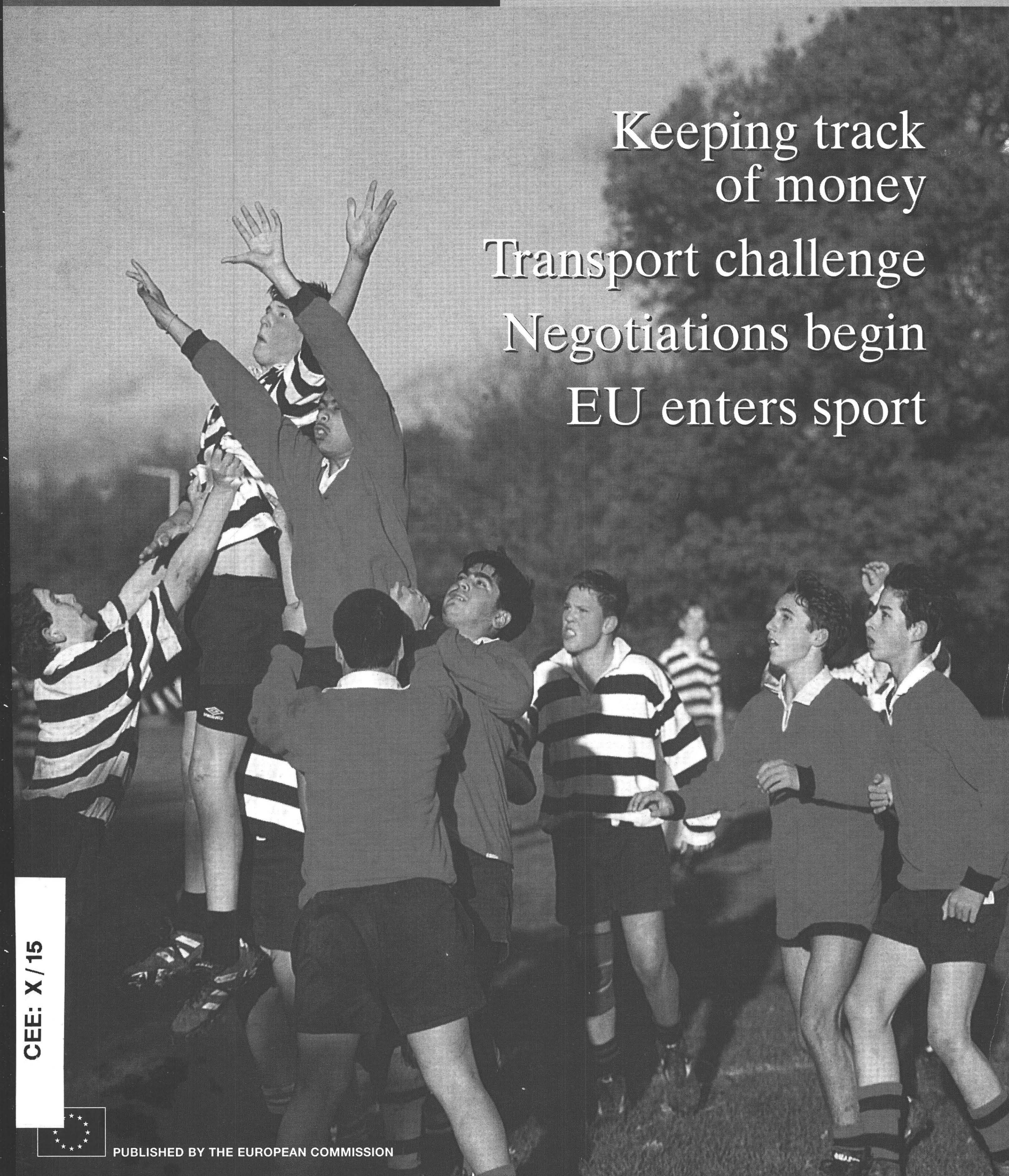
European Dialogue

THE MAGAZINE FOR EUROPEAN INTEGRATION

JULY-AUGUST 1998/4



Keeping track of money

Transport challenge

Negotiations begin

EU enters sport

PUBLISHED BY THE EUROPEAN COMMISSION

Video-film highlighting 40 Years of the EUROPEAN INVESTMENT BANK

This short video tells in an informative and entertaining manner the story of 40 years activity of the European Investment Bank, the European Union's project financing arm.

The film is available in English, French, German, Italian, Spanish and Portuguese.

The video is generated to the general public, TV stations, Chambers of Commerce and Industry, EU-institutions and missions abroad, European organisations, professional associations, universities and schools will find it particularly helpful for "explaining the EIB" which holds the unique distinction of being both an institution of the European Union and a bank.

The film shows projects, capital markets and "the Bank at work", highlighting the contribution it is making to improve standards of living and quality of life in the Member States of the European Union as well as in other regions of the world.

In a history section sub-divided into four decades, well-known world events and personalities are presented side by side with EIB activity during the same period. Towards the end of the film, EIB-President Sir Brian Unwin explains the Bank's Amsterdam Special Action Programme – ASAP, the EIB's response to the Resolution on Growth and Employment of the Union's June 1997 Amsterdam Summit.

BEI EIB

1998 40 BEI EIB 1958

For additional copies or other film material on the* European Investment Bank, *please contact* S. Decelle *at

100, Bd. Konrad Adenauer, L-2950 Luxembourg,
Tel. +352 4379 3135, Fax +352 4379 3189, E-mail : S.DECELLE@eib.org

Contents

PUBLISHER
European Commission
(Directorate-General for Information)

EDITOR
Margie Lindsay
Tel : +44 (181) 546 9245
Fax : +44 (181) 287 1725
E-mail : MargieLindsay@compuserve.com

PRODUCTION
Cartermill International

SUBSCRIPTION AND ADVERTISING ENQUIRIES
Cartermill International
26 Rue de la Loi (B1)
1040 Brussels / Belgium
Tel: +32 (2) 280 1737
Fax: +32 (2) 280 1912

The magazine is a forum for discussion, and therefore its contents do not necessarily reflect the policies or views of the EU institutions or of the member states. Readers' reactions are welcome and wherever possible will be published.

Letters to the Editor should be addressed to:

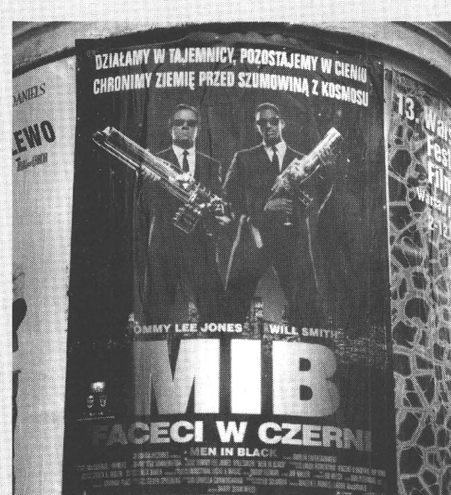
The Editor of *European Dialogue*
c/o Colin Walker
(Directorate-General for Information)
European Commission
200 rue de la Loi - 1049 Brussels / Belgium
Tel: +32 (2) 299 9022
Fax: +32 (2) 299 9288
E-mail : colin-norman.walker@dg10.cec.be

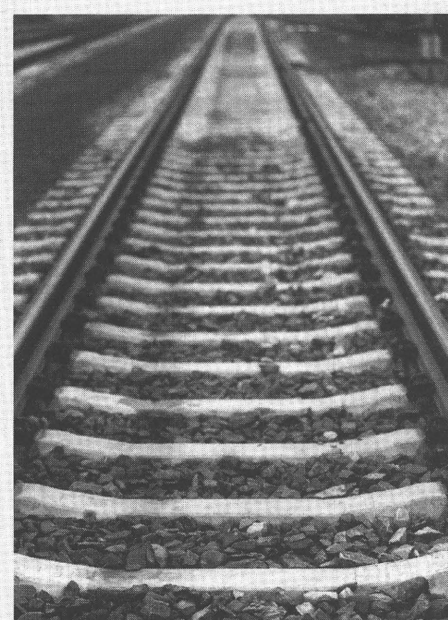
COVER PICTURE
Sue Cunningham/SCP

TYPESET / LAYOUT & DESIGN
TPP Brussels

PRINTED BY
Impresor

This publication is available in Bulgarian, Czech, Estonian, Hungarian, Latvian, Lithuanian, Polish, Romanian, Slovak and Slovenian





Keeping track of money flows is important

Applicant states will have to convince existing EU members that they can be trusted to keep track of how EU funds they receive are spent. Financial control is at the heart of the matter.

Once the applicant countries become full EU members, they are likely to benefit from the Union's structural and regional development funds as well as other programmes. Under these schemes, billions of Ecu are spent every year to even out economic imbalances between the Union's richest and poorest regions. In addition other programmes give support for projects and initiatives throughout the Union. The applicants are also likely to receive additional funds under the common agricultural policy (CAP).

Money is usually made available on the matching funds principle with the EU, through the Commission, usually providing half of the money and the member state which benefits from the pay-out coming up with the rest.

Once the candidates countries come into the Community, financing rules will become very different.

"Today the money being channelled into these countries through the Phare technical assistance programme is a sort of 'foreign aid'. This means the Commission has a large degree of control over the flow of funds. But once all of these countries come into the Community these financing rules will become very different. The responsibility for funds will be delegated to member states to a very great extent," says Dieter Frisch, a former head of the Commission's directorate-general for development (DGVIII) who now heads the Brussels unit of anti-fraud and corruption lobby, Transparency International.

Because it is likely that large amounts of EU taxpayers' money will in future be paid to the applicants, the Commission needs to ensure that funds end up being spent where and how they are intended.

In order to provide money where it is most needed, a decentralised mechanism needs to be in place. This means keeping track of cash as it filters down to areas for which it is intended.

"We have between 80 and 100 paying agencies for the CAP in the EU at the moment, so you can see the size of the challenge," explains one Commission official.

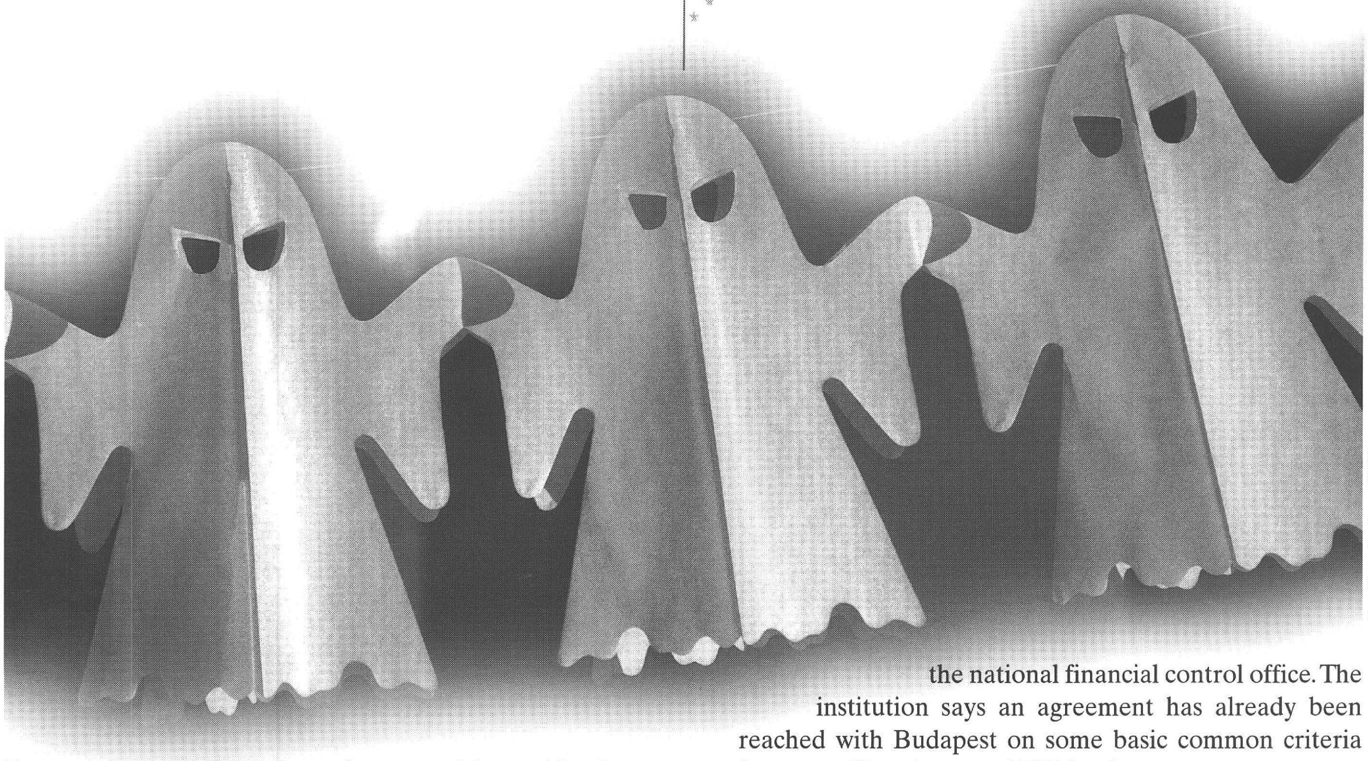
In order to ensure that the risk of fraud is minimised, the Commission's directorate-general for financial control (DGXX) works in tandem with national auditing offices and carries out regular checks on how and where funds are being spent. The head of DGXX, currently Isabella Ventura, is known as the Commission's financial controller.

"The system within the EU is based on the principle that it is essentially the member states that control national spending of EU finances. In an ideal world we would not have to intervene at all," explains one DGXX official, adding, "But we do not live in an ideal world and Commission officials do from time to time need to investigate suspected mis-appropriation of funds."

DGXX's resources and staff are limited and the control system can only work effectively if national financial control offices are trusted.

It is for these practical reasons that the applicant states must be able to prove that they not only have legislation on the statute books which allows them to control the way EU funds are spent, but also have the institutions in place to ensure these funds reach their allotted destination and are used for specific purposes.

