European survey on children between the ages of six and 12 and advertising which showed that it was becoming increasingly difficult even for adults to distinguish advertising from information. The study showed that EU regulations had so far failed to keep up with increasingly sophisticated and often more covert marketing techniques, says BEUC.

EU Industry ministers will host an international conference to discuss ways to prevent the misuse of the Internet and

other information networks. The ministers want the EU to find a common understanding on means and conditions governing the use of global information networks. Germany will host the conference to be held some time in 1997. The meeting will also cover subjects ranging from copyright piracy to using the net to incite terrorism, highlight policy questions such as how much responsibility service providers should have to police illegal content. A position paper by Commissioner Martin Bangemann, responsible for information technology and industrial affairs, is being prepared and it will complement a Green Paper on new media services being drafted by Commissioner Marcelino Oreja, responsible for culture and information policies.

Spain is blocking the renewal of the European Investment Bank's loan guarantees to third countries. In 1995 EIB



## News in Brief ... News in Brief ... News in Brief ... News in Brief ...

lent a total of Ecu 2.25bn to third countries of which Ecu 1bn went to the 10 candidate countries and other participants of the EU Phare programme.

Poland's socio-economic committee has approved a draft language law which says labels on commodities and shop signs should be in Polish. It foresees the imposition of fines for infringements of the law. The draft now needs legislative committee approval before going to the cabinet for a final decision on whether or not to send it to parliament. The law will replace a 1945 decree saying that Polish is the state language. Polish language experts are worried about the frequency of English and German words used in Poland, mainly in shop signs.

The cost of living in Bulgaria tripled in 1996 mainly due to rising prices and high inflation, according to a survey by the Confederation

of Independent Trade Unions. At the same time the country's population has decreased by 600,000 over the last seven years due to a declining birth rate. The survey showed a high number of children born out of wedlock and a changed ethnic structure. The survey also reported that children were putting more emphasis on material prosperity, but were also increasingly victimised by violence, prostitution, drugs and other criminal activities.

Hungary and Austria have opened a 117 km natural gas pipeline between Gyor, Hungary and Baumgarten, Austria. This helps decrease Hungary's dependence on Russian energy sources and links it into the west European gas network.

Romania has received a \$175m (Ecu 147m) loan from a consortium of European banks. The loan, granted to the Romanian National Bank, will help the country pay its \$7bn (Ecu 5.8bn) foreign debt while keeping foreign currency reserves at a level to maintain imports. Last year Romania received over \$1.4bn in foreign aid and loans.

Defence ministers from Estonia, Latvia and Lithuania have signed joint declarations on the development of the Baltic Peacekeeping Battalion. They are setting up a joint naval unit and creating a unified system of control over

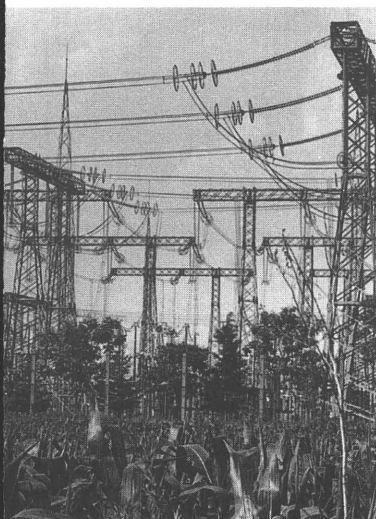
air space. The three are also to form a joint task force to bring military equipment in line with Nato standards.

US Defence Secretary William Perry has assured his Baltic counterparts in a letter that they are "fully eligible" for Nato membership. "I reject — and the US rejects — any idea that the Baltic countries are excluded a priori or that any non-Nato country has a veto over their aspirations — whether de jure or de facto," Mr Perry wrote.

Eureka Audio-visual has launched several initiatives in the 10 candidate countries in co-ordination with the European Commission in the area of regulations and actions to support the audio-visual sector. In future Eureka Audio-visual plans to act as an intermediary between its members and the EU to promote co-operation in this sector at a European level. A convention concluded in December 1995 will bring its assistance to countries in central Europe and the Baltic states. The organisation is promoting exchanges between professionals and training. Under the framework of Digimedia, professionals from Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia as well as Turkey and Russia, took part in a training sessions on digital techniques applied to multimedia development and interactive television.

Lithuania's President Algirdas Brazauskas during an official visit to Brussels in October 1996 told the European Parliament President Klaus Haensch that he did not see "any serious obstacles that would delay the acceptance of Lithuania in the Union". He told the European Parliament committee on foreign affairs and the parliament's delegation to the Baltic states that "Lithuania meets the EU membership criteria established in Copenhagen" and that his country has made significant economic progress.

Italy, Hungary and Slovenia have agreed to co-ordinate regional policy in security, transport and a wide range of other areas. In a joint declaration between the three countries signed by foreign ministers, the three declared that "Europe's future stability and development can only be based on the final completion of the process of European and Atlantic integration", referring to both EU and Nato membership for Hungary and Slovenia. On a more concrete level, Italy is to concentrate on completing a highway linking Trieste in north-east Italy to Budapest through Slovenia.

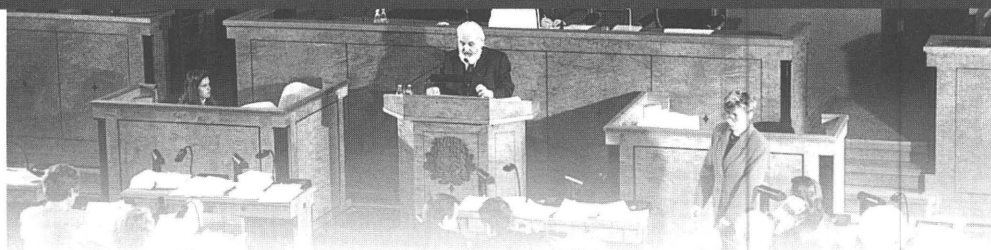


Sue Cunningham Photographic

# EU political parties extend a helping hand eastwards

The emerging democracies in central Europe and the Baltic states are finding their counterparts in the West willing and eager to bolster the democratic processes and help in building new political structures and parties.

