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THE MAGAZINE FOR EUROPEAN INTEGRATION

SEPTEMBER-OCTOBER 1997/5

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Moving together in step is not easy

With 15 member states the EU quickly found that not everyone was always happy to do everything together. The differences in needs as well as approaches to the idea of European union has led to the introduction of a new concept in EU thinking — flexibility.

Flexibility became a key word in the negotiations on a revision of the Maastricht Treaty, just as subsidiarity was central to the

Maastricht negotiations themselves. Talk of subsidiarity then made it possible to avoid the controversial implications of federalism and references to flexibility now make it possible to steer clear of unwelcome notions of a two-speed European Union (EU).

The term flexibility in fact covers two situations. In the context of the Inter-Governmental Conference (IGC) revising the Maastricht Treaty, it refers to a situation where a group of countries are anxious and ready to press on with a particular aspect of integration and their partners are unable to make the same move.

But flexibility is also an appropriate name for a general approach that has pervaded the integration process — readiness to accommodate the difficulties of one or more member state by derogations or different time scales for phasing out exceptions.

The most far-reaching case of flexibility was the accession of a new country which benefits from a transitional period during which it gains from derogations which the EU seeks to limit as much as possible in both extent and duration.

Separate from the successive enlargement negotiations, there is a continuous process of legislation, building up the mass of jointly accepted measures known as the *acquis communautaire*. In the early years of integration, there was reticence about admitting derogations, which were seen as a threat to the cohesion of the EU. But as the Community became more established, it could afford more flexibility.

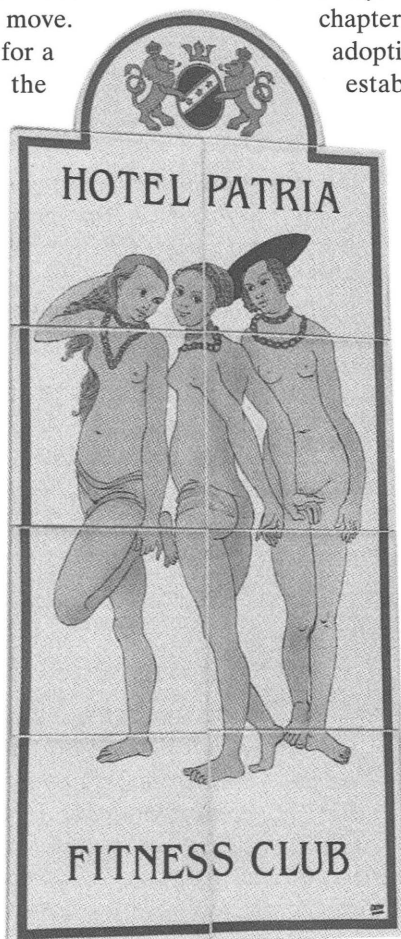
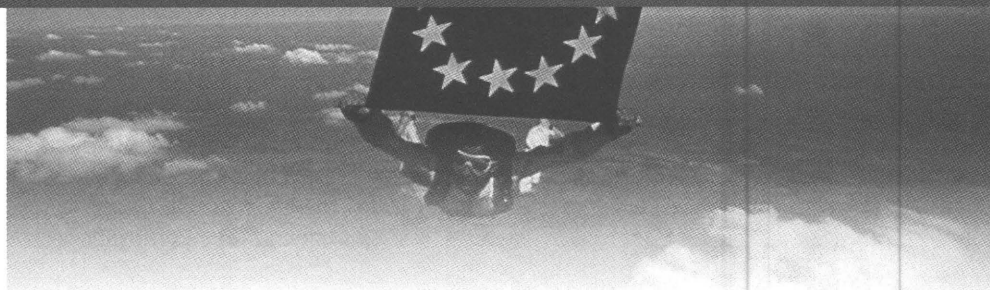
In the 1980s it was admitted that harmonisation of norms — for instance for professional qualifications — did not

require agreement on a single complex set of rules. Instead, member states would assume that their partners' requirements matched their own legislation. More generally the EU was increasingly working not with regulations, binding in detail, but with directives, which set a target to be met but leave the member state free to determine how it will meet the requirements.

In the Maastricht negotiations, there were two developments which tested the EU's readiness to practice flexibility. One was Britain's refusal to accept the social chapter in the draft treaty. The other was the adoption of the detailed measures agreed for establishing economic and monetary union (EMU).

Flexibility is an appropriate name for a general approach that has pervaded the integration process — readiness to accommodate the difficulties of one or more member state by derogations or different time scales for phasing out exceptions.

The episode of the social policy chapter turned out to be an exercise more in inflexibility than in flexibility. Britain was firm in its refusal of the planned social policy measures — and their 14 partners equally determined to have the EU press ahead in this area. The social protocol, thought up under the pressure of political conflict, did meet the requirement of allowing the EU to proceed, but it was not an acceptable long-term solution, above all in an area which all governments have pronounced as being a top priority. Progress also went slowly because the other countries were banking on a change



Sue Cunningham Photographic

of government in Britain, leading to a change of policy on EU social policy. These hopes were justified when one of the first acts of the new Labour government in Britain following its election in May 1997 was to announce that it would end the opt-out and come into line on social policy. The episode of Britain's opt-out was undoubtedly one of the primary factors stimulating work on flexibility in the context of the IGC. The other was the commitment to accession for 11 and possibly more countries. Given the major gaps in levels of member countries and many of the central European and Baltic states, it was predictable that the former would not be prepared to let themselves be delayed in their progress with integration by any problems of their new partners.

The EU must not be for ever bound to advance at the speed of its slowest members.

Already in the general outline for the IGC tabled in Dublin at the end of 1996, it was stated that "flexibility is one of the most important issues being examined by the conference. Whatever may be agreed in this regard — or alternatively the absence of agreement — will be of the greatest importance for the future development of the Union."

The Commission has said, on the eve of the biggest enlargement it has ever undergone, "the EU must not be for ever bound to advance at the speed of its slowest members".

Support grew towards the end of 1996 for the idea of a general mechanism that would allow member states that wanted, to move forward subject to certain conditions, by means of enhanced co-operation within the single institutional framework of the Union as defined in the Maastricht Treaty.

Mention of this possibility was made in the Franco-German document of October 1996, in a proposal from Portugal in December 1996 and in an Italian document of January 1997. They all insisted flexibility would come into play only when it was clearly impossible for all member states to progress together. There was then the issue of how the flexibility mechanism would be sparked off.

The flexibility formula differs profoundly from the British opt-out. Britain's position is that flexibility cannot be used unless it is agreed unanimously. However, its position is not fixed: there could be agreement on flexibility by a qualified majority if the action taken by the member states is added to the *acquis communautaire* (body of EU law).

One of the key challenges in the next enlargement will be to deal with a maximum of problems in the accession treaty and the provisions of the transitional periods to be negotiated with each new member. There would then be less pressure for derogations.

Italian Commissioner responsible for the single market, Mario Monti, wants to achieve the completion of that concept. An economist by training, Mr Monti has made it

clear that he sees no incompatibility between the single market target and this use of a flexibility approach. In a recent press conference presenting the Commission's proposals for amending the capital adequacy directive which ensures the financial stability of credit institutions and a level playing field for financial services in the single market, he paid particular attention to flexibility. "When drawing up legislation we need to maintain the necessary flexibility to take account of special situations," he said. The text itself covers companies operating only in certain commodities, almost all of which operate in the City of London. For this specific market segment Mr Monti pointed out, "we have provided for a conditional period to adapt to the new rules while laying down a common objective to be achieved by the end of 1999". He hoped



Sue Cunningham Photographic

that in the intervening period the companies themselves would "develop appropriate models enabling them to apply the common rules and at the same time draw benefit from them". The Commissioner saw this as a good case of the compatibility of the single market goal and the commitment to flexibility.

So the EU has a record and an approach inspired by flexibility — extending both to accession and to the complex work of integration. It also has a well-established tradition of negotiating accession agreements. But with each enlargement its relative weight and influence develop relative to that of any particular candidate for membership.

The vital negotiations starting in 1998 will be tough for all the candidates. They may need to call on the flexibility which the EU has practised in the past. There will no pick-and-choose when candidates negotiate membership terms, however. All new member states must be in line with existing EU laws and reinforce co-operation in relevant areas. ■

John Lambert, Brussels

Flexibility is a way around EU grid-lock

If greater flexibility proves the only practicable way of preventing the process of European integration grinding to a halt, then the approach would seem best suited for use in the Union's two inter-governmental pillars.

Under the terms of the Maastricht Treaty, European policy-making is divided into three fields, or pillars. The first pillar is the existing European Community where European level laws are passed after a proposal from the European Commission has wound its way through various stages of scrutiny in various consultative groups like the Economic and Social Committee, as well as the European Parliament and Council of Ministers.

The second and third pillars are different, with policy being formulated through inter-governmental agreement. The second pillar deals with what is known as common foreign and security policy (CFSP). It covers issues such as defence and the Union's position on international events, for example the war in former Yugoslavia.

The third pillar covers justice and home affairs and deals with topics such as immigration, asylum policy and police co-operation. For the Commission the nature of the first pillar makes the introduction of flexibility a dubious option. The approach clearly would not work for any of the Union's common policies. These by definition require everyone to agree to the same

approach. Similarly the single market must be based on shared assumptions and harm-

onised legislation. The system is still far from functioning perfectly and a proliferation of national opt outs from single market provisions would effectively cripple it. As these two areas make up the vast majority of the first pillar's content, there does not seem to be much room for manoeuvre.

But despite its innate wariness of anything which smacks of *à la carte* Europe — when member states pick and choose exactly what they do and do not wish to sign up to — the Commission is at least prepared to entertain the idea that flexibility could prove useful in pillars two and three.

"The areas of the second and third pillars are the ones most frequently mentioned as likely candidates for a flexible approach. This can be explained by the fact that these are newer, less integrated and often more sensitive areas: defence, arms policy, Europol and the incorporation of Schengen in the treaty are regularly mentioned," noted a recent Commission report on the issue.

The strongest argument for flexibility is that it simply institutionalises practices which already exist. Supporters of the approach have argued that if it is not incorporated into the treaties, those member states who want to move ahead faster than others will do so anyway outside of the EU. Ultimately, they say, this would be more damaging to the European idea than refusing to entertain any discussion of the concept.

In the third pillar, one obvious area where the approach may prove useful is over the future of the Schengen



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agreement. Named after the Luxembourg village where it was signed, this accord deals with police co-operation and the removal of internal border controls between certain member states. Schengen already exists in theory between France, Spain, Portugal, Germany and the Benelux states. French disapproval of Dutch drug policy means it has not been fully implemented at the France-Benelux border. Italy, Greece, Austria, Finland, Sweden and Denmark along with two non-EU member states, Norway and Iceland (both members of the European Free Trade Area), are currently queuing up to join.

But Britain and Ireland have said they are not happy to abolish internal EU borders and their position is unlikely to

change. Flexibility would allow the agreement to be incorporated into the *acquis communautaire* (body of EU law) while allowing Britain and Ireland their opt-outs.

The approach would also get around problems surrounding the role of the fledgling European police agency Europol. Despite the fact that the convention setting up the agency still remains to be ratified in the majority of member states, there are already calls being made for Europol's powers to be increased. The most recent of these came in the report on organised crime presented by a high-level group of national experts to the June European Council meeting in Amsterdam.

Given that it took an extremely frantic bout of last minute negotiation to get Britain to agree to the Europol convention in its present form, some form of flexibility would seem the best hope for those wishing to go further.

In the second pillar flexibility could be used to deal with issues such as the traditional neutrality of Ireland and Sweden. Such problems will need to be overcome if the Union ever wants to set up any sort of European army or defence force outside Nato.

But some argue that this particular issue is already being addressed in other ways, particularly through the proposed practice of constructive abstention.

Second pillar decisions currently require unanimous approval by member states. This new approach would allow certain initiatives to go ahead even if certain countries abstained from voting. In a scenario where troop

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deployments were envisaged for example, those countries abstaining could perhaps contribute money instead of personnel. The precise decision-making mechanisms of constructive abstention differ from those for flexibility but the end result — that some countries could push ahead without others — remains basically the same.

As the Union prepares to welcome new member states, the need for flexibility can only increase.

The introduction of the new member states will mean the gap between the Union's most and least developed economies can only widen with the result that the states leading the integration pack will want to press ahead, allowing the others to catch up later if they want to.

The structured dialogue which has accompanied this particular round of enlargement means all of the applicant states are actually well informed about the way the Union

is developing and the obligations membership will impose on them. Under this process they are systematically updated on all aspects of EU business.

"The presidency and Commission provide regular briefings to applicant countries. They are aware of what flexibility means to them," says one official.

