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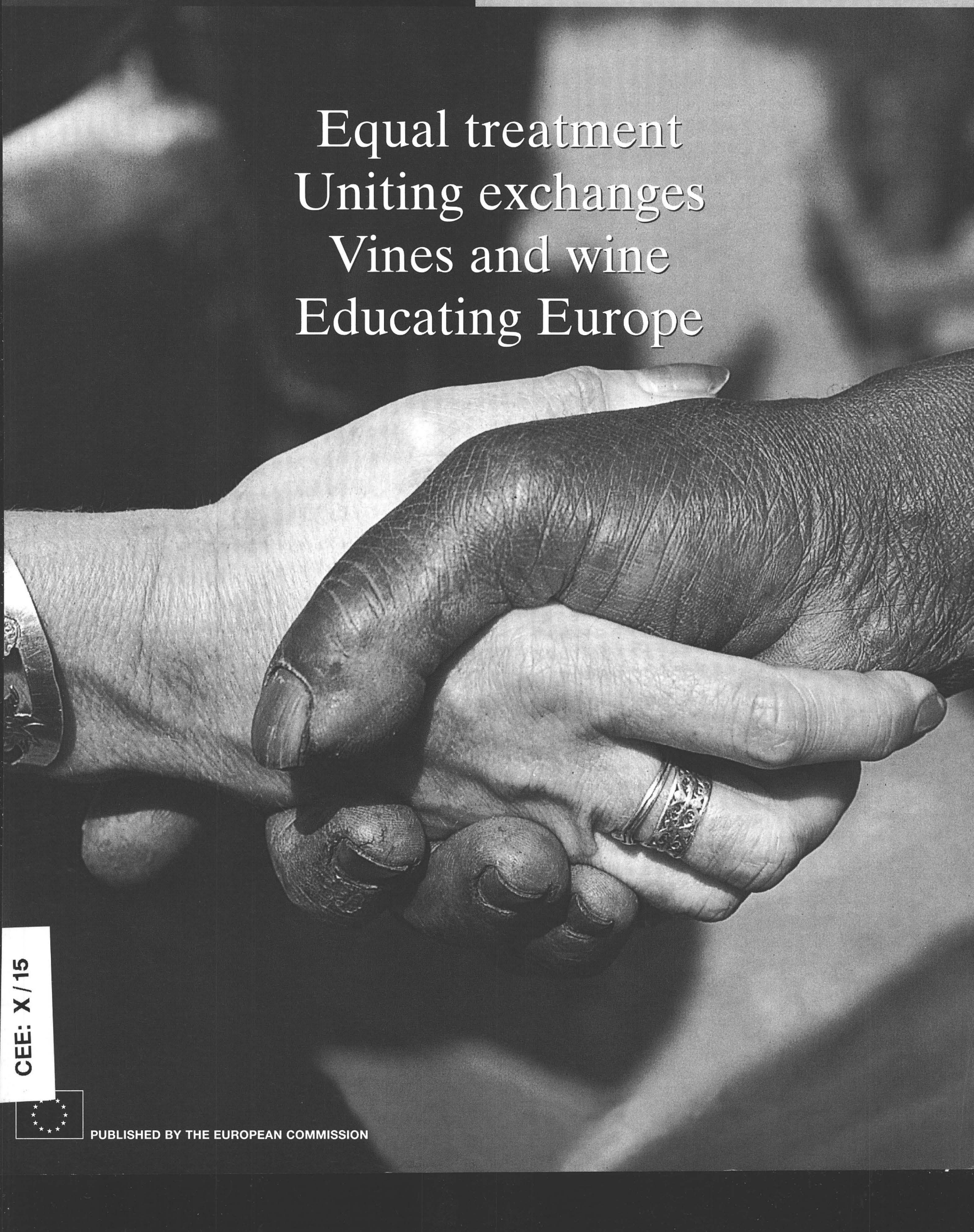


Equal treatment
Uniting exchanges
Vines and wine
Educating Europe

PUBLISHED BY THE EUROPEAN COMMISSION

PLOVDIV'99
EUROPEAN CULTURAL MONTH

In the world of ideas is a man as big as his dreams.

Plovdiv

A town of 7 hills and 7 names: Puldin, Evmolpia, Philippopolis,Trimontium, Pulpudeva, Plovdiv, Filibe
A contemporary of Troy and more ancient than Rome, Athens and Constantinople
The spirtual capital of Bulgaria

Will be the capital of the European Cultural Month 1999
An emblematic scheme of the European Union

Focuses of the Programme

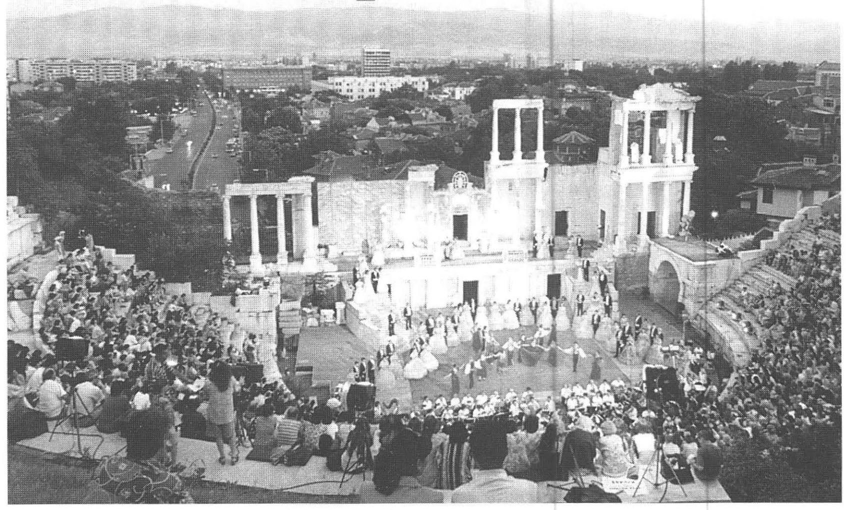
Plovdiv - a crossroad of cultures and routes
The challenge of the new millenium 10 years after the fall of the Berlin Wall
The language of the future, or the new Babylon

The events will take place

at the Ancient Theatre of Plovdiv, dating back to the Roman times

in the Old Town of Plovdiv, which is a cultural reserve of international importance

at the International Trade Fair, one of the biggest in the Balkans



Welcome to Plovdiv during the European Cultural Month
28 May - 24 July 199

MUNICIPAL FOUNDATION "EUROPEAN CULTURAL MONTH - PLOVDIV 1999"
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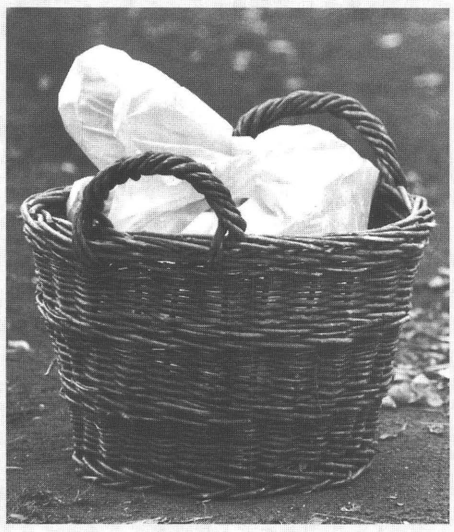


EU fights for the rights of all its citizens

Equal treatment is not just a gender issue. The EU in recent years has been pressured to take into account homosexuals, lesbians and the disabled among other concerns when offering equal opportunity to all its citizens.

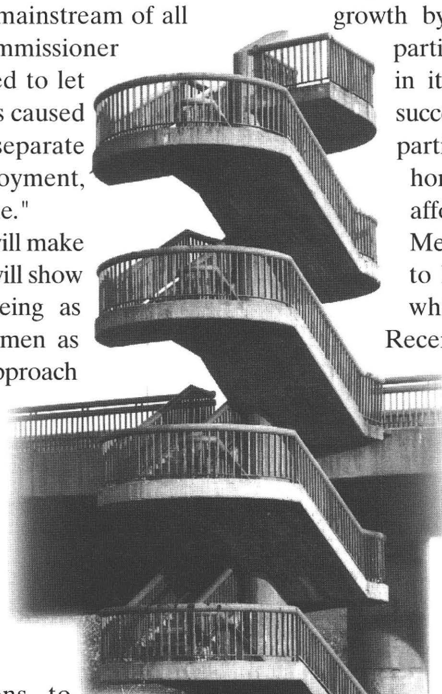
Equal treatment and anti-discrimination legislation are among the most developed of all the significant areas of policy in which the EU is involved. At the very outset discrimination on grounds of nationality was deemed illegal and the founding Treaty of Rome specifically stipulated that governments should implement the principle "that men and women should receive equal pay for equal work."

Over the years those principles have been both extended and refined by specific EU-wide legislation and by a series of rulings from the European Court of Justice in Luxembourg. These rulings have helped stamp out abuses and close loopholes which had unexpectedly emerged.

At the same time the principle that all EU citizens should have equality of treatment has moved from being a single social policy statement to being in the mainstream of all EU activity. As the Social Affairs Commissioner Padraig Flynn noted last year, "We need to let go of the traditional approach which has caused us to see equality issues as somehow separate — sealed off — from policies for employment, education, science, transport and the like."

He continued, "Mainstreaming equality will make things very much clearer. In particular, it will show that certain measures are far from being as neutral in their effects on men and women as they seem. It will also help to make the approach of all concerned much more practical, much more concrete." Nowhere is this clearer than in the co-ordinated moves to reduce unemployment in the 15 member states. That strategy rests on four central pillars: ensuring people's employability, improving their adaptability, encouraging entrepreneurship and promoting equal opportunities.

The last includes specific provisions to encourage the integration of women, the long-term unemployed and people with disabilities into working life (see separate article).



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While the employment rate for men in the EU is 70.5 per cent, it is only 50.5 per cent for women — well below the 67.5 per cent recorded in the US.

In a bid to close the gap, governments are concentrating on providing skills to unemployed women and encouraging female entrepreneurship. Investigations by the Commission have revealed that the labour market remains highly segregated.

Women occupy more jobs than men in the public sector and in certain professions such as nursing, teaching, secretarial and child minding. This is true even in countries like Sweden and Finland where the employment rates of the two sexes are comparable.

"This gender segregation may be constraining employment growth by limiting the potential labour supply into particular occupations," the Commission warned in its latest employment report. It noted more success in governments' efforts to help women, particularly single mothers, juggle the demands of home and work by providing good quality and affordable child care.

Meeting these demands is essential if society is to handle effectively the major social changes which are taking place in household life. Recent figures show that over 90 per cent of children under three in Belgium, France and Italy are in nursery school. As the population ages, statistics suggest that nine per cent of women working for at least 30 hours a week undertake up to four hours a day caring for a dependent person after they leave their job.

Some countries — notably Spain, Britain, Italy, the Netherlands and Portugal — offer subsidies through income tax or benefits systems to contribute to the cost of child care, although the most common method of meeting demand appears to be to increase the number of nursery places.

Only a few EU member states — Austria, the Netherlands, Britain and Luxembourg — set targets for child care facilities, while increasing use is made of parental leave, job rotation and career breaks as ways of reconciling family and professional life.

Austria also provided an interesting example of an integrated approach to help women onto the labour market in a bid to reduce the 21 per cent gap in the employment rate between men and women in the country. A combination of training, distance learning, creation of 19,000 new child care places and wage subsidies for women returning to work enabled 60 per cent of the women who had followed the programme to get a job.

The constitutions of all candidate countries provide for non-discrimination on the grounds of sex. The number of legal cases taken is low compared to western Europe. Now is that because of less enforcement or because women are not aware of their rights or how to enforce them, or because after 40 years there is equality?

Of these, over 50 per cent were still employed six months after the subsidy had run out.

Mainstreaming, however, now permeates all EU policies, especially the social and regional programmes which are currently being reformed to enable them to face the challenges of the new millennium and of enlargement. The Social Fund in particular has been one of the main vehicles used by the Union to promote equal opportunities and combat exclusion from work.

Individual actions have been supported to help women into areas of work where they are under-represented and to target women who either have no vocational qualifications or are returning to the labour market after a period of absence.

The Employment-NOW programme specifically complements efforts in tackling joblessness among women and strongly encourages business skills and entrepreneurial initiative among women. Other schemes have been directed at vulnerable groups to help them overcome the challenges they face in getting work. They include people with disabilities, single parents and the homeless, itinerants, gypsies and travellers, prisoners and ex-prisoners, drug addicts and others.

A number of EU member states have also introduced a mainstreaming approach into higher levels of decision-making. In Sweden, for instance, the Minister for Equality is entitled to scrutinise proposals with a view to incorporating a gender perspective into all policies.

In Germany the Federal Ministry of Women's Affairs has developed a gender perspective which allows it to examine proposed legislation at an early stage. In the Netherlands selected policy plans from the Ministry of Education, Culture and Science and proposed legislation from the Ministry of Foreign Affairs and the Ministry of

Sue Cunningham/SCP

Justice are considered for their gender impact.

In addition to this emphasis on mainstreaming anti-discrimination issues and encouraging changes within its own institutions, the Union's legislative foundation of equal opportunity measures is based on eight directives. These cover:

- equal pay for equal work
- equal access to work, training and working conditions
- parental leave
- the burden of proof in sex discrimination cases
- protection of pregnant workers
- equal treatment in state and occupational social security systems
- the self-employed and assisting spouses directive.

The extent to which the candidate countries are able to meet the terms of the legislation was examined by the Commission in a series of lengthy meetings last autumn. As one official explained, "The constitutions of all 10 countries provide for non-discrimination on the grounds of sex. Actually the number of legal cases taken is low compared to western Europe. Now is that because of less enforcement or because women are not aware of their rights or how to enforce them, or because after 40 years there is equality?"

While there is an acceptance of a high level of female participation in the labour market, the norm in the candidate countries, this does not necessarily translate into full compliance with EU legislation. While all the candidates provide for maternity leave, not all extend this three months leave to the father as is required by the parental leave directive.

The burden of proof in sex discrimination cases and part-time work legislation do not appear to have found strong echoes among the candidates, partly because the first seems to be relatively rare at present and the second has only recently become a recognisable phenomenon.

The candidates should be able to build in fairly easily the Union's social security provisions when they come to overhaul their own existing systems.

In the area of minority rights, issues likely to prove of particular interest to the Commission are the rights of Russians in the Baltic states and the status of gypsies in Romania, Hungary, the Czech Republic and Slovakia.