Political statements, financial aid and structured meetings are all ways in which — European Union (EU) governments are strengthening ties with the 10 applicant countries from central Europe and the Baltic states and at the same time attempting to strengthen democracy in these emerging economies.



they are now making progress in many countries. Socialists have had the easiest time. Similar parties in Poland, Hungary, Slovenia and Romania are all now members of Socialist International. "We've got a normal organic link with them," says Robert Vandervotte of the secretariat general of the Party of European Socialists (PES), which groups socialist and social democratic parties in EU member states.

The group has 15 observer parties in all 10 applicant states. The party statute emphasises that it has a role in outreach work, bringing candidate country parties into the larger European grouping. At the party's twice-yearly congresses, contacts are made. "We test ideas in party conferences and that has helped a lot to cement links between local parties," says Mr Vandervotte.

Contacts are not only made at party congresses, but cemented in between meetings at working groups. "They have become a normal part of the PES," adds Mr Vandervotte.

For many eastern socialists, Germany's SPD has become a role model. "When they wrote the SPD party programme, they had to start from zero," says Mr Vandervotte. "They have become a real example."

West European socialists are now working with many members of former communist parties. One new ally is Hungary's Prime Minister Gyula Horn. Foreign minister under Hungary's last communist government, he has led the transformation of the Hungarian Socialist Party and made it a member of Socialist International.

**Mainstream political parties in the EU are regularly meeting their counterparts from central Europe and the Baltic states and helping to pass on the customs and habits of western party politics. In building these links, political parties are meeting different challenges.**

In Poland western socialists work with two parties, the Labour Union, the progressive, left wing of the trade union movement Solidarnosc, and the Social Democratic Party, formerly the communist party, which Polish President Alexander Kwasniewski led to power in the last elections. Some countries, however, have remained relatively isolated



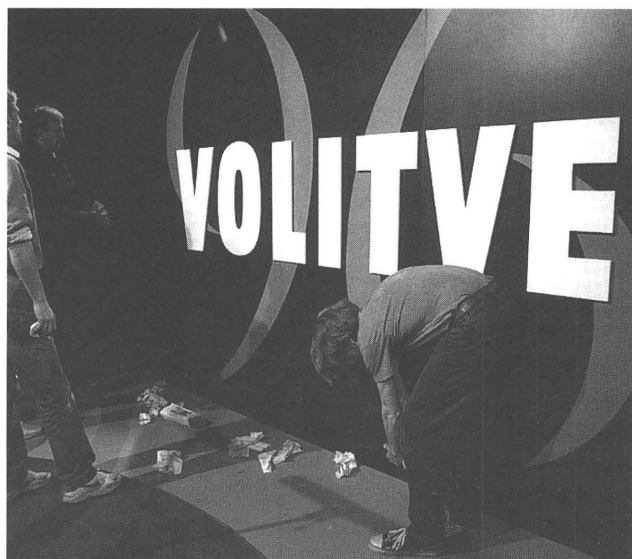
Sue Cunningham Photographic

*Greens have had to search hard for people capable of forming potential environmental parties in the new democracies, but they are now making progress in many countries.*

In a far less visible, but constant and effective way, west European political parties are also helping the applicants integrate into Europe's political structures. Mainstream political parties in the EU are regularly meeting their counterparts from central Europe and the Baltic states and helping to pass on the customs and habits of western party politics. In building these links political parties are meeting different challenges.

Socialists in western Europe have been learning how to deal with eastern socialism and how to bring former communists into the socialist fold. For Christian Democrats, accustomed to a virtual desert on the right in the former communist bloc, the question is how to transform the new young parties of the right into Christian Democrats. The group has formalised its ties with sister parties in the 10 applicant countries through the trans-European group, European People's party (EPP) and the European Union of Christian Democrats (EUCD).

Greens have had to search hard for people capable of forming potential environmental parties in the new democracies, but



Sue Cunningham Photographic

from the west European mainstream. For example, the Bulgarian Socialist Party (BSP), formerly the communist party, has not linked with any western socialists.

While links between local parties are expanding, the contacts are mainly on an individual basis between politicians and party workers and have not yet reached the real grass roots, according to Mr Vandervotte. He says socialist militants often have the same problem of reaching the general public in western Europe. In the 10 applicant countries, however, the problem of recruiting people to new political parties is greater. The public is wary of any party which smacks of the communist days and any well-organised structure is often suspect for that reason alone.

Liberals in the EU tell another story. They are joined together in the European Liberal, Democratic and Reform (ELDR) group. Although they have similar ties with their counterparts in the applicant states, they have only affiliate members from among the liberal parties in central Europe and the Baltic states. These new parties can participate in debates, but they do not have the right to vote at party congresses. After two years of affiliate membership, a party can apply for full membership.

Central European and Baltic state liberals attend ELDR's yearly congress where top decisions are made as well as three or four council meetings of party representatives each year. Other gatherings include a yearly conference. Among the 10 candidate countries there are liberal parties in the Czech Republic, Estonia, Hungary, Romania, Slovakia and Slovenia. When a liberal party from one of the applicant states needs help in launching a political campaign, organising local party militants or fund raising, ELDR can help, putting it in touch with a liberal party in an EU country that can send a party organiser to help with the local campaign. Most prominent in helping colleagues in central Europe and the Baltic states are party workers from Germany, Britain, Denmark and the Netherlands.

While links between local parties are expanding, the contacts are mainly on an individual basis between politicians and party workers and have not yet reached the real grass roots.

In Germany the federal government supports a series of foundations, all linked to political parties, but financed from the federal budget. One of these foundations is linked to the German liberal party. "You can find a representative of the German liberal foundation in most central European and Baltic countries," says Christian Ehlers of the ELDR secretariat general.

West European liberals recently travelled to Romania to support their counterparts during the country's November 1996 parliamentary elections. In 1995 they worked to get Romania's three liberal parties to join hands before the elections in order to win parliamentary seats. That happened also in May, with the formation of the Liberal Alliance. Western liberals are trying to convince the parties in Bulgaria to join together in order to be a more powerful and effective political force.

In countries where there is no established liberal party, such as Poland, ELDR sends members to search for potential partners. Environmental parties are less open about their "hunting" activities in central Europe and the Baltic states. Although the Green parties follow the traditions of west European political movements, springing up as a popular movement, they are less developed in party organisation, being relatively new and having limited experience of working within elected governments.

"We should not go in [to these countries] and try to organise things," says Ralf Moeno of the European Federation of Green Parties. "Greens in the West have developed from their own initiatives and it should be the same in the East."