Sue Cunningham/SCP



Experts from DGXX have been working with the applicant states since the early 1990s to ensure that the candidate countries realise what will be expected of them when they join the Union.
Much work has been carried out as part of the EU Phare programme with officials regularly travelling to the applicant states to organise conferences and seminars dealing with financial control issue. Experts say that at first the task seemed daunting, with many countries starting almost from scratch after years spent as centrally controlled states. In most of these countries the concept of financial control did not exist.
"At the beginning it was very difficult. They said, 'financial control? what's that?' In the past, the minister just said 'do something' and it was done," explains Francesco De Angelis from DGXX.
Mr De Angelis says that in recent years the applicant states have made some impressive advances on putting into place the mechanisms of financial control needed if the state is to take advantage of outside funding.
"They have made a lot of progress in this area and most of the systems are developing well. With our support and the support of the Phare programme — which now provides targeted funds designed to help with the accession process — I am absolutely confident that they will be ready," he says.
The Commission insists it is not trying to force the candidates to adopt an EU model for organising their financial control procedures. Practices vary between the Union's existing member states. For example, northern European countries tend to use a system of external ex-post audits to ensure funds have been spent properly. In the south administrations employ methods which stress the importance of imposing rigorous vetting procedures before any money is released.
"The most important thing is that they come up with a system that works efficiently and that the procedures are reliable and effective," explains one expert.
Experts at DGXX say particular progress has been made in Hungary where the Commission is working alongside the national financial control office. The institution says an agreement has already been reached with Budapest on some basic common criteria for controlling the use of EU funds.
"Hungary is very efficient now. I was impressed with their system," says Mr De Angelis.
Officials are hoping similar agreements will be reached with most of the other applicant countries this year.
One of the most important things the applicants need to ensure is that all national officials who deal with EU funds should be properly trained.
"Officials need to be well paid and motivated. That is certainly an area where some applicant states are not yet at the same level as the Union," explains one financial control expert.

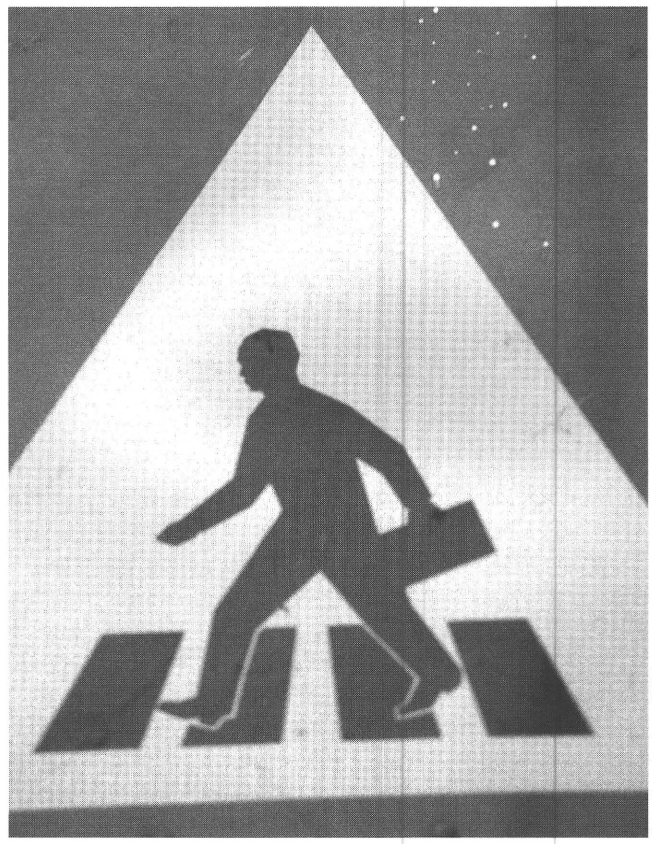
In order to provide money where it is most needed, a decentralised mechanism needs to be in place. Keeping track of cash as it filters down to areas it is intended for is a mammoth task.

The question of pay is an important one. If officials dealing with large sums of money feel they are receiving an adequate salary for the job they are doing, they will be less inclined to top up their pay packets by taking bribes or mis-allocating funds.
The Commission says the onus will be on the applicant states to prove they have the necessary institutions, staff and laws in place to carry out effective financial control procedures.
Staff in DGXX already have a heavy workload. "We have had no real staff increases in this department in recent years. When the applicants join we will have to cope with a huge problem with the same number of staff," says one official.
Given the importance to EU taxpayers of ensuring that their money is not lost through fraud and economic mismanagement, some analysts have argued that the Commission should increase the resources it allocates to the financial control department before the first of the applicant countries join.
"It is clear that if a national structure is not capable of

managing adequate financial control then we should think about their accession. But basically I am optimistic," says one official.
"In any case, let's be fair. Even after 40 years of European integration, there are still some existing member states where there are weaknesses," concedes another financial control expert. ■

Reports by Timothy Davidson, Brussels

The most important thing is that the candidates come up with a system that works efficiently and that the procedures are reliable and effective.



Sue Cunningham/SCP

Bigger role for UCLAF advocated

Aside from the work done by the Commission's financial controllers, there is a special anti-fraud unit, UCLAF (Unit de Coordination de la Lutte Anti Fraude) (ED 98/3, page 5).
UCLAF is currently part of the Commission's secretariat general — the institution's general co-ordinating body — and it answers to Commissioner Anita Gradin who is responsible for financial control and anti-fraud.
Recently Ms Gradin proposed that UCLAF be given a greater degree of autonomy so that it can act more swiftly when cases of fraud are detected.

In order to face the particular challenges posed by enlargement, UCLAF will be expanded.

Under Gradin's proposals UCLAF would have its powers within the Commission increased so that it would be on a par with the Commission's financial controller. This means the official in charge of the fraud department would have the right to ask Ms Gradin to raise particular points during the weekly meeting of all Commissioners.
Ms Gradin also plans to increase judicial links between UCLAF and national authorities in the member states. "I believe the measures I have outlined will strengthen our capacity to deal with fraud and irregularities," says Ms Gradin.
In order to face the particular challenges posed by enlargement, Ms Gradin also announced that UCLAF will be expanded. "We will probably have around 10 extra people to add to the 150 staff already working for UCLAF," explains one close Gradin aide. The new staff will partly be responsible for looking for potential areas where fraud could occur within the applicant states.
"These countries are moving from political systems which were very soft on corruption, to democracies and we need to help them," explains one expert.
"I find it appalling that since the fall of the Berlin wall and the establishment of Phare and Tacis we have not advocated more resources to this issue," says one Commission official. "We have an obligation to be successful here or we are in big trouble," he adds. ■

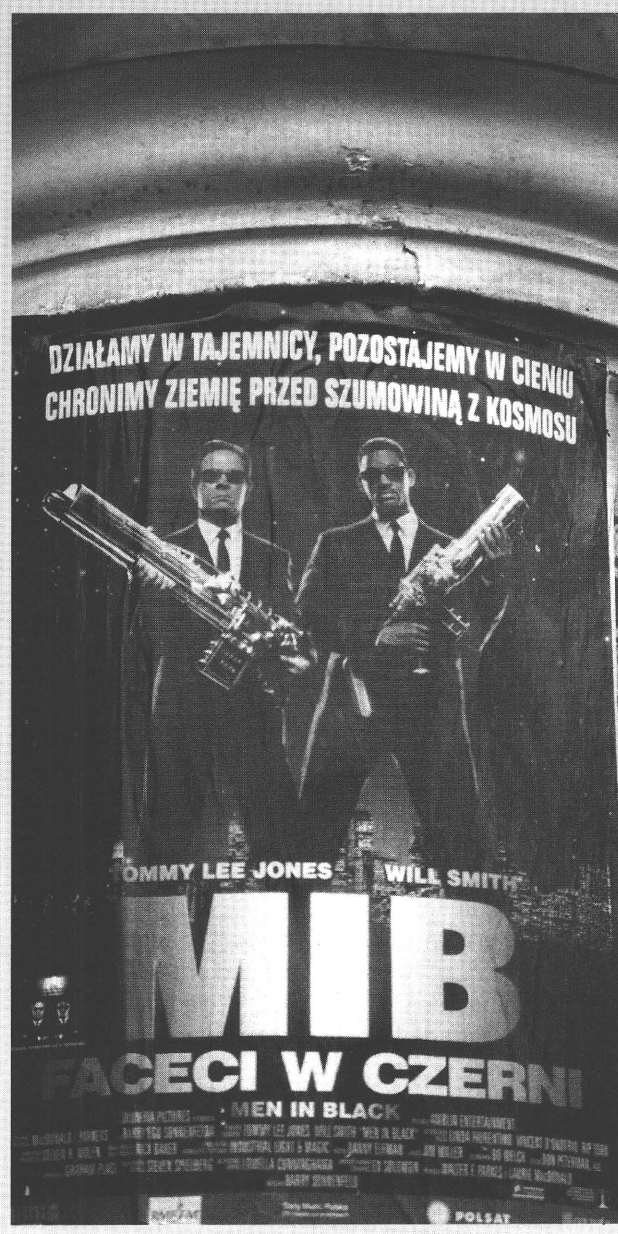
Financial control

EU starts to build up anti-fraud laws

While the European Union may have its own financial controller and anti-fraud office it has no real laws to deal with the problems of fraud and corruption.
The main EU discussions on the problem of fraud fall under the Union's third pillar on justice and home affairs.

EU governments have agreed two main conventions designed to tackle fraud and corruption within the EU, but neither has yet been ratified.

The favoured form for a binding law in the third pillar is a convention — a legal instrument that is loosely the same as directives used under the first pillar (single market).
EU governments have agreed two main conventions designed to tackle fraud and corruption within the EU but neither has yet been ratified.
The main anti-fraud accord was signed in 1995 and is known as the PIF Convention. The name derives from its French title (Convention sur la Protection des Intérêts Financiers) and is designed to outlaw fraud against the EU budget. The second accord was approved in May 1997 and aims to outlaw fraud by both EU and national officials who handle Union and national funds. Under the convention it would become an offence to attempt to bribe an official or a civil servant and for these people to accept a bribe.
The lack of a clear framework on fraud and corruption laws is impacting on the enlargement process.
"The applicant states are coming to us and asking what do you want us to do? And we are being forced to say 'well we're not quite sure'. If we had a nice community *acquis* [body of EU law] on this, it would be an awful lot less complicated," explains one Commission official.
Some analysts argue that the applicant states should be required to meet the standards set out in the third pillar fraud conventions even if the accords have not been ratified when they finally join the Union. ■



Sue Cunningham/SCP

"The applicant states are coming to us and asking what do you want us to do? And we are being forced to say 'well we're not quite sure'. If we had a nice community *acquis* on this, it would be an awful lot less complicated," explains one Commission official.

Commission begins to focuses its efforts on transport

Transport covers a multitude of areas, ranging from road haulage to personal driving licences to safety and environmental considerations. So far the sector has not been given much thought in the candidate countries. That is set to change.

Earlier this year several dozen officials from various Polish government departments participated in a two-day meeting in Warsaw where they were briefed in detail on the European Union's road transport safety legislation.

Organised by the EU's Technical Assistance Information Exchange Office (TAIEX), the exercise had a two-fold purpose. It was designed to inform the Poles of the specific measures which would need to be in place by the time of their accession and to allow outside experts to examine the legislation already adopted in the country to establish whether it was compatible with EU rules.

The emphasis was on practice, not theory. The speakers included Commission officials, national civil servants and representatives from the road hauliers profession who have to implement the rules.

It was the second workshop on road transport matters organised by TAIEX. While Poland has made the sector one of its priorities as it prepares for EU membership, it is one of the few applicants to have done so.

Every Commission opinion on the applications from the 10 candidate countries stressed the need to improve transport arrangements.

"Very few of the applicant countries have put road transport high on their list of priorities. They have preferred to concentrate on other sectors, such as finance. But transport is bound to feature soon," says one EU official.

Transport will become more important to the applicants as the Union itself sees it as a significant sector. Efficient road transport systems are essential for the Union's economy and to ensure that the basic EU principle of the free movement of goods and people can function. The state of cars, buses and lorries has a direct baring, too, on human safety and on the environment.

Every Commission opinion on the applications from the 10 candidate countries stressed the need to improve transport arrangements. Particular importance was attached to road transport. While much attention is focusing on infrastructure improvements, the Commission is increasingly underlining the importance of implementing the Union's transport legislation.

As the EU introduces tighter standards to make its roads safer and less polluting, so it is keen to ensure that the same norms are implemented as widely as possible.

"Basically the applicant countries have to tell us whether their legislation has reached the drafting, implementation or enforcement stage. Sometimes there are institutional problems about who does what and we can offer them different models," explains one EU official.

Some of the targets now being set by the EU will also need to be taken on board by new members. One such area is road safety.

The European Parliament is campaigning to reduce the number of road deaths by 40 per cent by 2010.

Sue Cunningham/SCP

A number of ways are under consideration including reducing the permitted alcohol level for drivers, clamping down on drivers who take drugs, greater use of seat-belts, designing vehicles to make them as safe as possible for pedestrians and cyclists, lower speed limits, research into driving behaviour and ensuring that motorists banned in one country cannot drive in another.

Several factors are giving the safety campaign an added urgency. Undoubtedly the most important is the sharp increase in car ownership in the candidate countries. Cars are a visible sign of the changes brought by the economic transition. The increase in traffic has been accompanied by an increase in pollution as well as accidents, due partly to the absence of a safety culture among drivers (who for the most part are relatively inexperienced), and to the failure to implement road safety programmes (including clear road markings and enforcement of traffic offences). Psychologically the sense of freedom which individuals now experience in the new democracies is reflected on the roads. Drivers tend to think only of themselves, rather than of others. Driving tests for both people and cars are lax. Many drivers lack the requisite skills to handle a vehicle, particularly at high speeds and the cars themselves are often not road worthy.

Insufficient national funds are available to make the necessary improvements to infrastructure to meet the extra burden being placed on the roads. This has been accompanied by a reorganisation of power and decision-making between central and local governments which has left it unclear where responsibility for many road safety issues lie.

Transport experts say it will take any country experiencing a rapid growth in car ownership time to adapt its behaviour to the increase in traffic and that adjustment is part of wider changes in societies. Any road safety programme will also need to dovetail with transport and infrastructure policy and be integrated into other public policy areas such as health, education, justice and the police.

Studies indicate that over the next 15 years, at least 400,000 lives could be saved in the candidate countries if appropriate road safety policies are put into place. The prospect of EU membership makes the need for improved safety an even greater priority.

The challenge, while great, is not impossible. For example, the former east Germany has through a broad road safety programme brought the pre-1989 accident rate down to a more respectable level comparable to the rest of the country.

The Commission believes co-operation between existing and future Union members could help achieve similar results in the candidate countries. It has launched a year-long road safety project, financed by the EU Phare multi-country transport programme, to help transfer road safety expertise from the Union to the applicants.

Very few of the applicant countries have put road transport high on their list of priorities. They have preferred to concentrate on other sectors, such as finance. But transport is bound to feature soon.