The scope of the Union's equal treatment measures, which have until recently been largely geared to ensuring parity of opportunity between men and women, will be broadened considerably by the Amsterdam Treaty with its non-discrimination provisions on "sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation".

The readiness of the Union to move into these new areas was demonstrated in December 1998 when the Commission organised a conference in Vienna to consider the ways in which these rights could be implemented.

Even before the treaty had come into force, the cross-party inter-groups in the European Parliament on gay and lesbian rights (see separate article), disability and ageing had tabled thoughts on the way ahead. The ageing inter-group suggested an EU code of good practice for the employment of older workers, a new action plan on positive ageing, a ban on age limits in recruitment and general framework legislation on non-discrimination which would set out the scope of future action.

Their colleagues on the disability inter-group focused on the possibility of a Commission investigation into the economic benefits of non-discrimination legislation and suggested ensuring that proposals to harmonise the internal market should be made "disability proof" and amended if they had a negative impact on the disabled.

The new article will also strengthen the hand of those protecting the rights of ethnic minorities and combating racism.

The cornerstone of the anti-racist campaign is the action plan against racism which was adopted in March last year after the 1997 year against racism. The plan brings together national and local authorities, non-governmental organisations, social partners, the media, sports stars and ordinary citizens.

The Commission intends to bring forward legislative proposals to combat racial discrimination. It is also using the potential of many EU policies and programmes to mainstream the fight against racism and doing so via the creation of a horizontal group inside its own administration with a broad remit over all policy areas.

In particular initiatives involving employment, regional and social funding, education, training and youth, research, public procurement, information, culture and sport are all considered effective vehicles for carrying the anti-racist message.

With funding from the annual EU budget, the Commission actively supports a range of innovative pilot projects and networks which combat racism and it is working with the media to promote codes of good practice for journalists, editors and advertising bodies.

One of the main instruments the Union uses to assess the preponderance of racist behaviour is the Monitoring Centre on Racism and Xenophobia which was established in June 1997 to provide the EU with objective, reliable and comparable information on racism, xenophobia and anti-Semitism.

In another innovative approach, the European Multicultural Media Agency (EMMA) launched a competition last year in conjunction with television broadcasters from Britain, France, Portugal, the Netherlands and Sweden to make documentaries against racism. The result was four, half-hour television programmes which were filmed last summer.

With the entry into force of the Amsterdam Treaty, the number of these initiatives and the demands for an end to all forms of discrimination can only increase. ■

Reports by Rory Watson, Brussels

Sue Cunningham/SCP

Sue Cunningham/SCP

Equal opportunities

Parliament champions gays

The European Parliament has proved to be one of the main champions over the years of equal rights for homosexuals and lesbians. It has expressed this support in a series of resolutions demanding the same age of consent for homosexuals as heterosexuals.

More recently it extended its activities with the creation of a cross-party inter-group for gays and lesbians under the chairmanship of Finnish MEP Outi Ojala. (An inter-group is an internal parliamentary pressure group which is not part of the legislative process and acts as forum for debate. They are theme specific. Other inter-groups, for example, discuss wine, sport and Mediterranean islands.)

The Commission has also supported and funded several gay and lesbian related projects under a variety of its programmes. One of its pioneering efforts was the publication in 1993 of Homosexuality: a European Community issue, which considered the situation of lesbians and gay men in the 12 member states. Its campaign for greater equality was also considerably strengthened in the Amsterdam Treaty with the provision in Article 13 that "the Council, acting unanimously on a proposal from the Commission and after consulting the European Parliament, may take appropriate action to combat discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation".

The European Parliament has warned that it would not give its consent to the accession of any applicant country "that, through its legislation or policies, violates the human rights of lesbians and gay men".

The campaign for greater equality is not just focused on the situation within the EU. In a far-reaching resolution adopted in September 1998, the European Parliament warned that it would not give its consent, which it must do according to the EU treaties, to the accession of any applicant country "that, through its legislation or policies, violates the human rights of lesbians and gay men".

The resolution specifically reminded applicant countries of the general political criteria for EU membership laid down at the 1993 Copenhagen summit. It reiterated that there is a particular requirement to respect human rights and called for the repeal in the candidate countries of all offending legislation.

It urged the Commission to take this into account in the accession negotiations.

The MEPs strongest criticism is directed at Romania, whose legislation prohibits gay and lesbian organisations, homosexual acts which "cause public scandal" and positive information on homosexuality. The Euro MPs specifically "deplored the refusal of the Romanian Chamber of Deputies on June 30 1998 to adopt a reform bill presented by the government to repeal all anti-homosexual legislation provided by Article 200 of the penal code".

The criticism was echoed by the Commission. In its opinion on the country's EU membership application, it noted: "Homosexuals are exposed to abuses by the vagueness of the term 'public scandal' as applied to homosexual acts."

Although Romania is specifically singled out, the parliamentary resolution noted that several other applicant countries — Bulgaria, Cyprus, Estonia, Hungary and Lithuania — still have legal provisions in their penal code which seriously discriminate against homosexuals.

The MEPs also deplored "the insufficient law reform" voted on by the Cyprus parliament in May 1998 when the total ban on male homosexual acts was replaced by what they believe is "a series of other discriminatory provisions, including a higher age of consent".

On the other hand, parliament gave a warm welcome to recent law reforms in this field in Finland and Latvia.

Within the EU the MEPs' main target of criticism has been Austria. The country is annually criticised by the European Parliament for insisting in its penal code on a higher age of consent for gay men.

Last September's resolution quoted official statistics which indicated that every year there are, as a result, some 50 reports to the police, 30 criminal proceedings and 20 convictions under article 209 of the code which provides for prison sentences of between six months and five years. It also regretted the failure of the Austrian parliament to repeal the relevant article last July and warned this weakened the Union's credibility when it insisted that applicant countries should fully respect their citizens' human rights. ■

Ways to help disabled increasing

Disability can take many forms — physical, sensory, mental and intellectual. At any one time it is estimated that about one tenth of the total population, approximately 37m people, in the EU is directly affected by some form of disability.

Through no fault of their own, these people can find themselves excluded from many of the rights and opportunities enjoyed by the vast majority. Some have difficulty in gaining access to mainstream education and people with disabilities are two to three times more likely to be unemployed and for longer periods than the rest of the population.

Welfare systems generally only provide a minimum of support. Suitable housing is frequently scarce or prohibitively expensive. Even now, many transport systems and public buildings are often only accessible with difficulty.

With the Amsterdam Treaty, the EU will have far greater powers than in the past to tackle discrimination against people with disabilities. Over the years it has already been supporting a number of pilot projects and has struck up strong contacts with many groups and non-governmental organisations (NGOs) to ensure equality of opportunity for disabled people.

Towards the end of 1998, the various EU institutions produced for the first time their own internal code of good practice on the employment of people with disabilities. This stated that they "take a positive attitude to disability and are committed to ensuring that all qualified European citizens should have an equal opportunity for employment on the basis only of their ability and suitability for the work".

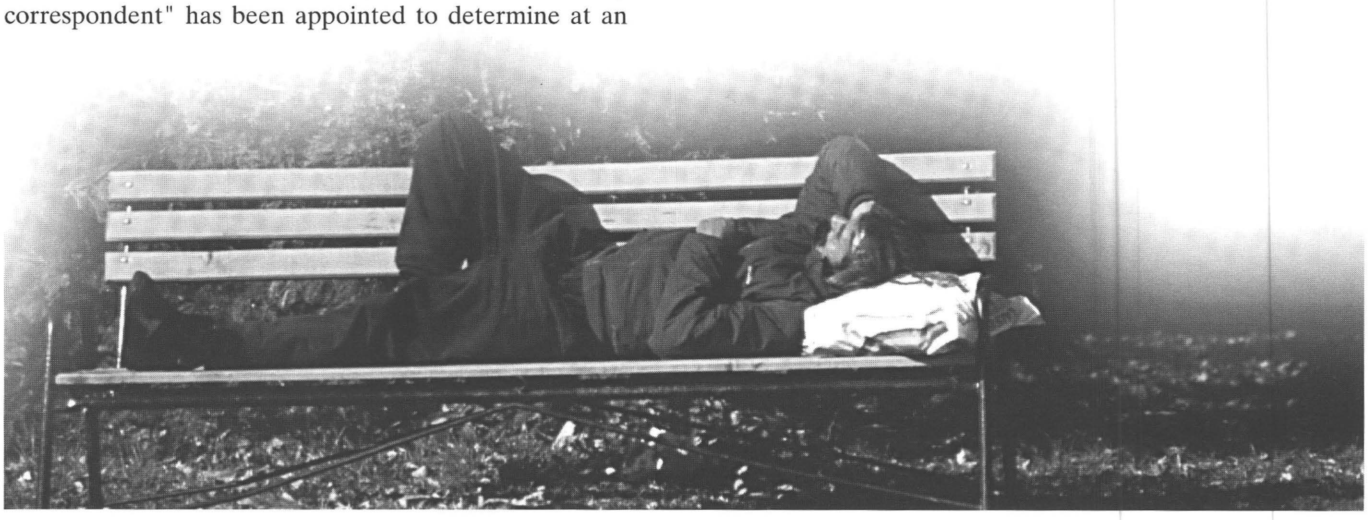
Significant as that initiative is, more important are the efforts which the Commission is making to mainstream the issue and to ensure that the rights of people with disabilities are taken into account in all policy areas.

In each of the institution's departments a "disability correspondent" has been appointed to determine at an early stage of legislative drafting whether special needs should be taken into account. This may arise in discussions on information technology, which is widely used by the disabled, or in technical standards for commercial vehicles like buses and coaches or even in the shape of the new euro coins.

Equally, the employment guidelines which are now followed by all EU governments as they try to improve their record in job creation take this mainstreaming even further. They contain a specific commitment to promote the integration of people with disabilities into working life. With employment levels for the disabled generally 20 to 30 per cent below the rate for the population as a whole, the guidelines recommend that solutions to the problem should be integrated into all aspects of employment policy, but without stigmatising people with disabilities.

This might involve job counselling or measures to improve their employability. Last year's Commission employment report noted that three major policies — quota systems, sheltered employment and anti-discrimination legislation — were widely used by EU member states to achieve their integration objectives. "However, the majority of the member states do not integrate this policy dimension in their preventive strategies despite the presence of some elements in the plans of Spain, France, Austria, Portugal, Sweden and the UK," it noted.

The spread of good practice and the legal base of the Amsterdam Treaty may well overcome these failings and the increased importance which the Union is now devoting to the problems of the disabled will be reflected in the attention it devotes to the issue in the accession negotiations. ■



Sue Cunningham/SCP

Consolidating Europe's stock markets

The creation of a pan-European stock exchange is still a long way off, but the linking of London and Frankfurt is seen as the beginning of the ultimate aim.

The foundation for a single European stock market was created in January 1999 when Europe's two largest bourses formed a strategic alliance. London Stock Exchange and Deutsche Börse took the first step towards developing a common electronic trading platform that may become a viable alternative to the big exchanges in the US.
"It is expected that this will lead, over time, to the formation of a pan-European market for some 300 blue chip equities," says Werner Seifert, chief executive of Deutsche Börse, and Gavin Casey, chief executive of the London Stock Exchange.
From the outset other European stock exchanges were invited to participate. Many of them immediately queued up to become part of the basic structure of the alliance, once it had been founded and created.
Market players reacted positively. "I think it is the right way to create a virtual European exchange. It must not be a real one, a physical one. But by having a common trading and settlement platform run by different exchanges with harmonised listing requirements, with harmonised trade and settlement regulations, the effect would be as if we had one common exchange," says Stephan Schuster, head of policy issues and capital markets at Deutsche Bank.

The European stock exchanges have been run with all the characteristics of the little fiefdoms of the Holy Roman Empire, with everyone defending their own little territories in their own little worlds. This has not actually been to the benefit of either the people they serve or the exchanges themselves.

To smaller stock exchanges across the continent — both within and outside the EU — the London-Frankfurt deal brought home some harsh realities.
"The main reason for having a stock market is to raise money in the most cost efficient manner for industry. Everything else is secondary. If you can't do that, you have to question why you are there at all," says Justin Urquhart Stewart, corporate development director at Barclays Stockbrokers in London.
Mr Urquhart Stewart believes many of Europe's exchanges, which until recently have enjoyed the protection of the continent's linguistic, cultural and monetary barriers, have failed to live up to this basic requirement.
"The European stock exchanges have been run with all the characteristics of the little fiefdoms of the Holy Roman Empire, with everyone defending their own little territories in their own little worlds. This has not actually been to the benefit of either the people they serve or the exchanges themselves," he says.
Across Europe stock markets remain less liquid and equity trading more expensive than in the US. Most experts agree the situation is untenable, not least because of structural changes to the European welfare system.
As the onus is shifting away from the welfare state onto the citizen, there is fast growth in private pension savings and pension insurance. Consequently, pension funds and insurance companies invest more in equities — especially when interest rates, hence bond yields, are low.
"Equities will be there to meet demand. Many European industries, such as transport, utilities and telecommunications, are being deregulated and privatised," comments Jean-François Théodore, chairman and CEO at Société des Bourses-Paris Bourse.
Giovanni Ravasio, the head of DGII (financial affairs), welcomes this development: "The EU's equity markets can only profit from a wider investor base and a larger, more efficient market," he says.
This will be particularly true for Europe's most liquid and efficient bourses, especially where the stock markets' size and efficiency improvements are assisted by the euro's removal of currency risk. This radically improves transparency, enables more sophisticated investors to compare share prices between exchanges and encourages international diversification.
"With a single euro-denominated market, investors will

be able to seek out interesting investment opportunities across the euro-zone. Investment in pan-EU industrial sectors will become a real and rewarding possibility. The basis should change from country risk to sector analysis," says Mr Ravasio.

Shrewd investors, both European and non-European, will turn their backs on small national bourses and buy shares in the most cost-efficient markets. European companies will list their shares where they get the best price. Only the exchanges that provide liquidity, diversity and easy access at the lowest possible price will survive.

"We will see consolidation," is the conclusion drawn by Deutsche Bank's Mr Schuster. "Here in Germany there is no room for eight cash markets. It's a thing of the past. Neither will there be room for 32 cash markets in Europe. Investors will not be able and willing and they cannot afford to finance dozens of stock exchanges across Europe," he declares.

"If you live in a large zone with a single currency, economy of scale will lead to large market places. This means that eventually we won't have many stock exchanges in Europe. The big players will become bigger as high liquidity is King," says Emil Ems at DGII, specialising in capital movements and financial sector reform in central and eastern Europe.