But western Greens do support the emerging environmental parties in the applicant states. The federation conducts a regular dialogue with these parties. Dutch and Swedish members are the most active.

In many applicant countries, environmental parties are struggling to gain political credibility and influence. After 1989 Green parties, often associated with the dissident movements under the communist regime, gained prominence in some central European and Baltic states. West European Green parties have helped them draft proposals for environmental legislation.

Prior to independence Swedish Greens helped Lithuania keep a link to the outside world. Sweden's Green Forum is now channelling funds to the Baltic states and in Estonia helped form the environmental party. Dutch and German Greens also have a special foundation which helps to develop links with similar movements in the applicant states. ■

*Bartholomew Dandridge, Brussels*



## EUROPE'S POLITICAL PARTIES BEGIN TO CROSS THE EAST-WEST DIVIDE

The European Parliament is also playing its part in fostering democracy in the applicant states and in helping support new political parties emerging in the 10 countries. The political groups inside the European Parliament first established informal contacts with the 10 candidate countries in the 1970s. Although the EU and the former Comecon (the Soviet-inspired and led answer to the European Community) had no official links, MEPs drafted reports and passed resolutions on the political, economic and human rights issues in what are now the 10 candidate countries.

The European Parliament formalised its contacts with the what are now the 10 applicant countries in 1982, forming a delegation for continuing relations. More delegations were formed in 1987 and when in 1988 the EU and Comecon formally recognised each other, relations became official.

There are now six inter-parliamentary delegations which oversee the European Parliament's relations with south-east Europe (a loose geographical term which includes the former Yugoslav states, Romania, Bulgaria and Turkey), the Transcaucasus, Ukraine-Belarus-Moldova, the three Baltic states, Russia and Central Asia-Mongolia and Slovenia. In addition there are joint

parliamentary committees (known as JPCs) which handle relations with Hungary, Poland, the Czech Republic, Slovakia, Bulgaria and Romania. Joint parliamentary committees will be created with Estonia, Latvia, Lithuania and Slovenia when the Europe agreements have been ratified.

Inter-parliamentary delegations, composed of 10-20 MEPs elected by their peers, hold meetings regularly and work together before these meetings to set an agenda and discuss issues, such as political and economic transition, environmental and social concerns, minority issues and regional co-operation. At the meetings both sides can evaluate progress on the EU Phare programme.

The joint parliamentary committees monitor the progress and functioning of the Europe agreements. The committees, each of which meet twice a year, are provided for in the Europe agreements and are complemented by parliamentary standing committees on transport, industry, trade, fiscal policy, foreign policy and other sectors where the 10 applicant countries will have to bring their policies into line with the EU.

In the first half of 1996, joint parliamentary committees held meetings with Poland, Bulgaria, the Czech Republic, Hungary,

Romania and Slovakia. The result of this activity was a formal declaration by the European Council meeting in Florence that "the parliamentary committees are an integral part of the institutional framework for association and those meetings enabled members of the European Parliament and the parliaments of the associated countries to exchange views on the most important aspects of bilateral relations and to improve mutual acquaintance and understanding". In addition three meetings have been held between the presidents of the applicant country parliaments and the president of the European Parliament.

Increasingly frequent contact with their European Parliament counterparts on an expanding range of subjects has given parliamentarians and politicians in the applicant states an essential political tool - knowledge of their government's policies.

"The committees take the monopoly of information out of the hands of the government," explains Geoffrey Harris in the European Parliament's secretariat. Because JPCs are part of the enlargement process, they receive information from the European Commission and Council of Ministers as well as from governments of the associated countries. Through their participation in

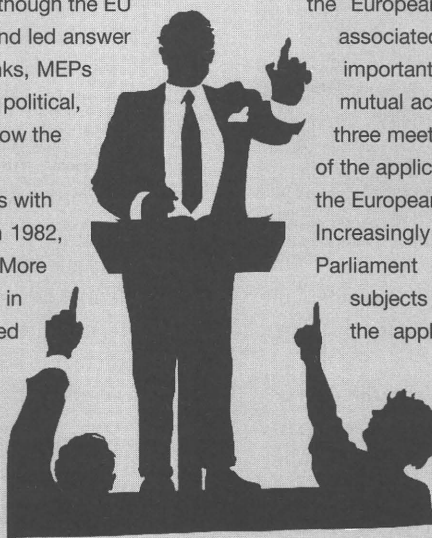
JPCs, the parliamentarians from the candidate countries are able to receive information from their governments. Parliamentarians in opposition parties are equally privy to the information.

Armed with knowledge the JPCs can make recommendations to the authorities of both the applicant countries and EU governments. A JPC resolution can be circulated in the 10 candidate countries' parliaments.

Another plus for the committee is its media coverage. JPC meetings held in an association country usually attracts wide press coverage as well as the interest of the government's top ministers.

JPC members have another way to exert pressure on governments outside their own national parliaments. The JPCs, Mr Harris says, "provide a useful forum for mutual education and an attempt at the joint exercise of parliamentary control over the work of governments".

MEPs can, he says, "play a very important role in encouraging parliamentarians in newly established democracies not always to assume that their executives are in the right and Brussels is always wrong. MEPs can encourage their opposite numbers to do just what they do: question the commission, insist on full information, check on waste."



*The European Parliament is playing its part in fostering democracy in the applicant states and in helping support new political parties emerging in the 10 countries.*

**The joint parliamentary committees monitor the progress and functioning of the Europe agreements. The committees are provided for in the Europe agreements and are complemented by parliamentary standing committees on transport, industry, trade, fiscal policy, foreign policy and other sectors where the 10 applicant countries will have to bring their policies into line with the EU.**



EU members of committees and inter-parliamentary delegations run the same risk as western political parties do when they get involved in issues in the candidate countries — both could be accused of meddling in national politics.

"MEPs have not hesitated to raise issues which annoy their partners, such as barriers to investment in Poland or violations of the normal practices of a democratic civil society in Slovakia and minority rights in Romania," says Mr Harris.

When they do, MEPs generally defend themselves, taking the moral high ground as a member of a more advanced democracy. They also feel free to use the argument that if they are worried about an issue in the candidate country, the EU will also be discussing that issue when membership negotiations begin.