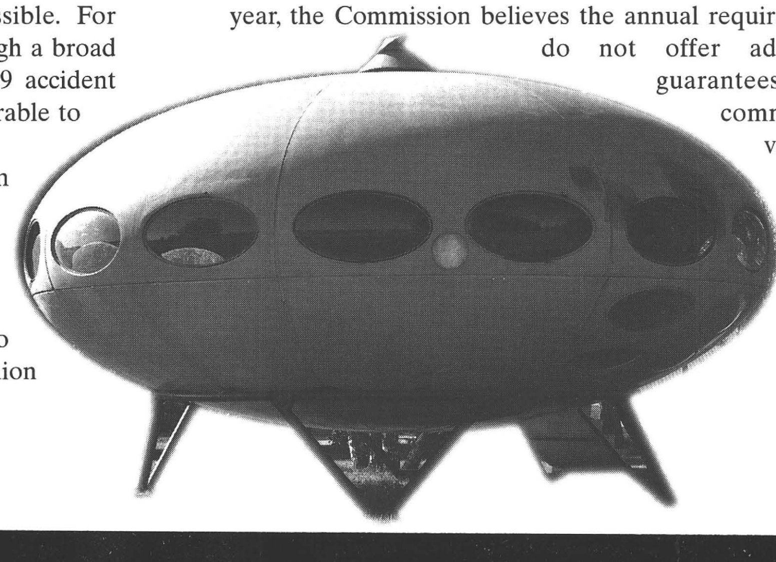
The project will examine and assess current road safety policies in each of the applicants. It will provide training in best road safety practice and suggest ways of developing national policies which are compatible with those in the EU. It also aims to implement new road safety methods and to devise a safety action plan.

The scheme will draw on the experience of an earlier venture in 1992-93, founded by Phare and the World Bank, on road safety in Bulgaria, the Czech Republic, Hungary, Poland, Slovakia and Romania and on the results of a traffic safety policy seminar held in Budapest in 1994. It will analyse the results of the earlier exercise and extend the scheme to other countries (Albania, Bosnia-Herzegovina, Estonia, Latvia, Lithuania, the former Yugoslav Republic of Macedonia and Slovenia).

The work will involve safety audits and the examination of accident black spots whose results will be used to help planners building new roads or redesigning existing ones. Initially it will concentrate on the route that runs from Helsinki to Bucharest via Prague, Brno, Budapest and Arad. It will also focus on risk factors, such as low maintenance levels and abrupt road changes at borders, the behaviour of local vehicles and pedestrians and the standards and quality of road signs and information for drivers.

As part of this safety campaign — but also with other considerations in mind — the Commission is aiming to tighten road worthiness tests on commercial vehicles. Heavy goods vehicles cause one-fifth of all road deaths. Many lorries are poorly maintained because their owners are trying to gain a competitive advantage by cutting down on costs. Poorly maintained vehicles also increase air pollution.

Under existing EU legislation, commercial road vehicles must pass annual road worthiness inspections in testing centres. Given that the road haulage business is increasingly an international activity and that many of the heaviest lorries travel 150,000 kilometres or more a year, the Commission believes the annual requirements do not offer adequate guarantees that commercial vehicles



Sue Cunningham/SCP

operating in the EU are sufficiently well maintained all year around.

Draft legislation recently tabled by the Commission would allow national authorities to carry out random roadside inspections from July 1999 onwards. Any vehicle which failed the test because of bald tyres, excessive smoke, inadequate braking or defective lights could be banned immediately.

Hauliers from applicant countries and other third countries using EU roads would also be liable for the spot checks. "The need to secure minimum levels of safety and environmental protection in the entire EU justifies that third country vehicles should also be submitted to these roadside inspections," notes the draft legislation.

Evidence of the effectiveness of the random tests came from Britain which examined 2,500 heavy goods vehicles at the roadside and found that a third had some form of defect which was serious enough to fail the test. In addition the faults were so serious in 13 per cent of the cases that the lorries were immediately taken off the road.

With environmental considerations looming ever larger, the Commission believes the new legislation could reduce carbon dioxide emissions by two per cent a year and lead to an annual economic benefit of Ecu 1bn from equivalent savings in fuel consumption.

Protection and improving the environment, not just within the EU but also in the candidate countries, is one of the Union's main priorities. Road transport can play an important role in achieving that goal. In 1989 almost two-thirds of the goods transported in the candidate countries went by rail and a quarter by road. Six years later, as trade expanded and transit traffic grew, road accounted for 41.5 per cent and rail for 49.2 per cent with the inevitable negative effects on the environment — congestion and deterioration in the quality of life, especially in urban areas.

Exhaust emissions have grown, large parts of the countryside have now been developed and there is the additional complication of the potentially damaging effects of the transport of dangerous goods and nuclear materials.

While the Union itself is doing more to integrate the environmental considerations into overall transport policies, only a few of the applicants are doing the same. In the absence of a coherent regional approach, the size and number of problems caused by transport-related pollution are increasing. As EU membership looms, these problems need to be addressed.

The new EU programme on transport and the environment will put special emphasis on the applicants. Its thrust will be the development of a coherent regional strategy, encouraging local, national and cross-border programmes to offset the detrimental environmental effects from road and other forms of transport.

Although transnational, the strategy with its aim of promoting an overall policy of sustainable mobility, will take account of the individual characteristics of each of the participating countries. A study will initially examine national policies towards transport and legislation and measure their impact.

Studies indicate that over the next 15 years, at least 400,000 lives could be saved in the candidate countries if appropriate road safety policies are put into place.

In the next stage it will develop a strategy to incorporate environmental legislation and impact assessments into transport policies within and between the candidate countries.

Among the practical issues examined will be the extent to which fiscal and economic methods can be used to promote the use of more environmentally friendly forms of transport. In addition it will focus on how to ensure that the fast growing motor manufacturing industry in countries such as Poland and Hungary can be encouraged without creating traffic congestion and pollution.

The programme will pay particular attention to urban transport where pollution levels are at their most acute. It will try to reduce these by promoting the use of public transport, cycling and car-sharing. It will also examine road safety, the application of EU rules on exhaust emissions and noise levels, consider how to improve traffic management in urban areas and how to ensure the safe transport of hazardous waste and dangerous goods.

It will also aim to stabilise CO_2 emissions by promoting combined transport and by giving a new lease of life to railways in the region so that international rail freight services become more attractive to users.

Despite the increased co-operation between the present and future members, there are still areas where Commission officials openly admit they disagree on the degree of implementation being achieved by the applicants.

This is true, for instance, with legislation establishing an EU-wide driving licence, setting out the practical, theoretical and medical tests which must be applied before the licence may be given.

"This has been harmonised a great deal and for many member states it was a big step requiring totally new legislation. The aim is to facilitate the free movement of people through the mutual recognition of licences," explains one EU official.

Although the legislation will undoubtedly require changes in existing arrangements, the Commission by the first half of 1998, was still unclear about the situation in the applicant countries. However, some light was shed by the completion of an international study — part financed by the Commission — analysing the state of play in 30 countries.

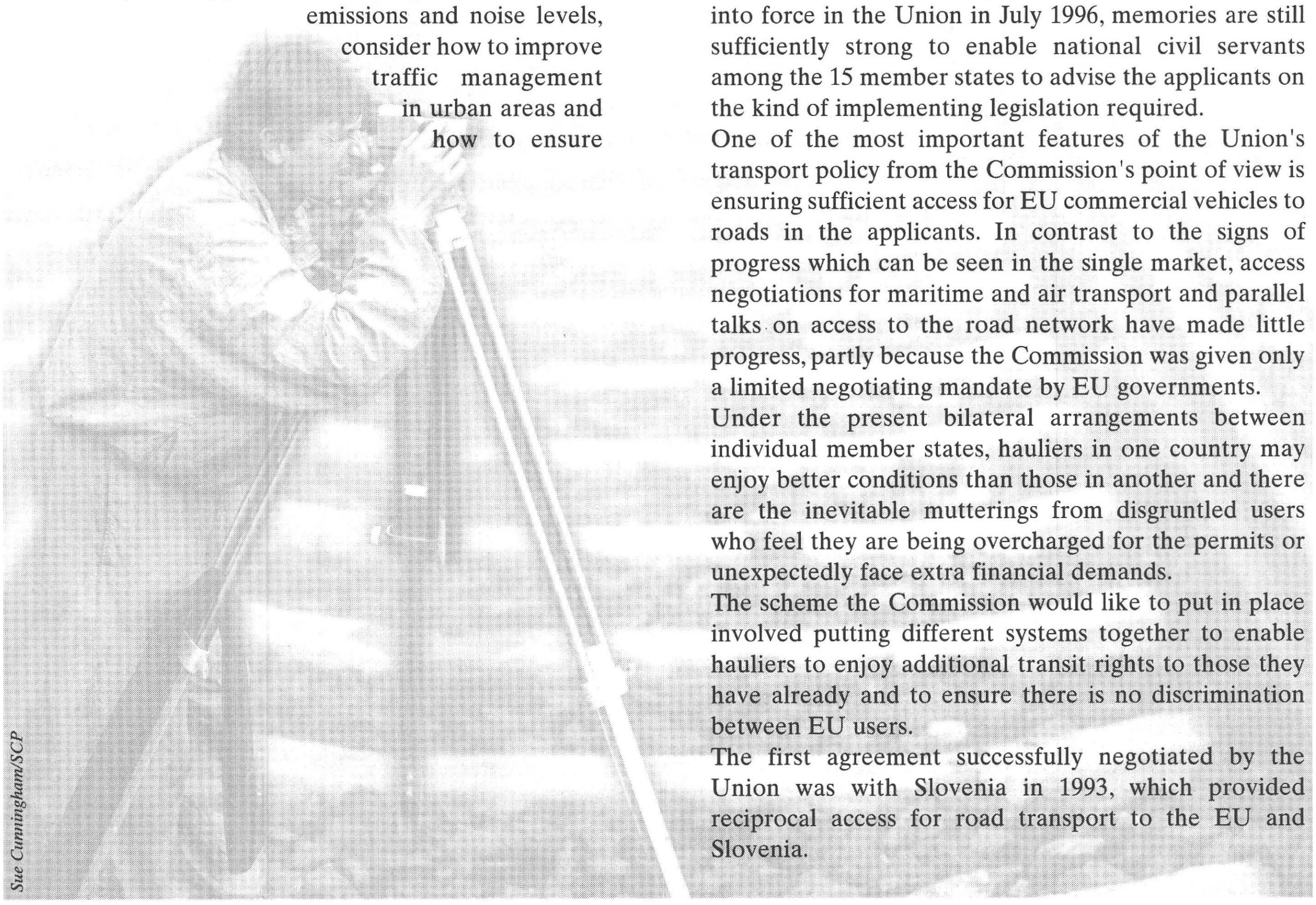
Given that the new driving licence legislation only came into force in the Union in July 1996, memories are still sufficiently strong to enable national civil servants among the 15 member states to advise the applicants on the kind of implementing legislation required.

One of the most important features of the Union's transport policy from the Commission's point of view is ensuring sufficient access for EU commercial vehicles to roads in the applicants. In contrast to the signs of progress which can be seen in the single market, access negotiations for maritime and air transport and parallel talks on access to the road network have made little progress, partly because the Commission was given only a limited negotiating mandate by EU governments.

Under the present bilateral arrangements between individual member states, hauliers in one country may enjoy better conditions than those in another and there are the inevitable mutterings from disgruntled users who feel they are being overcharged for the permits or unexpectedly face extra financial demands.

The scheme the Commission would like to put in place involved putting different systems together to enable hauliers to enjoy additional transit rights to those they have already and to ensure there is no discrimination between EU users.

The first agreement successfully negotiated by the Union was with Slovenia in 1993, which provided reciprocal access for road transport to the EU and Slovenia.



Sue Cunningham/SCP

Protection and improving the environment, not just within the EU but also in the candidate countries, is one of the Union's main priorities. While the Union itself is doing more to integrate the environmental considerations into overall transport policies, only a few of the applicant are doing the same.

Similar negotiations are taking place to establish a multilateral inter-bus agreement to replace the mosaic of bilateral arrangements which determine the conditions under which tourist coaches — as opposed to regular bus services — may travel in the 10 applicant countries as well as Bosnia-Herzegovina, Croatia, Turkey and Moldova.

"The aim is to liberalise certain services now subject to bilateral conditions and establish a legal framework for the whole of Europe which will make it easier to offer services across the continent," explains one EU official.

The agreement which could be reached this year also aims to reduce companies' costs and bureaucratic paperwork by harmonising some transport documents.

The Union is also examining the extent to which the different systems for road transport charges in the Phare countries need to be adapted to fall into line with EU legislation designed to ensure that the user of the infrastructure pays the full costs involved.

The study will assess the structure and levels of present and planned charges and whether their purpose is primarily revenue raising, demand management or environmentally motivated.

The applicant countries will have to bring their systems into line with Union rules on motorway tolls, user charges and minimum rates for annual vehicle taxes. Some are already doing this.

Lithuania is developing a strategy to adapt its road transport charges to EU regulations. Elsewhere, Hungary applies vehicle taxes and tolls aimed at covering maintenance costs, while in the Czech Republic an annual road tax for vehicles generates sufficient income to cover one-sixth of motorway construction costs.

In a number of areas, international agreements endorsed by countries across the continent have already gone part of the way towards taking on the EU obligations of membership. This is true of measures to control the number of hours commercial drivers may stay at the wheel, where all the applicants, with the exception of Hungary, have signed a Geneva agreement which mirrors existing Union limits.

To respect EU legislation fully, the new members will have to apply the measures to internal traffic as well, since the Geneva accord only covers international journeys, and put in place the tougher controls applied in the Union.

Emphasis is also likely to be placed in the coming months on the need to prepare for other items of EU legislation on, notably, the weights and dimensions of commercial vehicles, rules on access to the profession and on such environmental aspects of road transport as emission standards. In parallel with the EU legislation, the Union is putting its weight behind plans to extend its own trans-European transport network (TENs) into the applicants and further east (ED 1997/4, page 8).

The economic importance of ensuring that the applicants have efficient transport networks which link into the web of routes in western Europe was recently underlined by Transport Commissioner Neil Kinnock.

"Just as efficient transport networks within the Union are recognised to be vital for European competitiveness, long-term growth and employment and sustainability so they are essential for the applicant countries to be able to develop genuinely competitive economies that are capable of coping with the demands and exploiting the opportunities of the single market," says Mr Kinnock.

Under the acronym of TINA (transport infrastructure needs assessment), work has begun on identifying priorities and projects of common interest and examining their economic viability. The first outline of the new network is due to be published this summer and the final report of the group of senior officials established to supervise the process is expected in mid-1999.

The programme has two goals. The first involves the gradual extension over the next three years of the coverage of the Union's TENs transport guidelines to all candidate countries. The second is to envisage how a future transport network might develop up to 2010 and beyond.

Sue Cunningham/SCP

Sue Cunningham/SCP

The current approach is part of a more comprehensive strategy, unlike the somewhat piecemeal results which have been achieved up to now.

At the heart of the initiative is the concept of a pan-European transport partnership, which underlines the fact that the countries concerned, the EU, various international financial institutions, private sector investors, employers and trade unionists all have a role in developing these new transport links.

One of the biggest hurdles to overcome is financing these projects. The EU's Phare programme allocates about Ecu 200m a year to transport projects — mainly to the 10 multi-modal corridors crossing central Europe. Loans are also available from the European Investment Bank. Increasingly the Commission hopes to encourage Phare to co-finance specific projects with international financial organisations.