Whereas consolidation is inevitable, the exact make-up of tomorrow's European stock trading landscape is less clear — whatever the ambitions of the London-Frankfurt alliance.

Sue Cunningham/SCP

When London and Frankfurt left Paris out of the initial alliance, Mr Théodore was clearly miffed at being excluded. He responded by saying it would have been challenging for the Paris Stock Exchange to be part of a think-tank addressing the many questions that must be answered before the London-Frankfurt deal can evolve into a pan-European stock exchange.

However, the exclusion of Paris did not come as a shock. "Most market participants know that there have been several attempts to reach co-operation between Frankfurt and Paris, but once the question of technology has arisen, they have failed to reach an agreement. In the discussion between Frankfurt and London, the discussion of technology was not key. The question was how to combine forces. Once they have a common understanding, its time to talk about technology," notes Mr Schuster at Deutsche Bank.

Technology cannot be ignored. Technological incompatibility between London and Frankfurt's trading systems seems to have been the main reason why they chose to keep the trading of their shares separate.

"All the German shares are traded out of Frankfurt and all the British shares are traded out of London. The reason might be that it is not so very easy to link up the two different systems," notes Mr Ems.

Initially software will be developed so traders can deal on both exchanges from one screen. Closer integration will continue, eventually leading to a new joint electronic trading system. That will take time and cost. Trading technology is notoriously expensive: Deutsche Börse has spent DM 160m ($96m/€81.8) on the trading system it launched in 1997. London Stock Exchange spent £101m ($166m/€142) on its new system.

Paris Bourse's Mr Théodore says he believes there is great potential for a successful pan-European initiative that could benefit all market users. He says Paris is willing to "bring its building bricks to a common house". However, if a pan-European solution fails to evolve, he believes "Euroland will be a big enough universe to allow room for competition between groups of exchanges".

Some groupings are already evolving. "Counter to the mainstream consolidation trend, there is another trend which may prevail in the short-run, that is in the next 10-15 years. That is smaller exchanges entering into co-operation agreements under which they try to improve liquidity through networking on an equal basis," explains Mr Ems.

Mr Théodore envisages that Euro NM, a partnership between the French, Dutch, German and Belgian exchanges, could become an alliance with a common trading platform. Other Euroland exchanges say they may link up with the two-year-old alliance.

In the Nordic region there are talks of co-operation between stock exchanges in Copenhagen, Oslo and Stockholm, notes Mr Ems. On the clearing and settlement front, co-operation is already on its way. The derivatives exchanges have linked-up — easy because they all use the same technology. Talks are also continuing between the stock exchanges, but incompatible technologies create complications. At present only Stockholm and Copenhagen have agreed to merge their dealing systems.

Elsewhere in Europe, some exchanges may achieve liquidity by becoming sector specialists, for example by listing only high-technology stock or only basic industry stock from any country. In each country there may be an exchange where smaller companies raise finance.

In London and Frankfurt, for example, small companies will continue to list on the stock exchanges. Only the blue chips will be traded on the shared platform.

Any alliance or cross-border consolidation emerging from the ongoing stock market restructuring process will have to contend with important regulatory issues. The main question if a pan-European stock market evolves is: Who will be the regulator?

With a single euro-denominated market, investors will be able to seek out interesting investment opportunities across the euro-zone. Investment in pan-EU industrial sectors will become a real and rewarding possibility.

"In the US, the Securities and Exchanges Commission (SEC) plays a crucial role in organising and protecting the various interests at stake: Those of the investors, issuers and intermediaries," observes Mr Théodore, questioning whether Europe needs an SEC of its own.

Most market officials think not. "We have the EU regulations, and there are no big differences at all. There may be some minor differences between reporting requirements for example, but there is no need for one big, powerful super authority," argues Deutsche Bank's Mr Schuster.

Paris Bourse's Mr Théodore, acknowledges that a European SEC would just add another layer of bureaucracy. He goes on to caution that "the harmonisation of regulation in the various countries is the only way to prevent regulatory arbitrage and the unavoidable increase in competition between markets due to the negative effect on market integrity and investor protection."

Financial market regulation is as much about national pride and culture as it is about written legislation. This will become evident when London and Frankfurt push on with the creation of a shared trading platform.

Initially, shares traded on the London Stock Exchange will be covered by British regulators, while trading in Frankfurt will be regulated by the Germans. Bringing the two trading systems together could lead to rivalry, or even head on clashes, between the two countries' regulators.

"You've got different cultures of regulation in Germany and in the UK. The new Financial Services Authority in the UK has a staff approaching 2,000. Additionally, hundreds work for the market regulators and there are thousands of compliance officers. BAWe, the relatively new German securities regulator has, I believe, around 100 staff, and compliance is not yet the huge profession it is in the UK," explains Chris Thomas, programme director financial services regulation, Guildhall University.

"The German system of regulation relies very much on banking supervision. Although the securities markets themselves are regulated by their own regulators, firms dealing in the securities markets are regulated by the Berlin-based banking regulator BAK. In the UK, firms in different parts of the financial services industry are authorised and supervised by a range of regulators," Mr Thomas adds.

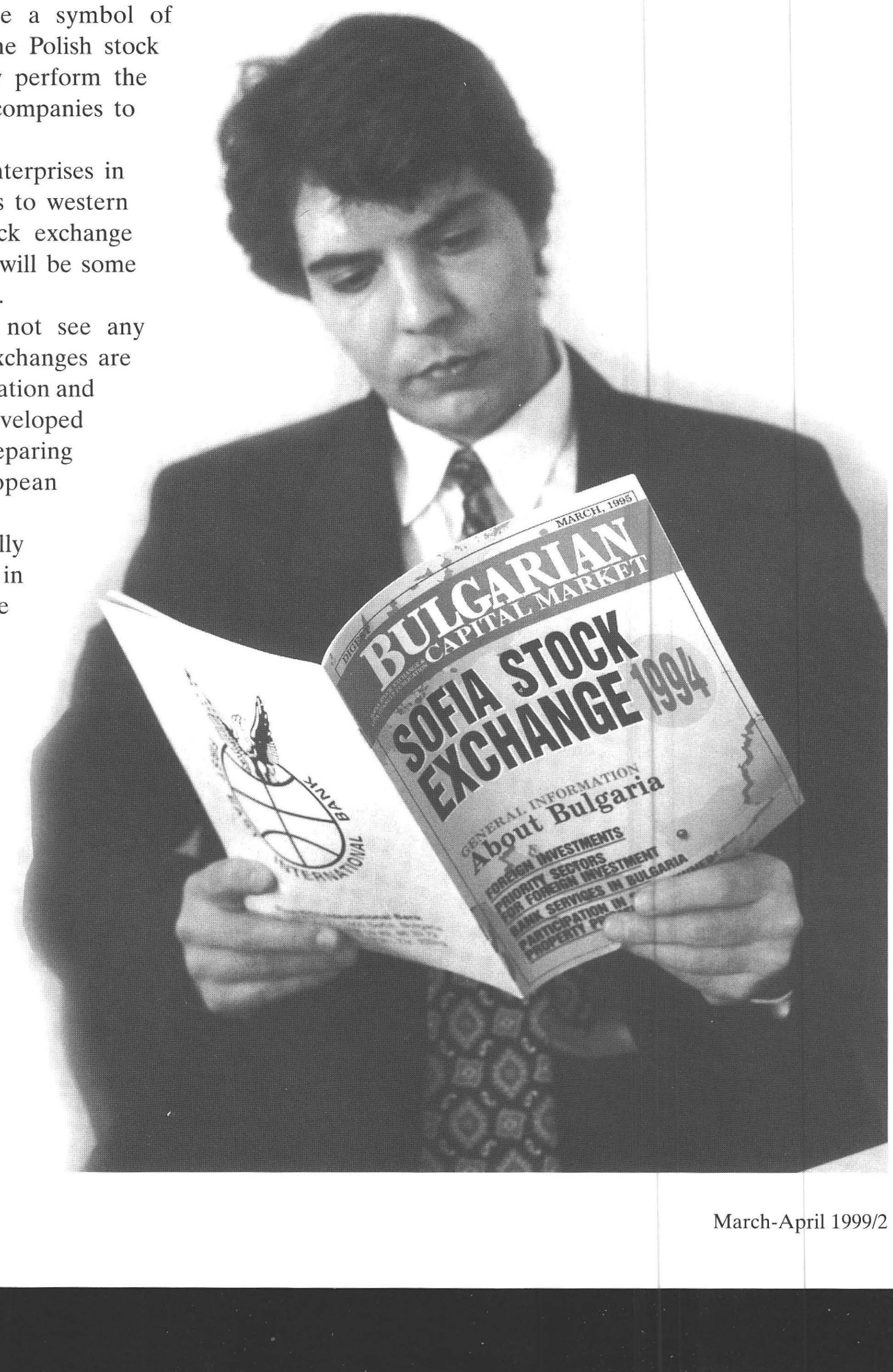
The two systems may seem incompatible. However, during the autumn of 1998 the International Organisation of Securities Commissions (IOSCO) made some notable progress towards international harmonisation of their rules by adopting 30 principles of securities regulation and supervision.

Natural harmonisation is favoured by market officials and regulators alike as the best way to achieve the statutory objectives of regulation, namely protecting investors, maintaining confidence and avoiding systemic crisis, preventing financial crime like money laundering,

Sue Cunningham/SCP

and promoting consumer awareness of their financial requirements.
Generally, financial institutions support the IOSCO and other similar initiatives because standard rules will make their lives easier. They also want to keep as much as possible of the market under "self-regulatory" regimes.
The consensus among experts seems to be that the stock exchanges in the candidate countries will, sooner or later link up with a European stock exchange. They do not agree on when this will, or should, happen.
One potential advantage of linking up as soon as possible could be reduced volatility. A link-up should increase the depth and breath of these local stock markets, thereby making them less vulnerable to external economic shocks, especially if the local stock markets do not serve a purpose, reasons Dr Norbert Wunner at the European institute at the London School of Economics and Social Science.
"What was the point of establishing those stock exchanges? It was basically to have a symbol of capitalism there. Except maybe for the Polish stock exchange, I can't really see that they perform the function of being suitable places for companies to raise capital," Mr Wunner argues.
"There will be some pressure from enterprises in these emerging countries to get access to western capital and to have links with a stock exchange where they can raise capital, so there will be some pressure to forge alliances," he predicts.
Deutsche Bank's Mr Schuster does not see any practical difficulties. "Most of these exchanges are taking a very close look at the EU regulation and what already exists in the so-called developed European capital markets. They are preparing in advance to fulfil the European regulations."
The Commission agrees that eventually alliances will be entered into, and that in time this should benefit the candidate country exchanges.
For the time being the local exchanges fulfil very important roles. Without the stock exchanges the region would depend too much on the banking system as a cushion against financial shocks. A three pillar system where companies rely on bank loans, bond issues and equity issues for finance will be better geared towards the needs of candidate countries, Mr Ems points out. The exchanges are also useful because they stimulate a culture of channelling savings into stocks and bonds as well as into bank accounts.
The Commission warns the candidate country exchanges against being swallowed too early by bigger European exchanges. He suggests these exchanges should try to prolong their lives by cutting costs and improving liquidity through regional partnerships.
"The economies of scale are most pronounced in the clearing and settlement function, so the incentives to co-operate are much higher here than in the stock exchange and derivative exchange areas," says Mr Ems.
"We have a very good example of co-operation in this field in the Baltic states. Latvia stock exchange has developed a clearing and settlement system on its own and has started to co-operate with Estonia. The hopes are that Lithuania will also join in. The ease of linking plays a certain role, and this is an important lesson for the central and east European countries. It may be a mistake that each and every one of them develop their own system," warns Mr Ems. ■

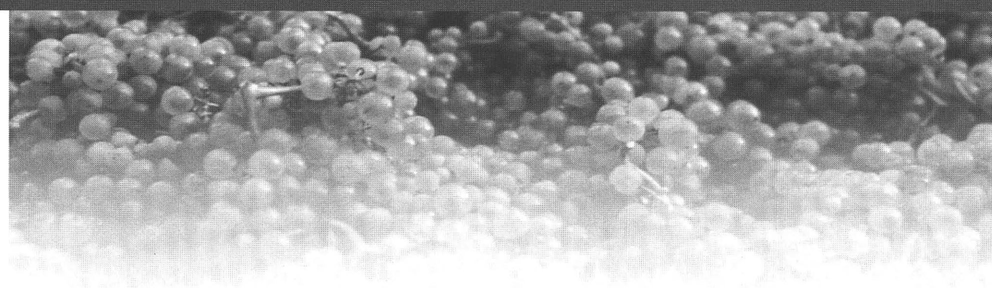
Jørn Madslien, London



Sue Cunningham/SCP

Attention focuses on wine's future

As consumption of wine in the world grows, the EU's exports need to remain competitive. Enlargement to include the candidate countries will further enhance and strengthen the Union's overall position.



It is difficult to exaggerate the importance of wine to the Europe Union's farmers and consumers. Wine is a normal part of everyday life in Europe and shows signs of becoming even more popular, particularly among northern Europeans, traditionally more used to beer and strong liquor.

The EU is the world's biggest producer, exporter and importer of wine and includes the world's three largest producers — Italy, France and Spain — among its members. Vineyards cover 3.4m hectares from the southern-most tip of Greece in the south to Wales in the north of the Union.

The EU produces and drinks 55-60 per cent of the world's wine. That does not mean that it limits itself to domestically-produced vintages. Between 1995-97 the EU imported 5.3m hectolitres every year — over a third of which comes from the candidate countries, notably Bulgaria, Hungary and Romania.

Competition on the European wine market is hotting up, with Chile, Argentina, Australia, the US and South Africa providing new rivalry for EU producers and their near neighbours to the east.

Wine growing also represents a vital part of the fabric of the European countryside. In France it makes up 14.3 per cent of the value of final agricultural production and in Italy 9.8 per cent. In Languedoc-Roussillon in France, wine accounted for over half of farm output.

That is why the Commission has been so anxious to ensure that its common organisation of the wine market can be adapted to the increased competition on world markets, particularly since the Uruguay round accord of the general agreement on tariffs and trade came into effect in 1995, effectively lowering the barriers to imports.

In 1994, faced with growing criticism of the expense of the disposing of the EU wine lake, then-agriculture commissioner René Steichen made radical proposals to cut the surplus production.

Governments, led by Spain and Italy, were horrified, fearing the plans would drive thousands of their smallest wine growers out of business.

The plan was shelved until July 1998, when Agriculture Commissioner Franz Fischler published new proposals, after three years of lower harvests had convinced him the structural surplus of wine in the EU was on the wane.