Often, rather than turn its back on the criticism, the candidate country takes on the issue. For example, in November 1995 when a JPC convened in Slovakia only a few days after the European Parliament voted a resolution criticising undemocratic practices in

that country, the Slovak Prime Minister Vladimir Meciar attended a televised session with the JPC, answering their questions.

In some situations the close contact between the European Parliament and applicant countries can mean an issue is dealt with even before MEPs can take their criticism to the country's leaders. In September 1996 MEPs tabled an urgency resolution on homosexual rights in Romania. To convince MEPs not to debate the issue, Romanian officials said they would discuss gay rights at the next JPC.

"The committees are breaking down traditional diplomacy," Mr Harris remarks. "They are getting used to arguing things out in the open", adding that statements are often more blunt from MEPs. Committee members are getting to know each other and that familiarity is reaping rewards. ■

*Bartholomew Dandridge, Brussels*

## Emerging democracies display similar trends

**W**hat distinguishes political parties in central Europe and the Baltic states from their counterparts in western Europe? The simple answer is the decades since the end of World War II. During that time the 10 candidate countries from the region had a communist party structure imposed on them and there was little or no opportunity for opposition parties to develop. Instead there were attempts by dissident groups to move towards more democracy. After 1989 these groups to a greater or larger extent began to form into political parties or groupings.

One common feature was that some of these countries had the remnants of a disgraced communist party which either reformed itself, and in the process chose a new name, aligned itself more to the social democratic movement, but did retain

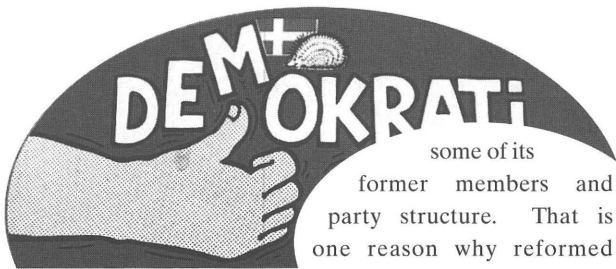
economic transition. These reformed communist parties were also usually staffed with people who had more experience of wielding power and who, in some cases, were seen to be more efficient and effective within government than the newly formed democratic parties.

In all these emerging democracies there has been a proliferation of parties and over the next few years consolidation and mergers are expected to dominate the political scene in many countries. While a stable political environment has not been the norm throughout the region, political stability is beginning to become a feature of some country's political scene.

Three countries which display collectively all these trends and characteristics are Poland, the Czech Republic and Slovakia. Poland's large and active dissident movement during the last two decades laid the foundation stones for democracy, but have also led to political instability.

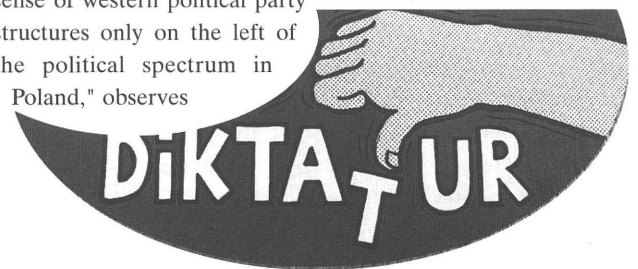
"My impression is that we have a modern party structure in the sense of western political party structures only on the left of the political spectrum in Poland," observes

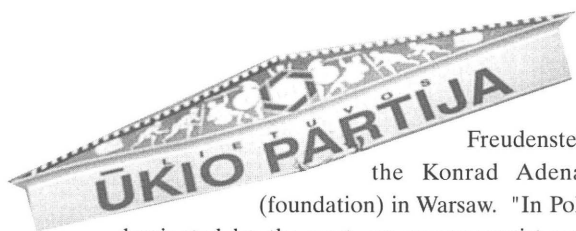
*Sue Cunningham Photographic*



some of its former members and party structure. That is one reason why reformed communist parties have been

able to make an electoral come-back. Voters, disillusioned with new parties which in many cases promised too much too quickly, turned back to the left-ward leaning parties which in their turn promised more help for those suffering from the





Roland Freudenstein, director of the Konrad Adenauer Stiftung (foundation) in Warsaw. "In Poland the left is dominated by the post- or ex-communist party which has retained some of the former party's financial resources and structure, as well as personnel. It has partly succeeded in continuing to function as a party and has taken a modern approach to elections. "It has a professional approach to the elections," observes Mr Freudenstein.

But the centre-right parties neither had an old structure to support them nor were they able to build up a party structures comparable to those in western Europe. Mr Freudenstein believes more professionalism is needed. "This is the situation in Poland because of the specific politics of the last two decades where the people of the centre-right parties were mostly opposition intellectuals or from the workers opposition of the 1980s. They never really took into account the fact

that they would see power in their lifetime — not an unnatural approach — and they have an over-moralised approach to politics. They do not want power for its own sake but set an agenda and if that is realised, they step down. No one says, 'look, I'm so good I should be ruling the country'. This would be a healthy approach.

Power remains immoral to these people and they are not prepared for the type of politics which characterise a modern Poland now," explains Mr Freudenstein. The Konrad Adenauer Stiftung is an independent group and, like other similar organisations, is paid for by the federal government. It is affiliated to one political party. "In our case, it is the Christian Democratic Union," says Mr Freudenstein, adding, "We are not formally dependent on the party and you don't have to be a member of it. However, I am a member of the CDU and have been active in local and youth organisations. In Poland we work most closely with the Freedom Union which is made up of these intellectual types. Internally it has a wide spectrum of people ranging from Christian Democrats to market liberals to those with tendencies close to the Social Democrat movement. The party is made up of the political figures who dominated the Polish political scene four years after 1989. They lost power in 1993 and since then the party's popularity has been shrinking. We try to work with them, to put in know-how about election campaigning. We explain how to make a strategy, but we do not give any financial support. The formal link between the German CDU party and the Polish party is through membership in the trans-European organisation, EDU which has a wide range of members from countries both in and outside the European Union."

Mr Freudenstein does not expect Poland's political scene to resemble that in western Europe for at least a decade. "For a very long time — probably another 10 years at least — I do not see a party structure as in western Europe appearing in Poland.

In western Europe we have a definite decline in party politics with parties turning more into think tanks which come up with strategies which are professionally sold to voters. The days when political parties reflected the mood of society may be ending. Poland's political scene may also eventually change to this. Maybe over the next 10 years we will meet mid-way," concludes Mr Freudenstein.