As far as policy areas covered by the second and third pillars are concerned, it seems clear flexibility will happen. All the Commission can hope to influence is whether it takes place inside or outside the EU framework. ■

Timothy Davidson, Brussels

Flexibility What it all means

The debate surrounding flexibility has spawned an entire new strain of Euro-speak. These are examples of some of the more commonly used phrases and expressions.

A la carte Europe

Generally seen as a negative term. The menu image is used to illustrate the idea of member states picking and choosing in which EU policy areas they wish to participate. The concept was most closely associated with the government of former British prime minister John Major. It was a favourite rallying cry of the increasingly vocal Euro-sceptic wing of the British Conservative government during the 1992-97 administration. The approach is opposed by the Commission as running counter to the spirit of the treaties and being anti-communautaire.

Enhanced co-operation

Originally a Franco-German proposal, this idea suggests that those countries who wish to push ahead in certain specific areas should be able to do so. It is thought that the most likely group to make up this advanced guard would be the first wave of member states to adopt the euro in 1999. In any case France and Germany would almost definitely be the driving force.

Suggested areas where enhanced co-operation could be used include justice and home affairs, the common foreign and security policy and, in pillar one, only areas which are governed by unanimous decisions. The approach has been roundly criticised by Britain which says all member states should maintain their right to veto any proposed moves to further integration.

Hard core

If flexibility is introduced as one of the guiding principles of European integration, then by definition some states will become more integrated than others. While more cautious states such as Britain and Denmark will want to hold back from any moves towards what they would describe as federalism, others will be eager to push ahead. It is generally agreed that France and Germany would be the two big member states pushing this

second group forward which — as it would be at the centre of an evolving EU — has been described as the hard core.

Variable geometry

This concept is closely linked to the idea of an *à la carte* Europe. Supporters argue that as the Union evolves and takes on an ever increasing number of member states, it will become progressively more difficult for all countries to reach agreement on all policy areas. The principle of variable geometry allows for a member state to co-operate with some or all of its European partners on some policy areas while holding back in others. As with the *à la carte* concept, supporters of traditional European integration, including the Commission, have argued that variable geometry is inherently anti-communautaire and oppose moves to introduce such an approach.

Concentric circles

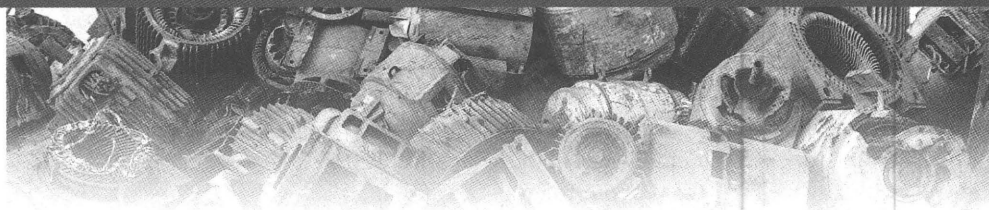
Tied in with enhanced co-operation and the hard core, this concept — originally floated by France — attempts to describe the sort of EU which flexibility would create. At the centre would be the hard core of committed integrationists. Surrounding them would be various circles of states which would become progressively less integrated as you move away from the centre. Supporters argue this is the only way the Union will be able to function as it enlarges to accommodate first the applicant states then other possible new members in future.

Opt-out

An already existing practice pioneered by Britain and Denmark during the Maastricht Treaty negotiations. Both secured opt-outs over committing to enter the single currency and Britain also managed to avoid signing up to the treaty's social chapter. Under this approach member states have the option not to sign up to (opt-out of) laws they do not want to while being allowed to continue as full EU members. Critics say that if the principle becomes widely accepted it will undermine the founding principles of the EU. ■

Environment major hurdle for transformation economies

In order to join the EU, candidate countries need to bring their laws in line with the Union's *acquis communautaire* (body of EU law). In the environment area this is a complex process, but many people are ready to help the candidates overcome this obstacle to membership.



The accession process of the associated countries to the EU is entering a

crucial phase. The opinion on the applicant countries, assessing how close each country is to EU policies and legislation in many areas, including the environment, has now been issued.

Ritt Bjerregaard, Commissioner responsible for the environment, takes a keen interest in the approximation process. She has or will visit every candidate country before the end of 1997 and intends to keep a close eye on the accession process. "It would be a misunderstanding to see the environmental dimension of the enlargement process only as one which just will add to the already long list of problems which have to overcome by the newcomers to the Union," she says. "In the approximation process the most pressing priority is the setting of priorities in realistic and costed programmes for implementation. Environmental approximation is not just a question of getting the necessary pieces of legislation in place. We have to assess what concrete actions and decisions are needed in terms of environmental policies, time and money to secure the smoothest possible compliance with the environmental requirements of the EU."

The existing EU environmental legislation, collectively known as the environmental *acquis*, consists of about 300 pieces of legislation, 20 per cent of which are related to the environmental requirements of different industrial products. These laws need to be implemented in national legislation in order to enter internal market. The remaining 80 per cent of the legislation is equally important and needs to be implemented as well.

This process, generally referred to as approximation, is taken very seriously by the Commission. The environment directorate-general (DGXI) is working on an analysis of the EU environmental and nuclear safety *acquis* in order to clarify the main implementation steps and implications for each group of laws. A document is being prepared which the candidate countries could use as a guide in their approximation work.

All EU assistance to the candidate countries now is focused on the accession process. The core of this assistance will be in institution building, but greater emphasis will also be

placed on concrete investments needed for implementing legislation in line with EU requirements. The creation of accession partnerships will be the basis for future EU assistance and the implementation of environmental law will be in the forefront when new assistance priorities and programmes are agreed.

It would be a misunderstanding to see the environmental dimension of the enlargement process only as one which just will add to the already long list of problems which have to overcome by the newcomers to the Union.

It is the responsibility of each country to prepare for accession. Improvement of environmental management and of the quality of the environment will not be possible without national commitment and the necessary legal, institutional and financial management reforms. Assistance provided by the Commission or individual EU member states can help individual country efforts, but are not a substitute for action at national level by each applicant. The purpose of environmental policy is outlined in the Fifth Environment Action Programme presented by the



Sue Cunningham Photographic

Commission in 1993: "Towards Sustainability". Sustainable growth respecting the environment was introduced into the treaty in 1992 as a principle objective of the Community. Environmental considerations need to be applied to many aspects of government and industrial policies. Concerns about the environment should be contained in the formulation and implementation of economic and sectoral policies, decisions taken by public authorities and how production processes are developed.

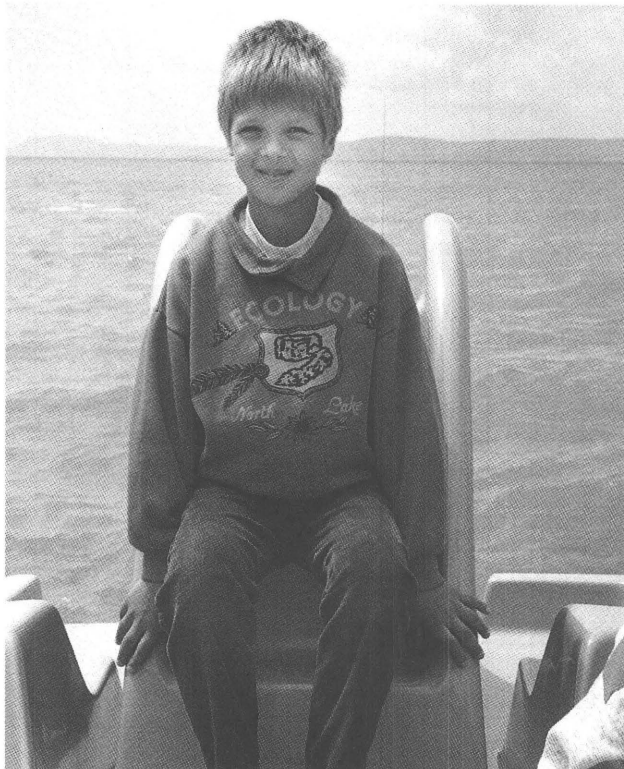
The concept of integration is a central element of EU environmental policy. Industry needs to increase its environmental performance so that it contributes to sustainable development. At the same time it has to recognise and safeguard its own future. The challenge is to promote sustainable production and consumption patterns in which environmental performance and competitiveness go hand-in-hand.

There are two important reasons why environmental policy and legislation needs to be established at EU level. Many environmental issues are of a trans-boundary or global nature. The global issues that worry Europe's citizens the most are well-known — for example, the threat of climate change and the destruction of the ozone layer. Other issues requiring a regional approach are acidification and persistent organic pollutants. The EU needs a common policy framework for addressing these issues, and a common voice with which to speak in the relevant international fora. The EU also needs to safeguard Europe's internal market from unfair competition as well as to promote the free movement of goods, services, capital and people. A common European environment policy avoids the temptation for member states to take measures which may be incompatible with the internal market.

EU environmental legislation originally followed the "command-and-control" approach — specific environmental controls were put in place in response to specific environmental problems. An example of command-and-control legislation is the setting of EU-wide limit values for the emission of particular substances from specific industrial processes.

Substantial environmental improvements have been achieved in this way, but the traditional command-and-control approach has limitations.

Coverage of the different types of environmental impact is to some extent incomplete and fragmented. Measures taken to avoid air pollution, for example, may simply shift



Sue Cunningham Photographie

the problem to water or the production of waste, rather than reducing the impact on the environment as a whole.

Another problem is that this approach is not flexible enough. Telling industry exactly what to do, and in which way it must be done, does not encourage a proactive approach. The idea is to encourage industry to improve its environmental performance by itself and to develop a sense of shared responsibility.

Respect for the environment should not be a burden for industry, but seen as an

opportunity to stimulate innovation and to reduce inefficiencies.

One signal of the more integrated approach within the EU was the adoption in September 1996 of the Council directive on integrated pollution prevention and control. This directive is a modern, flexible legal instrument which marks out the fundamental obligations of industry in relation to protection of the environment but at the same time is not over-prescriptive in saying how those obligations are to be met.

Under EU law, industry is also responsible for avoiding the production of waste and for managing waste where it is unavoidable. It is responsible for using energy efficiently, for preventing accidents and for returning the site to a satisfactory state after the plant is decommissioned. The key concept involved in the fulfilment of these obligations is that of best available techniques, commonly referred to as BAT.

Techniques mean not only the technologies used, but also the way in which the installation is designed, built, maintained, operated and de-commissioned. Environmental considerations have to be integrated into the entire life-cycle of the production process.

The Commission organises an information exchange on BAT between industry and the member states. It also publishes the results every three years. Supporting the EU in this is the European IPPC (integrated pollution prevention and control) Bureau in Seville. The bureau has a multi-annual work programme designed to ensure that results are published for each of the industrial sectors included in the directive.

Environmental agreements can be used at all levels from local to international. The Environment Council has endorsed a proposal by the Commission to conclude an agreement with the car industry to improve vehicle fuel efficiency in order to reduce carbon dioxide emissions

from passenger cars. Discussions are currently under way with the European Automobile Manufacturers Association on this.

The present amount of EU environmental legislation is considerable and will continue to change during the accession process and beyond it. Candidate countries need to get to grips with this body of law, not just by placing statutes on the books but by putting in place the needed monitoring bodies. Candidate country governments also need to see the cost-benefit of implementation of EU environmental law. Often adhering to EU standards will not just help clean up the environment, it will also lead to

more efficient industries and higher value-added products. Although the process will be complex and difficult, it is necessary for each candidate country to adopt these laws and to ensure they can comply with the tough requirements of the EU before becoming members.

To help them in this task, the Commission put into place several assistance mechanisms (see box article). Funds from the EU Phare technical assistance programme will also be available to enable the candidate countries come up to the EU level in the environment field. ■

Approximation: Helping Europe become green:

Both DGXI (environment) and DGIA (external affairs) are helping the candidate countries come to terms with the accession process in the environment sector. In addition the Technical Assistance Information Exchange Office (TAIEX), set up last year to help candidate countries adopt and implement the EU's single market legislation, is working closely with DGXI and DGIA on approximation issues. Although only a small amount of environmental legislation is contained in the single market *acquis*, TAIEX and DGXI organise seminars at which specific environmental approximation issues are discussed.

Within DGXI an enlargement team has been set up to deal with approximation for the candidates. The unit, known as XI.A.4 is headed by Timo Mäkelä.

The unit works in three teams. One part is for environmental co-operation with the candidates, headed by Philippe Bourel de la Roncière. There is also an enlargement team and a smaller one dealing with Mediterranean programmes.

DGXI produces a newsletter, *Enlarging the Environment*, published at least six times a year. Although printed copies of the newsletter are limited, the information can be accessed on Internet.

The newsletter is meant mainly for authorities and decision-makers involved in the environmental approximation process. It gives brief updates on new developments in EU environmental law and policy.