Mr Fischler's plans, concentrating less on cutting capacity and more on improving quality, are now an integral part of the Agenda 2000 package of agricultural reforms, which are due to be finalised by ministers and heads of government at a special summit in March.

The EU produces and drinks 55-60 per cent of the world's wine.

The initial response from agriculture ministers has been positive, although the final shape of the reform will depend on agreement on the whole package of measures. Ministers will inevitably trade-off what they want to gain from the reform against their wishes in other sectors.

Mr Fischler's proposal would increase spending on the wine regime by 50 per cent by 2003 to €1.234bn from €826m in 1998 and €970m in 1997. At present spending varies greatly, depending on the size of the crop and how much surplus wine has to be bought up and distilled.

"If we want to give our producers a chance and recognise that wine is a culture and not just an industry, then aid is necessary," Mr Fischler said at the unveiling of his plans. "We would like to establish a situation for the next two years where our supply is in line with demand."

Mr Fischler says he wants to improve the quality of wine to stave off the threat from Californian and southern hemisphere wine, which is increasing market share and rejected criticism that the EU's market is heavily protected.

The plan, if approved by farm ministers, would maintain the "grubbing-up" payments, which encourage farmers to dig up some of their older and less productive vines. It would ban the planting of new vines until at least 2010, except "in areas with expanding demand."

Under existing rules producers are paid between €1,449 and €12,317 per hectare for grubbing up old vines, depending on the yield, the cultivation type and on the variety of grape.

It would also phase out some forms of distillation, which has been a widely-used method of getting rid of surpluses, although it has drawn stinging criticism from opponents of the expense of the wine sector. Over the past five years, the EU has disposed of an important volume of surplus wine and by-product of the vinification products, some of which goes to the production of drinking alcohol which is distilled into vehicle fuel and exported to countries like Brazil.

Money would also be made available to improve marketing, and to encourage producers allowed to plant new vineyards to choose the best possible varieties.

The Commission also wants to abolish EU-funded buying of wine that cannot be sold into intervention storage, although it would pay producers private storage aid not to market wine in times of surplus.

The reform will continue a policy which has continued gradually over the last few years of reducing capacity and concentrating on the established reputation of EU wines.

Since 1975 the area given over to vines has fallen by an average of 1.4 per cent or 56,000 hectares, every year.

Production has averaged around 155m hectolitres over the last few years, down from 210m in the first half of the 1980s.

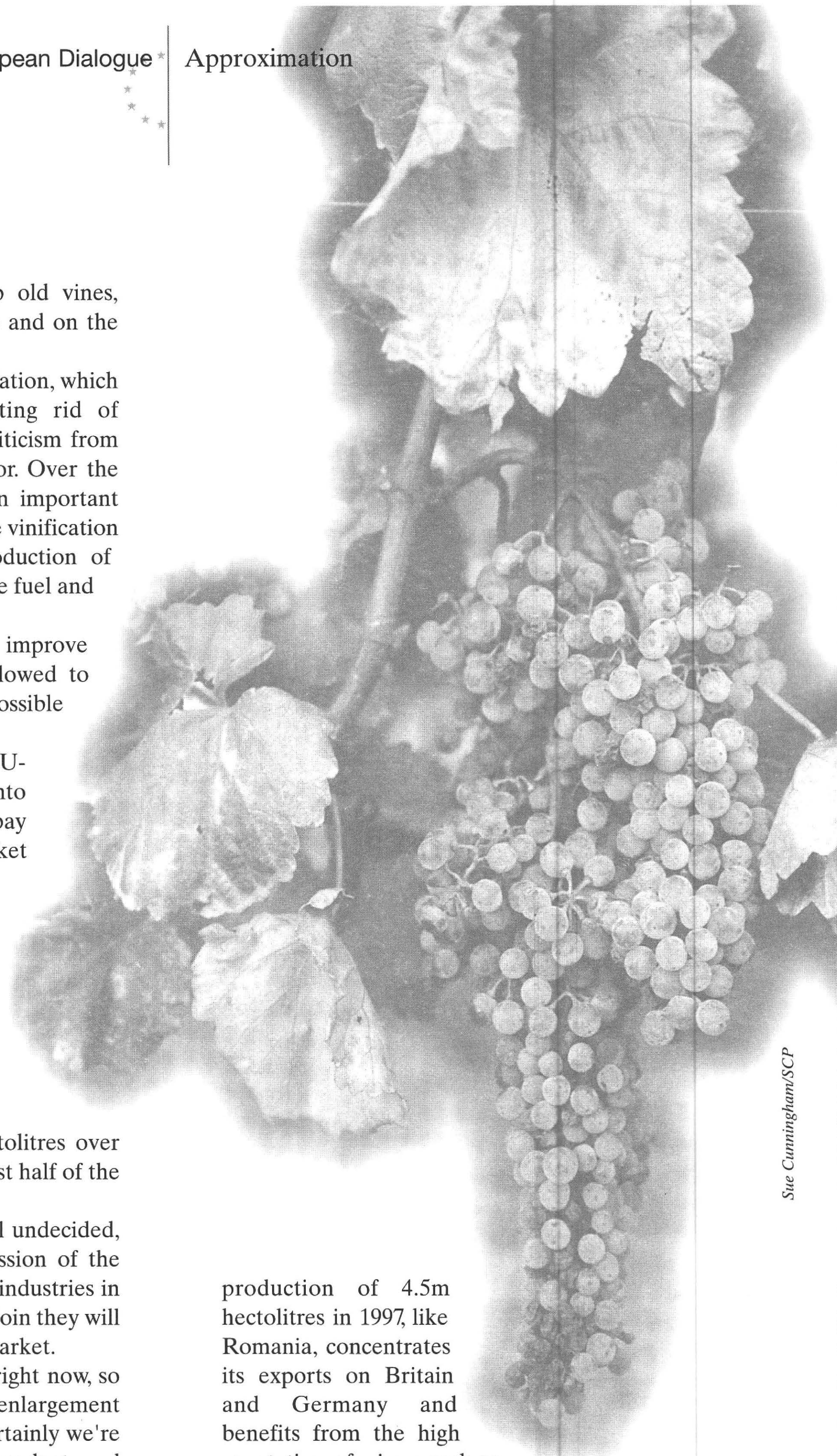
With changes to the EU support regime still undecided, it is far from clear how the eventual accession of the candidate countries will impact on the wine industries in these countries. It is clear that when they do join they will become part of a leaner, meaner EU wine market.

"We don't know how the reform will look right now, so it's hard to say what the impact of the next enlargement will be," says a Commission official. "But certainly we're looking to improve the quality of our product and maintain Europe's reputation as the world leader in wine production. This can only be enhanced by future members, some of whom already have an international reputation."

It is far from clear how the eventual accession of the candidate countries will impact on the wine industries in these countries. It is clear that when they do join they will become part of a leaner, meaner EU wine market.

Already Romania is the world's tenth largest wine market, producing 6m hectolitres a year, although the Commission's forecasts expect that recent increases in exports will gradually be curbed in the medium-term.

Hungary, in twelfth place in the world standings with production of 4.5m hectolitres in 1997, like Romania, concentrates its exports on Britain and Germany and benefits from the high reputation of wines, such as Tokaj. The Commission's prognosis is that production will rise as will exports.



Sue Cunningham/SCP

Bulgaria produces just 2m hectolitres, but has proportionately a greater export capacity than Hungary. In 1983 it temporarily became the biggest single supplier to the EU market, with German and British consumers particularly fond of Bulgarian vintages.

Yields have been affected recently by poor irrigation and a decrease in inputs, but are now picking up again. It is the only sector of Bulgarian agriculture experiencing growth.

"International traders say wine is one of the agricultural products for which Bulgaria has competitive advantages," the Commission report says. Quality vineyards could account for an estimated 20 per cent of plantations by early next century.

The reports also forecast that Slovenian exports should gradually pick up over the next few years. Slovakia has also seen growth in recent years of quality wine.

The main producers among the candidates have clearly recognised the potential the EU offers. Between 1994-97 Bulgaria boosted its exports to the EU from 465,000 to 710,000 hectolitres. Hungary increased its deliveries from 280,000 to 410,000 and Romania raised its shipments from 130, 000 to 310,000 hectolitres.

The applicants' prospects have also been helped by the Europe agreements. Since 1995 the preferential import quotas to the EU have been increased to take account of previous sales to the three countries which acceded to the Union in that year — Sweden, Finland and Austria.

If we want to give our producers a chance and recognise that wine is a culture and not just an industry, then aid is necessary.

For example, unlimited volumes of Hungarian wine could be imported into Sweden duty free before Sweden joined the Union. To prevent Hungary losing sales to Sweden post-1995, its overall EU quota was increased to 270,000 hectolitres from 220,000 in 1995. All the major suppliers from the candidate countries used up and in some cases exceeded their quotas in both 1995 and 1996.

The entry into force of the 1994 Uruguay Round Gatt agreement, which ended the previous system of minimum import prices for wine and included a 20 per cent reduction in tariffs over five years, should also favour the applicant countries' wine industries. In the first year after the deal, Romania boosted its exports to the Union by 70 per cent and Hungary by 20 per cent.

Besides the obvious advantages offered by the single market, the applicant countries' eventual membership of the Union will help them avoid the kinds of dispute which have hampered recent EU attempts to negotiate bilateral trade accords with a number of countries, including South Africa, Australia and the US.

Recent talks between South Africa and the EU on a free trade agreement foundered on EU insistence that only Spain can produce wines called sherry and only wines from the Portuguese city of Oporto can be labelled as port.

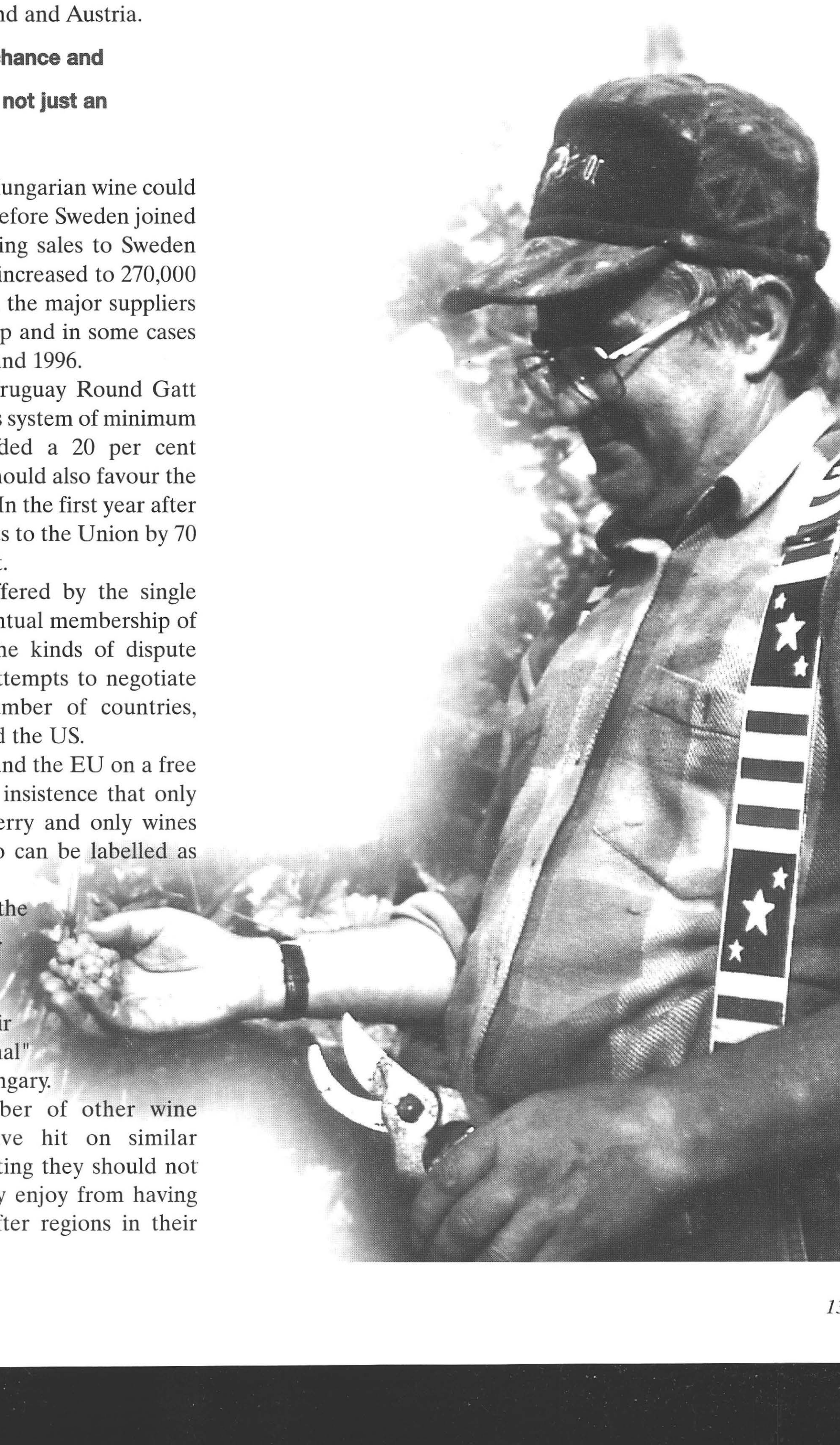
Membership in the EU will help the candidates avoid such disputes. Membership will not entitle them to use names like "port" or "sherry", but it may strengthen their bargaining power to retain "national" brand names, such as "Tokaj" in Hungary.

Similar negotiations with a number of other wine exporters, including the US, have hit on similar difficulties with EU producers insisting they should not lose the competitive advantage they enjoy from having grape and wine varieties named after regions in their countries.

Similarly, talks with southern hemisphere wine markers have hit on problems over the mutual recognition of wine making practices, which are different in various parts of the world.

Whatever other problems the candidates may face, the message emerging from recent reports into the agricultural situation in the 10 countries is that the wine industry is in a better position than most to gain from eventual membership in the EU as long as the applicants make the necessary investments to improve on their built-in advantages. ■

Anthony Kent, Brussels



Sue Cunningham/SCP

Screening process continues

By the end of 1998 six applicant countries — referred to as the first group and comprising Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia — had begun what the EU calls "substantial and concrete" negotiations with the group on the first seven chapters of the EU *acquis* (body of law).