In contrast to the political upheavals in Poland, the Czech Republic has been a model of political stability and looks set to continue that path well into the next century.

"The situation in the Czech Republic is completely opposite [to that in Poland]. Here there is political stability and party structures which are almost identical to those found in western Europe, despite the problems and repression of the communist era," says Reinhard Stuth, director of the Konrad Adenauer Stiftung in Prague. "After the last parliamentary election, I can say the Czech Republic is the only central European country to

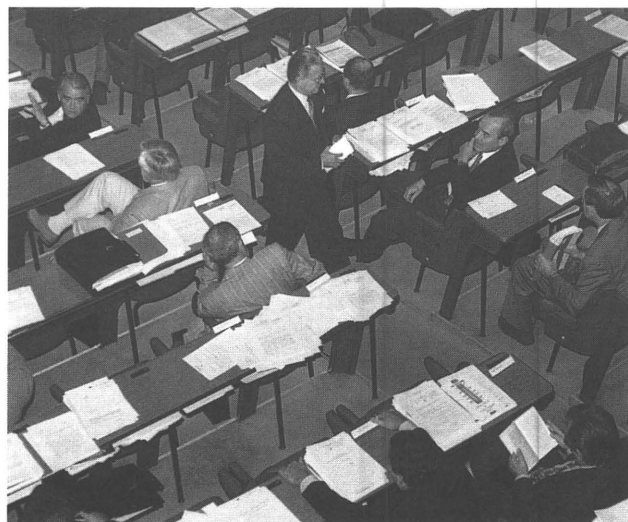
have an entirely west European party structure.

There is a stabilised number of parties — six now in parliament and all of these parties were in the last parliament although several from the last parliament did not make the five per cent minimum threshold. This is a clear signal of the stability."

In the Czech Republic there is one major centre-right party, the ODS, led by Prime Minister Vaclav Klaus. "This party is to the right, but not too much to the right," explains Mr Stuth, adding, "On the other hand the centre-left party, led by the president of parliament, is to the left, but not too left. They are really Social Democrats, having around 26 per cent of the votes. There are two smaller parties in the middle, more like Christian Democrats."

One of these smaller parties is the KDU/CSL, with strong support in Moravia and among Catholic voters. It has a

The Czechs are extremely realistic and pragmatic. At the 1992 elections the ODS did not promise too much. It said it would work towards a market economy and that there would be some improvements, but not quick changes. So the voters were not disappointed.



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In all these emerging democracies there has been a proliferation of parties and over the next few years consolidation and mergers are expected to dominate the political scene in many countries.

relatively stable voter base, but Mr Stuth expects this to increase in future. The ODA, led by former dissidents, is most closely associated with the Czech president, Vaclav Havel, although he does not belong to any one party. "I expect the

**Voters, disillusioned with new parties which in many cases promised too much too quickly, turned back to the left leaning parties which in their turn promised more help for those suffering from the economic transition.**

ODA to merge eventually with some people going to the ODS and others to the KDU/CSL," forecasts Mr Stuth.

There are also two extreme parties, one on the right, the Republicans, and one on the left, Communists, made up of former party members who have no regrets about the past.

"We had no splitting of any party in parliament over the last couple of years, unlike the rest of central Europe. We had mergers - very similar Christian Democratic movements merged with the ODS or the KDU/CSL," says Mr Stuth.

"All the Czech parties are working to achieve a full party structure. There is a more lively internal party life here. This is shown particularly by the ODS. At its party congress in December 1996 the debates focused substantially on strategy," observes Mr Stuth. The main political parties in the Czech Republic also have a well-developed local branch network throughout the country.

But why was the Czech Republic able to achieve stable party structures so quickly? "There are no true answers, only guesses," says Mr Stuth. "The first thing is that the Czechs are extremely realistic and pragmatic. At the 1992 elections the ODS did not promise too much. It said it would work towards a market economy and that there would be some improvements, but not quick changes. So the voters were not disappointed."

Another important element, believes Mr Stuth, is the Czech population's tendency to look westwards. "They are more west European than the Austrians, not in party structures, but in mind-set. No one in the Czech Republic is interested in what happens in Slovakia or Poland. They are interested in what is happening in Germany, Britain and the US."

A good example of this, says Mr Stuth, was the Czech reaction to the German CDU 1995 party programme, a long-term strategy document which has been translated into Czech. "We receive requests to arrange conferences and seminars about this programme, and these talks are on such subjects of subsidiarity, the basic principles of the economy and social welfare versus market economics. This would not happen so fast in the other countries," concludes Mr Stuth.

But across the border, the situation is very different. Slovakia has an uncertain political life but has been able to maintain a strong economic performance during the transition to a market economy.

"At the other end of the rainbow is the Slovak Republic. It could not be farther away from the party political structures of

the Czech Republic," says Mr Stuth who is also director of the Bratislava office of Konrad Adenauer Stiftung.

Why the difference? Mr Stuth believes part of the answer lies in history. "These two countries have only rarely and recently been put together as one country in an historical dimension. It is normal for them to be separate. Only for a few decades after World War I and II were they together." Another reason could be the early and extensive industrial development of the Czech Republic. "It was one of the first countries in the world to be industrialised. It had the first industrial fair in Prague in 1791. Germany has a strong influence on its development. At the end of World War II there were around 3.5m Germans in the country, almost all of them in Bohemia and Moravia, before they were expelled. The Czech Republic has a different population structure, made up of Czechs, Germans and Jews. But Slovakia has only a Hungarian minority," says Mr Stuth. Slovakia was never "independent" until now, points out Mr Stuth, and it is more of a rural society. "The party structures in Slovakia are still evolving and are in a premature stage of consolidation. HZDS, the movement led by Prime Minister Vladimir Meciar, is not a political party and I doubt it will be able to exist once Mr Meciar is no longer in power. It is more a vehicle for Mr Meciar," explains Mr Stuth.

All the other Slovak parties have 13 per cent or less of the votes. The most established of these is the Christian Democratic party with 12-14 per cent of votes. It has a comprehensive programme and a network of local offices. The post-communist SDL has around 10 per cent of the votes and might survive, says Mr Stuth, but he expects it to move more in the direction of a social democratic party. Mr Stuth, one of the many observers of the Slovak political scene, believes, "The other parties may disappear with the exception of the party for the Hungarian minority. But these developments will be in the future. At present the political scene is similar to that in other central European countries." ■



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# Lower export growth temporarily slows down economic growth

The Directorate-General for Economy (DGII) is now producing six-monthly forecasts of economic progress in the 10 applicant countries. The figures produced by DGII give an indication of the progress made by each individual country and the 10 applicants in general towards establishing a fully functional market economy.