Despite the increased co-operation between the present and future members, there are still areas where Commission officials openly admit they disagree on the degree of implementation being achieved by the applicants.

It is estimated that Ecu 50bn — slightly less than one per cent of the applicants' total GDP over the next 15 years — will be needed to upgrade the roads and railways on these 10 routes to western standards without even considering any new links. Even to tackle just the most urgent needs of the roads in these selected corridors could cost up to Ecu 20bn — a figure which is roughly one-quarter of the Union's total annual budget.

The TINA exercise is not just about identifying and upgrading major transport links. It is also about ensuring the inter-operability of the infrastructure and its management. This means ensuring sufficient standardisation of technical specifications so that passenger and goods services based on different technologies may use the same infrastructure right across the continent. It complements the EU's single market legislation designed to remove national barriers.

Attention is likely to focus on ensuring that the Union's standards are complied with in applicant countries as soon as possible since their implementation will be a prerequisite for completing the targeted transport infrastructure improvements over the next 15 years.

This objective also involves ironing out bottlenecks, particularly at border crossings where poor customs procedures and a lack of co-operation between authorities on both sides of the frontier can create major delays and frustration. Of the 86 infrastructure investment projects which have been funded since 1992, 53 have involved border crossings.

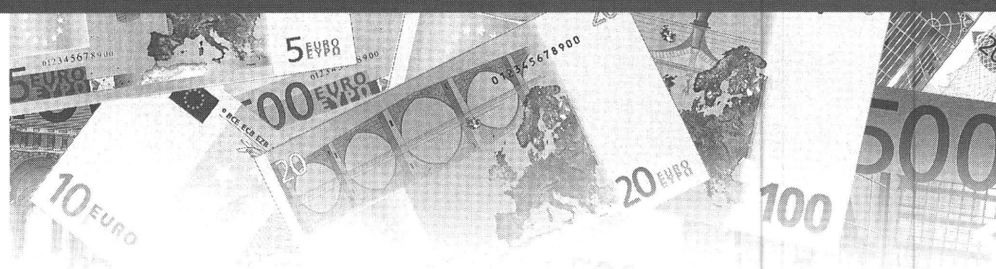
Another key element where existing and future Union members are co-operating is transport research. At least 30 different companies are involved in over 20 projects funded from the EU's research programme. The Commission is keen for EU companies to participate in the schemes, which help develop alternative transport policies and more energy-efficient technologies, as a vehicle for transferring knowledge and know-how.

Given the extensive range of measures which need to be put in pace, the message coming from Commissioner Kinnock and his staff is that preparations need to be made now, if the legislation is to be properly implemented once EU membership becomes a reality. ■

Rory Watson, Brussels

Poles take pragmatic line on euro

Applicant countries need to take a position on the euro and the impact the single currency may have on its own country. In the first of a series on this subject, *European Dialogue* talks with the governor of the National Bank of Poland.



The governor of the National Bank of Poland, Hanna Gronkiewicz-Waltz, sees the introduction of economic and monetary union (EMU) as an opportunity for Poland. "We will be monitoring the situation very closely. If as many as 11 countries join EMU right from the start, this will be even more beneficial for Poland because we will have a broader view," says Ms Gronkiewicz-Waltz.

The Polish authorities will also keep a watchful eye on the political and social reactions brought about by the new European currency. "From the economic point of view, the introduction of the euro will reveal some of the important differences which still exist within the single market. This will be made more transparent with the euro. There are some discrepancies between the north and the south of Europe, for instance in pay levels, which will have to be tackled. Of course they are not as acute as the differences that exist between the East and the West, but it will be a very good opportunity for Poland to see how it all works out," says Ms Gronkiewicz-Waltz.

In the early years, Poland will be in a situation of wanting to join but not being able to. There will still be a need for major reforms in the economy, but the country will be under even more pressure to go on with the transition process.

Asked about the political options for Poland after accession to the EU, Ms Gronkiewicz-Waltz admits Poland will not be able to join EMU for some time. In the long-term, however, she sees the introduction of the single currency as a necessity. "In the early years, Poland will be in a situation of wanting to join but not being able to," she says. "There will still be a need for major reforms in the economy, but we will be under even more pressure to go on with the transition process. Restructuring the economy and privatisation will be essential. The effects will then translate into the monetary field. That is precisely why the dollar is so strong today, because of the perceived strength and competitiveness of the US economy."

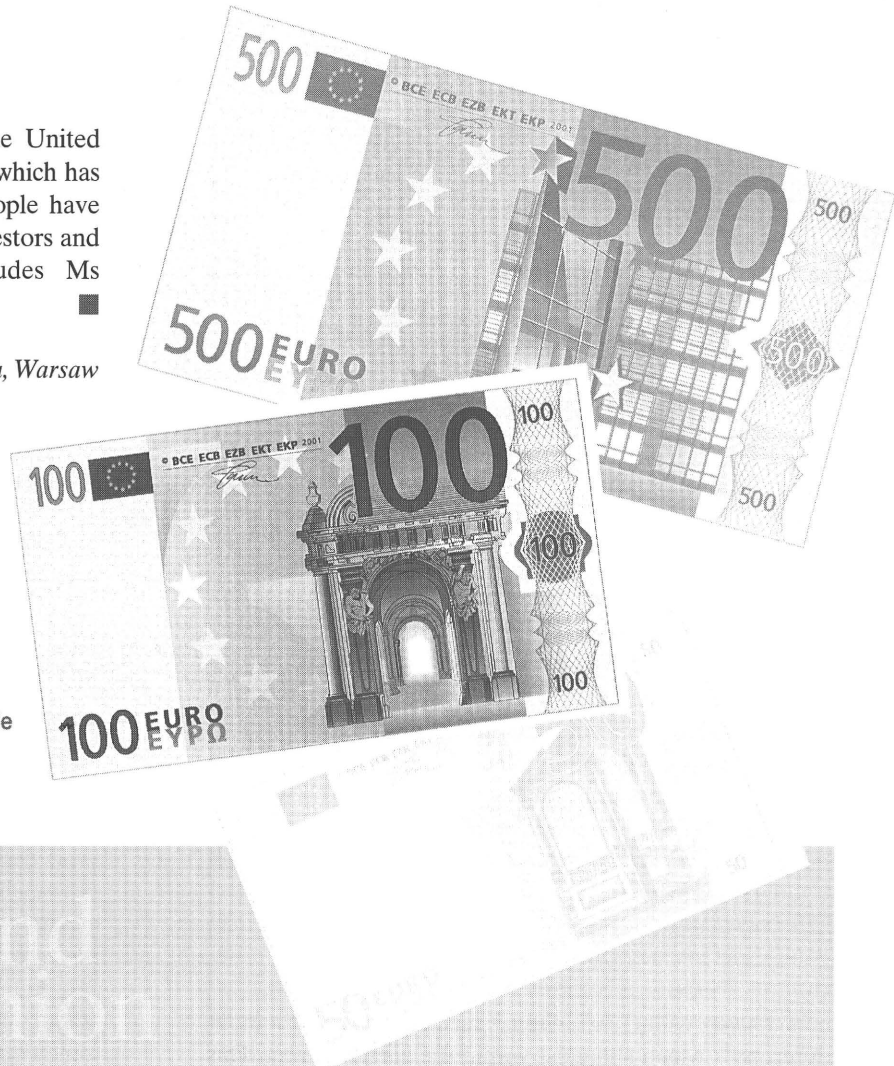
Ms Gronkiewicz-Waltz sees the main priorities of this process in the area of what she calls the real economy. "This includes first of all privatisation and the restructuring of our heavy industry, our coal mining sector and others. In the next stage, we will have to tackle the reform of our social insurance system and alleviate the financial burden of non-wage costs for companies," she explains.

Ms Gronkiewicz-Waltz has no qualms about embarking on this stringent course of action. In her view further reforms will be necessary regardless of EMU. "The crisis which happened in 1989 has taught us a lesson," she says. "At the time Poland failed to maintain some key proportions at the macroeconomic level. Now we know that it pays to keep a tight rein on those macroeconomic indicators. Too high inflation is dangerous because it increases the country's exposure to monetary shocks and to what is sometimes called speculation. That is why we will have to continue our efforts to bring inflation down. In this respect, we see EMU as a stabilising influence which should be rather beneficial."

In monetary terms, Poland will progressively reduce the US dollar's share in its currency basket in order to increase the weight of the euro. "This shift will be very gradual depending on the structure of our foreign trade," cautions Ms Gronkiewicz-Waltz. "The Asian crisis has been a clear warning. The countries concerned followed a monetary policy based on the dollar, whereas the main currency used in foreign trade transactions was the Japanese yen," she explains. However, Ms Gronkiewicz-Waltz expects trade with the EU to increase even before Poland becomes a full member. "In the context of our accession negotiations, the euro and the further integration of the EU single market should make things easier for us," she says.

As for Poland's attitude towards the euro, Ms Gronkiewicz-Waltz sees no reason for concern. "Apart from a short period before World War II, the Polish zloty has not had a reputation of being a very strong currency," she says. "Everybody has got used to making business using the dollar or the D-mark instead. There should be no strong psychological barriers as far as giving up the zloty is concerned. It would be difficult to imagine the United States using anything else other than the dollar, which has become a very powerful symbol. In Poland people have always had faith in foreign currencies. Polish investors and bankers will also trust the euro," concludes Ms Gronkiewicz-Waltz. ■

Anna Grzybowska, Warsaw



In the context of Poland's accession negotiations, the euro and the further integration of the EU single market should make things easier for the country.

Poland and EMU

By the time Poland accedes to the EU, the third stage of EMU will have begun. This will mark important changes for all member states, including those that do not participate in the euro area. All member states, including new ones, will participate fully in economic and monetary union. Economic policies will be a matter of common concern and every member state will be involved in the co-ordination of economic policies (national convergence programmes, broad economic guidelines, multilateral surveillance, excessive deficit procedure).
Member states will be required to respect the stability and growth pact, to renounce any direct central banks financing of public sector deficit and privileged access of public authorities to financial institutions and to have completed the liberalisation of capital movements.
Accession means closer monetary and exchange rate co-operation with the EU. This will require strengthening structural reforms in the area of monetary and exchange rate policies.
Member states not participating in the euro area will be able to conduct an autonomous monetary policy and participate in the European system of central bans on a restricted basis. Their central bank have to be independent and have price stability as their primary objective.
Monetary policy has to be conducted with market-based instruments and has to be efficient in transmitting its impulses to the real economy.
Reforms need to be pursued to tackle factors that hinder the efficiency of monetary policy, such as the lack of competition in the banking sector, the lack of development of financial markets and the problem of bad loans in the banking sector.
Once a member of the EU, every member state has to treat its exchange rate policy as a matter of common interest and be able to stabilise the exchange rate.
Membership of the EU also implies acceptance of the goal of EMU. The convergence criteria will have to be fulfilled by Poland, although not necessarily on accession. While the fulfilment of the convergence criteria is not a precondition for EU membership, they remain key points of reference for stability oriented macroeconomic policies and must in time be fulfilled by new member states on a permanent basis.
The successful conclusion of systematic transformation and market oriented structural reforms are essential. ■

Negotiations take centre stage

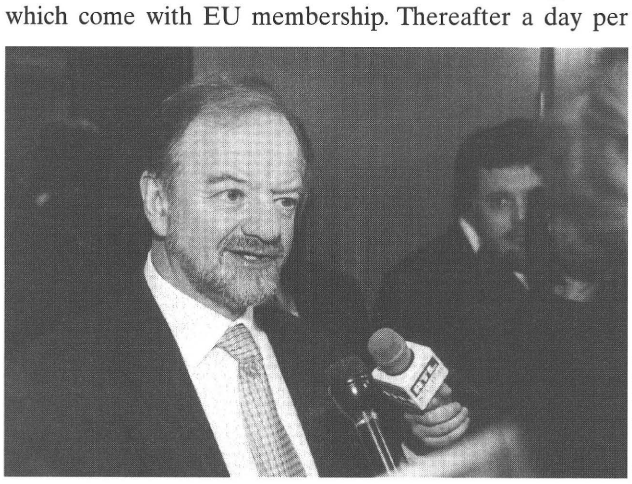
A task force has been set up to take on the challenge of negotiating with six candidate countries.

From the European Union's side, the heaviest burden of the accession negotiations is falling on the shoulders of the special enlargement task force under its experienced director-general, Klaus Van der Pas. By the time the EU and the applicants draw breath and take off on their summer holidays at the end of July, the team will have examined in detail with each of the six countries currently negotiating entry into the Union, 12 of the 30 separate policy sectors covered by EU law.

"This is the first time we have negotiated at the same time with six countries wanting to join the Union and never before have we had six countries which have such a long way to go. You cannot expect in a multilateral setting to get clarity from countries and a readiness to put their individual cards on the table," explains Mr Van der Pas.

As a result the Commission has devised a special procedure, which it started implementing at the end of April, for what it describes as "the analytical examination of the *acquis*" (body of EU law). In practical terms this screening exercise involves spelling out existing EU legislation — known as the *acquis communautaire* — and assessing the extent to which each individual candidate can take it on board.

All six applicants — Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia — meet together for a day-long session per policy area to be briefed on the obligations which come with EU membership. Thereafter a day per country is set aside to explore in greater detail the extent to which specific elements of a policy might or might not cause difficulties.



Council of Ministers

"After each individual screening, or presentation to the six applicants of a particular area, we immediately have a half a dozen bilateral meetings. We will do that every day until the end of July and so in seven working days we aim to be clear where each applicant stands on each issue and have a detailed understanding of the difficulties they might envisage," says Mr Van der Pas.

This is the first time we have negotiated at the same time with six countries wanting to join the Union and never before have we had six countries which have such a long way to go. You cannot expect in a multilateral setting to get clarity from countries and a readiness to put their individual cards on the table.

The aim is for the Commission negotiators to be able to present to EU governments in the Council of Ministers in the months ahead a complete picture after each screening of where each candidate stands on each individual policy.

"It will be a photograph of the moment. If we can tell the Council that after the screening and replies to our questionnaires that there are no problems, then the Council might decide to place that issue to one side as we move onto another. But if an applicant asks for a derogation on a specific matter, then we will tell the Council and it will depend on its political judgement how the request should be handled," explains Mr Van der Pas.

Given that there are 30 separate policy chapters and each will take at least seven working days, it is easy to see that the screening exercise — the first stage of the enlargement negotiations — will easily run well into next year. Substantive negotiations will not open before then, unless the Council decides to open negotiations on chapters as some of these have been screened.

Council of Ministers

Some of the toughest issues will be left until the end. Negotiators will not even broach the screening on agriculture, regional and social spending, the environment and the free movement of people until early 1999. The delay will, however, be a blessing since it will give the EU itself the necessary time to agree on vital internal reforms to its agricultural and regional policies before presenting these to the applicants.