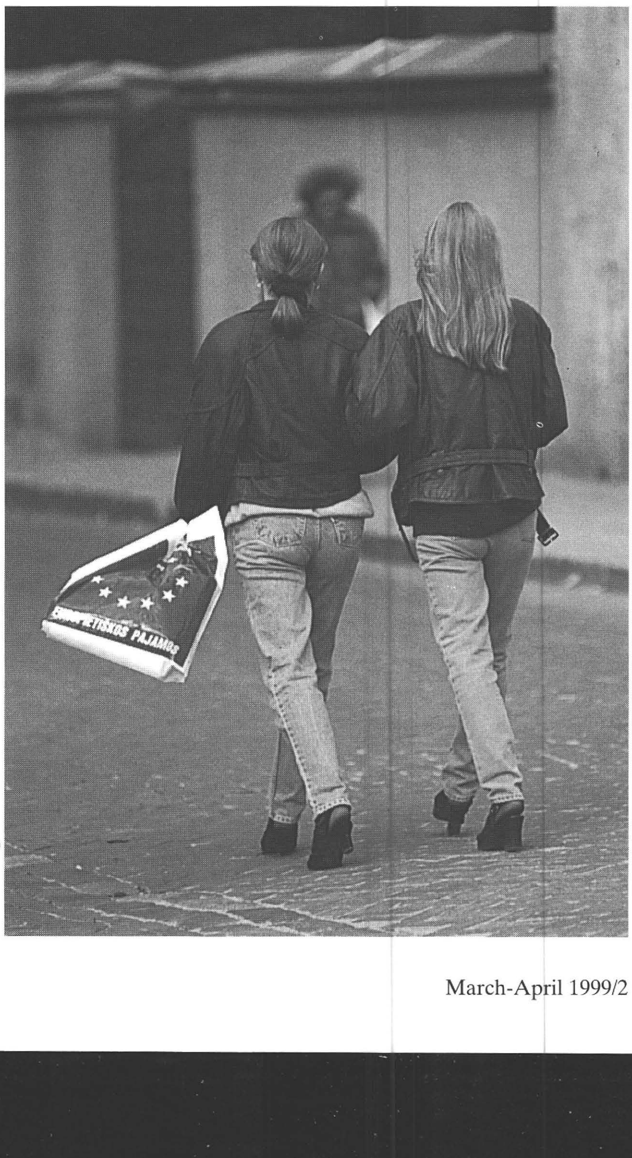
A chapter refers to the subject area and specific sub-division. The seven chapters of the *acquis* on which the analytical screening process had been concluded included science and research, education and training, culture and audio-visual policy, telecommunications, industrial policy, small- and medium-sized enterprises and common foreign and security policy.

The EU responsibilities are divided into the seven chapters and into three categories: chapters of legislation which do not require at this stage further negotiations; chapters where there are no longer any problems, those for which the candidates (or some) have asked for a transitional period and those which the candidate countries do not yet apply but say they will be able to by the date of accession and where the EU had specific questions. Hungary believes that date to be 2002 and for the others 2003.

By the end of 1998, 23 chapters had been screened. These included science and research; telecommunications and information technologies; education and training; culture and audio-visual; industrial policy; small and medium-sized undertakings; common foreign and security policy; company law; free movement of goods; consumers and health protection; fisheries; statistics; external relations; agriculture; customs union; competition policy; agriculture legislation on veterinary, seeds and plants; social policy and employment; horizontal transport issues (TEN) and air and maritime transport; energy; free movement of capital; economic and monetary union; agriculture structures, forests, rural world, FADN (Farm Accounting Data Network), EAGGF (European Agricultural Guidance and Guarantee Fund).

In parallel with the screening process for the "fast-track" candidates, a similar procedure is being undertaken by officials in DGIA (responsible for external relations with the candidates) with Bulgaria, Latvia, Lithuania, Romania and Slovakia. The DGIA screening process seeks to establish the legislative gaps within these five candidate countries and to help the applicants put together a priority timetable for plugging those gaps.

The analytical examination of the *acquis* began on April 3 1998 and 28 chapters were completed in a first multilateral phase. The common agricultural policy will be examined at the beginning of 1999. A more precise identification of problems will be made during bilateral screening meetings in the first quarter of 1999. Once this bilateral part of the screening is completed, the Commission will draw up a precise situation report on each country. ■



Sue Cunningham/SCP

Planned screening for the first half of 1999

Chapter		Poland	Hungary	Czech Republic	Slovenia	Estonia
Agriculture: milk products, beef, sheep, goat, pig meat, eggs and poultry, albumines	Bilateral	1-2/3	3-4/3	5-8/3	9-10/3	23-24/2
Co-operation in the fields of justice and home affairs	Bilateral	15-17/3	18-22/3	23-25/3	2-4/3	5-9/3
Transport policy and land transport	Multilateral Bilateral	11-12/3 19-22/3	11-12/3 23-24/3	11-12/3 25-26/3	11-12/3 29-30/3	11-12/3 15-16/3
Freedom of movement of persons	Multilateral Bilateral	6-7/4 8-9/4	6-7/4 12-13/4	6-7/4 14-15/4	6-7/4 16-19/4	6-7/4 20-21/4
Regional policy and co-ordination of structural instruments	Multilateral Bilateral	20-21/4 6-7/5	20-21/4 22-23/4	20-21/4 26-27/4	20-21/4 28-29/4	20-21/4 30/4-3/5
Agriculture: general issues (refunds, certificates, levies, guarantees, intervention, monetary incidences, national aid, food aid, free distribution and urgent actions, divers; agricultural statistics; non-annex II products, international agreements; promotion)	Multilateral Bilateral	26-27/4 10-11/5	26-27/4 17-18/5	26-27/4 28-29/4	26-27/4 30/4-3/5	26-27/4 4-5/5
Financial control	Multilateral Bilateral	10/5 18/5	10/5 19/5	10/5 20/5	10/5 11/5	10/5 12/5
Agriculture: rice, processed products, animal feeding stuffs, sugar, wine, spirits, bananas, floriculture, tobacco, hops, seeds, potatoes, dried fodder, starch, fibre flax and hemp, silk worms, cotton, olive oil	Multilateral Bilateral	19-25/5 7-10/6	19-25/5 11-16/6	19-25/5 17-22/6	19-25/5 23-28/6	19-25/5 26-31/6
Financial and budgetary provisions	Multilateral Bilateral	29/6 1/7	29/6 2/7	29/6 5/7	29/6 6/7	29/6 7/7

Source : Task force.

More work needed say reports

Reports* on progress towards accession by each of the candidate countries were made public in early November 1998. This is the first time the reports have been issued, following instructions by the European Luxembourg Council (1997) to the Commission to publish regular reports on accession progress of individual applicant countries.

The Copenhagen criteria and the rate at which each candidate is adopting EU *acquis* were among the items specifically mentioned in each report. The Council will use the reports to take the necessary decisions on the conduct of the accession negotiations or their extension to other applicants.

In the reports the Commission follows the method adopted by Agenda 2000 in evaluating applicant states' ability to meet the economic criteria and full membership obligations.

The European Council meeting in Cardiff (June 1998) asked that the reports for the end of 1998 should also cover Cyprus as well as Turkey.

A "composite paper" was also prepared for the Council which contains a synthesis of the analysis in each of the regular reports as well as a series of conclusions. This document sets out the state of play on the negotiations and the reinforcement of the pre-accession strategy.

In compiling the regular reports for the candidate countries, the Commission analyses whether announced or proposed reforms were in fact carried out since July 1997. The Commission has highlighted measures which have been adopted rather than those which are being prepared or are in the course of adoption. This allows for comparison and measurement, on an objective basis, of the progress achieved.

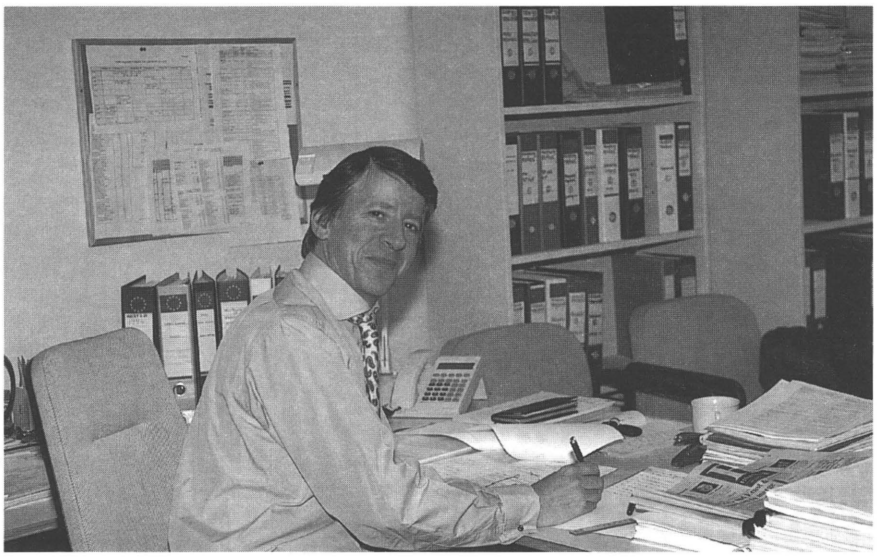
The progress reports describe the relations between the candidate country and the Union, particularly in the framework of the Europe agreements; analyses the situation in respect of the political conditions set by the European Council (democracy, rule of law, human rights, protection of minorities), assesses the country's situation and prospects in respect of the economic conditions (functioning market economy, capacity to cope with competitive pressures and market forces within the Union), and addresses the question of the country's capacity to adopt the obligations of membership (the *acquis*). It also covers judicial and administrative capacity.

In the reports the Commission has also analysed progress in the capacity of each candidate to implement the *acquis*. The Commission has highlighted the steps taken to adapt administrative structures to the requirements of the *acquis*.

An essential element in the preparation for accession of the candidate countries is the maintenance or acceleration of reforms necessary to align them with their

obligations as future member states as quickly as possible.
There is still a lot of work to be done by the candidate countries. The Commission believes all candidates, including those with which negotiations have already started, will only be able to do it "on condition that they pursue their preparatory efforts with determination".
The assessment of real progress since the publication of the opinions in July 1997, is based on several sources of information including European Parliament reports, evaluations from the member states, the work of international organisations (in particular the Council of Europe and the OSCE), and international financial institutions as well as non-governmental organisations.
As the European Council in Cardiff said: "the Union's priority is to maintain the enlargement process for the countries covered in the Luxembourg European Council conclusions, within which they can actively pursue their candidatures and make progress towards taking on the obligations of membership, including the Copenhagen criteria. Each of these candidate countries will be judged on the basis of the same criteria and will proceed in its candidature at its own rate... All will benefit from strengthened relations with the EU, including through political dialogue and tailored strategies to help them prepare for accession."
The following are the conclusions made by the Commission for each candidate.

Bulgaria meets the Copenhagen political criteria, although continuing efforts are needed in the fight against corruption and to reform the judiciary. Although Bulgaria has made progress recently in the creation of a market economy it would face serious difficulties in coping with competitive pressure and market forces within the Union in the medium-term. The momentum reached in transposition of legislation, if matched with the strengthening of corresponding institutions should eventually allow Bulgaria to take on the obligations of membership. However, further efforts are needed particularly in the areas of standards and certification, control of state aids, the future of Kosloduy and in justice and home affairs.


Sue Cunningham/SCP

The **Czech Republic** continues to fulfil the Copenhagen political criteria although continued attention needs to be focused on the situation of the Roma in Czech society. The Czech Republic can be regarded as a functioning market economy and it should be able to cope with competitive pressure and market forces within the Union in the medium-term, provided that it improves corporate governance and accelerates enterprise restructuring. The Czech Republic should be able to take on the obligations of membership provided that the momentum in the adoption of the *acquis* and the strengthening of related administrative structures is resumed rapidly so as to make up for the slow progress in the last year (1998), particularly in the areas of internal market, agriculture and justice and home affairs.

Hungary continues to fulfil the Copenhagen political criteria. Continuing attention needs to be paid to combating corruption more effectively and to improving the situation of the Roma. Hungary can be regarded as a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the medium-term, provided that it maintains the conditions for trade integration and ongoing enterprise restructuring. Hungary's rhythm of transposition has remained steady and has generally been accompanied by adequate institutional and financial provisions facilitating implementation. The Commission considers that Hungary's steady progress will, if sustained, enable it to take on the obligations of membership in the medium-term provided the pace of transposition in environment picks up.

Estonia continues to fulfil the political Copenhagen criteria, although decisions are needed on the naturalisation of stateless children. In addition there is an important need for training and career development in the judiciary. Estonia can be regarded as a functioning market economy, and should be able to cope with competitive pressure and market forces within the Union in the medium-term, provided that prudent macroeconomic management continues to limit the risks associated with its large external imbalances. Provided the problem of administrative capacity is resolved, Estonia will be able to take on the obligations of membership in the medium-term although a particular effort should be made in the internal market and justice and home affairs.

Latvia continues to fulfil the Copenhagen political criteria. Major progress has been made in dealing with weaknesses identified in the Opinion and the Accession Partnership priorities in particular as concerns the integration of non-citizens. Continuing attention needs to be paid to the promotion of Latvian language learning among non-citizens, public administration reform, strengthening the judiciary and the fight against corruption. Latvia has continued to make progress in establishing a market economy and is well on the way to being able to cope with competitive pressure and market forces within the Union in the medium-term. It has made a lot of progress in transposing the *acquis* but needs to consolidate its implementation and enforcement capacity. Provided it does so Latvia will be able to apply the *acquis* effectively in the medium-term.

Lithuania continues to fulfil the Copenhagen political criteria. It should intensify the fight against corruption and pursue reform in the judiciary. Sustained implementation of the remaining reform agenda would complete the establishment of a functioning market economy and enable Lithuania to make the progress necessary to cope with competitive pressure and market forces within the Union in the medium-term. Further efforts are needed in internal market and to establish a comprehensive long- term energy plan including the closure of Ignalina. Lithuania has made progress in transposing the *acquis*, although this is uneven. Efforts are needed to consolidate implementation and enforcement capacity.

Poland continues to fulfil the Copenhagen political criteria. Poland can be regarded as a functioning market economy, and it should be well able to cope with competitive pressure and market forces within the Union in the medium-term, provided that it strengthens the pace of economic restructuring and continues to avoid reversals in trade policy. Its rhythm of transposition is uneven and there are gaps in administrative and institutional capacity in certain key areas, in particular environment, standardisation and state aid control. Progress to date in industrial restructuring and justice and home affairs should be maintained. The Commission considers that Poland's progress will, if sustained, enable it to take on the obligations of membership in the medium-term.