After four years of steady improvement, average economic growth in the 10 associated central European countries was somewhat lower in 1996 than in the previous year.

While domestic demand and imports remain strong, the economic slowdown in western Europe is reducing exports, which has a negative effect on the current account position. Additionally, in several countries growth is affected by serious disruptions in the stabilisation process.

Nevertheless, at an average of four per cent, GDP growth remains satisfactory and it is foreseen that in 1997 and 1998 economic developments will accelerate somewhat again, as a result of the expected economic recovery in the European Union (EU).

The gradual dis-inflation process is continuing in most countries, with the notable exception of Bulgaria, and to a lesser extent Romania.

Despite sustained high real wage growth, it can be expected that inflationary pressures will ease further in the coming years, thanks to productivity improvements.

The slowdown of economic growth in 1996 will probably be more pronounced than foreseen in the Commission's spring forecast. It is now expected that average growth in 1996 will remain limited to four per cent, which is still considerably higher than in the EU member states. Because it decreases the demand for exports, the sluggish economic growth in western Europe, and more specifically in Germany, the main trading partner for most of the 10 applicant states, is one of the determining factors for the lower growth in central Europe.

Only the Czech Republic has been able to expand its exports to other regions sufficiently to offset the slower exports to the EU. Meanwhile, investment is soaring and private consumption remains buoyant, supported by

considerable real wage increases. Consequently, imports of consumption and investment goods continue to increase at a fast pace, and the trade deficit is expected to rise.

Besides external factors, average growth in central Europe is also influenced by the specific situation in a number of countries. Hungary is still implementing restrictive policies to overcome its 1995 budget and current account deficits. Lithuania suffered from the consequences of a banking crisis.

Bulgaria is experiencing serious balance of payments problems, combined with an exchange rate crisis which pushed up inflation and the budget deficit.

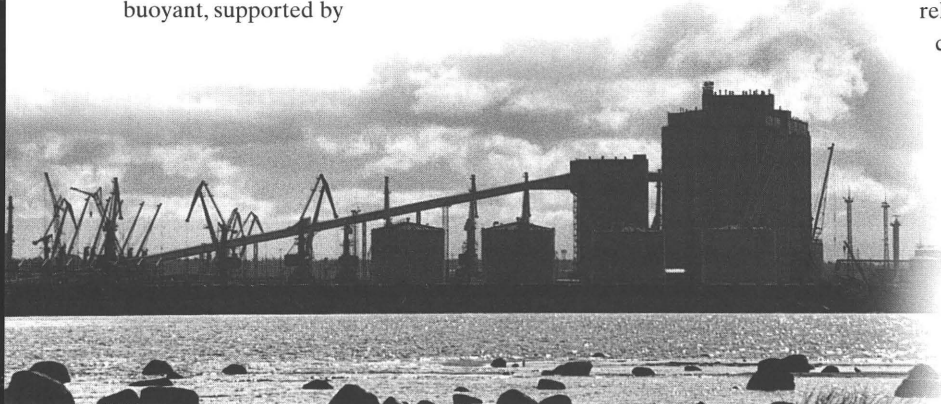
Although domestic demand should remain the main contributor to growth in 1997 and 1998, the high growth rates that have been observed in recent years will probably not be repeated to the same extent.

On the other hand exports will be able to recapture some of their lost growth dynamics, as a result of the expected acceleration of economic developments in the EU. The high capital formation in previous years should also start to have positive effects on productivity, and consequently improve competitiveness.

As a result average GDP growth is forecast to speed up somewhat to 4.5 per cent in 1997 and 4.75 per cent in 1998. It is expected that all countries will record positive growth in 1998, mainly because of the relatively optimistic forecast for Bulgaria, which rests on the assumption that the government's stabilisation programme will be largely successful.

In all countries with the exception of Bulgaria and Romania, average annual inflation was brought down below 25 per cent in 1996. In Hungary the restrictive policies that were introduced in 1995 also managed to curb rising inflation again. It is expected that all these countries will be able to reduce inflation below 15 per cent in 1998, as a result of continued prudent macroeconomic policies and smaller inflationary effects of relative price changes, because this process is almost completed.

The expected continued rapid growth of real wages should not jeopardise the reduction of inflation, because it would be largely offset by further productivity increases. If stabilisation policies in Bulgaria are successful, inflation could fall from this year's expected 110 per cent to 100 per cent in 1997. Because of statistical carry-over effects, this apparently small decline is in fact hiding a sharp reduction to an end of year annual inflation rate in 1997 of 30 per cent. In Romania the higher than expected inflation in 1996 is mainly the result of



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monetary policy slippages.

In most countries unemployment rates are now declining gradually from the high levels that were reached in the early years of transition. This positive evolution is the result of a continued decline in (mainly female) labour market participation, combined with a stabilisation of small positive growth of employment. If economic growth develops as expected, a continuation of the downward tendency of unemployment can be expected.

Again, Bulgaria might be the negative exception, because of the sharp contraction it is experiencing now. On the other hand labour market conditions in the Czech Republic continue to be a

### Gross domestic product (GDP)

(real percentage change)

	1994	1995	1996	1997	1998
Bulgaria	1.4	2.6	-7.6	-3.1	1.1
Czech Republic	2.6	4.8	5.0	5.3	5.5
Estonia	-2.7	2.9	4.1	4.5	5.2
Hungary	2.9	1.7	1.2	2.7	3.5
Latvia	1.9	-1.6	2.0	2.2	2.9
Lithuania	1.0	2.4	1.1	5.1	2.8
Poland	5.2	7.0	5.9	5.9	5.4
Romania	3.9	6.9	4.5	4.5	3.4
Slovakia	4.9	7.4	5.0	5.0	4.5
Slovenia	4.9	3.5	3.5	3.5	4.5
<b>Total of 10</b>	<b>4.0</b>	<b>5.2</b>	<b>4.0</b>	<b>4.0</b>	<b>4.7</b>

### Inflation

(private consumption deflator)

	1994	1995	1996	1997	1998
Bulgaria	81.9	53.8	110.0	100.0	25.0
Czech Republic	10.7	9.1	8.8	7.8	6.8
Estonia*	40.2	34.0	24.0	17.0	15.0
Hungary	19.6	26.4	24.0	20.0	15.0
Latvia	28.1	26.0	17.0	13.0	10.0
Lithuania*	51.3	27.8	19.0	14.0	12.0
Poland	32.2	27.8	20.0	17.0	12.0
Romania	129.7	33.3	35.0	30.0	25.2
Slovakia	13.6	9.7	5.8	6.0	5.5
Slovenia	20.3	13.6	10.0	7.4	8.8
<b>Total of 10</b>	<b>42.8</b>	<b>24.8</b>	<b>22.1</b>	<b>17.4</b>	<b>11.8</b>

\*GDP deflator.