A special telephone help line has also been set up to help those responsible for environmental approximation access information on EU policy and law. The service will help find answers on legislation and policy issues, normally within 24 hours. It can provide specific technical assistance and advice and will be able to give officials Commission documents.

DGIA has created a specific project under the EU Phare programme for technical assistance to help with environmental approximation. Known as the Environmental Approximation Facility, or DISAE (developing implementation strategies for approximation in the environment), it complements the TAIEX office. DISAE started working in early November and will help support mini-projects focusing on approximation strategies and action programmes, institutional implementation and enforcement, cost assessment, institutional and capacity building, assessment of draft legislation, needs assessment and training.

The key approximation issues and national priorities chosen by representatives of the candidate countries at a DISAE seminar earlier this year include human resources, assessment of implementation and enforcement, financing strategies and compliance mechanisms, capacity building and private finance initiatives as well as economic and cost benefit impact analysis.

More information on the assistance and publications mentioned is available from:

- *Enlarging the Environment newsletter is available on DGXI's home page (<http://europa.eu.int/en/comm/dg11/dg11home.html>). To see a sample copy of the newsletter, requests should be sent by E-mail to enlargement@dg11.cec.be*
- *DGXI Help Line Tel: (322) 296 8746*
- *DISAE, 57 rue Bosquet, 1060 Brussels (Tel: (322) 534 7171; Fax: (322) 534 6347; E-mail: disae@pophost.EUnet.be).*
- *TAIEX, Avenue de Cortenberg 80, B-1000 Brussels (Tel: (322) 296 7307 or 7308; Fax: (322) 296 6840). ■*

Phare focuses on accession

The EU Phare programme has been the Union's principal instrument for co-operation with the candidate countries. Initially designed to support the transition to a market economy and democracy, Phare now is shifting into high gear to concentrate on support for the accession process.

The European Union (EU) Phare programme has been undergoing change since its inception in 1989.

Originally geared to help the economic transition in Poland and Hungary (Poland and Hungary Aid for the Reconstruction of the Economy), the programme evolved in its support of the accession of 10 candidate countries.

Following the Inter-Governmental Conference (IGC) concluded in June in Amsterdam, preparation for accession entered a new phase.

The latest focus of Phare reflects a profound change within the programme — a change needed to adapt to the new priorities of enlargement.

In its first years, Phare was seen mainly as an emergency measure, supporting structural reform, creation of financial instruments and macroeconomic aid. Now Phare has two clear priorities, according to the strategy document prepared by DGIA, responsible for external relations with the 10 candidate countries.

The latest focus of Phare reflects a profound change within the programme — a change needed to adapt to the new priorities of enlargement.

Phare activity is expected to concentrate on the development of public services and institutions needed to implement EU rules to the same degree of effectiveness as in the present member states. Second, the programme will help these 10 countries bring their industry and major infrastructure up to EU standards by making needed investments.

The whole process of introducing increasingly demanding EU standards in areas like environment, transport and industry, will require the use of significant capital funds.

The Commission believes institutional and administrative capacities within the candidate countries is a major problem in preparations for enlargement. Phare will be devoting more time and money to helping administrations in the candidates equip and adopt effectively the *acquis communautaire* (body of EU law). Through institution building projects, Phare will help the 10 countries reinforce democratic institutions, the rule of

law, public administration and auditing bodies.

This will mean more help in training people to adopt the *acquis* in a variety of areas, such as justice, public accounts, financial control, environment, telecommunications, veterinary and phytosanitary inspection, statistics, technical inspection and control, energy and other areas.

The programme will be accession-driven - focusing on the most pressing needs of the candidate countries' accession strategy. These priorities will be identified with each country through what the Commission calls its "accession partnership". This will be based around a national programme for the adoption of the *acquis communautaire*.

Activities will focus on priority areas eligible for support, as identified in the Commission's opinion (*avis*). Financing will be linked to projects to be completed in each candidate country.

The accession partnership will include several years' programming of the principal measures necessary for adoption of the *acquis* and will identify activities to be financed or co-financed by Phare. The partnership will be concluded with each country from 1998.

A global evaluation of the Phare programme also began in June. The Commission intends to produce a first report on previous evaluations and the lessons which can be learnt from them. The report will be supplemented by information provided twice a year to member states and the European Parliament. Ad hoc studies already carried out will allow, together with these new studies, a global appraisal of the programme's impact which will then be revised on a regular basis.

While the programme's emphasis may be shifting, its close work relationship with the individual candidate countries will remain and be strengthened under the new strategy. Phare will continue to be the EU's largest grant programme, with country shares based on population, GDP and qualitative criteria. ■



Coreper plays leading role in EU decision-making

The group of permanent representatives to the EU from each member state plays an important and decisive role in the functioning of the Union. Coreper, as it is known, often exerts tremendous influence on EU policy.

Ask the man in the street who takes decisions in the European Union (EU), and you will hear a

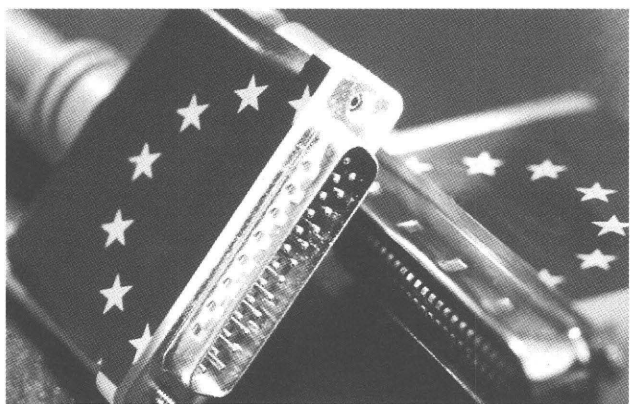
variety of answers — the European Commission, the European Parliament or (from the better informed) ministers from its member states.

Few will pinpoint the body that in many cases puts the penultimate seal on EU decisions: the Committee of Permanent Representatives, known more simply by its acronym Coreper.

Comprising the 15 EU states' ambassadors to Brussels, a representative of the European Commission (often its deputy secretary-general) and serviced by the Council of Ministers' secretariat general, Coreper is the last line of official-level decision-making before proposals reach EU ministers.

According to Martin Westlake's recent guide, the *Council of the European Union*, "Coreper is one of the most powerful organs within the EU's institutional structure. It is also one of the most obscure."

He adds: "A prime reason for this obscurity is that Coreper is composed of career diplomats whose theoretical task is merely to prepare the work of their political masters. In reality these diplomats wield considerable de facto executive and legislative power."



European Commission

Coreper is responsible for keeping the EU's permanent institutions and the member states informed of each others' work, to ensure that national and European policy are not at loggerheads, to look at particular issues' importance relative to the broader political project at hand, to find compromises and to ensure that core national positions are not breached.

Although its members are ultimately accountable to their member states' governments, with clear guidelines from their national capitals on how to approach any issue, Coreper has wide-ranging abilities to negotiate deals in often highly controversial areas.

At first a preparatory body involved in the negotiations leading to the 1957 Rome Treaty, Coreper has gradually developed into one of the most powerful groups of officials in the world.

In the late 1950s and early 1960s, Coreper began to discharge its more mundane duties to specialists — resulting in the national representations today comprising literally hundreds of officials — and in 1962 split into two bodies, Coreper I and II.

The permanent representatives have five major functions.

These are information, co-ordination, interpretation, negotiation and defence.

Coreper II was designated the senior, comprising the permanent representatives, while Coreper I became a forum for their deputies — an arrangement which can often confuse the uninitiated.

The former are responsible for the weightier and more far-reaching elements of EU policy, such as foreign policy or monetary matters, while their second-in-commands look at more technical aspects of the single market, for example, or other less politically non-controversial issues. Coreper II generally meets on Friday, while Coreper I meets on Wednesday.

The permanent representatives have five major functions. These are information, co-ordination, interpretation, negotiation and defence.

They are responsible for keeping the EU's permanent institutions and the member states informed of each others' work, to ensure that national and European policy are not at loggerheads, to look at particular issues' importance relative to the broader political project at hand, to find compromises and to ensure that core national positions are not breached.

In practice these five functions are extremely difficult to separate and merge into a more general function — to keep the Union working smoothly.

The bulk of any piece of legislation will be drafted and negotiated by middle-ranking officials in working groups or committees of experts. They will then pass their portfolios on to Coreper under two types of circumstances.

If a working group feels that a particular question is becoming bogged down in political issues, and needs a high-level push, they will consult ambassadors for a steer.

Once Coreper finds a solution, it will pass the dossier back to experts for completion of the technical issues. In some particularly controversial debates, ambassadors will ask ministers for a steer before sending the proposal back to experts.

Working groups will also consult Coreper when a proposal has reached its final stages, or has full agreement.

Ambassadors then give the dossier a high-level stamp of approval before presenting it to ministers for definitive adoption.

In practice many of the more difficult deals are solved over lunch and in the corridors and often between alliances of a few powerful states. There are four major categories of player in any full Coreper debate. The first is the member state, whose task is apparent. The second is the presidency, whose task is to broker agreements and push the agenda forward.

The third player is the European Commission, which in many cases will have proposed the legislation on the table and have the sole right to withdraw or modify it, although for justice or foreign policy matters, its role is far less active.

Finally there is the European Parliament which exerts pressure from the sidelines (although not present in the meeting room) over an increasing number of policy areas.

The Council of Ministers secretariat can also play an important middle-man role, helping natural enemies to talk to each other.

Once Coreper has done all it can do on a dossier, it will pass it on to ministers in one of three forms.

If a proposal satisfies all parties, ambassadors will

send it to ministers as an "A" point. That means that the politicians will not even debate the proposal, but wave it through before they move on to more difficult subjects.

It is quite common for ministers to agree A points in areas which have nothing whatsoever to do with their fields of expertise — energy ministers, for example, may wave through legislation on visa policy.

If ambassadors believe they have agreement, but for symbolic reasons might feel a ministerial debate should be held, they pass the proposal up to ministers as a "false B point", which in reality is treated like an A point.

But for really knotty problems, ambassadors invite ministers to hold a fully-fledged debate. Clashes can also extend outwards to other, even rival, high-level bodies, such as the Political Committee, the Monetary Committee and the K4 (justice and home affairs) committee.

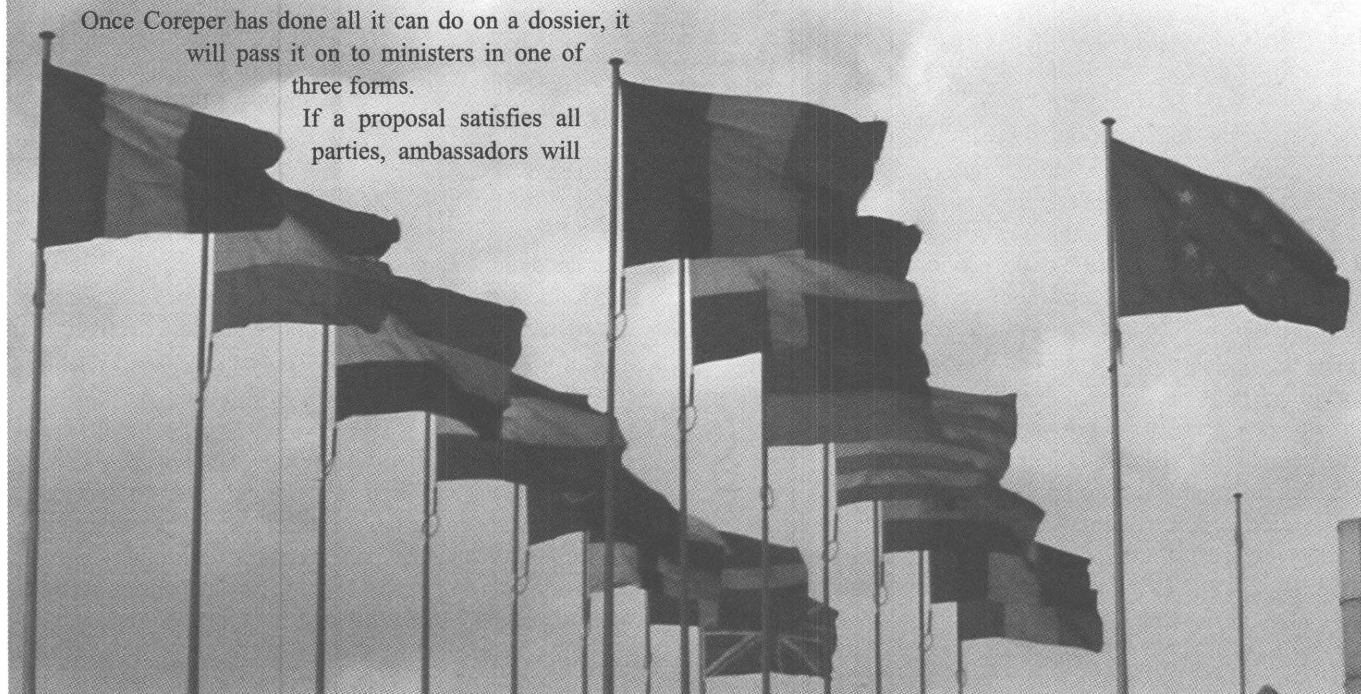
Given the level of trust imbued in its members, Coreper's role is already in the political rather than technical sphere. Ambassadors are renowned for playing one area of policy off another, finding over-arching compromises quite impossible for single issue officials.