To give the screening process some early momentum, negotiators began at the end of April and early May with some of the less contentious policy areas: science and research and education and training.

Other issues which are due to be examined before the summer recess are telecommunications and information technologies, culture and audio-visual policy, industry policy, small- and medium-sized undertakings, common foreign and security policy, company law, statistics, consumers and — one of the major cornerstones of the Union — the free movement of goods.

One of the key features of the exercise will be an assessment of the ability of each applicant to implement EU legislation effectively. The issue will be examined, not just by the enlargement task force, but also by separate officials under senior French official François Lamoureux in the Commission's external relations directorate-general (DGIA), in charge of the pre-accession strategy for all 10 applicants.

The decision to separate the enlargement negotiations from the wider preparations for EU membership and to place each in separate departments, albeit under the same Commissioner, Hans van den Broek.

"It is right to separate preparation from the negotiation. Negotiators do not want to be bothered by trade disputes, accession partnerships and Phare agreements. These will remain with Mr Lamoureux. The task force will be responsible for the direct negotiations," explained Mr van den Broek as he introduced the senior members of the task force to the media in early April.

Considerable thought went into the selection and structure of the Commission's multinational negotiating team.

The German-born Mr Van der Pas brings many qualities to his new job. A gifted linguist, in addition to German he speaks French, English and Dutch. He was at the heart of the negations on the 18-nation European Economic Area in the early 1990s between the then 12-nation EU and Sweden, Norway, Finland, Iceland, Austria and Liechtenstein.

Mr Van der Pas was subsequently directly involved in Swedish entry negotiations into the Union in 1993, also handling horizontal responsibility for the single market and environmental legislation. More recently, he was the Commission's chief spokesman for three years and during that time established a close rapport with the institution's President, Jacques Santer.

The six other leading members of the task force bring with them different specialities and reflect a judicious geographical balance. Three are from southern Europe (Italy, Spain and Greece), where concern at the EU's enlargement eastwards are greatest. Two are from the EU's other largest countries (France and Britain) and one from a member state which borders the new members (Austria).

Each of the six will head the bilateral negotiatons with an individual applicant. In addition to this vertical responsibility, each will also have a horizontal role, taking the lead in negotiations on the separate policy areas.

In total the task force, when at full strength, will be a tightly knit group of 40 officials, including support staff such as secretaries and archivists. Instead of trying to draft in permanently extra officials from other Commission departments to help with individual specialities, it will call on this outside help when required.

"We need to have a group which sticks together and does not have to report to other services. We have learnt the lesson from last time, when directorates-general did not let their best people go. This time we will call on them as necessary. The task force cannot explain every aspect of EU legislation, but we can co-ordinate everything and set the schedule," explains Mr Van der Pas.

Co-ordination will be especially close with Mr Lamoureux's team, which is working on day-to-day contacts and pre-accession strategy.

"There will always be someone from the pre-accession department present in the negotiations and there will be careful co-ordination to ensure they know as much as we do about each applicant," confirms Mr Van der Pas.

Although the highly technical screening exercise will be conducted by Commission negotiators, when the subject areas become more inter-governmental in nature, such as the common foreign and security policy, member state representatives will also be present. This will be particularly important when the *acquis* on judicial and internal policy co-operation will be screened.

The screening exercise, albeit in a less comprehensive manner, is being extended to the five applicants which have not been selected for the first wave: Bulgaria, Latvia, Lithuania, Romania and Slovakia.

In line with the decision of last December's European summit in Luxembourg, efforts are being made to speed up preparations to bring them to the negotiating starting line. Officials from DGIA, not the enlargement task force, began their own multilateral screening programme at the end of April for the remaining five. This is basically an explanatory exercise, setting out the *acquis* in each policy area. The Commission does not have to tell EU governments if there are any difficulties or how these might relate to the negotiations.

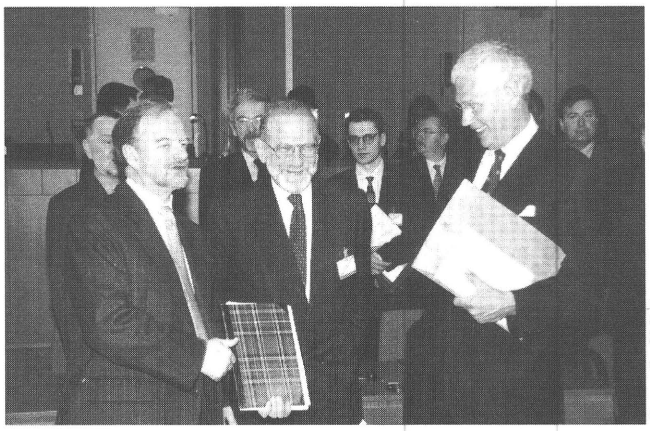
With anything between half a day (for the EU budget) to 15 days (agriculture) being devoted to each of the 30 subject areas, the Commission is aiming to complete the detailed panorama of existing legislation for the remaining five by the end of July.

Mr van den Broek was at pains to emphasise that the two separate screening exercises were not discriminatory, but were designed to address different realities.

"For the six negotiating applicants, the screening is to identify which subjects are eligible for negotiation and then we can start the negotiations while continuing to screen other areas. For the other five, the exercise is to identify those issues which they wish to give priority to, to help them catch up and arrive at the same starting point as the six," he explains.

The intensive exercise is also giving an interesting insight into the linguistic questions which cannot be ignored by enlargement. In a bid to make the interpreting requirements manageable, only three languages are being used by the Commission negotiators — English, French and German. In addition facilities are being provided to allow officials from candidate countries to speak and at times to listen in their own languages. ■

Rory Watson, Brussels



Council of Ministers

Conference holds promise for future co-operation

The European Conference — held in London in March — gave a real boost to integration. Its purpose was to bring together EU member states and those countries aspiring to accede to it.

Leaders from 26 European countries agreed to continue their efforts to combat organised crime, in particular the drugs trade, trafficking in human beings and terrorism. The leaders are to set up a special task force of national experts.

Leaders also affirmed their determination to improve environmental protection, to deepen and extend co-operation in foreign and security policy and to exchange information on economic policies.

The conference was not intended to be just a decision-making affair. British Prime Minster and host Tony Blair summed up the day as a "symbol of how a Europe that has been divided can come together", and where countries could discuss issues "of real interest to people".

The more we see the way that EU policy is made, the faster we accept the practice of EU political standards — which for countries like ours is not modest, but very important.

Bulgarian Prime Minster Ivan Kostov believed the conference had "a natural task as a forum for enlargement", adding that "the more we see the way that EU policy is made, the faster we accept the practice of EU political standards — which for countries like ours is not modest, but very important".

Polish Prime Minister Jerzy Buzek said, "We met ... feeling responsible for the security and the condition of the European economy."

The conference was also a forum for European leaders to explain their reforms and progress. The Lithuanian Prime Minister, Gediminas Vagnorius, underlined his country's commitment to combating organised crime and protecting the environment. "Environmental protection is the domain in which interstate co-operation alone can lead to noticeable results," he said.

Romanian President Emil Constantinescu recognised the importance of a European fight against crime. "Each of these countries presents its own particularities, but all of them must also face common problems, which stem from their common status as former communist states undergoing transition towards consolidated economies with free market economies," he said.

Slovak Prime Minister Vladimir Meciar, reflecting on the importance of dialogue, commented, "The error on our part, perhaps, is that we don't provide sufficient information abroad on what is actually happening in Slovakia."

In conclusion the conference delegates declared that they all want "to ensure that Europe develops for the benefit of all its citizens as a stable area where democracy, good governance, respect for human rights and the rule of law and freedom of expression go hand in hand with sustainable economic growth." ■

Who's who of enlargement negotiation task force

NIKOLAUS (KLAUS) VAN DER PAS

Overall responsibility for the enlargement negotiations as director-general for the task force

Previous post: Commission spokesman. He has also worked for former Commissioners Jacques Delors and Willy de Clercq. He helped negotiate the EU's previous enlargement round as well as the earlier European Economic Area agreement and was later in charge of EU relations with the former Soviet republics.

Nationality: German

Languages: German, English, Dutch, French

LEOPOLD MAURER

Country responsibility: Cyprus

Sector responsibility: free movement of goods, freedom to provide services, free movement of capital, company law, taxation, statistics and small- and medium-sized enterprises

Previous post: head of unit for business information policy in DGXXIII (enterprise policy) in charge of 250 Euroinfo centres. He has also been a member of the Economic and Social Committee and was earlier Austrian trade representative in Strasbourg and to the EU. Formerly Austrian trade attach in Rome and Buenos Aires and involved in UNCTAD, Gatt and Efta negotiations. He joined the Commission in 1997.

Nationality: Austrian

Languages: Austrian, English, French, Italian and Spanish

MICHAEL LEIGH

Country responsibility: Czech Republic

Sector responsibilities: industrial policy, telecommunications and information technologies, culture and audio-visual policy, co-operation in justice and home affairs, customs union, external relations, common foreign and security policy

Previous post: advisor to External Relations Commissioner Hans van den Broek He has also worked as advisor to former Commissioners Frans Andriessen and Lord Cockfield, worked in the Commission's external relations and information directorates-general and in the secretariat-general of the Council of Ministers. He entered the Council of Ministers in 1977 and moved to the Commission in 1980. Before moving to Brussels, he was an academic.

Nationality: British

Languages: English, French, Italian, Spanish, Dutch (passive)

NIKIFOROS SIVENAS

Country responsibility: Estonia

Sector responsibilities: competition, agriculture, financial control, financial and budgetary provisions

Previous post: advisor to Commission President Jacques Santer on agricultural and budgetary issues. He has also worked in the budgets and agriculture directorates-general and was an advisor to former Agriculture Commissioner René Steichen. He joined the Commission in 1982 after studies at the Ecole nationale de la Statistique et de l'Administration Economique in Paris.

Nationality: Greek

Languages: Greek, English, French

GIORGIO BONACCI

Country responsibility: Hungary

Sector responsibilities: free movement of people, social policy and employment, consumers and health protection, external relations

Previous post: director for human and financial resources handling the EU budget and European Development Fund in the directorate-general for overseas development. He has also worked in the external relations directorate-general in charge of relations with Ukraine, Belarus and Moldova, been head of the Commission's East Africa desk, headed the task force conducting negotiations between the EU and the African, Caribbean and Pacific (ACP) countries in 1984 and was an official in the European Coal and Steel Community's statistical office. He joined the Commission in 1969.

Nationality: Italian

Languages: Italian, English, French, Spanish (comprehension), German (beginner)

FRANÇOISE GAUDENZI-AUBIER

Country responsibility: Poland

Sector responsibility: energy, science and research, education and training, environment

Previous post: principal advisor in the external relations directorate-general (DGIA) handling horizontal questions of enlargement and the pre-accession strategy. She has also worked as an advisor to Commissioner Hans van den Broek and former Commissioner Frans Andriessen. For 26 years she was an official in the agriculture directorate-general. She joined the Commission in 1962.

Nationality: French

Languages: French, English, Italian and some Spanish

JAIME GARCIA-LOMBARDERO

Country responsibility: Slovenia

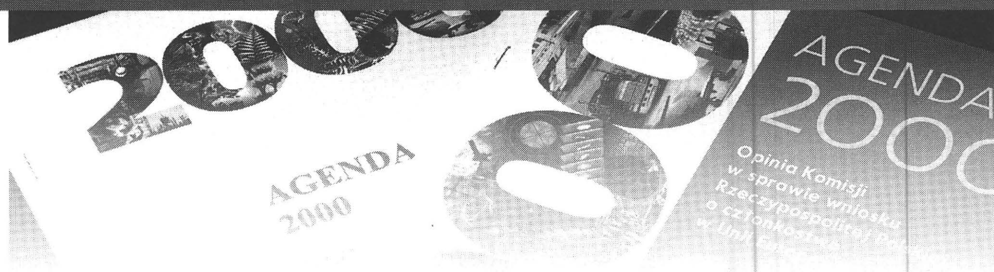
Sector responsibility: fisheries, transport, economic and monetary union, regional policy and co-ordination of structural instruments, institutions

Previous post: head of unit in the directorate-general for regional policy in charge of preparing and implementing expenditure from the regional and cohesion funds. He has also worked in the Commission departments in charge of fisheries policy and the co-ordination of structural funds. Before moving to Brussels, he was an official in Spain's Agriculture and Fisheries Ministry and earlier was an academic. He joined the Commission in 1987.

Nationality: Spanish

Languages: Spanish, English, French and Portuguese

Commission outlines legislative options



The Commission has published the proposed legal texts on which decisions can be taken on policy reforms and on the pre-accession aid instruments. Also adopted is a report on the working of the inter-institutional agreement on budget discipline and a proposal for a new financial perspective for the period 2000-06.

The proposals fall into four groups: agricultural regulations, regulations on the structural and cohesion funds, pre-accession instruments and the financial perspective for 2000-06. A proposal for a revised financial regulation for Trans-European networks (TENs) was also adopted. In autumn, the Commission is expected to publish its comprehensive report on how member states will fund the EU budget.

In the agriculture sector, the Commission is proposing new intervention prices for cereals (a reduction of 20 per cent) in one step in 2000 while direct payments will be increased from Ecu 54 a tonne to Ecu 66 a tonne. Other payments are also affected.

The pre-accession aid instruments proposed in Agenda 2000 comprise a co-ordination regulation, one for agriculture and structural policies and the existing Phare regulation.

On rural development the policy brings together for the first time all the measures related to the development of the countryside and is to accompany and complement the proposed reforms in market and price policy. The new policy involves a radical simplification and allows for greater flexibility.

To integrate environmental concerns into the common agricultural policy, the Commission suggests that member states should apply "appropriate environmental measures concerning the particular market support schemes".

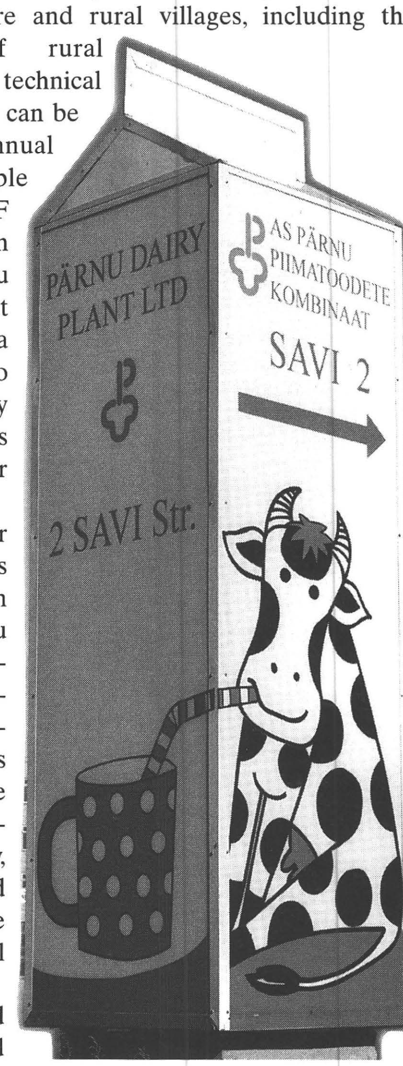
For the structural and cohesion funds, the proposed package is built around three principles detailed in Agenda 2000: concentration, simplification and clarification of responsibilities. The legal texts proposed as a new general regulation including provisions which apply to all the funds, new vertical regulations for each of the four funds (European Regional Development Fund, European Social Fund, Financial Instrument for Fisheries Guidance and European Agricultural Guidance and Guarantee Fund), the rural development regulation, and a revised regulation for the cohesion fund.

