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| FILE TITLE: <i>ENLARGEMENT</i> | | SERIES <i>European Policy</i> |
| PART BEGINS: <i>25th July 97</i> | | PART: <i>2</i> |
| PART ENDS: <i>31 DECEMBER 1998</i> | CAB ONE: | |

**LABOUR
ADMINISTRATION**

*PART
CLOSED*

*31 DECEMBER
1998*

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PART

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Series : EUROPEAN POLICY

File Title : Enlargement

Part : 2

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cc COS
FA/APS
VAC/JB

Foreign &
Commonwealth
Office

London SW1A 2AH

Prime Minister

31 December 1998

An important issue, where it would be very useful to know your instincts. I think the approach set out in the conclusions is broadly right, though I would be a bit tougher with the Cypriots than this implies - we should not give the Greek Cypriots the idea that they can get it without a settlement, even if we don't say the opposite. In any event, now that the articles will be needed, we should make a major push for a settlement this year. Agree?

✓

Your letter of 12 October asked for further work to be done on the issue of Cyprus and EU enlargement. Since then we have successfully launched substantive negotiations with the applicants, including Cyprus; and Clerides has decided indefinitely to postpone bringing S300 missiles to the island. Within Whitehall we have looked in depth at some of the near- and longer-term issues, and the Cabinet Office held a useful brain-storming.

UK Policy Objectives

With the exception of missiles, the landscape has not changed much since the Foreign Secretary's 24 September minute:

- The UK's strategic priority remains early accession by as many as possible of the Central Europeans.
- The Greeks continue to link Cyprus to the Central European process.
- France, Germany, Italy and the Netherlands are increasingly vocal in their criticism of the absence of political movement in Cyprus, and in warning against accession by a divided island.
- Meanwhile, the EU relationship with Turkey remains unstable. This autumn there have been some good elements (the Commission's progress report, the funding proposals), but also bad (the Ocalan affair and general EU uneasiness about seeing Turkey as a serious enlargement candidate).

John Holmes Esq
10 Downing Street

SKP 31/12/98



- Against this background, we believe the UK's basic policy aims are valid: we want the Cyprus enlargement negotiations to continue; we want a reunited island to join; we should use the negotiations as a catalyst for movement towards a political settlement. We should not, however, make a settlement a precondition (for fear of giving Turkey a veto).

The Missiles

Sustained pressure from us, the US, UN and key EU partners paid off on 29 December when Clerides announced that the S300 missiles would not be brought to Cyprus after all. The missiles will now be diverted to Crete and kept under Greek control. As part of the joint pressure on Clerides, we, the Presidency and other leading EU players had made clear that Cyprus's relationship with the EU would be seriously damaged by any such move and that if Clerides were to go ahead, the political fall-out would be significant. Negotiations with Cyprus would have been slowed down or suspended (though given the Greek position there would have been no consensus for breaking them off completely).

EU Negotiations

As the enlargement negotiations continue, we should ensure that the Commission clearly identifies the technical problems relating to the division of the island. There has been no screening in the north. There are a number of problem areas - the trade embargo; the problem over freedom of movement. These cannot be brushed under the carpet, and will need to be addressed if Cyprus is to accede either as a united island or, in fact, divided as now. The Commission should build up a dossier of these problems. That itself will help to increase the pressure for a political settlement, and discourage Greek Cypriot complacency.

Meanwhile we should support Clerides ~~keeping his~~ keeping his offer to the Turkish Cypriots on the table and try to get him to sweeten it and revive it if the overall political position improves and/or if there is an upturn in the EU/Turkey relationship - neither in sight at present.



Pressure for a Political Settlement

UK policy is to press all the parties for a political settlement. The Foreign Secretary made plain to the Cypriot Foreign Minister recently the urgent need to make progress, and the difficulties of accepting a divided island into the EU. This is the line we should take in the Council and, when necessary, in public: while continuing to make clear that a political settlement is not a precondition, we should point up the difficulties of accession by a divided island, and make clear that the EU accession process and the UN political effort must be made to be mutually reinforcing.