Since they deal with each other every week of the year, the ambassadors get to know each other quite well and can often find solutions more easily than unacquainted politicians. The level of trust between Coreper members is cited as a key element in the compromises the body can find, and also imbues in them a shared sense of responsibility towards the success of European integration.

With the advent of up to 10 new member states to the EU, it is clear that the interaction between all these players will become even more complex and fascinating for political commentators.

In an uncertain world one thing is sure — Coreper has many more fascinating years to come. ■

Alistair Keene, Brussels



European Commission

Eastward enlargement good for both sides

As the time for accession negotiations approaches, many economists are looking at the costs and benefits of EU enlargement. A report from CEPR says the 10 candidates will gain from EU membership while the Union members will also see benefits.



Perhaps the most important aspect of European Union (EU) enlargement eastwards will be

the end of any potential conflict between east and west. The decision by the 10 candidate countries to reject communism has opened the door to great opportunities for those states as well as the organisation which they seek to join.

"A continuing success story in eastern Europe will lock in democracy and pro-market reforms. Moreover, 100m eastern consumers with rising incomes are a bonanza for west European businesses. Continuing economic success in the east will foster prosperity and peace throughout the continent," begins a report* by the London-based research organisation, Centre for Economic Policy Research (CEPR). But the paper points out that "stagnant or falling incomes and impoverishment of a large slice of the population could foster widespread disillusionment with market economics and democracy. Most worrying of all is that this may occur while a power vacuum exists in central Europe."

The paper, *Costs and Benefits of Eastern Enlargement: the impact on the EU and central Europe*, warns that economic failure in the east could

threaten peace and prosperity in western Europe. "West European politicians have the power to meet this historic challenge, but contemplation of the economic and financial costs of doing so has led them to procrastinate. . . geopolitical considerations constitute the engine driving enlargement but the economic and financial considerations constitute the brake," comments the paper.

On the plus side the report concludes that the cost of enlargement for the candidates (seven of the 10 were included in the study: Estonia, Latvia and Lithuania were not covered), "defies calculation". The authors believe that the biggest cost to the candidates is liable to be the adoption of the EU's legislation and case law, *acquis communautaire*, which could "stunt growth and raise unemployment rates".

The paper points out that the EU's rules were designed for

rich social democracies with extensive social security systems and are unlikely to be appropriate for poorer, but rapidly growing, central European nations. However, the candidates need market economy rules and the authors see merit in adopting pre-set rules, like the *acquis*, although these rules are a "sub-optimal set of rules for nations in the midst of their take-off stage of growth". Nevertheless, east-west integration in Europe will expand the candidates' opportunities even more than it will expand those of the EU. Therefore, concludes the paper, integration will have a larger percentage impact on the GDP of the candidates, even without undertaking any formal estimates.

The paper argues reasonably and thoroughly that trying to estimate the costs to the EU of expansion are as difficult as quantifying the gains to the candidate economies. What is clear from all scenarios and models examined by the authors (including cost estimates made by others), is that

the EU member states will gain some while spending a relatively small amount of money. But the projected gain to the candidates is "enormous by the standards of similar

simulation models". The effects of enlargement on the candidates is different, depending on what scenario is used. The candidates "are already keen on joining the EU for geopolitical reasons, so even the finding of a significant negative economic impact would be unlikely to affect their ardour for rapid membership. The same cannot be said for the EU and it is the EU who will decide the timing of enlargement . . . The EU is committed to admitting the candidates eventually, but their perception of the large economic costs of eastern enlargement seems to have made them reluctant to hasten the enlargement process," warns the report. While the paper cannot determine how the aggregate gain will be distributed among the present EU 15 member states, some back-of-the-envelope calculations show that gains will be distributed in an uneven fashion. The paper claims the shares of Germany, France and

Perhaps the most important aspect of EU enlargement eastwards will be the end of any potential conflict between east and west.

Britain add up to over two-thirds of the whole amount the EU member states are projected to gain. But given Germany's overall size and dominance of the EU sectors which are projected by the report to expand the most (transport equipment and capital goods), it is not surprising that Germany alone receives a third of the total. France and Britain are expected to get double-digit shares, not surprising given their size and sectoral composition of economies. Spain takes a healthy slice of consumer gains stemming from lower prices. All the others get less than five per cent of the total gain. Portugal, says the report, is the only EU member state which could lose out on narrow economic grounds, reflecting that country's heavy reliance on textiles — a sector which will take the biggest hit from enlargement according to the paper's projections. However, Portugal's estimated loss is so small the authors say it is best to think of the figure as zero.



Sue Cunningham Photographic

Contemplation of the economic and financial costs of enlargement has led to procrastination. Political considerations constitute the engine driving enlargement, but the economic and financial considerations constitute the brake.

Costs to the EU budget "have acquired a disproportionate prominence in the public debate on eastern enlargement" declares the report, which points out that while they are important politically some extreme estimates have aroused adverse reactions. These calculations more often than not are based on dubious assumptions and projections. Given that the EU budget is a complex and confusing animal itself, it is probably best to side-step the issue altogether. The two parts of the budget most likely to be hit — the common agricultural policy (CAP) and structural funds — will in fact probably see only minor outflows. While CAP's extension to the candidates is complex, the lack of accurate data on central European farms and the rapidly evolving nature of agriculture there makes the range of estimates on costs correspondingly wide. On the structural funds, the paper points out that the candidates' economies would not be capable of absorbing the estimated amount of structural funds for which they would be eligible. Also, the need to match EU funding by

the government would also be doubtful, given the relatively little spare cash central Europe would be able to spend on structure funds. It is also likely that both CAP and structural funds will undergo some sort of reform prior to enlargement and so negate many of the estimates made so far.

What the paper sees as the overwhelming conclusion of its studies into the costs and benefits of enlargement is that it will be a "phenomenally good bargain for the incumbent EU 15. Sweeping aside questions about the timing of the benefits and budget costs, and the list of countries in the first enlargement, the net costs — transfers less benefits — should be somewhere between zero and Ecu 8bn. Even the upper bound of this range is something like 0.01 per cent of the EU 15's GDP. This is an extraordinarily low cost given the historic nature of the challenge in central Europe," concludes the report.

On the other hand, EU membership will be "enormously beneficial" to the candidate countries. "Even without considering transfers and even limiting ourselves to the conservative scenarios, membership will raise candidate country real incomes by 1992 Ecu 2.5bn. Our less conservative estimate, which presumes that membership will have an important impact on the candidate country risk, projects very large gains of 1992 Ecu 30bn. Adding in farm and structural funds transfers, the figure rises to about Ecu 23bn for the conservative estimate and Ecu

50bn for the less conservative estimates. . . . The importance of EU membership to the candidates, however, is greatly understated by these calculations. A good deal of the progress in central European transition has been driven by the prospect of an early eastern enlargement.

The need to meet the Copenhagen membership criteria and adopt the EU's *acquis* has helped all central European governments resist special interest calls for bad policy. . . it is worth noting that the candidates that are keenest on early EU membership are the ones that have pushed forward their transitions the fastest. Delaying accession negotiations could have very negative effects on the candidate countries' economies and societies," concludes the report. ■

Costs and Benefits of Eastern Enlargement: the impact on the EU and central Europe by *Richard Baldwin, Joseph François and Richard Portes. Economic Policy, April 1997, available from Centre for Economic Policy Research (CEPR), 25-28 Old Burlington Street, London W1X 1LB (Tel: (44 171) 878 2900; Fax: (44 171) 878 2999).*

Luxembourg sees enlargement as prime focus of presidency

The EU's revolving six-month presidency is now held by its smallest member state, Luxembourg. The country's Prime Minister, Jean-Claude Juncker, says enlargement issues are high on his priority list.

For the Prime Minister of Luxembourg, Jean-Claude Juncker, the —challenging task of enlarging the European Union (EU) is one of the focal subjects of his country's six-month presidency of the Council of Ministers.

Speaking during an interview in the spacious office of the Grand Duchy's Minister of State, as his title is styled officially, Mr Juncker leaves no doubt that in his opinion, enlargement has to be one of the Union's key priorities in the years ahead.

"We shall have to determine the circle of first EU entrants and launch an intensive political dialogue with all those who cannot join the EU in the first round," says Mr Juncker.

France's President Jacques Chirac, too, is adamant that every effort must be made not to create a rift between participants of the first and later waves of enlargement. "I am totally against creating an impression that there are some to whom Europe shows a cold shoulder," Mr Juncker, a Christian Democrat, stresses.

The key date for the decision on launching enlargement negotiations will be the European Council closing the Luxembourg presidency, to be held in December in the state's capital city, Luxembourg.

To critics who say the EU summit in Amsterdam in June this year has failed to enact sufficiently far-reaching reforms to allow the EU to proceed with enlargement, Mr Juncker responds that the summit has been enough of a success not to put the EU's enlargement calendar into jeopardy.

"We will begin the negotiation process when we said we would — six months after the conclusion of the new Treaty of Amsterdam," he says. "In December we will take the first wave of decisions about who we begin to negotiate with."

Mr Juncker's choice of words gives a clear indication that the Prime Minister would favour an option not to start negotiations with all applicant countries simultaneously, irrespective of their readiness for joining the Union and its single market.

Instead Mr Juncker favours an approach whereby

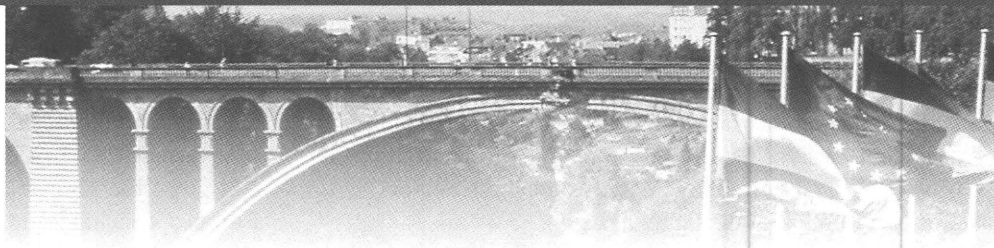
negotiations with first-wave candidates would be complemented by a close political dialogue with later entrants.

This would ensure that all negotiations would remain meaningful exercises about adapting a new entrant's legislation to EU norms — and providing for transition regimes and other special arrangements — instead of degenerating in the case of some countries into long, drawn-out, vacuous rituals of purely symbolic value.

The Prime Minister's ambitious programme for his country's EU presidency includes a quiet determination to tackle one of the most thorny issues related to the EU's opening to its eastern neighbours: the difficult task of reforming the EU's spending on help to farmers, help to poorer regions and the agreement of a five-year package for the Union's own financing.

"I do not expect to achieve final agreement during our presidency, but I would like to see the outlines of a solution," says Mr Juncker, who leads the EU members with the highest per capita income. The Prime Minister is keen to stress that enlargement must not lead to a massive wave of fresh spending, expressing a position mirroring that of other rich member states, such as Germany and the Netherlands.

"Cuts will have to be made in existing subsidies," he says,



Luxembourg Tourist Board



Luxembourg Tourist Board

while acknowledging that it will need a hard political fight to ensure this.

Yet Mr Juncker's endorsement of the Amsterdam summit's main political results does not mean the Prime Minister is entirely satisfied with what has been decided. "I would have preferred a more ambitious approach to EU reform," he says, echoing the critical evaluation by many heads of government and European Commission members of the outcome of the Amsterdam Council.

In particular, he stresses, he would have preferred a greater switch to majority voting than that which has been decided under the stewardship of the last Dutch presidency. "I am a great fan of majority voting in Council," says Mr Juncker, revealing a political approach to European issues typical of that of many of the EU's smaller countries and of the Benelux states (Belgium, the Netherlands and Luxembourg) in particular.

"Many countries talk a lot about moving away from the unanimity rule, but when it comes to relinquishing the national veto on a concrete issue, you find that nobody is left around the table anymore."