Romania meets the Copenhagen political criteria. Much remains to be done in rooting out corruption, improving the working of the courts and protecting individual liberties and the rights of the Roma. Priority should also be given to reform of the public administration. Romania has made very little progress in the creation of a market economy and its capacity to cope with competitive pressure and market forces has worsened. Despite progress made in transposition of key parts of the *acquis*, Romania has a long way to go in terms of additional legislative transposition, implementation and enforcement before the country will be able to assume the obligations of membership.

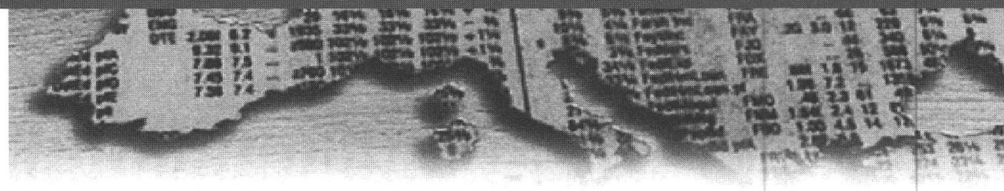
Sue Cunningham/SCP

The recent elections offer an important opportunity for **Slovakia** to address the political weaknesses outlined in the Opinion and to take steps to ensure that it will in future meet the Copenhagen political criteria. Slovakia has implemented most of the reforms necessary to establish a functioning market economy, but there has been a lack of transparency due to government interference. Slovakia should be able to cope with competitive pressure and market forces within the Union in the medium-term, provided that the market economy is allowed to function. Slovakia needs to accelerate the pace of approximation particularly in the area of internal market, environment and justice and home affairs. A concerted effort is needed to set up and strengthen the corresponding institutional and administrative capacity.

Slovenia continues to fulfil the political Copenhagen criteria. Continuing attention needs to be paid to streamlining the judicial and the parliamentary process and to ensuring that Europe agreement obligations as concerns property ownership are met. Slovenia can be regarded as a functioning market economy, and should be able to cope with competitive pressure and market forces within the Union in the medium-term, provided that planned reforms are fully implemented on time. Provided that the process of approximation and institution building accelerates so as to make up for the lack of progress in 1998, Slovenia will be able to assume the obligations of membership in the medium-term. Efforts are needed in the area of internal market, especially VAT, state aids control, and justice and home affairs. ■

* *The full text of the 12 individual progress reports (including Cyprus and Turkey) and a summary is available on http://europa.eu.int/comm/dg1a/enlarge/index.html.*

in brief



Rural future

The directorate-general for agriculture (DGVI) recently published 10 country and summary reports on the agricultural situation and prospects in the candidate countries. The reports provide an analysis of agriculture and the agro-food sector in these countries in the 1990s and an assessment of the outlook for the main agricultural commodity markets until the year 2003. The underlying hypothesis for the reports is that the first applicants will join the EU and will start to be integrated into the single market and the common agricultural policy (CAP) after 2003. In most candidate countries agriculture has gone through a deep crisis of adjustment since 1989-90. Crop production is rising, while the decline of the livestock sector seems to have bottomed out.

Land reform and privatisation have, at least on paper, been completed in most countries, although the definitive settlement of property rights, the establishment of functioning land markets and the restructuring of farms and farm management are still far from complete.

The absorption of surplus labour from the farm sector in the rural economies will pose a major challenge for most countries. The up- and down-stream sectors have been privatised, but face major over capacity and restructuring problems.

In many candidates the agro-food sector as a whole faces an uphill road in creating market institutions, establishing marketing and distribution chains, meeting EU veterinary and phytosanitary standards and in building the administrative capacity to accompany this process.

Support for agriculture through border protection, market intervention and structural aid has generally increased. Farm prices have increased, in particular for crop products.

The price gap between the candidates and the EU for cereals, pig meat and poultry has narrowed and could disappear if the EU's Agenda 2000 CAP reform plans are implemented.

Several candidates may need to adjust their price support downward for these products. The projections for the main commodities show that the candidates could be expected to increase their surplus production of cereals, oilseeds and pig meat until 2003. The export of these surpluses would mostly have to be at world market prices. The traditional dairy surplus would be reduced, while for beef and poultry the region would be more or less self-sufficient.

In a post-accession situation the agro-food sector in the first candidates joining the EU would be subjected to the full competitive force of the single market. In particular the livestock sector in these countries could be expected to face problems in dealing with the competitive pressure under single market requirements.

The individual reports and the summary report are available at the Commission's Agricultural Directorate (DG VI) home page on Internet under the address: http://europa.eu.int/eu/comm/dg06/new/peco/index_en.htm.

Money for Romania

Two financial memoranda have been signed enabling Romania to benefit in 1998 from an additional €110m in aid from the EU Phare programme. Total Phare assistance granted to Romania since 1990 totals €950m. The two new financial agreements are on co-funding by the EU of certain regional development activities (€4.25m) and the approval of the national 1998 Phare programme (€106.6m). Projects approved include improvement of the situation of Roma, support for child protection reform, institution building projects for the finance ministry, assistance to the customs administration developing more effective control management and border systems, agricultural and veterinary assistance, public administration reform, national road rehabilitation projects and others.

Trade issues

The need for an outward looking, co-ordinated trade policy in an enlarged EU was highlighted when Commissioner Leon Brittan, responsible for trade, and Commissioner Hans van den Broek, responsible for enlargement, met ministers responsible for international trade from all candidate countries to discuss the impact of enlargement on world trade. Discussions focused on future developments in the multilateral system, including further trade liberalisation, the role of regional trading agreements, trade and investment and trade and competition issues. Ministers agreed on the need for a comprehensive new round of trade negotiations. There was also support for open dialogue and increased co-ordination on multilateral trade issues between member states and candidate countries.

Candidates join forum

The Information Society Forum, established by the Commission in 1995, has welcomed new members, including representatives from the candidate countries. The forum acts as a think tank for the Commission on issues related to the information society. The 184 forum members include

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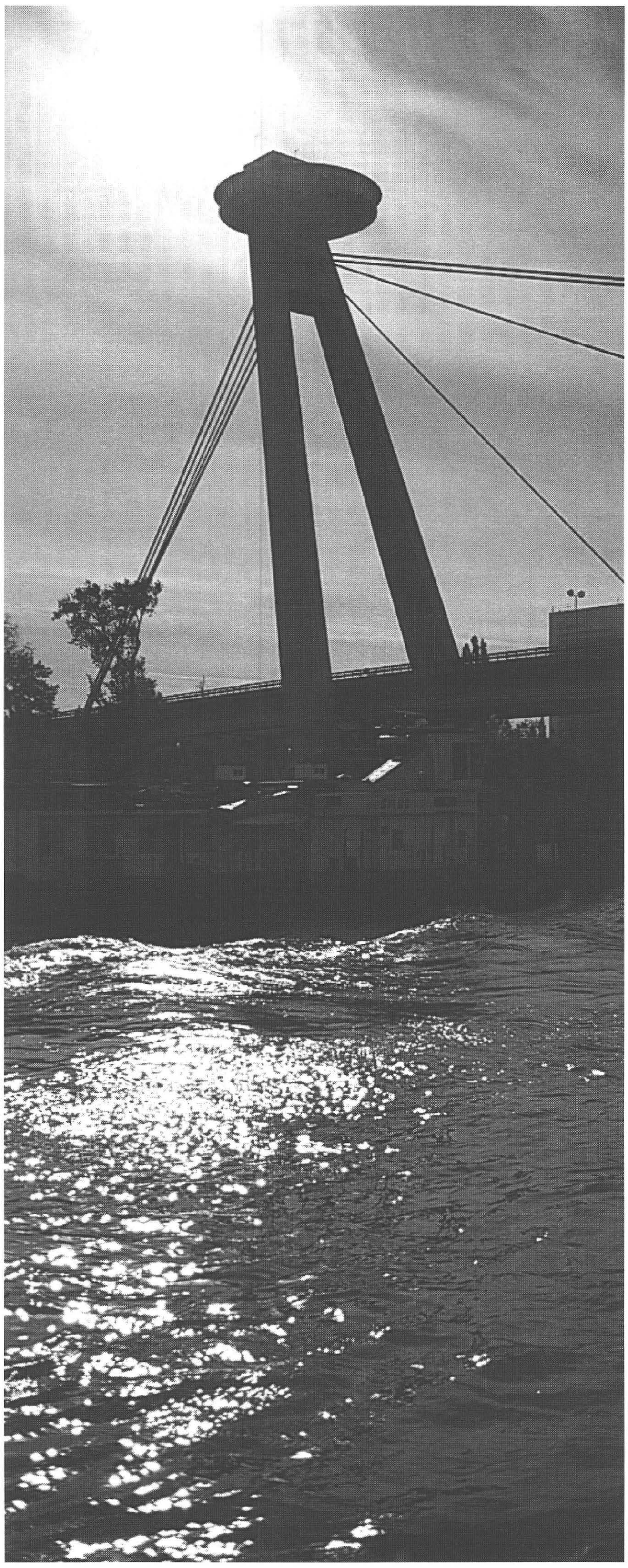


Sue Cunningham/SCP

representatives of the various user groups (consumer associations, public services, companies including small businesses, professions), social groups (trade unions, employers' organisations, academics, family associations), content providers, equipment manufacturers and institutions. In future the forum will focus on various issues including the development of a European model for the global information society.

Encouragement for Slovakia

"We have great hope and great confidence in the new Slovak government that offers a new perspective for Slovakia's full membership of the EU. We have never doubted Slovakia's European vocation. We belong together," said External Affairs Commissioner Hans van den Broek. "We are confident that the policy of the new government goes in the right direction," he said, adding that he wants to send an "optimistic and positive message" to Slovakia. Reinforcing these statements, Mr van den Broek announced the setting up of a high level working group responsible for helping Slovakia in the approximation process. He hopes this group will provide a new impetus to the integration process. Slovak Foreign Minister Eduard Kukan said "We want to prove there's a new situation in Slovakia, that there's a government committed to the democratic development of Slovakia. We would like Germany to issue a statement that talks with Slovakia should start at the Helsinki summit during the Finnish presidency (July-December 1999)."

More financial help

Four financing institutions are joining with the EU to help prepare the candidates for Union membership. The Nordic Environment Finance Corporation, the Nordic Investment Bank, the International Finance Corporation (the private sector arm of the World Bank) and the Council of Europe's Social Development Fund are working together with the Commission, the European Investment Bank and the European Bank for Reconstruction and Development as well as the World Bank. All these financial institutions will use the same criteria for selection and eligibility for projects to be co-financed in the applicant countries.

in brief

Sue Cunningham/SCP

News in brief ...

The annual European information technology conference and exhibition (IST 99) — the first of a series of annual, comprehensive events covering the IST Programme — will take place from November 22-24 1999 in the Helsinki Fair Centre with the support of Tekes and the Finnish Ministry of Trade and Industry. IST 2000 will take place from November 21-23 2000 in the Brussels Congress Centre. The EU Information Society Technologies (IST) programme brings together and extends the ACTS, Esprit and Telematics Applications programmes to provide a single, integrated programme that reflects the convergence of information processing, communications and media.

The National Bank of Slovakia now allows the national currency to float against foreign currencies. The move was mainly prompted by the growing balance of payments deficit.

Poland's Agricultural Minister Jacek Janiszewski has urged a "massive reduction" in the rural workforce in order to integrate its agricultural sector into that of the EU. He says the people's mentality is the main obstacle toward European integration and that changing this mentality must involve journalists and politicians who write and speak about agriculture. According to Mr Janiszewski, the introduction of a modern farming sector in Poland needs to cut the rural workforce from 27 per cent to 5-7 per cent of the total number of employees nation-wide.

Emil Erjavec, a member of the Slovenian EU negotiating team who is in charge of agriculture, says Slovenian farmers will have a hard time competing as members of the EU. The Agriculture Ministry says it will cost $120-150m (€102m-€128m) over 1999-2000 to bring Slovenian agriculture up to EU standards.

Bulgaria will shut down its four nuclear reactors at the Kozloduy nuclear plant between 2004-12 and will consider installing a new nuclear unit after 2005. Units 1 and 2 at the reactor will be shut down in 2004-05 and units 3 and 4 between 2008-12. It will cost $100m (€85.5m) to decommission the two largest reactors at the Kozloduy nuclear power plant. The EU has made repeated calls for Bulgaria to close down Kozloduy, which it says is unsafe. Bulgaria will continue to transport nuclear fuel rods to Russia where it is 25-30 per cent cheaper to send the rods than to western Europe.

The Central European Free Trade Agreement (Cefta) countries have set up a sub-committee on agricultural trade to help solve trade disputes.

The Polish Federation for Women and Family Planning has protested at government support for the sale of the anti-impotence drug Viagra and a proposal to subsidise Viagra prescriptions to boost fertility rates. "The current government cares more about the pleasure of men than health care for women," the feminist organisation said. The group says the proposal is outrageous given that the government has cut subsidies for contraception.

Bulgaria, Romania, and Greece have signed an agreement aimed at co-ordinating the struggle against organised crime. The interior ministers of the three countries pledged to exchange information and launch concerted actions against drug and weapons

in brief

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

smuggling, illegal immigration rackets, money laundering and illegal financial operations.

Hungarian Prime Minister Viktor Orban and his Czech and Polish counterparts, Milos Zeman and Jerzy Buzek, have agreed to resume the Visegrad Group to co-ordinate the three countries' bid to join the EU and Nato.
The ministers agreed to meet at least twice a year and welcomed the possibility of Slovakia's return to the group. Co-operation will be extended to the spheres of culture and telecommunications. The Visegrad Group was formed in 1991 when the presidents of Czechoslovakia, Hungary, and Poland met in Visegrad, Hungary, and agreed to a framework of co-operation to integrate with western Europe.

Czech President Vaclav Havel says the ability of Czechs and Roma to get along directly affects the country's reputation within Europe.
He says if Czechs and Roma cannot co-exist, then "we can forget about integrating into Europe and the European community."

Defence ministers from seven Balkan countries have agreed to form a joint peacekeeping force to be based in Plovdiv, Bulgaria, with the command rotating among participants. Defence ministers from Albania, Bulgaria, Greece, Italy, the former Yugoslav Republic of Macedonia, Romania and Turkey signed the agreement. Slovenia says it may join the force, which is to number 4,000 troops.

The Romanian government has submitted legislation to parliament calling for the formation of a 1,000-member military unit with Hungary. The proposed force would be equally manned by Romanians and Hungarians and would take part in peacekeeping missions. The legislation says the force could be used by Nato and the EU.

Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Iceland, Latvia, Lithuania, Norway, Poland, Romania, Slovakia and Slovenia have agreed to the objectives of the EU code of conduct on arms exports formally approved by the EU. These countries have now aligned themselves to the criteria and principles contained in the code which will guide them in their national export control policies.

The heads of the supreme audit institutions (the Court of Auditors) are to intensify their co-operation with the national audit institutions of the candidate countries by creating a new working group. More information on the group is available from Helena Piron-Mäki-Korvela, European Court of Auditors, Luxembourg (Tel: 352 (43) 984 5314; Fax: 352 (43) 984 6430; E-mail: helena.piron@eca.eu.int). Information on the Court of Auditors is available on the Internet site http://www.eca.eu.int.

The Council of Ministers has approved participation by Romania in EU programmes for energy efficiency, SAVE II as well as various ones in the areas of health and social policy.

The European Investment Bank (EIB) is lending Bulgaria €25m to finance environmental protection measures along the country's Black Sea coast and the Danube River bank. The money will help finance 30 schemes to repair damages caused by landslides on the coastline and prevent further landslides as well as measures to halt erosion on the Danube bank. Phare and the social development fund of the Council of Europe may also co-finance the project. A loan is currently under negotiation.

EIB together with the European Bank for Reconstruction and Development has granted a loan to help Latvia Railways bring the country's infrastructure into line with the needs of a modern high-volume transit route. The loans — EIB providing €34m and EBRD €17m — will be used to modernise rail track in Latvia's principal rail corridor and to upgrade the rail network at the country's main sea port. Through the EU Phare programme, grant funding for rail infrastructure development and technical co-operation is being provided.

EIB is lending €30m to BOC Gazy in Poland for a new air separation and liquefaction plant in Upper Silesia.

EU offers youth more chances

Training and education are becoming more important in a fast-changing work environment. Through EU-sponsored programmes the chance for broader and better opportunities in education are being made available to the candidate countries even before membership.

Travel broadens the mind. Of that, there is no doubt and the opportunity to rub shoulders with other cultures is particularly beneficial to young people.

This is one of the reasons for the special support which the EU has given for years to enable young people to study or train in a country other than their own. There is little doubt that the EU-sponsored schemes respond to a growing need among Europe's youth to take advantage of the opportunities offered by Union membership — opportunities which are increasingly being made available to citizens in the candidate countries.

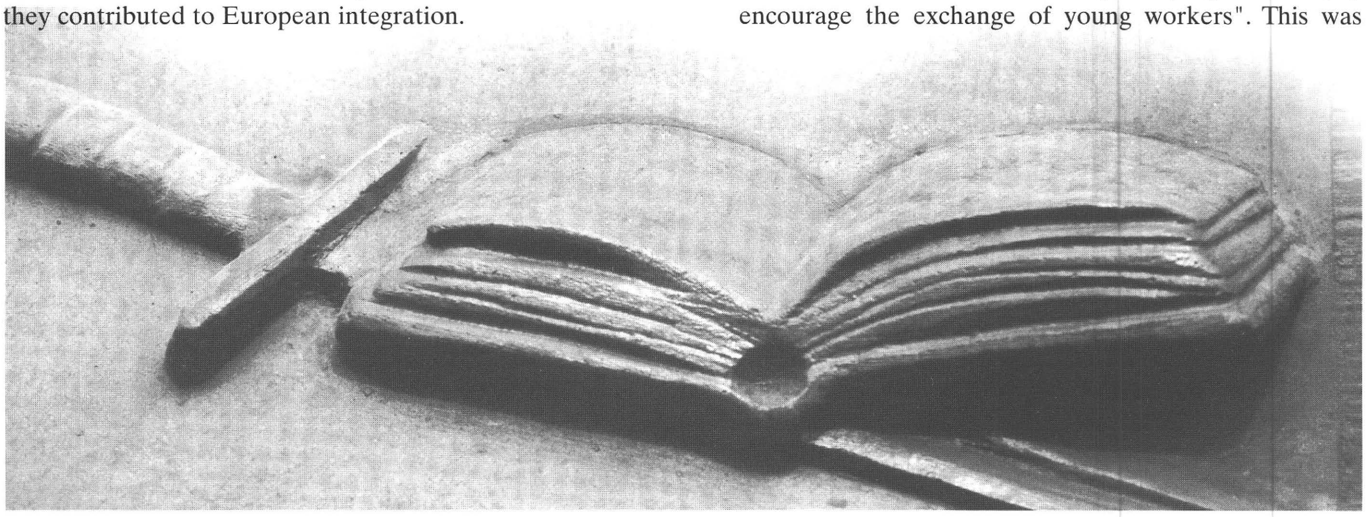
A recent Eurobarometer survey carried out for the Commission revealed that over a quarter (28 per cent) of those questioned wanted more information on the education, training and youth measures being implemented by the Union. Two to three years earlier the figures was only three per cent. The only issues to win a higher score this rime were citizens' rights, the single currency and employment and health policies. In addition 86 per cent approved of the policy of teaching how the Union works in schools.

The popularity of the EU's education, training and youth programmes was underlined by another recent poll. This showed that 85 per cent of programme participants were satisfied with the results and 95 per cent considered that they contributed to European integration.

EU involvement in education is relatively recent, dating back to the arrival of the Erasmus student exchange programme in 1986. In the space of just over 10 years, that involvement has expanded at tremendous speed, although there has never been any doubt that the overall responsibility for education lies firmly in national hands. The intention has never been to impose some form of harmonised curriculum on the 320,000 schools in the Union.

One of the reasons for the success of the various education and training programmes is that they are examples of a bottom-up approach where the impetus comes from the grass roots — students, teachers and academics themselves — and where national co-ordinating units in member states help to implement the programmes which have been endorsed by the Commission, European Parliament and national governments.

In contrast to educational initiatives, the EU's commitment to broadening the skills and minds of its young people goes back a long way. The 1957 Treaty of Rome contains an article committing member states "Within the framework of a joint programme, (to) encourage the exchange of young workers". This was



Sue Cunningham/SCP

Sue Cunningham/SCP

later put into practice with an EU programme in the 1970s and since then governments have tried to dismantle the practical obstacles such as the need for visas and work permits which can make life a nightmare for a young worker looking to gain professional experience in another country.

Over the years a large number of individual schemes were established. In 1995 these were rationalised into three main programmes. Perhaps the best known is Socrates, which with a budget of €920m covers all types and levels of teaching from pre-school to postgraduate education and seeks to promote the European dimension in teaching by encouraging co-operation between schools and universities in different countries.

The second is Leonardo da Vinci, which helps implement an EU vocational training policy by encouraging the development of innovative activities and transnational partnership projects with a budget of €620m.

The third, Youth for Europe, targets all young people outside any education and training structure. With a budget of €127m, it tries to broaden opportunities for young people by arranging exchanges for 15-25 year olds which will bring them into contact with different facets of Europe.

Although education and training account for just 0.4 per cent of the Union's annual budget of € 90bn, the various programmes have succeeded in mobilising over 1m people over the past 10 years on exchange visits varying between a few weeks to a year.

In addition since 1990 the Union has run the Tempus programme. This is a trans-European mobility scheme for university students which originally was open to EU member states, Iceland, Norway and Liechtenstein and the countries of central and eastern Europe. More recently the members of the Commonwealth of Independent States have started to participate.

"It stretches from Portugal to Mongolia and is the biggest university network in history, almost entirely funded by the Union," says Commission official Barney Trench.

Although education and training account for just 0.4 per cent of the Union's annual budget of €90bn, the various programmes have succeeded in mobilising over 1m people over the past 10 years on exchange visits varying between a few weeks to a year.

The Commission is now aiming to build on the success of the earlier experience with a new generation of five-year programmes which will run from 2000-04 and provide an integrated policy for a Europe of knowledge by encouraging the pooling of resources and developing cross-frontier collaboration.

The rationale behind the latest thinking is that economic development, business competitiveness, personal development and employment are all inextricably linked to the acquisition of skills and knowledge. As such the EU's policies on education, vocational training and youth now focus on the common cause of creating a European educational area which will provide every citizen with the opportunity of lifelong education and training.

The Commission's aim is to double the degree of mobility already achieved in the existing education, training, voluntary sector and youth exchange schemes. If this ambitious target is achieved, 2.5m people throughout the EU will benefit from the new schemes including: 1.2m students, 200,000 teachers, 400,000 trainees and 600,000 young people under the Youth programme.

To meet this extra demand, the Commission is looking for a significant 60 per cent increase in funding from the EU budget. If governments accept the proposal, this would add up to €3bn over the five-year period with €1.4bn allocated to the Socrates programme, €1bn to Leonardo da Vinci and €600m to Youth.

While each of the programmes has its own specific target audiences, they share certain common features. These include physical mobility, virtual mobility through the use of CD-ROMs and Internet sites, transnational pilot projects encouraging innovation, European networks for pooling and disseminating information and help to improve language skills.

This second general will mean increased funding, a merger of certain existing programmes and a simplification of programmes. This will involve reduced objectives, the facility of moving from one programme to another so that individuals initially involved in the Youth for Europe scheme could, for example, participate later in a Leonardo project and the possibility of two or more programmes financing the same activity.

Candidate countries are now eligible to participate in the Socrates, Leonardo and Youth programmes alongside the 15 EU member states, Norway, Iceland and Liechtenstein. Early last year Poland and Slovakia joined Hungary, the Czech Republic and Romania in the programmes. They were followed some months later by Estonia, Latvia and Lithuania. The list is expected to become longer with the addition of Slovenia and Bulgaria.

The candidates' participation is part of the Union's pre-accession strategy and helps to familiarise applicants with aspects of EU membership at the same time as meeting one of the top priorities of providing valuable education, training and youth programmes. Participation also ensures that the candidates are no longer a specific focus of assistance as is the case with the Tempus programme.

A distinctive feature of the three programmes is that their underlying philosophy is one of co-operation and mutual benefit to all concerned, not simply one of transferring assistance from the EU to a candidate country as with projects supported by the Phare programme.

That distinction between assistance and co-operation requires a recognition by all partners in a project that its success does not involve the passive transfer of money, but rather the prospect that no matter where they are based, each of the participants has something innovative to offer the others.

The Commission's reorganisation of the programmes has meant that the number of core objectives in the Leonardo programme will be reduced from the present 19 to three: to improve the social and occupational integration of young people, especially through apprenticeships and other work-linked training; to expand lifelong access to good quality continuous training and to consolidate the processes enabling people in vulnerable situations to be reintegrated into work.

In contrast to the Socrates and Youth programmes, which are people-based, Leonardo has a somewhat different objective.

"It does not aim to train people as such, but to develop innovative teaching and training methods. It is an intellectual instrument, especially in its pilot phase," explains one of the organisers.

An example of that approach is one of the 14 projects being supported in Hungary. Taking health tourism as its theme, it involves local partners in a region north of the popular holiday destination of Lake Balaton and is putting them in contact with similar spa and health resorts in parts of Germany, Finland, Greece, Portugal and the Netherlands to devise special training programmes and to devise ways of exploiting natural resources such as sulphur caves. The project helps to develop the local health infrastructure in Hungary and fits into the regional development strategy of the area.

The 18 projects put forward by Hungary, Romania and the Czech Republic in 1997 also included measures to train people in furniture manufacturing, to develop the use of multimedia teaching aids in vocational tourism and ecological tourism. A further €500,000 was used to support the mobility of 1,300 young people and 200 instructors from the three countries also involved in exchanges.

The EU's commitment to broadening the skills and minds of its young people goes back a long way. The 1957 Treaty of Rome contains an article committing member states "Within the framework of a joint programme, (to) encourage the exchange of young workers".

Although helping people to move physically to study ideas and techniques in a different country is not one of the primary aims of the Leonardo programme, despite the large number of request from individuals in the candidate countries, it does manage to do so for between 20,000 and 22,000 individuals every year.

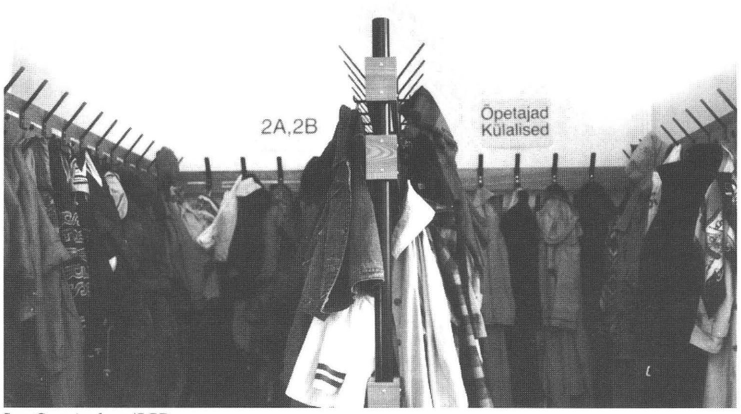
As the Leonardo programme prepares to enter a new phase next year there are signs that the experience already gained will help all those involved to reap even greater benefits from its opportunities and to overcome practical obstacles which have arisen.

The French government, for example, has instructed its embassies in the candidate countries to give any visas required free of charge to young workers coming to France under the Leonardo programme. Elsewhere, efforts are under way to determine the scope for the mutual recognition of qualifications gained under the scheme.

The new Socrates programme will address education as a whole, encouraging European co-operation in areas such as school exchanges, adult education, university links and open and distance learning. It has set itself four main objectives: increasing the European dimension of education all levels, promoting European co-operation in all sectors, developing exchanges of information and experience and encouraging innovation.

The networks between universities established by the Tempus programme are already acting as a useful foundation for their participation in Socrates activities. For the 1998-99 academic year the five candidates who are now eligible, together with Cyprus, submitted 150 applications for university institutional contacts. These provide for 5,600 outgoing students and 4,000 incoming ones.

In contrast such cross-frontier contacts between schools are largely absent and must be gradually nurtured. Even so by the end of March last year, 63 European education projects had been launched in the Czech Republic.