### Trade balance of 10 applicant countries

(%)

1993	-4.3
1994	-2.9
1995	-4.1
1996	-5.3
1997	-5.5
1998	-6.0

Source: European Commission, Autumn 1996 Forecast.

January-February 1997/1

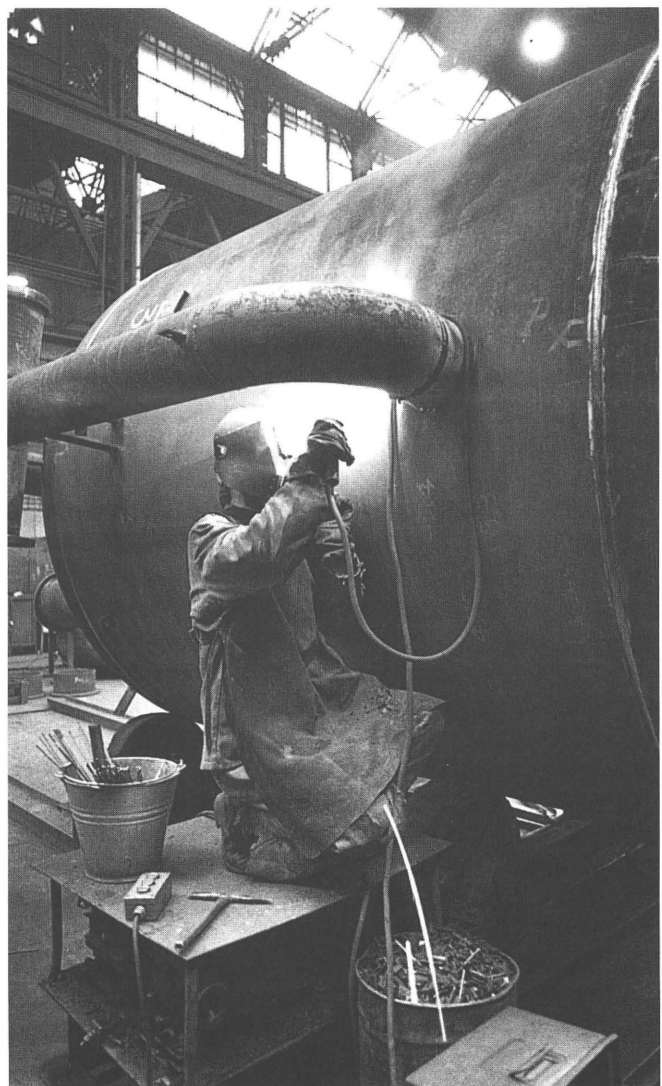
positive exception, with a situation that should be close to full employment.

Increased domestic demand in 1995, and more specifically the demand for investment goods, pushed up imports and widened the trade deficit.

The slowdown of export growth in 1996 had a further negative effect on the external balance in most countries. It is expected that in the coming years export demand will rise as a result of higher economic growth in the EU and the former Soviet Union. Additionally, the increased investment in the previous years will improve competitively and push up export opportunities.

Nevertheless, the trade balance will probably deteriorate further, because continued strong final demand will generate sustained import growth. ■

Note: The next forecast by the Commission will be published in May 1997. A more detailed text of the autumn forecast will be published in Supplement C of European Economy issue number three.



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## TO THE EDITOR

Eastern Europe's nationality structure is rather varied, since its historical evolution was different from that of western Europe. The existence of numerous national minorities in the states of central Europe is one of the consequences of this evolution.

I myself have been personally a member of the Slovak parliament since 1990 and for four years the leader of one of the two parliamentary groups of the Hungarian coalition.

Hungarians living in Slovakia strongly supported revolutionary change in 1989. They permanently support the democratisation of society as well as economic changes and the Euro-Atlantic integration of Slovakia. They are, however, disappointed in view of the recent evolution that has taken place in Slovakia in political, social and nationalist terms.

In several parts or countries of central Europe a dangerous amount of importance is given to nationality questions. One of these countries is, unfortunately, Slovakia. This can be seen mainly in the activities carried out by the current governing coalition: last year, an undemocratic linguistic law was adopted pursuant to which language inspectors will soon be travelling across Slovakia having the authority to fine anybody for language offences. It would seem that the governing coalition does not have the political will to adopt the long-awaited law which was promised on the use of minority languages. Those who are more favourable to the adoption of such law would like to limit its effects simply to use of minority languages in administrative matters — while the already existing law on the national official language contains restrictive sections for every area of human life.

Schools for minorities work under permanent pressure of the ministry of education. The government keeps trying to transform these schools: first into bilingual schools and then to purely Slovak schools, which is considered by the 600,000 members of the Hungarian community as a threat of assimilation — 27 per cent of pupils of Hungarian nationality already attend a school where the courses are given in Slovak. In addition, in schools where the courses are given in Hungarian, the Slovak language courses are compulsory right from the first year of studies, which means that around 94 per cent of all the Hungarian-speaking citizens of Slovakia do know the Slovak language.