Yet Mr Juncker is confident that the work left undone in Amsterdam will be pursued later, and possibly even before the EU actually takes in the first new member states. "There are quite a few things I believe we should tackle even before the EU takes in its sixteenth country," says Mr Juncker, pointing to the re-weighting of votes in Council, the reduction of the number of EU Commissioners and the extension of majority voting. ■

Thomas Klau, Brussels

Diary dates for the Luxembourg Council Presidency

October

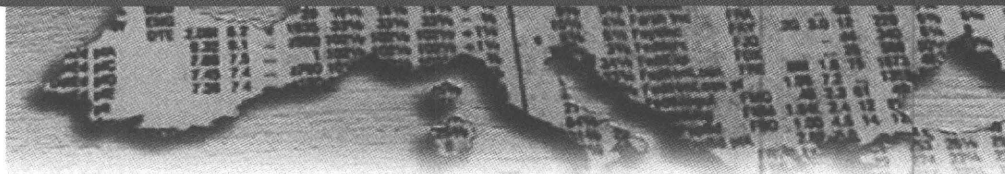
- 1-2 European Parliament and Economic and Social Committee, Brussels
- 2 Telecommunications Council
- 3-4 Single Market Council and Home Affairs Ministers meet in Echternach informally for structured dialogue with 10 candidate countries
- 6 General Affairs Council
- 7 Social Affairs Council
- 9 Transport Council meets for structured dialogue with 10 candidate countries
- 9-10 Justice and Home Affairs Ministers meet informally
- 13 EcoFin
- 16 Environment Council
- 20-21 Agriculture Council
- 20-24 European Parliament
- 25-26 Foreign Affairs Ministers meet informally
- 27-28 Association Committee, Sofia, Bulgaria
- 30 Fisheries Council

November

- 3 Consumer Affairs Council
- 5-6 European Parliament, Brussels
- 10 Environment and General Affairs Councils
- 13 Industry Council
- 17 EcoFin
- 17-18 Agriculture Council
- 17-21 European Parliament
- 19 Fisheries Council
- 20 Education Council
- 21 Budget Council
- 24 General Affairs and Culture Councils
- 27 Single Market Council
- 28 Development Council

December

- 1 EcoFin
- 2 Social Affairs Council
- 3-4 European Parliament, Brussels
- 4 Health Council
- 4-5 Justice and Home Affairs Council
- 8 Energy and General Affairs Councils
- 8-9 General Affairs Council
- 10 Transport Council
- 12-13 European Council, Luxembourg
- 15-19 European Parliament
- 15-16 Agriculture Council
- 16 Environment Council
- 18-19 Fisheries Council



Agenda 2000 sets the scene

The presentation of the Commission's Agenda 2000, including the opinions on the readiness of each of the 10 candidate countries to join the EU has been one of the European Commission's busiest periods of activity. Commission President Jacques Santer's blueprint of how the EU should look after the year 2000 includes a programme of reform of internal policies and a new financial regime aimed at streamlining the EU and at the same time helping all 10 of the candidates - regardless of their position in the negotiation queue - to bring their infrastructure and laws up to EU standards.

Agenda 2000 outlines the broad outlook for the development of the EU and its policies beyond the turn of the century, the impact of enlargement on the Union as a whole and the future financial framework beyond 2000, taking into account the prospect of more members.

The individual opinions showed the depth of detail to which the Commission went to assess each applicant. Five countries are recommended to begin negotiations with the EU - the Czech Republic, Estonia, Hungary, Poland and Slovenia. They join a sixth country, Cyprus, which received a positive opinion in 1992. The other five - Bulgaria, Latvia, Lithuania, Romania and Slovakia - are said not to be ready to start negotiations.

It will now be up to the Council which ultimately will take the decision on when and with which candidates negotiations will begin. That decision, together with the one on Agenda 2000 itself, is expected to be taken at the European Council meeting in December in Luxembourg.

The depth into which the Commission went for the opinions reflects the seriousness of the opinion. "The opinions would be worthless if they overlooked any shortcomings. It is all a question of timing. Even the ones with a positive opinion need to improve. It is not a distinction of yes and no, the opinions should not be seen in black and white terms. Some candidates are relatively more ready, other less ready, to begin negotiations," comments one Commission official.

President Santer was keen to point out, backed up by External Affairs Commissioner Hans van den Broek, that even though the opinion of the Commission is that five candidates are not yet ready to open negotiations now, the Commission will review their readiness later. Regular yearly reviews will be done by the Commission for the Council. These will take into consideration changes in the candidate countries' position vis-a-vis the possible opening of negotiations and could suggest that one or more of the remaining five are now deemed by the Commission to be ready to start negotiations.

"None of the Commission proposals reject individual applicants," says Mr Santer. "The least prepared must set themselves the goal of future negotiation while the partnership for accession has been put into place so they can catch up."

Mr van den Broek adds: "The Commission is proposing that from the year 2000 onwards, Ecu 1bn a year be made available from the structural funds and Ecu 500m in agricultural programmes in addition to support from Phare (Ecu 1.5bn a year).

"The reinforced pre-accession strategy will be accompanied by a commitment from the Union to review the progress made by each country in satisfying the conditions for membership by the end of 1998 at the latest and thereafter on an annual basis. On the basis of these reports the Commission will be able to judge when to recommend to the Council that further accession negotiations be opened.

"All the applicants will thus take part in an inclusive enlargement process. Differentiation in no sense means discrimination. There will not be "ins and outs" but "ins and pre-ins", with the possibility for the latter to join the former as soon as the conditions are right."

But the right conditions do not just mean getting the candidates ready. It also entails making sure the Union itself is able to absorb new members without difficulty.

"We must be proactive," Mr Santer told MEPs in his speech to the European Parliament. "We must build a credible Europe." The common agricultural policy (CAP) and the structural funds for a start need serious overhauling - even without enlargement. But before the EU can expand another Inter-Governmental Conference needs to be convened, at least one year before the first new member is admitted, probably in 2002-03.

This IGC will have to sort out institutional problems left over from Amsterdam, not least the thorny problem of weighted voting in the Council and limiting to one the number of commissioners each country sends to Brussels.

Agenda 2000, the 10 opinions and full text of President Santer's and Commissioner van den Broek's speeches to the European Parliament are available on the Europa server: <http://europa.eu.int/comm/agenda20000> in html, pdf and text format. Each EU delegation in the candidate countries will also have details of the opinions (see contents page for details of local delegation).

Nato expands

After protracted discussion and debate the who and when of Nato's enlargement jigsaw is now in place. At its summit in Madrid in July, Nato finally named three countries which will be allowed to join this select club. The Czech Republic, Hungary and Poland were all invited to begin accession negotiations.

If all goes according to plan the three will sign a protocol of accession in December this year. Full membership of the alliance will then await ratification by the current 16 members. This could be a lengthy process and perhaps even a contentious one, but Nato hopes to have the whole thing wound up by April 1999 — the fiftieth anniversary of the signature of the North Atlantic Treaty. For the three who were invited, years of politico-military rethinking, increased defence spending and upgrading of armed forces have paid off. But now that they have succeeded, they may find that the pressure increases, rather than decreases. From now on, alliance members will look on the three as colleagues, rather than candidates, and will increasingly judge them by what they can do, rather than what they were.

Full membership could be nearly two years away. But during that period Nato will, as far as possible, treat the three as full members, involving them in all the activities of the alliance. Summit meetings and ministerial conferences will not present any problems. But the real test will be how quickly and effectively the three can move into Nato's integrated military structure.

There were many others hoping for Nato membership. Albania, Bulgaria, Estonia, Latvia, Lithuania, the Former Yugoslav Republic of Macedonia, Romania, Slovakia and Slovenia were all candidates but all left Madrid

disappointed. These countries have long been keen to join the broad Euro-Atlantic security community.

It is vital to all concerned that they should not be discouraged, but, having turned them away for the time being, Nato should not expect too much of their patience and understanding. As far as security and defence are concerned, the EU is not an alternative to Nato. The June 1997 Amsterdam Treaty appeared to accept that an EU defence and security identity would be an aspiration for some time to come.

So, for these countries, the only option is to remain in Nato's waiting room — the partnership for peace programme and the new Euro-Atlantic Partnership Council launched in May.

However well it may be redecorated from time to time, nobody with much sense would want to stay in a waiting room forever. This is why a few key sentences in the Madrid summit declaration will be of particular interest. Many supposed — and Russia certainly hoped — that Nato enlargement would be a one-off event. But the declaration made absolutely clear that the alliance will continue to "welcome new members" and "expects to extend further invitations in coming years". Romania, Slovenia and the three Baltic states all received the runners-up prize of a special mention and more than a hint that they would be considered next time around in 1999.

When the winners' excitement fades and the others come to terms with their disappointment, Nato's Madrid summit will be acknowledged for what it postponed, as much as for what it decided — the Euro-Atlantic security show goes on.

Amsterdam sets the stage

The completion of the Maastricht Treaty's revision at the Amsterdam EU summit in June means the first accession negotiations with membership candidates in central Europe and the Baltic states should begin as planned early in 1998. While no target date for the actual accession has been

announced officially, some summit participants mentioned 2002 as the earliest year for which the first candidate country might actually be taken into the EU. However, others, pointing to the difficult issues both the EU and its future members will have to face in the membership negotiations, held this date to be over-optimistic.

The German Chancellor Helmut Kohl reportedly said

Germany would oppose a package solution for enlargement, saying there was no reason why countries such as Hungary, Poland and the Czech Republic should all join at the same time. "Enlargement will be tailor-made and won't come off the peg," said the Chancellor. He was also reported to say he believed the political pressure towards achieving early EU membership was now less strong in Budapest

or Warsaw than a few months ago, as the prospect of Nato membership had convinced politicians that the West would indeed open up its key political structures to the reform countries in the region. Yet while the summit formally satisfied the EU's self-imposed target to decide on a reform before embarking on the inclusion of any new members, the summit failed to agree on a formula for the

re-weighting of votes in the Council of Ministers and on a long-term concept for the restructuring of the European Commission for the day when the EU might count more than 20 members. Important and difficult decisions on institutional reforms have been postponed to a later date. Summit participants said another, new Inter-Governmental Conference (IGC) on EU reform was almost inevitable, with the next IGC possibly having to take place before the first new members were taken into the EU.

Due to opposition from a number of member states, including to the surprise of many, Germany, the summit also failed to agree on a substantial extension of the majority vote on Council decisions in a number of single market areas. This means decisions will still have to be taken unanimously.

Some of the more federal-minded summit participants saw this refusal to agree on an energetic curtailment of the national veto as a worrying sign for the future as the danger of the EU getting stuck in a legislative impasse on key issue will automatically increase with each new member.

The compromise struck up to establish a so-called flexibility clause, which will allow EU member states to act jointly within the EU framework, even when a minority of countries wishes not to participate, offers no safeguard against this, as each country can block the application of flexibility by wielding its national veto.

Action needed on single market

The outline of an action plan to achieve a properly functioning single market before the introduction of the euro has been adopted by the Commission. The draft centres on four strategic targets: making single market rules more effective, dealing with key market distortions, removing sectoral obstacles to market integration and delivering a single market for the benefit of all citizens. A series of specific actions, including both legislative and non-legislative initiatives, have been proposed.

The Commission also intends to publish regularly a single market "scoreboard" containing detailed indicators of the state of the single market and of member states' level of commitment to fulfilling the action plan.

"The actions the Commission has outlined are ambitious," commented Single Market Commissioner Mario Monti. "It will take considerable political will on the part of the Union's institutions and of the member states to not only endorse these actions but to carry them all through in the short time available. These actions must include strict application in practice of existing and new single market rules — declarations of good intent are not enough. We have no choice but to follow through if we want a single market that delivers more growth, more innovation, more jobs, improved living and working

conditions and a wider choice of quality products and services at lower prices, as well as greater personal freedom for our citizens".

The actions envisaged include:

- ensuring that member states put in place structures to allow single market problems raised by other member states or the Commission to be resolved within strict deadlines
- strengthening checks that common rules for industrial and consumer products are respected
- setting up a one-stop-shop on the Internet providing business with essential information on single market regulations and a conduit for feedback on firms' experience on the ground
- simplifying single market legislation at both EU and national level and
- improving existing single market rules concerning public procurement, application of the mutual recognition principle, European standards, conformity marking of products, construction products, transit rules and the links between single market policy and the environment.

Dealing with key market distortions that still persist within the single market requires a number of actions including: removal of tax distortions (especially concerning taxation of capital income and cross-border activity); creating a common, origin-based system of VAT; restructuring taxation of energy products; applying EU competition rules with simplified and

modernised anti-trust rules, new guidelines on regional state aids and tightened rules on rescue and restructuring aids.

The Commission also wants to break down barriers in services (for example, telecommunications, energy, pension funds, collective investment funds), facilitate cross-border operations for business (European company statute, cross-border mergers, payment delays) and encourage the development of electronic commerce with a clear, regulatory framework.