The instruments for pre-accession aid proposed in Agenda 2000 comprise a co-ordination regulation for the three pre-accession aid instruments to avoid any overlapping, an agricultural pre-accession instrument, an instrument for structural policies pre-accession and the existing Phare regulation that will continue to provide pre-accession aid. Actions under these aid instruments will be integrated into the accession partnerships. The overall amount of pre-accession aid will total Ecu 3bn a year for 2000-06 (more than double the amount available in 1999).

In agriculture and rural development, pre-accession measures concern mainly support for improving the efficiency of farms, processing and distribution, promotion of quality products, veterinary training, diversification of economic activities in rural areas, agri-environmental and forestry measures, improvement of rural infrastructure and rural villages, including the maintenance of rural heritage as well as technical assistance. The list can be extended. The annual resources available to the EAGGF guarantee section are equal to Ecu 500m at constant 1997 prices. When a country accedes to the EU, the country will lose its entitlement under this regulation.

An instrument for structural policies for pre-accession will provide Ecu 1bn a year for projects in the environment and transport sectors. This instrument will be part of a wider pre-accession strategy, closely co-ordinated with Phare and the agricultural assistance.

Pre-accession aid will be financed



Sue Cunningham/SCP

from three sources: the Phare programme and structural and agricultural instruments. After the accession of a first wave of candidate countries, the pre-accession aid remains at the same level and will be concentrated on the countries that are still waiting to join.

The Commission proposes a contingency margin of 0.03 per cent of GNP in the financial perspective of the 15 member states. This will act as a buffer to meet the impact of a possible lower than expected economic growth rate. Under the ceiling of own resources, a reserve growing up to 0.11 per cent of GNP will be available for enlargement.

The financial perspective has to be adopted by the Council and European Parliament. ■

Financial perspective

Euro million — 1999 prices Appropriations for commitments	1999	2000	2001	2002	2003	2004	2005	2006
Agriculture*	45205	46050	46920	47820	48730	49670	50630	51610
of which pre-accession aid		520	520	520	520	520	520	520
Structural operations	39025	36640	37470	36640	35600	34450	33410	32470
Structural funds	32731	32600	33430	32600	31560	30410	29370	28430
Cohesion fund	3000	3000	3000	3000	3000	3000	3000	3000
Pre-accession structural instrument	-	1040	1040	1040	1040	1040	1040	1040
Adjustments **	3294	-	-	-	-	-	-	-
Internal policies	6386	6390	6710	6880	7050	7230	7410	7600
External action	6870	6870	7070	7250	7460	7610	7790	7900
of which pre-accession aid		1560	1560	1560	1560	1560	1560	1560
Administration	4723	4730	4820	4910	5010	5100	5200	5300
Reserves	1192	850	850	600	350	350	350	350
Monetary reserve	500	500	500	250	0	0	0	0
Emergency aid reserve	346	200	200	200	200	200	200	200
Guarantee reserve	346	150	150	150	150	150	150	150
Total appropriations for commitments	**103401**	**101530**	**103840**	**104100**	**104170**	**104410**	**104790**	**105230**
Total appropriations for payments	**96380**	**98800**	**101650**	**102930**	**103520**	**103810**	**104170**	**104560**
Appropriations for payments as % of GNP (%)	1.23	1.24	1.24	1.22	1.20	1.18	1.15	1.13
Margin	0.04	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Available for accession (%)	-	-	-	0.02	0.04	0.06	0.09	0.11
Own resources ceiling (%)	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27

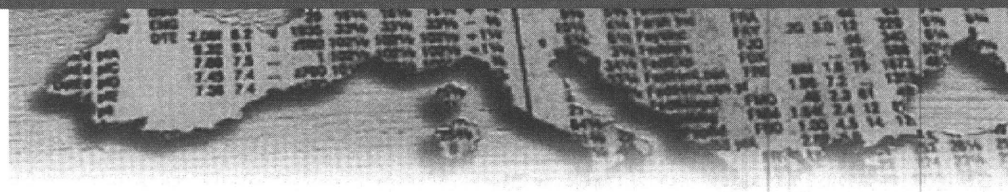
** the ceiling corresponds to the agricultural guideline. ** including the amount in respect of the EEA financial mechanism and the adjustment proposed by the Commission to take account of the conditions of implementation of the 1997 budget.*

Expenditure resulting from accession, financing

Euro million — 1999 prices	2002	2003	2004	2005	2006
Expenditure Agriculture	1600	2030	2450	2930	3400
Structure operations	3750	5830	7920	10000	12080
Internal policies	730	760	790	820	850
Administration	370	410	450	450	450
Total appropriations for commitments	**6450**	**9030**	**11610**	**14200**	**16780**
Total appropriations for payments (1)	**4140**	**6710**	**8890**	**11440**	**14220**
Sources of financing available					
Financing of agricultural expenditure by drawing on the margin available beneath the guideline	1600	2030	2450	2930	3400
Amounts available for accession in the financial framework of the 15-nation EU (estimate)	1280	3300	5680	8060	10470
Increase in own resources resulting from growth in EU GNP following enlargement (estimate)	3440	3510	3580	3660	3740
Total financing available (2)	**6320**	**8840**	**11710**	**14650**	**17610**
Changes in the margins beneath the own resources ceiling					
Margin (2) - (1)	2180	2130	2820	3210	3390
Margin in the financial framework of the 15-nation EU (0.03% of GNP)	2520	2580	2650	2720	2780
Total margin available in an enlarged EU (estimate)	**4700**	**4710**	**5470**	**5930**	**6170**
Total margin as a percentage of the GNP of the enlarged EU (%)	**0.05**	**0.05**	**0.06**	**0.06**	**0.06**

** Expenditure estimated at 1999 prices for the purposes of comparison. Only estimates at current prices are relevant.*
Source: Commission.

in brief



APs outline objectives

The Commission has adopted 10 Accession Partnerships (APs). The APs are a key element of the EU's enhanced pre-accession strategy. According to the Luxembourg Council conclusions, these APs set out "the priorities to be observed in adopting the Union's *acquis* and also the financial resources available for that purpose". The priorities proposed for each candidate country are based on the extensive analysis contained in the Commission's opinions and aim to help each candidate identify where further work is needed in its preparations for membership.

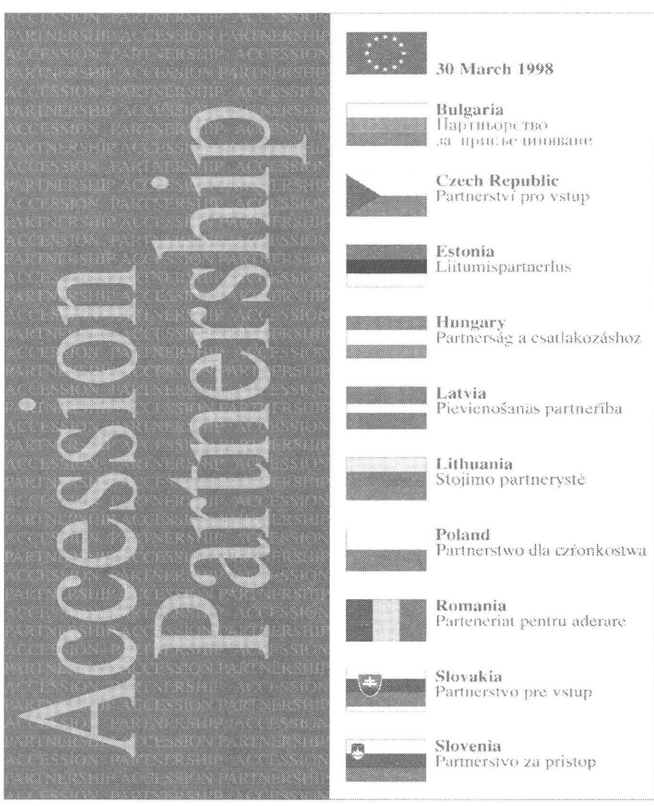
Each AP contains a strict conditionality making assistance dependent on the fulfilment of each country's obligations under the Europe Agreement and the Copenhagen criteria.

Each candidate country will be invited to prepare a national programme for the adoption of the *acquis* (NPAA) which should indicate in detail how it will implement each of the priorities identified in the AP, including the setting of commitments in terms of timetable and human and financial resource allocation.

Monitoring of the APs will be carried out through the Europe Agreement (sub-committees, association committee and council). The process of setting in place the APs and the NPAAs will provide important input into the Commission's regular reviews on the progress of the candidate countries.

The Commission will submit its first report on the progress of the candidate countries to the European Council at the end of 1998.

Many areas identified in the APs are common to all applicants as they are all working to take on the same EU set of rules and regulations. However, the APs reflect the different stages of progress of each applicant and deal with issues specific only to that country. For example, the Commission asked Poland to reduce its external debt this year and implement a new plan to restructure its steel industry. Estonia and Latvia are asked to make it easier for their Russian-speakers to become citizens. The Czech Republic is asked to monitor banking, securities and the insurance business more closely. Slovakia is asked to hold free and fair presidential, legislative and local elections in 1998 and to adopt laws guaranteeing use of minority languages.



Unemployment questions

A few days before EU accession negotiations began in Brussels, labour ministers from EU member and applicant states met in Budapest to address issues related to employment. Participants left Hungary having established a basis for understanding and an opportunity to learn from one another, according to Britain's Education and Employment Minister, Andrew Smith.

Nevertheless, it was clear that the Union's pending enlargement could become an explosive issue in discussions on the free movement of labour — an issue the conference only gingerly addressed.

Representing Britain and holding the EU Presidency, Mr Smith claimed all conference members agreed this particular problem was manageable and must not be exaggerated.

His remarks were in response to growing fears among west European trade unions that EU membership for the Czech Republic, Hungary, Estonia, Poland, Slovenia and Cyprus could result in a flood of cheap labour, leading to lower wages across the board in the EU and possibly causing higher unemployment in existing EU member states.

No proposals or ideas raised at the conference aimed at either preventing such a scenario or proving it unjustified. Mr Smith said the question would have to be addressed in the individual accession negotiations.

Hungary's Employment Minister, Peter Kiss, hosting the conference, was equally vague. He said the topic was a core subject for ministers, but added that the informal Council meeting was not the forum in which to respond to the fears and questions surrounding enlargement and accession negotiations.

"It's a great launch pad," concluded Mr Smith at the end of the meeting, adding that he expected, "the spirit of co-operation . . . will carry us through the enlargement discussions ahead."

in brief

Talks on land mines

Less than four months after over 120 nations signed the Ottawa Convention banning anti-personnel mines, representatives from 19 European countries gave the pact a regional boost in March during a conference in Budapest.

Despite the fact that nearly half of the countries represented have not signed the convention, lead-participants, including Nobel Peace Prize-winner Jody Williams, said the meeting made progress toward persuading the laggard countries to accept the treaty. "I was greatly heartened by the open discussion of the governments here, all 19," said Ms Williams, a US Citizen who heads the international campaign to ban land mines.

The main message emerging from the conference was that countries need not sacrifice military security by stopping the use of anti-personnel land mines.

Of the countries represented at the conference by government officials and non-governmental organisations, Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Croatia, Bosnia-Herzegovina, Romania, Moldova and Bulgaria have signed the convention. Russia, Belarus, Estonia, Latvia, Lithuania, Ukraine, Yugoslavia, the former Yugoslav Republic of Macedonia (FYROM) and Albania have not.

Hungary, joint host of the conference with the International Committee of the Red Cross (ICRC), ratified the Ottawa Convention at a special ceremony opening the conference. Foreign Minister Laszlo Kovacs also announced that Hungary would participate in a mine sweeping mission with Germany in eastern Slavonia, an area particularly contaminated with mines during the Yugoslav war.

Former Yugoslavia, the region's most prominent recent war zone, drew much of the attention on the need for mine clearing. Some participants noted unexploded mines dating as far back as World War I still pose dangers throughout Europe. Peter Herby of the ICRC said Slovenia has in recent years cleared more WW I mines than any other. He and Mr Williams added that this problem still exists in some areas of western Europe, including parts of northern France, Belgium and the Netherlands.

In western Europe there has been a concerted effort to remove mines, but there is still a danger from mines laid 50-80 years ago.

The Convention on the Prohibition of Anti-personnel Mines and on their Destruction requires signatory nations to never use, develop, produce, stockpile or transfer anti-personnel mines and to destroy existing mines, either stockpiled or in the ground.

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

The Czech Senate has approved a bill revoking legislation adopted in the 1950s that bans a "nomadic way of life". Several senators said the law was "racist" and aimed primarily against Roma.

Hungary's parliament has rejected an opposition initiative to stage a referendum on foreign ownership of farmland. Last September, opposition parties gathered over 200,000 signatures supporting such a plebiscite. The parliament's Constitutional Committee ruled, however, that if the referendum were passed, Hungary would be under a legal obligation contrary to several international agreements it has signed.

In a drugs raid which resulted in the seizure of almost 13 tons of marijuana in Nitra, the Slovak police co-operated with US, German, and Czech law-enforcement agencies in tracking the shipment that left Columbia for Slovakia via the Czech Republic.

The Polish government says there are between 30,000 and 40,000 drug addicts in Poland. The Office for Drug Addiction says this is an increase over recent years, during which the level of drug usage remained relatively stable. An official at the office says an upsurge in usage of synthetic drugs and amphetamines is the primary reason for the increase.

Slovenia's 765 native-German speakers will not be recognised in the constitution as a distinct ethnic minority. The status of the German speakers "is a cultural question" and this ethnic minority is not treated as a homogenous group, unlike the Hungarian and Italian minorities which are recognised in the constitution and are guaranteed one seat in parliament. The status of the German-speakers remains an issue in relations between Slovenia and Austria.

Poland is to introduce a simpler visa system on its eastern borders with Belarus and Ukraine following the imposition of tougher visa regulations in January. Polish traders have complained of fewer goods and customers at outdoor markets. The new regulations required visitors to Poland to have an official invitation or hotel reservation and to purchase a visa costing the equivalent of $20 (Ecu 18.2). Under the revised rules, multiple-entry visas will be offered at approximately half that price. The EU has been pressuring Poland to tighten security on its eastern border.