*The problem is not mastering the Slovak language, but maintaining and complementing the school system for the Hungarian community.*

*In addition government support for minority cultures has been seriously reduced since 1995, although such support is guaranteed by law. In 1995 support of Hungarian culture represented only 14 per cent of the amount given in 1994. Many members of minority communities — not just Hungarians — believe the situation in the cultural area was better even during the toughest communist oppression.*

*I am fully aware of the fact that the integration process for central Europe is complicated. I do not say this question is the only problem which remains to be solved. But I do believe that with a little bit of political will it could be easily solved. I am sure that an increased attention and assistance by European institutions would help a great deal in this matter.*

*I believe that in order to improve governments' approach to this matter it would be useful to create a special programme similar to Phare or Tempus.*

*Children should be brought up in such a way that they would understand that a Hungarian is not an enemy for a Slovak, but his partner and brother.*

*Schools with Slovak teaching language located in multilingual areas could also teach at least notional Hungarian language, literature and history. The reverse of this has been the practice in schools with Hungarian teaching for several years.*

*I am sure more initiatives could be mentioned, but the important thing is to start.*

*In conclusion, it should be stressed how important it would be if the EU's constant attention in this area was felt by the governments of central European countries. Adoption of minority laws in these countries, based on legal standards of the Council of Europe and on positive west European examples, should also be part of the solution of minority problems.*

Pal Csaky  
Chairman, Hungarian Christian  
Democratic Movement  
Bratislava, Slovakia

## TO THE EDITOR

*I would like to comment on an article published in the September 1996 issue of European Dialogue. I would like to stress that Slovak society may nowadays be divided into two, more or less equally strong, camps. The first one wants unequivocally to become a member of the EU and is ready to meet the obligations resulting therefrom. This camp is represented mainly by the government opposition and its supporters.*

*The other one claims it is ready to become a member, but is not willing to comply with such requirements. Unfortunately, these forces form the governing coalition.*

*This is the reason why Slovakia in its current form is not willing to meet all the requirements necessary for membership of the EU. Decisions taken by the governing coalition are often ambiguous and unclear. There is a big difference between the declarations and the actual deeds. One thing is sure: Slovakia's failure to become a member at the same time as the Czech Republic, Poland and Hungary will have serious economic and moral consequences.*

*It is a tragedy to see how the governing coalition plays games with such a serious thing like EU membership. Instead of creating favourable conditions for Slovakia's membership in the EU, it encourages nationalist clashes with the Hungarian minority, not to mention the declarations about Roma citizens by the chairman of the Slovak National Party and the fact that the bimonthly Zmena, to which members of the government coalition contribute, was granted a prestigious award.*

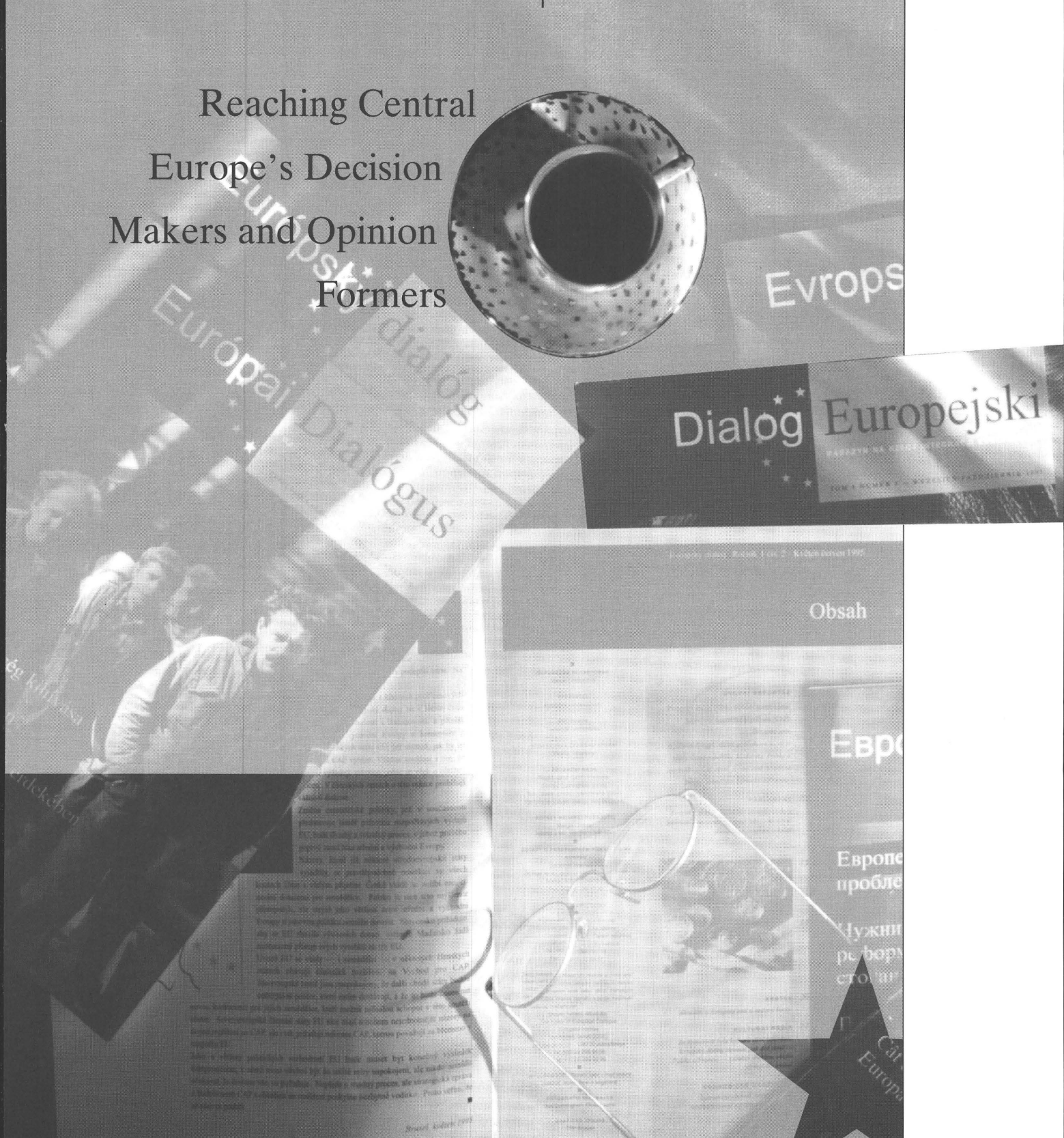
*The message the government is sending to the EU may be summarised as follows: "Do not interfere in our internal problems. We will settle them by ourselves and leave us alone." Although it is obvious that integration into the EU means our internal problems become also their problem, as long as the government coalition's attitude towards the EU remains unchanged, Slovakia's knocking on the EU door will remain unanswered.*

Julius Kovács  
Chairman, Man and Future  
Vel'ky Krtis, Slovakia

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