Tougher measures needed to fight crime

The EU is prepared to strengthen the powers of Europol so it can more effectively combat organised crime. EU interior ministers made the proposal when endorsing a report from a select group of the EU's top policemen, magistrates and interior officials which painted a grim picture of crime. Lax border controls, EU rules allowing people, goods and money to move unfettered and EU subsidies have created a playground for criminals, says the report. These criminals have resources which far outstrip those of the crime fighters. "Crime is more organised



Sue Cunningham Photographic

and uses to its advantage the free circulation of goods, capital, services and people as well as technological innovation," say the ministers. At present Europol is limited to exchanging information and only once EU member states have ratified the agreement will they be able to pool and analyse data. Then Europol would become more operative and be able to make suggestions and co-ordinate with national crime fighters.

TEN corridor attracts Phare money

Transport Commissioner Neil Kinnock launched one of the most important trans-European network (TEN) corridors, the Wrocław-Gliwice section of the A4 motorway, in May. The total cost of the project is Ecu 350m, of which Ecu 68m was granted by the EU's Phare programme. "The project illustrates that the Commission is keeping two pledges with regard to the upcoming enlargement of the EU: to assist the countries that have applied for membership with their integration ambitions and to use Phare money for badly needed infrastructure projects," commented Hans van den Broek, Foreign Affairs Commissioner. The A4 motorway is part of the Crete corridor linking Berlin/Dresden-Wrocław-Katowice-Krakow-Lviv-Kiev. The Commission is contributing Ecu 68m, with Ecu 225m provided by the European Investment Bank (EIB) as a loan and the remaining Ecu 57m financed

by the Polish government. The project represents the first major motorway construction project which the Commission has been able to support through direct grants under the Phare programme. Priority is being given to the use of Phare support for the upgrading of main east-west and north-south transport links.

EIB lends in forints

European Investment Bank (EIB), the EU's financing institution, has announced a Hungarian forint public debt issuance programme under which it will initially issue bonds up to Ft 20bn (Ecu 100m) in value. The programme provides a framework to allow EIB to enter the Hungarian domestic capital market and finance projects in Hungary with forint loans. The programme, the first of its kind by the EIB in a candidate country, will also promote the development of the Hungarian capital market. EIB lending to the 10 candidate countries constitutes one-third of the bank's overall country lending programme. It has committed almost Ecu 5bn to the region since 1990. The bank will now be concentrating its efforts in the candidate countries on the enlargement process. "We will do our best to support [the candidate countries] and we are well placed to do so. We now have a new mandate from the European Council to lend over Ecu 3.5bn in the

candidate countries over the next three years. Later this year we will launch a new pre-accession facility to help the candidate countries prepare to join the Union," said EIB president Sir Brian Unwin during a recent visit to Budapest. Priority will be given to modernising the transport, telecommunications and energy sectors and providing finance for small- and medium-sized enterprises and other industrial initiatives, particularly in the private sector, said Sir Brian. "We will also continue to give special attention to environmental improvement and protection in the context of the progressive alignment of legislation with that of the EU," concluded Sir Brian.

No more visas

Estonia has approved an agreement with Iceland on visa-free travel and the return of illegal immigrants. The accord went into force in May and meant that Estonians are now able to travel to all Nordic countries without a visa. At the same time Latvia and Norway initialled an agreement on the abolition of visa requirements. Norway is the last of the Nordic countries to co-ordinate an agreement on the re-admission

of illegal immigrants with Latvia. Latvian citizens do not need visas to enter Denmark and Iceland and agreements on a visa-free regime have been reached with Sweden and Finland. However, Sweden wants Latvia to ratify the UN Convention on Refugees before lifting visa requirements.

EMI report on payments

The European Monetary Institute (EMI) has published a report on developments in EU payment systems in 1996. The report follows-up an earlier one on minimum common features for and developments in EU payment systems. The analysis concludes that the 10 principles set out in its 1993 report on minimum common features for domestic payment systems have generally been met. Work is now progressing in all EU member states to ensure full compliance by the start of stage three of economic and monetary union (EMU). EMI says the most important work in this field is in the design and implementation of a real time gross settlement (RTGS) system in every EU member state. A new or redesigned RTGS system is expected to be working in all 15 EU member states by the end of the year. Co-operation of central banks



European Commission

and credit institutions is continuing on Target — the trans-European automated real-time gross settlement express transfer system — payment arrangements which EU central banks and EMI are preparing to implement stage three of EMU.

Democracy takes hold

The European Fund for Freedom of Expression, an association founded in 1987 at the initiative of several European Parliament members, recently published its third report on the state of democratic processes in central Europe and the Baltic states. The report drew on analyses made by its own observers. The report concludes that democratic development in the 10 candidate countries in 1996-97 was essentially marked by three general trends. One was that democratic changes in government showed that elections were working in an "acceptable manner" comparable to EU states. Leaving aside the specific problems of former Yugoslavia, the problems of minorities has become less of an issue. Third, the report concludes that those countries which committed themselves early on to economic and political reforms are now in the best situation economically, politically and socially. The report says the "most democratic countries" are Hungary, Poland, the Czech Republic, Slovenia, Estonia, Latvia and Lithuania,

"although their level of economic development may be variable, the way they function politically is close to that of western democracies". The least democratic countries in the opinion of the report are Albania, Bosnia-Herzegovina, Moldova and Yugoslavia. Countries with "limited democracies" include Bulgaria, Romania, Slovakia, Croatia and the Former Yugoslav Republic of Macedonia. The report concludes that in these countries "a dominant party tries to wrest control of all the key aspects of the nation". In the case of Romania and Bulgaria, where political changes have recently occurred, the authors of the report believe these two countries will move into the category of democratic countries in the next report. For Slovakia, the report says "the great economic progress that may be observed in the country has not been accompanied by a corresponding democratic progress. The situation of freedoms worsened even in 1996. Control by Mr Vladimir Meciar's Movement for a Democratic Slovakia (HZDS) on political life, the state and the main companies has tightened." In conclusion the report says that all 10 candidates for EU membership, except Slovakia, seem to respect the political and democratic criteria set by the EU. A copy of the report can be obtained from the European Fund for Freedom of Expression, 50 rue Mouraud, 75020 Paris (Tel: (331) 4063 7333; Fax: (331) 4063 7963).

News in brief ... News in brief ...

Agriculture ministers from central European and Baltic states met in Bucharest in May. The conference, attended by UN experts, discussed ways of increasing agricultural output to match EU levels.

Slovene president Milan Kucan visited Budapest in May where he addressed parliament and spoke with his Hungarian counterpart, Árpád Göncz. The two leaders agreed to open a Slovenian consulate in Szentgotthard and a Hungarian consulate in a place to be decided.

Estonia, Latvia and Lithuania have agreed to dismantle the remaining barriers to free trade between them. Prime ministers meeting in Parnu in May at the Baltic Assembly, an inter-parliamentary advisory body, agreed the change. The assembly also passed a resolution urging the Baltic states to abolish the death penalty.

Commission President Jacques Santer visited Romania in May. He told the Romanian parliament the country will receive around \$61m (Ecu 55.4m) in addition to the \$482m already promised by the European Bank for Reconstruction and Development, to help balance its trade deficit.

Estonia has joined five Council of Europe penal conventions. The conventions are on extradition, co-operation in criminal proceedings, exchange of information on foreign law, the transfer of criminal proceedings and the transfer of sentenced persons.

Romania has agreed with Ukraine and Moldova to set up two Euro regions in areas where their three borders converge. The agreement was reached within the framework of the Black Sea Economic Council. The construction of new road links in the Euro regions will help boost economic co-operation and cultural contacts.

Latvia has moved closer to membership of Central European Free Trade Agreement (Cefta) with the approval by the Polish government of a free-trade pact with Latvia. Current Cefta members are the Czech Republic, Hungary, Poland, Slovakia, Slovenia and Romania.

Environment Commissioner Ritt Bjerregaard wants to see more involvement of non-governmental organisations (NGOs) in the development of candidate country environmental policies. She believes they can help push developments in the right direction, particularly by influencing education and the media.

Europe's citizens push for more power

Every member of the European Union is a consumer, but in the past this large and important group has had little voice in the Union's decision-making process. From now on consumers will be able to take more control.

It took a major disaster to achieve it, but Europe's consumers may finally be able to make their voices heard in the corridors of Brussels. The importance of giving consumers a voice in the Union can hardly be overstated. Consumer policy has a direct effect on the lives of every single one of the EU's citizens.

Perhaps the only positive results of the recent BSE scare are the European Commission's decision to bolster its consumer affairs division and moves in the other institutions to shift the emphasis of EU policy towards an appreciation of consumer safety and away from a single-minded drive for industrial liberalisation.

In March 1996 the then British health minister Stephen Dorrell announced to a stunned House of Commons that there could indeed be a direct link between mad-cow disease and its human equivalent Creutzfeldt-Jakob disease.



The chain of events this set in motion led to the uncovering of severe shortcomings in the protection of consumer health on a European level. A special inquiry committee established by the European Parliament concluded that the Commission and the British government had paid more attention to preserving the health of the beef market than to the health of the EU's 370m consumers.

A realisation of this in the corridors of power plus parliament's threat to sack the entire Commission led Commission President Jacques Santer to propose a massive shake-up of the directorate-general for consumer policy (DGXXIV) in April this year.

Historically the Cinderella figure among the Commission's departments — accounting for just Ecu

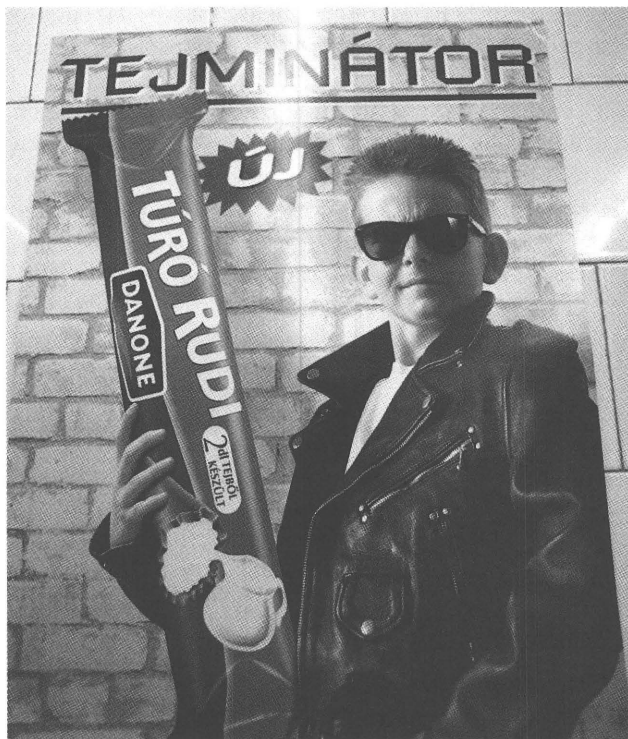
The importance of giving consumers a voice in the Union can hardly be overstated. Consumer policy has a direct effect on the lives of every single one of the EU's citizens.

19m or 0.021 per cent of annual EU expenditure or just Ecu 0.05 for each of the Union's 370m consumers — DGXXIV suddenly found itself boosted from under 100 staff to over 400.

The new department will take responsibility for the plethora of scientific advisory committees charged with analysing the latest evidence of a range of food safety issues, and will also take command of the food safety office established recently in Grange, County Meath, Ireland.

The reinforced division will also have the advantage of being led by energetic Italian Commissioner Emma Bonino, no slouch when it comes to gaining visibility and a high-profile for her dossiers.

Ms Bonino, who also has responsibility for the totally unrelated areas of fisheries policy and humanitarian aid,



Sue Cunningham Photographie

has been pushing to raise the profile of her department since she arrived in Brussels. "We did not ask for this, but good things do sometimes come out of crises. Having DGXXIV with some weight behind it means we can finally really push consumer issues," says one of her senior advisers.

The consumer lobby is in two minds over how to view the changes at DGXXIV. "It is not clear how everything is going to work. We are very pleased at the higher profile, but we need to

ensure that other important consumer affairs considerations are not completely sidelined by the food safety issue," says Valerie Thompson of the European consumer lobby, BEUC, the European Union consumer's organisation.

Consumer policy first gained a foothold in the EU treaties as late as 1991 when article 129a was written into

the Maastricht Treaty. This makes certain limited provisions for European-level action on consumer policy — notably measures aimed at ensuring the efficient functioning of the single market — but the vast majority of initiatives are covered by the principle of subsidiarity and tend to be carried out at member state or regional level, with the Commission attempting to play some sort of co-ordinating and advisory role.