We need to work with France, Germany, Italy, the Netherlands and other Member States. Recent French tactics did not succeed. But we cannot ignore their and others' frustration at the present impasse. Our aim should be a common strategy which delivers concerted pressure on the parties, and avoids divisions within the Council.

Linkage

Partly because of the attitude of the new German Government, the enlargement negotiations are going to run on for some time - certainly several years. We do not wish the Cyprus issue to be brought to a head early on, but (given tensions in the Eastern Mediterranean) a crisis, either real or manufactured, could arise at any time. As explained above, there is no fool-proof way of dealing with Greek blackmailing tactics, other than concerted pressure, particularly involving Germany as the country with greatest influence on Greece. We have thought about particular types of leverage which we could apply, eg threatening to block Greek entry into EMU unless they behave differently on Cyprus/CE enlargement. But we cannot be sure that the timing would work in our favour; and there is a reluctance, for example, to muddy the waters of EMU eligibility by introducing new, political factors.

Accession by a Divided Island?

We have started to think through what would happen if the enlargement negotiations came close to conclusion but there was, despite our efforts, no political settlement. We could refuse to admit Cyprus until a settlement was reached. But this would give Turkey a veto and could lead to a Greek block on enlargement as a whole. It would alienate the Greek Cypriots. Given British interests on the island, this would not be to our advantage.



Other possible options are:

- (i) Either a blanket derogation for the north or accession with no reference in the Accession Treaty to the fact of division. These options would, broadly, tilt in the Greek Cypriot direction. The first would be legally more sound than the second, but both would be problematic.
- (ii) Accession of the south accompanied by formal partition. The Greeks would not want this. But there are some potential advantages to both sides. The north would gain recognition of the "TRNC" as a separate entity and revived links with the outside world, perhaps with customs union with the EU. The Greek Cypriots would get accession for themselves, and there would have to be a territorial adjustment, non-aggression pacts and other arrangements. Above all, there would need to be a mechanism for the two parts to reunite later if both sides wished: no outcome should prescribe indefinite partition.

None of these options should be pursued in the near future. There should be absolutely no public reference to them, and our aim should be never to reach the point where they are needed. But we should continue to bear them in mind and in due course (probably some time next year) start to talk them through confidentially with key partners. A dialogue would also help to discourage those in Paris, Bonn etc who favour taking up a firm position that a divided island (as opposed to an island without a settlement) cannot enter the EU. Meanwhile, our main aim is to maintain pressure for a settlement and - provided we avoid missiles/other crises - keep the enlargement negotiations solidly on track.

Conclusion

In short, we propose:

- No change in our basic policy objective: accession after a political settlement, but the latter not a pre-condition.
- Stressing the need for political movement and the difficulties of accession by a divided island; attention in the negotiations to the difficult issues raised by the non-involvement of the north; and continuing to encourage the Turkish Cypriots to take part in negotiations.

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- Working closely with France, Germany and others to maximise pressure for a political settlement.
- Discussion in due course with them of longer-term options, discouraging them from excluding accession by a divided island.
- In the meantime, work against Greek linkage tactics where necessary - but there is no simple fix.

I am copying this letter to the Private Secretaries of Members of EDOP, to Sir Richard Wilson and Sir Stephen Wall.

Yours ever

Andrew Patrick

(Andrew Patrick)
Private Secretary

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JH - just wired via GR!
GR file

PRIME MINISTER

UK ABATEMENT

I attach a short explanatory note for use by colleagues over the European Council weekend setting out the Government's reasons for its position on the abatement, as requested at yesterday's Cabinet.

2. Copies of this minute go to Cabinet colleagues, and to Sir Richard Wilson and Sir Stephen Wall.

S.B.