Sue Cunningham/SCP

Created just over 10 years ago, the Youth programme encourages co-operation in youth work for national and local initiatives outside the arena of formal education. Over the years the Union's activities have spread from youth exchanges to promoting initiatives by young people themselves and the introduction of the European voluntary services.
During the next five years, the programme will concentrate on five main themes: a European voluntary service for young people; a Youth for Europe component which will encourage young people to travel on schemes with an educational aim between member states; help for youngsters to complete a particular project; joint actions with established links between formal education and vocational training and activities which can be used to buttress other programmes.
Some applicant countries are already involved in bilateral cross-frontier exchanges with the Czech national agency concentrating largely on France and Germany and the Romanian one focusing on France and Italy. The Youth programme will help these and others to become more extensive. ■

Reports by Rory Watson, Brussels

Training and education

Ace action

While totally separate from its more general education and training programmes, the Commission is also managing another project which promotes the exchange of knowledge and experience. The action for co-operation in the field of economics (ACE) is far more specialised and focuses entirely on developing contacts between academic and professional economists in the EU and Phare countries in the fields of economics and management science.
Unlike the Socrates, Leonardo and Youth programmes which are financed by the Commission's education, training and youth budget, ACE is funded by the Phare programme, which provides grants to support economic and democratic reforms in the candidate countries. With a budget of €7.5m in 1997, ACE has traditionally supported projects promoting economic research in areas of importance to the reform process in the candidates. Recent themes have included the development of markets, companies and management in Slovenia, financial sector reform in emerging market economies, the implications of financial innovation and deregulation for the economies of the Czech Republic, Hungary, Poland and Slovakia and Baltic entrepreneurship and EU integration.
The projects all involve a minimum of three partners, with at least one from the EU and one from a candidate country. They encourage research co-operation between universities, business schools, banks and think tanks.
With the prospect of the candidate countries joining the EU, ACE has broadened its remit and can now be used to fund projects which address topics that are relevant to the preparations for expanding the EU's membership.
Martina Lubyova, who is working for the Slovak Academy of Sciences, recently completed a three-year scholarship at the Tinbergen Institute in Amsterdam with the help of an ACE scholarship. She has no doubts about the programme's value.
In a recent interview in the *ACE Quarterly*, she noted, "I really appreciate the ACE programme. It is a unique source of support for developing high quality research about east European countries. Nowadays researchers are critically dependant on access to information, libraries, conferences and networks, especially in the field of economics which was neglected during the socialist time. It would be very difficult to achieve good results without being exposed to western education and research experience. The ACE programme helped me to develop contacts, mostly with economists in eastern Europe and the EU." ■

More information on the ACE programme from ACE programme management, Cartermill International, 26 Rue de la Loi, Box 1, B-1040 Brussels, Belgium (Tel: (322) 280 1740; Fax: (322) 280 1406; E-mail: ace97@euro.cartermill.com).

Commission tackles problems

One of the most frustrating experiences for an individual is to find that an opportunity to study or train abroad is marred by practical difficulties once they reach their destination.

Only a minority of the 350,000 people who benefit from EU programmes annually to spend a spell in another country encounter such problems. But they are enough to detract from the benefits of mobility and their tales of woe may be sufficient to deter others from even thinking of embarking on such a project.

Their experiences convinced the Commission of the need to determine the most common barriers. These were set out in a consultative Green Paper three years ago (1996) after extensive consultations with youth groups, universities, training establishments, companies, trade unions and employers' organisations.

The exercise identified five major obstacles.

In some countries people looking for work and wanting to train in another EU member state lose their right to unemployment and social security benefits if this training period lasts longer than three months. In other cases the individual must participate in further training on his return if he is to regain his benefits, while in some instances, rights are automatically lost if a person leaves his home country for more than three months.

The Commission's solution to the problem was to propose extending to unemployed people undergoing training the EU legislation which allows job searching in another member states for up to six months without a loss of rights.

Students, young graduates, volunteers and researchers undertaking a transnational placement do not always fit easily into the administrative categories and rules of their host country. As a result they may not enjoy the same status as they have at home.

The Commission's response has been to try and give a legal framework or devise practical agreements for each of the target groups which benefit from EU funding which set out clearly their responsibilities and status.

Students studying abroad may have difficulty in having that period recognised when they return home, while workers sometimes find it impossible to produce evidence of their vocational qualifications when they establish themselves in another member state. Both may find it hard to make a prospective employer understand the value and content of a qualification obtained in another member state.

In addition to the mutual recognition of qualifications and ad hoc agreements, the Commission is advocating the use of diploma supplements, portfolios or skill cards which can make the content of the training or education received more transparent and understandable to outsiders.

In a number of member states, students risk losing their grant if they decide to study abroad.

The Commission, considering this to be a restriction of the free movement of labour, is pressing EU governments to allow students and trainees to take their grants with them when moving to another member state.

Linguistic obstacles are nothing new and can really only be tackled if the students and trainees themselves have the opportunity and application to improve their own skills.

The Commission is trying to improve language learning through its Socrates and Leonardo programmes. ■

Sue Cunningham/SCP

The Commission is pressing EU governments to allow students and trainees to take their grants with them when moving to another member state.

Russian crisis impacts on candidates

Since mid-1997, the international economic environment has been deteriorating considerably. The economic and financial crisis has been deepening and spreading from emerging markets in south-east Asia to Japan and Russia, while other emerging markets, in particular in Latin America, are also experiencing difficulties.

International financial markets have become reluctant to invest in emerging markets after the Russian debt rescheduling in August 1998. Nevertheless, the candidate countries have remained largely unscathed.

Average economic growth is forecast to be around 3.5 per cent in 1998 and 1999, the same level as in 1997, but lower than predicted in the spring forecast. With the expected normalisation of the international environment in 2000, growth would accelerate again to 4.25 per cent.

The economic impact of the Russian crisis on the candidate countries can be expected to remain limited for two main reasons. First, from the start of the transition process, candidate countries have progressively and successfully reoriented their trade from the former Soviet bloc to the EU. They have achieved a high degree of trade integration and around 60 per cent of their trade is now with the EU.

The second and more fundamental reason is that the perspective of EU accession and the gradual implementation of the community *acquis* have had a noticeably favourable effect on market sentiment. Increasingly these countries, and especially those where reforms are more advanced, are seen for what they are — future members of an enlarged EU with a high degree of economic integration.

The candidate countries are being confronted with international financial markets that are much less supportive for their restructuring efforts. Before the start of the crisis, they were able to get important amounts of foreign financing at relatively favourable conditions.

Now, however, as a consequence of the flight to quality, markets have dried up, or funds are only available at a much higher cost.

In most countries observations on actual growth for the first half of 1998 are in line with, or even somewhat better than previously forecast. Output growth is being driven by domestic demand and, within this, fixed investment growth in particular.

Due to the strong export performance, the negative contribution of net exports to growth is decreasing. Romania and the Czech Republic are notable exceptions where economic developments were less favourable than expected.

In Romania, the macroeconomic disequilibria have been increasing further because of trailing structural reforms. Domestic demand in the Czech Republic is still contracting as a result of lower government spending, reduced investment, higher unemployment and lower real wage growth.

Bulgaria, on the other hand, is starting to recover from its recent economic downturn and growth should be positive again this year.

The other candidate countries are experiencing strong economic growth, ranging between 4-7 per cent. On average for the 10 candidates this results in a 3.5 per cent GDP growth, about a half a percentage point lower than foreseen in the spring forecast.

The negative effects of the crisis in Asia and Russia are expected to be more pronounced in 1999. Lower world-wide demand, in particular from the EU, will reduce export growth.

The more pessimistic assessment of export order books will lead to a downward revision of investment. The increased difficulty to obtain foreign financing will also have a negative effect on investment plans.

Gross Domestic Product, real percentage change

	1996	1997	1998f	1999f	2000f
Bulgaria	-10.9	-6.9	2.5	4.0	4.5
Czech	4.1	1.0	-0.3	1.3	2.5
Estonia	4.0	11.4	7.1	6.3	6.3
Hungary	1.3	4.4	5.0	3.9	4.5
Latvia	2.8	6.5	6.7	5.7	5.1
Lithuania	4.2	5.7	6.7	5.0	6.8
Poland	6.1	6.9	6.3	5.5	5.8
Romania	4.1	-6.6	-5.8	-1.3	0.8
Slovakia	6.9	6.5	5.1	3.8	3.5
Slovenia	3.1	3.8	4.0	4.0	4.1
Candidates	3.9	3.5	3.5	3.6	4.3

Overall investment growth would remain high, and could even accelerate somewhat as a result of the expected recovery in Bulgaria and the Czech Republic and the slowdown of the contraction in Romania. On the assumption that the slowdown in the world economy is only temporary, economic growth should strengthen again in 2000.

Inflation has been developing close to expectations in recent quarters. The continued decline of input prices has supported the disinflation process in the candidate countries.

In most countries the actual pattern of inflation is still to a large extent determined by adjustments in administered prices, completion of price liberalisation, or indirect tax measures. For example, the expected acceleration of inflation in Slovenia in 1999 and 2000 is fully explained by the planned introduction of VAT and excise duties in July 1999. The gradual disinflation process is expected to continue over the forecasting period.

Even Bulgaria, which was confronted with exchange rate problems and hyperinflation in 1997, is expected to be able to reduce its inflation rate to single digits in 2000.

Strong demand from the EU supported export growth in the candidates in 1998. Import growth, on the other hand, slowed down somewhat as a result of downward domestic demand corrections in a number of countries.

This results in a slight reduction of the aggregate trade balance deficit. The deterioration of the international environment is expected to push up the trade deficit again in 1999.

If the distrust of international financial markets towards financing emerging markets continues, persistent large trade imbalances could become a cause for concern for countries that make insufficient progress with structural reforms. ■

Sue Cunningham/SCP

• Results of the Commission's autumn 1998 economic forecast for the central European candidate countries. The forecasts were finalised on October 12 1998. More information is available from Bernard Naudts, Directorate-General II (economic and financial affairs) (Tel: (322) 296 1537; Fax: (322) 299 6151; E-mail: bernard.naudts@dg2.cec.be).

Inflation (private consumption deflator)

	1996	1997	1998f	1999f	2000f
Bulgaria	127.5	985.8	28.0	12.0	8.0
Czech	7.8	7.9	9.5	8.8	8.0
Estonia	23.1	11.2	10.8	8.5	8.0
Hungary	21.7	18.3	14.6	11.4	9.0
Latvia	17.6	8.5	5.5	4.9	4.5
Lithuania	24.6	8.8	5.4	5.5	5.7
Poland	19.9	14.9	11.7	8.5	7.9
Romania	43.9	155.5	59.0	28.0	20.0
Slovakia	5.7	5.8	6.5	7.5	8.5
Slovenia	10.9	8.3	7.8	10.8	12.0
Candidates-10	24.2	57.0	16.4	11.3	9.5
Candidates-8*	16.3	12.6	10.8	8.9	8.3

* excluding Bulgaria and Romania

Notes for all tables: f = forecast. Aggregate across countries weighted using GDP converted at market exchange rates. Source for all tables: Commission services.

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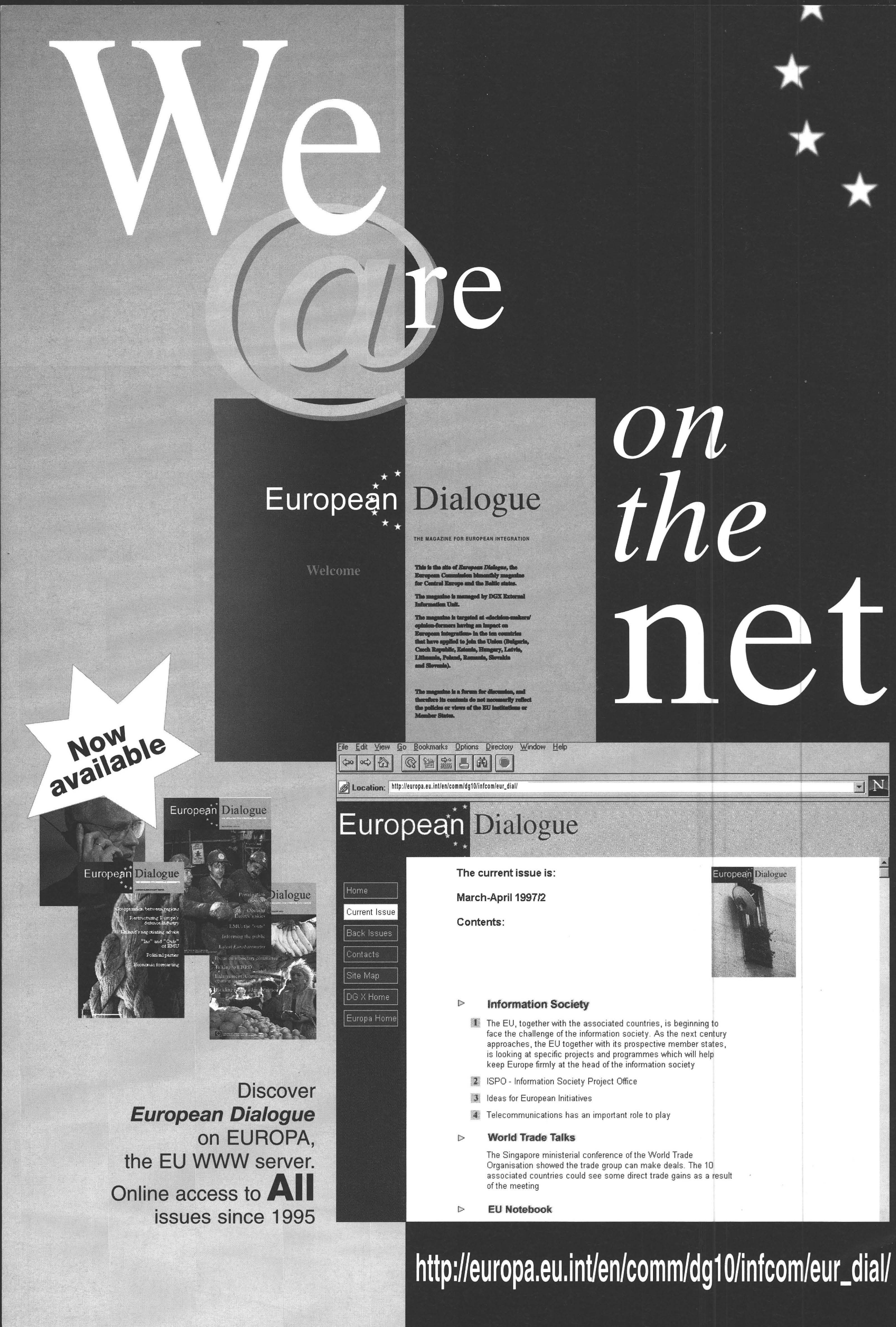
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This is the site of European Dialogue, the European Commission bimonthly magazine for Central Europe and the Baltic states.
The magazine is managed by DGX External Information Unit.
The magazine is targeted at «decision-makers/ opinion-formers having an impact on European integration» in the ten countries that have applied to join the Union (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia).
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