Officials say their task has been made even more difficult by a definite north-south split in Europe over attitudes to consumer policy. "In northern countries, such as Britain and the Scandinavian states, consumer protection organisations are highly developed and efficient and they tend to ignore us somewhat. In the south people do not seem to care much. We seem to be caught between snobbery and indifference," complains one DGXXIV official.

Many critics argue that consumer policy initiatives are often overridden by industrial and commercial considerations when they come up for discussion within the 20-member Commission.

But BEUC is quick to point out that it does not always find itself pitted against the interests of industry. "Over issues such as the free market in spare car parts, for example, we work alongside the independent component manufacturers," explains Ms Thompson. BEUC argues that many car manufacturers are setting up what amounts to private monopolies by forcing consumers to buy visible replacement parts, such as radiator grilles or wing mirrors, from them alone.

BEUC believes the scope for European level action on consumer protection has to be increased if Europeans

are to benefit fully from any advantages brought by the internal market. "It is no longer sufficient to have only national responses. You have to have European legislation," argues Ms Thompson. She points to a raft of anomalies ranging from the difficulties of cross-border shopping to differing rules on product labelling as clear examples of why European rules are needed to ensure consumer protection.

While major multinational companies are well able to

make full use of the massive EU single market, the average man in the street looking to shop across borders still faces major obstacles. BEUC is pushing for article 129a to be reinforced when the revised Maastricht Treaty is unveiled later this year. Ms Thompson points to the provisional draft treaty drawn up by Ireland and the Netherlands during its presi-

dency of the EU in the second half of 1996 as a good first step towards the sort of legal provisions her organisation would like to see for consumer affairs.

"In order to promote the interests of consumers and to ensure a high level of consumer protection, the Community shall contribute to protecting the health, safety and economic interests of consumers as well as to promoting their right to information, education and representation," reads the draft text.

"Consumer protection requirements shall be taken into account in defining and implementing other Community policies and activities," it continues.

But consumer groups are disappointed that the Dutch presidency — which steered the Inter-Governmental Conference (IGC) to a close in June — did not seem to share the same enthusiasm for consumer policy as their Irish predecessors.

The Hague is keener on ensuring that European markets are freer than at present, but does not seem so concerned that the liberalisation process should be tempered with parallel consumer protection measures. Consumers have had to remain particularly vigilant as the Union has sought to attain the single market. Their workload increased still further when Commission President Jacques Santer launched his action plan to complete the single market.

BEUC bases its campaigning on the principle of the free market with some public intervention to protect consumer rights. Sometimes it finds itself opposing large industrial groups, which have greater lobbying resources. At other times BEUC's belief in liberalisation of markets coincides with the aims of commercial companies.



Sue Cunningham Photographic

BEUC has championed the cause of customers in its dealings with EU institutions since the 1960s. During that time its tasks have grown as the number of member states has increased from six to 15. European Agriculture Commissioner Franz Fischler repeatedly stresses that when the 10 candidate countries become members, the number of EU consumers will increase by 100m or 29 per cent — an enormous challenge as well as opportunity for the Union's business sector.

At present BEUC has just one member from among the 10 candidate countries, the Slovenian consumer organisation ZPS, which joined in 1995.

EU consumers have already begun putting out feelers to their counterparts in the east, but have found a distinct lack of co-ordination on a national level. "We were at a conference recently in the Czech Republic. We found lots of regional and local groups, but not much co-ordination. This forum actually provided a useful opportunity for them to meet each other and the co-operation is now getting underway," says a BEUC official.

This task should be aided by the efforts of Consumers International, which has taken upon itself the job of offering support to the candidate countries in terms of organisation and information policy. Breda Kutin of ZPS, who also represents central and eastern Europe in Consumers International and sits on the board of ERICA (European Research into Consumer Affairs), believes it is crucial for the applicant states to have a voice in EU policy formulation. But she stresses that, as with elsewhere on the continent, different countries have different preoccupations.

"We must all do more for the consumer voice to be heard in the EU as a whole. In our country we are doing reasonably well in consumer protection, but we must speed up legislative harmonisation in a number of

Consumer policy first gained a foothold in the EU treaties as late as 1991 when article 129a was written into the Maastricht Treaty.

specific areas, such as financial services," she says. A consumer protection law is now in its fifth year of consideration in the Slovene parliament.

Already the Commission has begun to formulate its thoughts on what the applicant countries should be doing to bring their consumer legislation into line with the *acquis communautaire* (body of EU law).

In the Commission's White Paper setting out how the candidates should approximate their laws to the EU's single market legislation, 12 of the 13 consumer measures picked out

were identified as being of key importance and nine were to be carried out as part of stage one of the process. They concerned product safety, classification, labelling and packaging of products destined for the consumer, indication of prices, misleading advertising, consumer credit and unfair terms in consumer contracts. Stage two measures included laws on package travel contracts.

But the document went beyond simply outlining individual pieces of EU legislation. It stressed the need to establish the conditions necessary to operate consumer legislation properly.

This would involve granting consumers fundamental rights, establishing an institutional structure to run consumer policy, ensuring sufficient consultation of consumer interests, providing them with the right of appeal and official assistance with the establishment and development of efficient consumer organisations.

Most candidates have already adopted a comprehensive consumer protection act, but there remains widespread confusion about the precise scope of consumer policy.

Similarly some individual legal initiatives have been taken in a number of the applicant countries. Others have received less thorough attention, notably marketing practices, unfair advertising, consumer credit and other financial services.

But even where measures have been taken, most of the countries face considerable difficulties actually implementing consumer laws. There is often confusion over which minister or government department has responsibility for passing legislation and often resources are too Spartan to give consumer protection departments a real chance to carry out their tasks satisfactorily.

As technology advances, making cross-border shopping easier and consumers become more aware of their rights, consumer demands for better Europe-wide protection will only increase. ■

Reports by Anthony Anderson, Brussels



Sue Cunningham Photographic

Consumer policy

Top 10 consumer concerns

Safety of genetically modified foods

Consumers are worried about the long-term effects of eating genetically modified food on their health and the environment. They lack confidence that proper controls are carried out by the European Commission or member states.

Lowering of consumer protection standards in the single market

Consumers fear the single market means their country may be obliged to accept goods and services from other member states which do not conform with their own (sometimes higher) national standards. In some cases these rules are challenged as barriers to trade.

Cross-border shopping

Border hopping shoppers want to be able to buy goods wherever they are cheaper or better, without worrying that if something goes wrong they will be left with no rights. These could include the introduction of clear EU rules on guarantees.

Safety and quality of meat

BSE alerted the world to the dangers of modern farming methods. With many studies highlighting the illegal use of hormones in meat and pressures from the US on Europe to accept meat containing growth hormones, the issue of meat safety has taken centre stage. Consumers are aware of the possibility of residue from hormones remaining in the meat they eat. They are also worried that inspection authorities, especially those in other member states, do not do their job properly.

Environmental damage

Consumers are concerned about environmental damage and pollution caused by modern living, especially pollution of food, water and the countryside. There is no Europe-wide legislation to standardise or control environmental claims on product labels, many of which are spurious.

High costs of buying abroad

Consumers believe they have to pay too much for financial transactions if they purchase goods and services in other EU countries. The costs of changing money are high as is arranging cross-border payments, which are often inefficient.

Marketing aimed at children and the growing trend towards hidden forms of advertising

Children are increasingly subjected to commercial pressure in almost every aspect of their daily lives. This could include product-placement in films, in-school advertising, direct mail and sponsorship of children's events. Parents and teachers are worried about the impact of these marketing practices on children and the inadequacy of the existing regulatory framework to deal with them.

Clear labelling

The proliferation of products in the single market means adequate information for consumers on what they are buying is increasingly needed. Without it they cannot compare new products from other EU countries with ones with which they are more familiar.

Liberalisation of public utilities

There is a fear among consumers that liberalisation of services such as telecommunications, electricity, gas or transport will simply benefit industrial users and mean higher costs for private individuals.

Effect of globalisation on the EU

Consumers are worried that pressures to liberalise world trade might result in the EU compromising its own standards and consumer preferences as non-EU countries impose their standards and rules on the Union. Trade pressures have played a key role in the recent approval of genetically modified seeds, despite consumer opposition. ■



Case study: directive on cross-border payments

Despite the power and influence of the commercial interests pitted against them, European consumer groups can claim notable successes in their constant battle to uphold the rights of their constituents. The most recent example was the adoption of a directive on cross-border payments, after a battle lasting over seven years.

Whatever may be said about the benefits of the single market, consumers have consistently

faced severe difficulties in transferring money to another country. These have included double charging, unacceptably long delays, excessively high costs and a lack of effective systems for redress.

In spite of early pressure for binding legislation, the Commission in 1994 started promoting the idea of a citizens' charter, rather than a directive, and various countries holding the revolving EU presidency showed only limited interest in the issue.

BEUC's lobbying attack focused on all three European institutions: parliament, council and commission. A number of Commissioners were asked to put pressure on the two Commissioners then responsible. Key parliamentary committees were also instrumental in applying pressure.

Whatever may be said about the benefits of the single market, consumers have consistently faced severe difficulties in transferring money to another country.

In October 1994 the Commission finally put its proposal for a directive on the table and this was picked up by the German presidency later that year.

There then began two-and-a-half years of frenzied lobbying activity, concentrating particularly on the European Parliament's consumer protection committee and national administrations.

Although substantially weakened compared to the Commission's initial draft, the directive finally adopted in April 1997 still contained

the major points campaigned for by Europe's consumer groups.

These included the outlawing of double charging, rules on transparency of information for consumers, time limits within which transfers must be completed and guarantees for money lost.

The final legislation covered payments of up to Ecu 50,000.

BEUC's Valerie Thompson puts the success of the organisation's lobbying effort down to being well-informed, targeting its attack carefully, having a good understanding of the way the EU institutions work and interact with each other, using the media as a lobbying tool and at no stage underestimating the power of its opposition. ■

Europe's citizens speak

A majority of EU consumers approve of EU actions in the field of consumer policy, according to a recent Eurobarometer survey*.

The report shows that 88 per cent of EU citizens largely approve of EU policies and want the Union to go even further in its efforts to protect consumer rights.

Most want to see rules ensuring that every European citizen has easy access to the legal system in other member states in case of consumer problems.

The survey found that citizens believe they are not aware of their rights (51 per cent) and the cost of taking legal action against someone is too high (50 per cent).

On protection standards, three quarters of those interviewed said these should be harmonised in the EU. Safety of food was the main concern of those surveyed, with around 35 per cent of EU citizens believing food is not safe. ■

Eurobarometer 47 on consumer policy, conducted in February 1997. The full version of the survey is available on the Europa server on the DGXXIV home-page from June 1997. More information from Filippo di Robilant (Tel: (322) 296 6949) or Johan Reyniers (Tel: (322) 295 6728).

Catching up with pre-transition levels of output

The 10 candidate countries are now running fast to catch-up with their economically more developed western neighbours. This report looks at the situation in the 10 countries and how they are progressing.

After the breakdown of central planning, all 10 associated countries were hit by a serious economic downturn. Even in the best performing countries, GDP decreased by approximately 20 per cent and in others it fell by more than one half. Since 1994 most countries are recording positive GDP growth again, and the fairly positive overall outlook of the Commission's present forecast* raises the question of where this evolution will bring the 10 countries, compared to their starting position at the beginning of the transition period in 1989.