Athletics attracts EU attention

Many of the EU's rules, policies and programmes have an impact on or are of interest to the world of sports.

The direct link that exists between the European Union (EU) and sport was emphasised in a landmark judgement from the European Court of Justice in December 1995. The judges ruled in February 1996 that European law also applied to economic activities — including professional sport.

The case had been brought by the Belgian footballer, Jean-Marc Bosman, after he was prevented by his club, RC Liège, from moving to the French team US Dunkerque. In bringing the action, Mr Bosman directly challenged the Union of European Football Associations' rules on transfer fees and the widespread practice of limiting the number of other EU nationals who could play in a team at any one time.

Although unhappy with the Court's ruling, UEFA accepted the judgement and began adapting its rules. The verdict has had a clear impact on football, enabling players to transfer between clubs more easily when their contracts have expired and allowing teams to field as many EU players as they wish

As one European lawyer pointed out, "If a lawyer can work in another member state, why can't a footballer? The Bosman ruling made sports federations realise they had to respect European law."

Since then the impact of EU rules on the world of sport has become more noticeable. For example France has been told it cannot discriminate against ski instructors who have qualified in other EU countries by preventing them from teaching on French slopes.

Under EU rules official diplomas and qualifications awarded in one country are recognised in another. The same rights will be extended to the candidate countries once they join the Union.

Union rules have also led to changes in the way some tickets in the football world cup held in France in June were sold. Complaints were made to the European Commission that the system put in place by the organisers gave French fans a better chance than other EU nations — and hence a discriminatory advantage — to buy much sought-after places at the international matches.

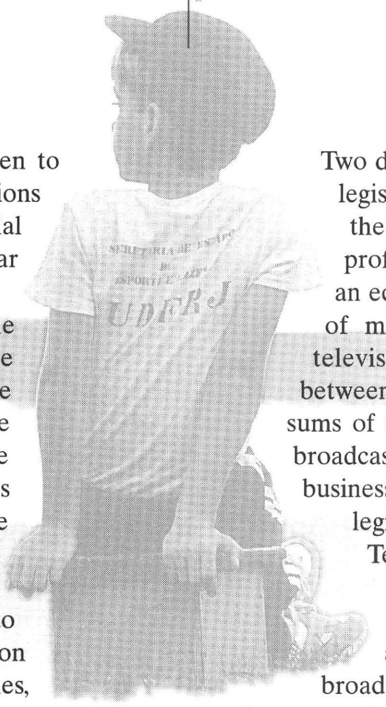
Sport will be affected by the decision, on health grounds by EU governments, to phase out from 2001 all forms of tobacco sponsorship and advertising, except on premises where cigarettes are sold.

Because of the financial importance of the tobacco industry to the formula one Grand Prix racing circuit, governments agreed that the ban would only come into force in 2006. The amount which cigarette companies may give the sport will have to decrease annually from 2001.

Given the wide nature of sport, it is not surprising that 18 of the Commission's directorates-general handle issues which impact on sport, ranging from equipment safety standards to veterinary controls for horses.

Sport was also expressly mentioned in the Amsterdam Treaty as EU leaders recognised the sector's capacity to forge identity and bring people together.

Sue Cunningham/SCP



They called on the EU institutions "to listen to sports associations when important questions affecting sport are at issue" adding, "special consideration should be given to the particular characteristics of amateur sport".

That advice will be followed by the Commission as it prepares a consultative Green Paper later this year on the future relationship between sport and the EU. Once the paper is completed, there are likely to be public hearings to encourage debate on its contents and to take soundings among the sporting world on the way ahead.

One theme that is expected to emerge from the Commission's work is the need to establish a solid legal base so that the Union can organise long-term sports programmes, rather than rely purely on short pilot projects.

Given the wide nature of sport, it is not surprising that 18 of the Commission's directorates-general handle issues which impact on sport, ranging from equipment safety standards to veterinary controls for horses.

"If we want to do things better, then we need a real programme and we would include central and east European countries in this," says one Commission official.

The Bosman case may have been the catalyst that woke the sporting world up to the fact that it was not immune from EU rules, but the link between the two is not new.

As far back as 1974, the European Court ruled that whenever sport was practised as an economic activity, it had to respect Union rules, particularly those outlawing restrictions on competition.

As Competition Commissioner Karel Van Miert recently noted, "The special features of the sporting world place restrictions on the production and organisation of sporting events which would be inadmissible in other sectors of the economy. These special features cannot, however, justify any interference with the fundamental freedoms enshrined in the treaty if the same legitimate objectives can be achieved just as effectively by less restrictive means."

He specifically pointed out that the rights which EU law gave to individuals could not be limited by private associations that have the authority to draw up sporting rules.

More recently the Commission decided to investigate a complaint brought by the small Belgian football club Excelsior Mouscron against UEFA after the European football association had prevented the club from holding a home game across the border in the nearby French city of Lille to take advantage of its larger stadium.

Mr Van Miert says, "The purpose of applying Community rules to sport is not to do away with the national character of sport but to give it a Community dimension."

Two developments have thrust sport into the EU legislative limelight. The first was abolition of the traditional distinction between amateur and professional — a move that clearly made sport an economic activity. The second was the arrival of more television stations, particularly pay television, which led to intense competition between broadcasters and the injection of huge sums of money as rivals bid for exclusive rights to broadcast premier events. Sport had become big business and so attracted the attention of EU legislators.

Television with its aggressive campaigns to increase ratings, has been forced to take European law into account whenever clubs and sporting organisations try to sell broadcasting rights for particular events.

Last year the Commission decided not to approve the duration of the exclusive rights that the Dutch football association had concluded with the sports channel Sport 7, as it believed the seven-year period under discussion was too long.

The Union's involvement in sport, however, goes far beyond the mere application of its competition rules. As the reference in the Amsterdam treaty demonstrates, the EU sees sport as an important leisure activity that can create jobs and provide practical lessons in democracy building.

"It is clear that sport, audio-visual and culture are the three main social activities in the EU. When someone has free time, he tends to look at television or do cultural or sporting activities. As we get more free time, so these three sectors become more important," explains Jaime Andreu, head of the Commission's sports unit in DGX.

While sport can be used as a tool of political propaganda — and has frequently been manipulated into that role in the past — Mr Andreu also believes it can encourage democratic behaviour.

For example, says Mr Andreu, sport in the applicant countries used to be organised in a centralised way. "Now it needs to be devolved with democratic structures. You need to organise clubs and federations, organise elections and put people together in small democratic cells. It is a contribution to civil society. There are over 500,000 sports clubs in Europe. That is a big network," he points out.

Sport is also seen by the Union as an activity that helps social stability both within and between member states.

"Every weekend there are sports competitions. People travel from their homes to them. It is a good way for people from one area to come across those from another region or member state and to meet people from different parts of society," explains one EU official.

The Union's increasing involvement in sport is occurring at a time when sport itself must decide where its future lies in Europe. In the current highly competitive era of professionalism, large salaries and constant battles for audience ratings between the major public and private television corporations, sport would appear to have two possible choices. It can either follow the highly

commercial US model or it can maintain and adapt a separate European style. Although ultimately it is up to the sports world to decide where it wants to go, the EU can and is prepared to direct the development.
It is against this background that the Commission is preparing its Green Paper examining some of the major themes raised by the closer relationship between the Union and sport.
One of the fundamental questions it will explore will be the nature of European sport as the different governing bodies try to balance the opposing goals of maximising the commercial implications of professional sport with encouraging the idea of sport for all.
"This involves the relationship between sports federations and public institutions and they [sports federations] need to think clearly and have a concept of where they want to go. It is up to them, but we can help," explains one Commission official.
The Green Paper will also attempt to analyse the impact which EU law - and in particular the Bosman judgement giving professional athletes wider opportunities to ply their skills in other member states - has had on the world of sport. The impact of new technology on sport - and in particular the contentious question of how television rights for particular events are determined - is another theme that will be put under the microscope.
The examination of the future of sport will also look at how it can be used to develop the Union's policy of using physical endeavour as a factor of social integration. The EU believes sport can play a role in tackling racism, helping the disabled, promoting health and creating jobs. The Green Paper will consider the international contribution which west European sport can make to promoting these principles throughout Europe. One of the first priorities will be to work with sports specialists in the candidate countries on such shared interest as developing sports organisations, sports clinics and training programmes for coaches.
As it approaches these tasks the Commission will need to balance carefully its role as a referee ruling out of order any violation of EU rules with its role as a keen fan offering support and encouragement to the different sporting bodies. ■

Reports by Rory Watson, Brussels

Sport in Europe

Forum gives sporting enthusiasts a chance to chat

One of the major annual events that enables politicians, administrators and sports officials to meet and exchange ideas is the European Sports Forum organised by the EU.
The most recent gathering in Luxembourg in November 1997 brought together representatives from the 15 EU members, the 10 applicant countries, Iceland, Switzerland and Norway.
Alongside them were officials from over 60 European and international sporting federations ranging from air sports and athletics to taekwondo and underwater swimming.
The two-day event provided a unique forum in which some of the key players in the sporting world could raise their concerns and consider the best ways of helping to promote a healthy climate for sport in Europe. It was also in line with the Amsterdam Treaty's stipulation that the Union should listen to sports associations.
As a possible way of institutionalising that relationship, the Culture Commissioner Marcelino Oreja suggested creating an official committee — the European Commission and the World of Sport — that would present annual reports on the partnership's development and activities.
All agreed with the Luxembourg Sports Minister Alex Bodry, who hosted the event, when he said it "provided an ideal platform for exchanging views, removing prejudice and defusing potential conflicts".
The forum also offered an opportunity to show the range of EU activities concerned with sport and to try and dispel the image that the Union and sport were invariably antagonists with the latter having to come to terms with the former's rules on competition, the single market and free movement.
Among the Union's many programmes are efforts to make sure that people with disabilities — 36m people in the EU have some form or other of physical, mental or sensory disability — have the same opportunities as the rest of the population to practise sport.
High profile events that have been supported by the Union include the Winter Paralympic Games in Lillehammer, the European Wheelchair Basketball Championships, European Athletics Championships for the Blind and the 1996 Paralympic Games in Atlanta.
In addition, the Union has established the Eurathlon programme, designed to provide a framework for EU subsidies to different sports. To win funding projects must have a European dimension that encourages the broadest possible participation and involvement by ordinary citizens, sportsmen and administrators from at least three member states.
The programme, which is also open to participants in the candidate countries, is used to promote equality between men and women, to tackle racism and violence, to develop training programmes and encourage sports exchanges. ■

Broadcasting enters the field

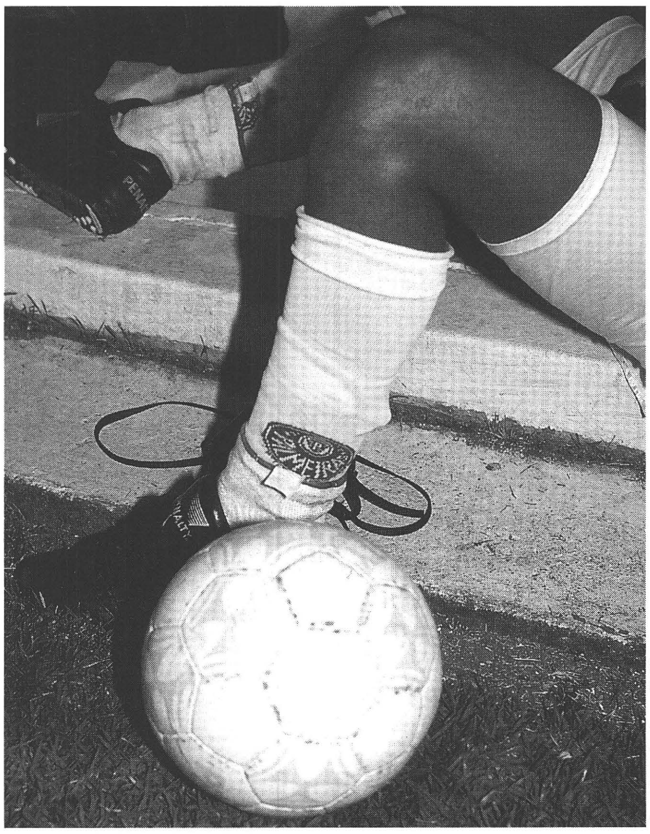
Over the past 10 years, the television industry has expanded and, thanks to deregulation and technological developments, the number of channels available has increased becoming at the same time transnational.

Previously few competition issues were raised by the way in which broadcasting rights for sporting events were sold and managed. With the arrival of new commercial services through pay television, channels are prepared to spend considerable sums to gain the rights to broadcast certain sports such as football and Formula One motor racing to their viewers.

Against that background, freedom of access to information has become a matter of increasing concern to the European institutions.

Under new legislation which member states have to put in place by the end of December 1998, each government must draw up a list of major sporting events to which viewers should have free access. The list should be drawn up in consultation with the organisations concerned and then submitted to the Commission, which will examine its compatibility with EU law.

Under new legislation which member states have to put in place by the end of December 1998, each government must draw up a list of major sporting events to which viewers should have free access.



Sue Cunningham/SCP

Sue Cunningham/SCP

The Commission is also keeping a close eye on the sale of exclusive broadcasting rights for particular sporting events. It acknowledges that this is an established commercial practice and it tends to give such sales the necessary exemption from EU competition rules when they are granted for a brief period and cover, for instance, only a single competition or a single season of a particular championship.

The Commission takes a dimmer view of agreements over a longer period since these could restrict competition if there were a risk that a broadcaster could deny competitors access to certain sporting events over that period. As technology advances, the Commission's view on whether certain exclusive deals can be approved or not will almost certainly evolve.

Originally, the Commission gave the necessary go-ahead to the agreement between BSB (now BSkyB), the BBC and the English Football Association on exclusive rights to the live broadcasting on the pay channel of English football matches between 1988-93. The decision was made because the broadcaster needed a long-term contract for its new service of direct broadcasting by satellite.

With hindsight Competition Commissioner Karel Van Miert now believes the five-year period was probably too long since the broadcasting technique became established more quickly than had been expected.

"This demonstrates that it is difficult to assess in advance the period of exclusive rights needed for the launch of a pioneering technology," he concludes. ■

Bosman has wide impact on athletics

The European Court of Justice's ruling on the case brought by Belgian footballer Jean-Marc Bosman had an immediate impact in the world of soccer.

It reaffirmed the principle that professional footballers and amateurs who had turned professional could move freely and use their skills in any of the 15 EU countries as well as the three countries — Iceland, Norway and Liechtenstein — joined to the Union in the European Economic Area (EEA).

It banned the payment of transfer fees when professionals changing clubs move from one of the 18 countries to another at the end of the contract.