STEPHEN BYERS

11 December 1998



RESTRICTED - POLICY

UK ABATEMENT

- The UK's net contribution - the difference between UK payments to the EC and the amount we receive from the EC - has always been excessive, given our prosperity relative to that of other member states. In 1984 this was acknowledged by the introduction of our abatement, which reduces our net contribution. The abatement was set in stone in European legislation.
- Despite the abatement, the UK continues to be the fifth largest net contributor to the EC Budget in per capita terms, even though we are only about the tenth most prosperous member state. Table 1 shows the figures.
- The four poorest countries are all very large net recipients. Several countries more prosperous than the UK, including France, Denmark, Belgium, and Luxembourg, contribute much less than the UK.
- So our abatement is well justified, and it would be wholly unfair to weaken it. Our clear position is that we would not agree to do so.
- The Commission has suggested that our abatement should not apply to expenditure in the new member states once they have joined. Even with the abatement on this spending, after enlargement the UK would remain fifth largest net contributor. Without the abatement on this spending, the UK's net contribution would grow by £1 billion by 2006. This is on top of the share of enlargement costs which we would face in any case.



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- Changes to the abatement, including the exclusion of the costs of enlargement, require ratification by all member states, and, in the UK, by Act of Parliament.

Table 1: Relative Prosperity of country and Net Contribution per head, ecus

| | GNP per head¹ | Net contribution per head |
|-------------|---------------------------------|----------------------------------|
| Luxembourg | 36339 | -1676 |
| Denmark | 25336 | -36 |
| Germany | 22680 | 126 |
| Austria | 22464 | 66 |
| Belgium | 21265 | -124 |
| Sweden | 21087 | 90 |
| France | 20693 | 13 |
| Netherlands | 20338 | 122 |
| Finland | 19103 | 0 |
| UK | 16526 | 45 |
| Italy | 16156 | 10 |
| Ireland | 13590 | -516 |
| Spain | 11495 | -147 |
| Greece | 9358 | -325 |
| Portugal | 8465 | -239 |

¹ This is based on average market exchange rates (1995-97). Other rates, such as purchasing power parity rates, give a similar picture of a relatively low UK GDP per head, and a relatively high UK net contribution per head.

✓
JOHN HOLMES

file 13/12

From: Roger Liddle
Date: 9 December 1998

cc: Jonathan Powell
Jeremy Heywood
Roger Liddle
Sebastian Wood
Brian Bender
Martin Donnelly

AGENDA 2000 AND UK ABATEMENT

It would it be nice if our partners regarded the arguments Martin puts forward as self-evidently convincing as our officials apparently do. But I am afraid that if we delude ourselves that this is the case, we are going to come in for a rude shock that could do grave damage to the Prime Minister's "communautaire" credentials.

I know full well that we cannot politically give ground on the abatement which as I pointed out is still justified on grounds of logic and fairness. Nor would I be so silly as to suggest that the Prime Minister should give any indication, in public or private, of movement at **Vienna**.

But I do think we should set out an intellectual position on the rebate – the logic of which could give us some room for manoeuvre at a later stage:

- either by promising that we would be prepared **in future** to see a review of the rebate if CAP spending was radically cut
- or saying that the rebate should not apply to EU spending in the enlargement countries because if CAP reform is achieved the bill for enlargement will be an awful lot lower and we would then pay our full share of it.

(1) I attach a copy of Paul Hare's telegram backing up this point.

Also isn't it the case that a strong line on CAP reform will appeal strongly to the new German Government? ⁽¹⁾ Doesn't it give us a chance of achieving both the co-financing the Germans want and the degressivity of CAP payments that the French appear prepared to accept. CAP reform isolates the French in the Centre-Left club with the Germans, Italians and other northern Europeans potentially on our side.

Also we should use arguments that others understand have strength and continued force behind them, even if, as in the case of the French, they don't happen to suit their own national interest.