In 1996 Poland was the first country to reach its pre-transition output level again. Although Poland

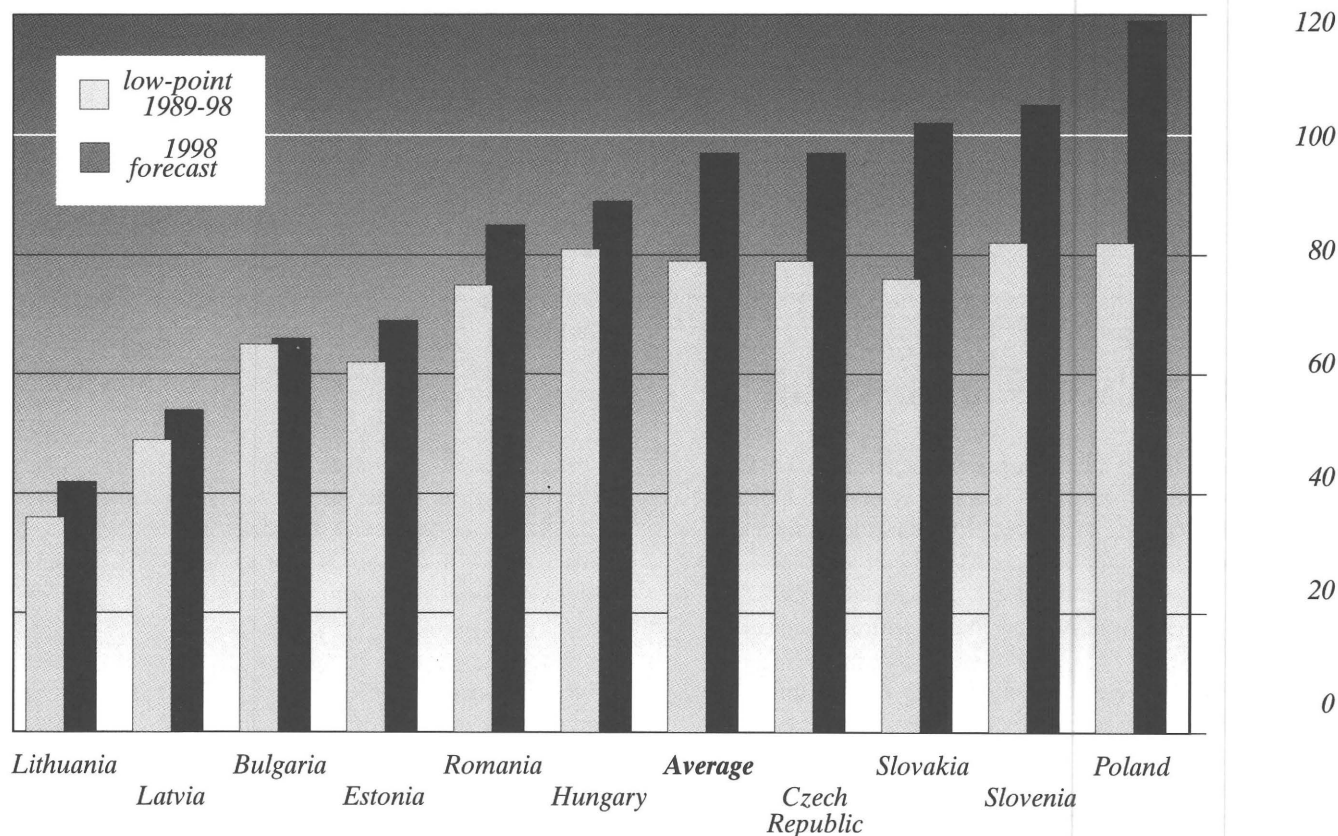
experienced a relatively sharp contraction in the beginning of the transition, it was the first country to regain positive growth rates as early as 1992.

According to the forecast only Slovenia (in 1997) and Slovakia (in 1998) will be able to achieve the same before the end of the forecasting period. So, despite five years of widespread and fairly rapid economic growth, only three countries will be able to get back to their starting level.

Most likely the Czech Republic will join this group of countries in 1999. Hungary and Romania are not too far off and they should be able to do the same in the early years of the next century.

However, the remaining four — Estonia, Bulgaria, Latvia and Lithuania — have little or no chance to reach their pre-transition starting level again in the foreseeable future. For the three Baltic countries, this is due to the pronounced fall in output they witnessed when gaining

Evolution of real GDP - 1989 = 100



Source: DGII, European Commission.

independence from the Soviet Union. For Bulgaria the present economic problems are the determining factor.

Given that the 10 candidates are barely able to get back to their own pre-transition levels of output, it should come as no surprise that they have still quite a lot of catching up to do to reach EU output levels measured per head.

To compare output levels per head between the EU and the 10 candidates, it is best to use purchasing power parity (PPP) conversion rates instead of current exchange rates. PPP rates correct for the over- or under-valuation of currencies and should be less volatile than current exchange rates.

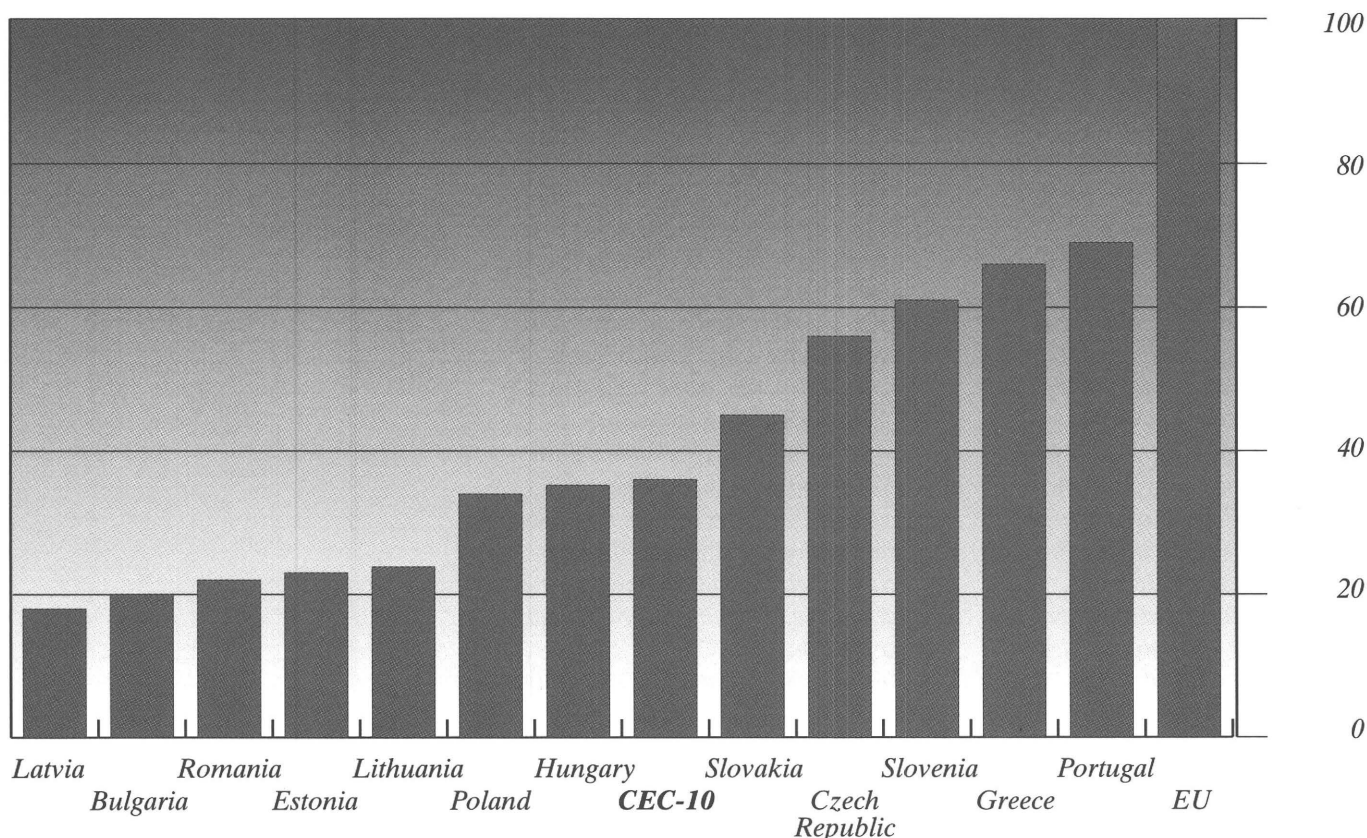
Because PPP rates are based on survey results, rates from different sources can differ quite a lot depending on the size and timing of the survey. Therefore, calculations using PPP rates should be seen only as indicative results

and differences between countries should not be studied with a magnifying glass.

Nevertheless, GDP per head at PPP clearly shows that even the most advanced candidate country will still lag behind member states with the lowest GDP per head in 1998. Only Slovenia and the Czech Republic will surpass 50 per cent of the EU average, while the average of the candidates is only about one-third of the EU average. ■

**In the framework of its six-monthly forecasts of the economic situation in the EU member states, the directorate-general for economic and financial affairs (DGII) also produces forecasts for the associated countries. A summary of the most recent Spring 1997 forecast can be found in European Dialogue 1997/4.*

GDP per head at purchasing power parities, 1998 (100% = EU average)



Source: DGII, European Commission.



TO THE EDITOR

I wish to congratulate you on the article on privatisation and liberalisation in issue 1997/3, which emphasises that EU candidate countries — that is including the Czech Republic — need, for entry into the EU, a functioning market economy. This means a great deal more than just privatisation, especially when the latter has been, up to a point, a fiction.

Here are a few ideas on what has happened in the Czech Republic. The world's press has at last begun to carry franker information on the Czech situation, on the huge trade and balance of payments deficit. Yet there are still plenty of experts around who think that the Czech government's new measures will put matters to rights, perhaps even before the year's end.

Some prestige is enjoyed in this respect by Patria Finance, which produces prognoses. In 1997 our foreign convertible currency debt should reach \$25bn, although in 1993 it was only \$8.5bn. The balance of payments should have a deficit equivalent to 9.5 per cent of GDP. Except that this GDP is calculated at 1994 prices, which should be Kr 1600bn.

But if we took price constants of the late eighties, the percentage would be much higher. (In 1993 the GDP at 1984 prices was only Kr 400bn.)

According to the Economist Intelligence Unit, the 1998 deficit should continue to grow at the 1997 rate, but I believe it will be much worse. The Czech economy has long functioned at below its 1989 performance and it is plain that in the year 2000 it will not reach the level — the quality of which I am by no means idealising — achieved 10 years ago.

Compared to 1989 even the productivity of the Czech economy is down, which explains the low rate of unemployment. It is particularly

low in the processing industries, the very core of the economy. The results of the finance sector are unbelievable — in 1996 each and every employee produced a monthly loss of Kr 25,000. Share prices are falling even nominally (without allowing for inflation) and dividends are infinitesimal — if any.

The average profit rate of a group of large companies that have been studied statistically reached a mere 4.1 per cent in 1996 (before profits tax), which is far below bank interest rates.

We are simply losing our competitiveness and this is beginning to be blamed in part on the EU, although I am not saying there are not things which we might well discuss with the EU.

Some Czech politicians pretend ours is a classic case of cyclical recession, as we know it in the western context. In fact it is a state of long-term structural crisis, crisis of productivity and quality of production, and of competitiveness, and the situation is getting worse.

Your warning, expressed in the article, came at the right moment, but even so your chosen language was too diplomatic. It is a pity that the warnings uttered in 1990 fell on deaf ears; as when Paul Samuelson, the Nobel Prize-winner, said: "Most of us, middle-of-the-road economists, are surprised by what we are hearing. We thought that the East Europeans and their Harvard-educated advisers wanted to build something like America after the New Deal. Instead we find that their aim is the creation of a Dickensian capitalism."

Instead, this country was overrun by such confused mottoes as "the free hand of the market will solve everything", "there's no such thing as dirty money", "it doesn't matter what we make, potato chips or computer chips", "with privatisation

speed is the determining factor", "we must turn a temporary blind eye to the legal shortcomings of transformation", "ecology is just the icing on the cake", etc.

Whatever their authors might have intended, these were challenges to commit fraud and embezzlement, to be careless of the performance, and often of the disintegration of companies, to countenance environmental nihilism and the asset-stripping of countless firms and institutions. To this day certain politicians seek to make light of the situation and pretend they have quick and easy solutions.

Unfortunately even many opposition politicians and economists do not understand that there is more to transformation to a market economy than just setting aside the system that existed here up until 1989. There are ongoing processes of globalisation and revolution in science and technology. Apart from restructuring we have to implement what is known in the outside world as shareholding. Unprecedented movements of finance are happening and these and many other issues are subjects of serious dispute.

Dr Jaromir Sedlak
Prague, Czech Republic

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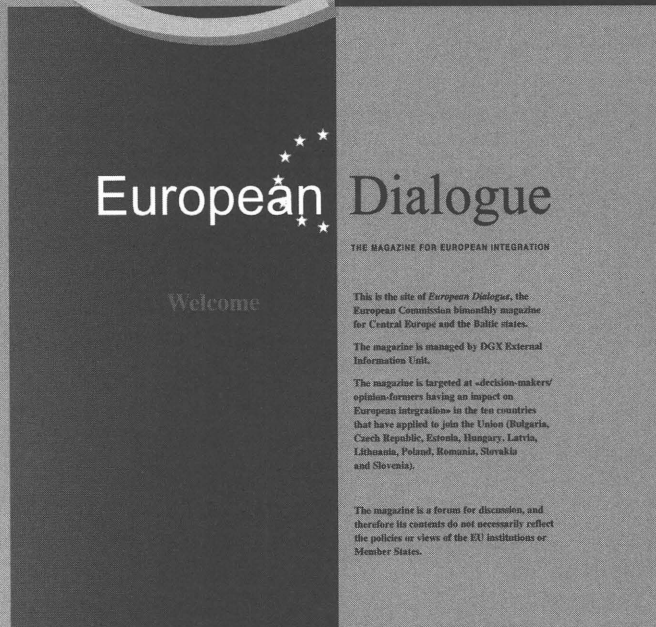
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