It also abolished the practice of limiting the number of other EU nationals that could be fielded in a side to three players plus two others considered assimilated because they had played in the country for an uninterrupted period of five years (the three plus two rule).

The Court judgement only dealt with questions related to the free movement of people from one EU country to another. It left unanswered whether transfer fees could be paid when a player changes club within the same country when his contract expires. It did not say whether international transfer fees can be paid for non-EEA players, from for example the candidate countries, who then move to a club in one of the 18 countries. It did not address the question whether transfer fees could be paid when players are transferred before their contracts expire.

In several countries, as a result of the judgement, the number of international transfers has increased dramatically and the best players appear to have benefited from the new market conditions.

The main European and international football authorities — UEFA and FIFA — have also been forced to find an alternative to the transfer system compatible with EU law.

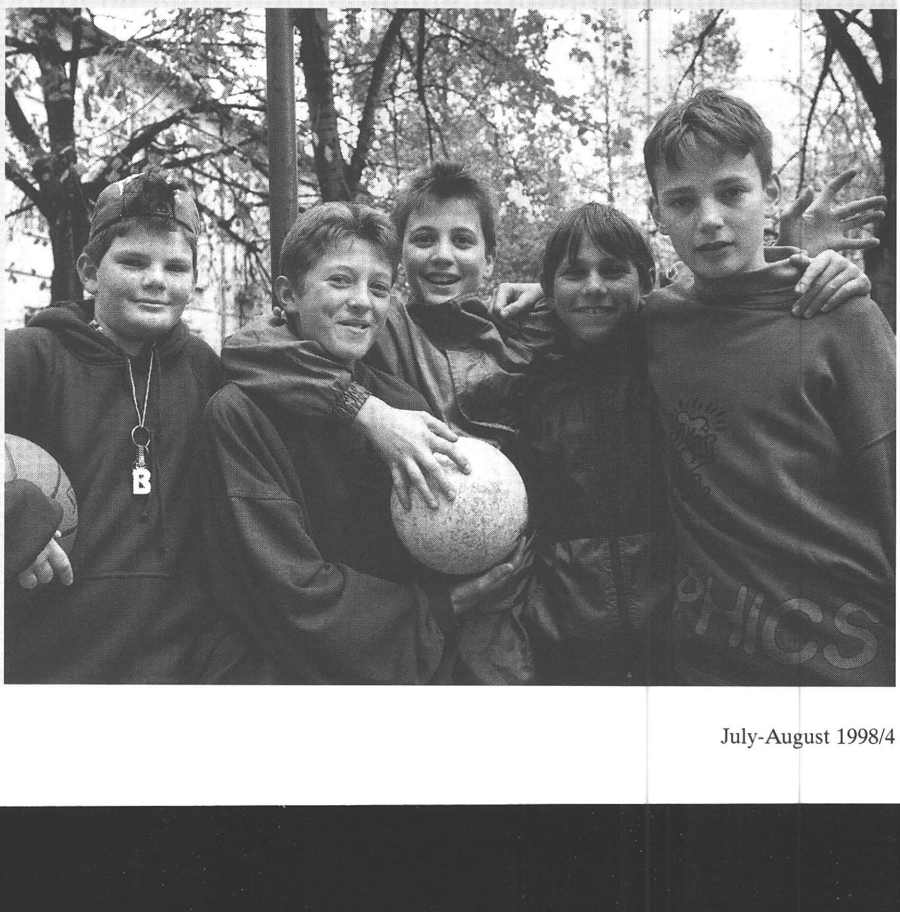
UEFA is also operating a solidarity fund, designed to compensate clubs for expenditures they incur in training amateur players between the ages of 14 and 22 when they are transferred as professionals to a club in another EU country.

The issues raised by the Bosman ruling, which confirm that similar principles apply in other professional sports in the Union, are not the only fundamental questions about football that have been put to the Union. The English Football League, for instance, has lodged a complaint with the Commission against UEFA, raising a question concerning the rules governing the entry of clubs and leagues to the UEFA cup.

As tensions emerge within the governing bodies of different sports, the Commission expects that at some time in the future it will be asked to adjudicate on the compatibility of a rival organisation being established in competition with the existing association or federation in a particular sport. ■

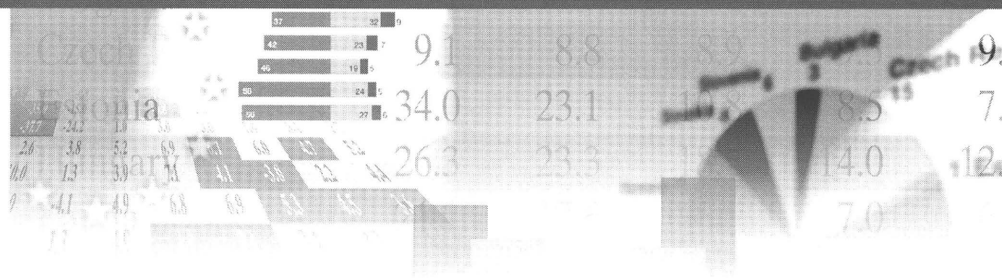
- *The sports unit of DGX co-operates with national and international sport institutions, organisations and federations through annual meetings of the European Sport Forum and the steering group on sport. Bilateral meetings with sport institutions, organisations and federations are also held. A help desk, Sport Info Europe, provides citizens with information on sport and produces a newsletter.*

More information is available from DGX sports unit, Rue de la Loi 200, B-1049 Brussels (Web site: http://europa.eu.int/comm/dg10/sport). The EU sport help desk, which can reply to oral and written queries and if necessary put people in touch with the relevant official, can be contacted by telephone (322) 296 9258 and by fax (322) 295 7747.



Sue Cunningham/SCP

Positive growth forecast for candidates



The economic outlook of the Commission's autumn 1997 forecast exercise for the applicant countries has been broadly confirmed by recent economic developments. In 1997 average economic growth in the 10 applicant countries was not able to benefit fully from the recovery in the EU because a number of countries were confronted with a serious relapse in their economic stabilisation and development.

As these countries are planning or implementing a number of measures necessary to bring their economies back on track, average economic growth in the region is expected to accelerate again and further progress will be made on macroeconomic stabilisation.

The more favourable international environment and the continued integration of the associated countries in the Union will reinforce this tendency.

Average economic growth of the 10 candidates slowed to 3.4 per cent in 1997. However, the overall evolution masks wide differences between countries: while Estonia grew by almost 10 per cent, Bulgaria's economy contracted by 7.4 per cent. The mediocre overall performance in 1997 can be attributed to problems in specific countries.

Although Bulgaria started to emerge from its economic crisis, the depth of the depression in 1996 and the first months of 1997 was such that another large fall in GDP was recorded in 1997. In Romania growth has been much weaker than expected because of continuing political, legal and economic uncertainty.

The exchange rate crisis in the Czech Republic brought to the fore other structural economic weaknesses, which forced the government to take restrictive measures. Together with the serious floods, this slowed down growth in the Czech Republic.

Continued fast growth was recorded in Poland and Slovakia, while growth accelerated considerably in Hungary and the three Baltic states.

The slowing of aggregate economic growth should be reversed in 1998 and 1999. Although the Asian crisis adds some uncertainty to the forecast, the external economic outlook is expected to improve further, mainly determined by accelerated growth in the EU and the start of recovery in Russia.

The continued integration of the associated countries in the Union, and the implementation of necessary economic reform programmes in Bulgaria, Romania and the Czech Republic, will support overall economic developments in the candidates. Due to the limited trade relations with the Asian tigers, no major direct effects of the crisis in Southeast Asia are expected.

GDP growth shows that only three countries are expected to experience significantly lower average growth in 1998 and 1999 than they did in the period since growth resumed after the output contraction at the start of transition (1994-97).

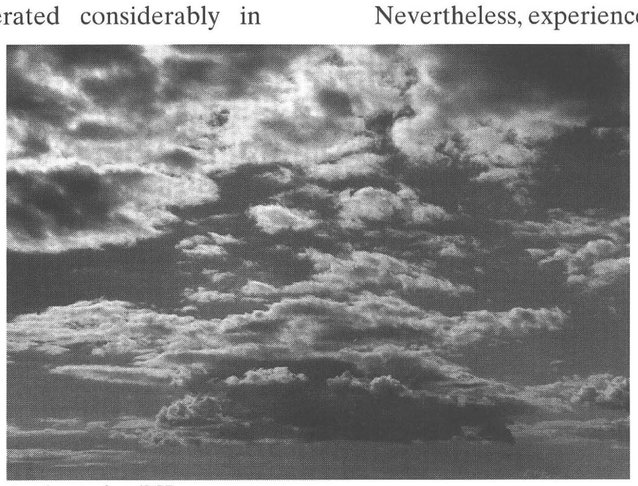
The Czech Republic and Romania are implementing stabilisation measures and structural reforms, which have a negative effect on short-term growth prospects. The lack of measures to tackle Slovakia's structural weaknesses should gradually undermine the growth potential of the Slovak economy.

In Estonia and Poland growth is expected to stabilise at a high level, albeit somewhat lower than in previous years. On average, the 10 applicant countries are expected to experience faster growth than the EU, which should allow the catching-up process to continue.

With the notable exception of Romania, the gradual dis-inflation process in the candidates is continuing. Most countries now record annual inflation rates of less than 15 per cent and half of the countries have reached single digit inflation. The countries that still had relatively high inflation rates (the three Baltic states and Poland) recorded sizeable reductions of inflation in 1997.

Lower real wage increases and improved productivity were major factors behind the inflation slowdown. Nevertheless, experience in the countries with the lowest inflation rates shows that it remains difficult to reduce inflation rates below five per cent, mainly because there are still too many administered prices that need to be adjusted and liberalised. Some of these countries have even experienced a new acceleration of inflation. Therefore, it is expected that dis-inflation will only progress slowly in most countries in 1998 and 1999.

Exports recovered faster than



Sue Cunningham/SCP

Sue Cunningham/SCP

expected in 1997. They benefited mainly from higher external demand and better export competitiveness. Productivity improved as a consequence of slower wage developments and efficiency gains, which are the result of significant investment efforts in previous years. Import developments were more diverse.

While real imports receded in Bulgaria, Romania and Slovakia, they accelerated by more than 20 per cent in Estonia, Lithuania, Hungary and Poland.

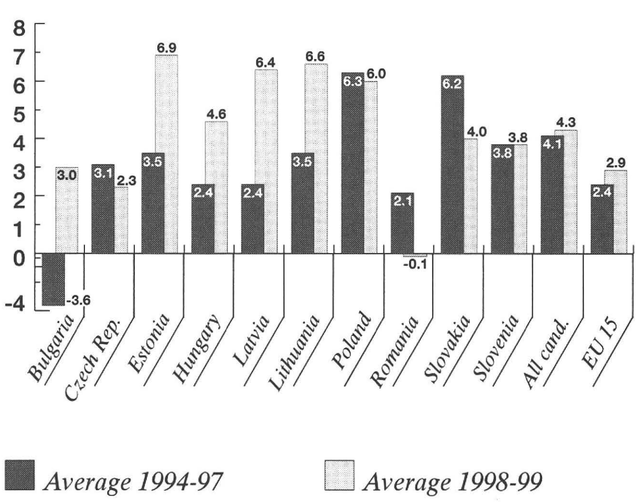
As a net result, the trade balances and current account deficits were stabilised approximately at their high 1996 levels. The positive factors that supported exports in 1997 should continue to play in 1998 and 1999.

Domestic demand is expected to strengthen in almost all countries, which should push up imports. Therefore, no improvement of external balances is foreseen.

Increased inflows of foreign direct investment make the current account deficits in most countries sustainable. However, in some countries that do not benefit from large foreign direct investment flows, persistent large imbalances are a cause for concern. ■

Note: A summary of these forecasts is published in Supplement C of European Economy, which also contains more detailed country notes on the most recent economic evolution. More information on the forecast is available from Bernard Naudts, Rue de la Loi 200, B-1049 Bruxelles (Tel: (322) 296 1537; Fax: (322) 299 6151; e-mail: bernard.naudts@dg2.cec.be).

Gross Domestic Product, real percentage change



***Trade balance** (percentage of GDP)*

	1995	1996	1997*	1998**	1999**
Bulgaria	0.9	2.1	3.8	1.9	0.8
Czech Republic	-7.3	-10.4	-8.6	-6.6	-6.4
Estonia	-18.7	-24.0	-23.9	-23.1	-21.7
Hungary	-5.6	-5.9	-4.0	5.0	-6.9
Latvia	-14.5	-15.9	-17.6	-18.6	-19.9
Lithuania	-11.7	-11.4	-13.2	-14.3	-14.2
Poland	-1.6	-6.3	-8.5	-9.0	-9.8
Romania	-4.4	-7.0	-6.0	-5.0	-4.6
Slovakia	-1.3	-11.0	-7.6	-7.5	-6.4
Slovenia	-5.1	-4.7	-4.2	-4.4	-4.8
All candidates	-4.1	-7.5	-7.5	-7.5	-7.9

** = Estimate. ** = Forecast.*

***Inflation** (private consumption deflator)*

	1995	1996	1997*	1998**	1999**
Bulgaria	53.8	127.5	1000.0	31.0	13.0
Czech Republic	9.1	7.8	8.5	9.5	8.4
Estonia	34.0	23.1	12.0	8.5	7.5
Hungary	26.3	21.7	18.3	14.9	11.5
Latvia	21.1	17.6	8.4	6.6	5.7
Lithuania	39.7	24.6	8.8	6.8	6.2
Poland	28.7	19.9	14.9	13.4	12.3
Romania	33.3	43.9	155.0	60.0	30.0
Slovakia	9.7	5.7	6.2	7.0	7.0
Slovenia	14.3	10.9	9.1	8.8	7.9
All candidates	25.2	24.2	56.2	17.5	12.5
Eight candidates ***	22.6	16.3	12.9	11.7	10.4

** = Estimate. ** = Forecast, *** = excluding Bulgaria and Romania.*

Gross Domestic Product, real percentage change

	1995	1996	1997*	1998**	1999**
Bulgaria	2.6	-10.9	-7.4	2.3	3.8
Czech Republic	4.8	4.1	1.1	1.9	2.6
Estonia	2.9	4.0	9.7	6.8	7.0
Hungary	1.5	1.3	4.0	4.5	4.6
Latvia	-0.8	2.8	5.9	6.3	6.6
Lithuania	3.0	4.2	6.0	6.6	6.7
Poland	6.9	6.1	6.9	6.1	6.0
Romania	7.1	4.1	-6.6	-1.6	1.4
Slovakia	6.8	6.9	6.2	4.4	3.5
Slovenia	3.9	3.1	3.1	3.6	3.9
All candidates	5.2	3.9	3.4	4.1	4.5

** = Estimate. ** = Forecast.*
Source for all tables and graph: Directorate-General for Economic and Financial Affairs (DGII) Spring 1998 Economic Forecast for the applicant countries.