The argument that **the existence of the CAP was by far the single most important explanation** for why we were the lowest recipient from the EU budget and a **principal (not the only) justification for the rebate** - has the merit of explaining **why special treatment for Britain was and remains justified**. It is also historically accurate on the basis of what I remember Roy Jenkins telling me when he was President of the Commission at the time.

If there were no CAP, there would be a much less powerful case for a rebate mechanism specific to Britain and a **much stronger case for a generalised mechanism for community transfers** based on genuine capacity to pay ie GDP per head.

I worry that Treasury officials expect the Prime Minister simply to handbag his way through this issue. The truth is that if we are to be "firm and engaged" the Prime Minister has to combine toughness with sweet reason. We cannot stop the

CONFIDENTIAL

- 3 -

rebate being discussed. We have to make a convincing case as to why special treatment for Britain remains justified – as I believe it does.

Royen

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SUBJECT: GERMANY/EU: TAXATION AND NET CONTRIBUTIONS

SUMMARY

1. SCHROEDER AND LAFONTAINE SAY FOCUS ON EU TAXATION SHOULD BE ON CO-ORDINATION, NOT HARMONISATION. SCHROEDER SAYS LITTLE PROGRESS LIKELY UNDER GERMAN PRESIDENCY.
2. STRONG STATEMENT FROM SCHROEDER ON NEED TO CUT GERMAN NET CONTRIBUTION AND EU AGRICULTURAL SPENDING.

DETAIL

3. AT THE SPD CONFERENCE HELD IN SAARBRUECKEN ON 8 DECEMBER TO AGREE A LIST FOR THE EP ELECTIONS, SCHROEDER AND LAFONTAINE ADDRESSED TAXATION AND THE GERMAN NET CONTRIBUTION.

TAXATION

4. LAFONTAINE SAID THAT AT LAST WEEK'S ECOFIN HIS UK COLLEAGUES HAD TOLD HIM THAT IT WOULD MAKE IT EASIER FOR THEM IF HE REFERRED TO TAX COORDINATION RATHER THAN HARMONISATION. HE WAS READY TO BE HELPFUL: GERMANY DID NOT WANT TO HARMONISE TAXES, BUT TO CO-ORDINATE THEM. THERE WAS ALREADY MUCH TAX CO-ORDINATION IN EUROPE, BUT IT WAS NOT ALWAYS EFFECTIVE. TO MAKE THE INTRODUCTION OF THE EURO A SUCCESS, BETTER CO-ORDINATION OF ECONOMIC, TAX AND BUDGET POLICIES WAS NEEDED. MINIMUM LEVELS OF CORPORATE TAXATION AND WITHHOLDING TAX WERE PARTICULARLY IMPORTANT: 'HARMFUL COMPETITION TO SET THE LOWEST TAXES MUST BE ENDED'. LAFONTAINE REFERRED ON SEVERAL OCCASIONS TO THE NEED TO TACKLE 'TAX DUMPING', TO GENERAL APPLAUSE. BUT HE ALSO SAID THAT THE GERMAN GOVERNMENT HAD AN INTEREST IN SUPPORTING HMG'S POSITIVE POLICY TOWARDS EUROPE.
5. SCHROEDER SAID THE DISTINCTION BETWEEN HARMONISATION AND COORDINATION WAS A DIFFERENCE OF SUBSTANCE, NOT JUST OF TERMINOLOGY. IT WAS RIGHT TO SEEK HARMONISATION OF CERTAIN INDIRECT TAXES (COMMENT: NOT SPECIFIED) TO UNDERPIN THE COMMON CURRENCY. FOR DIRECT TAXES THERE SHOULD BE COORDINATION. BUT IT WAS UNREALISTIC TO EXPECT MUCH PROGRESS ON THIS DURING THE GERMAN PRESIDENCY.

Top: PULEY
cc: JH
JEH
Jfo
PB

6 THE AUSTRIAN CHANCELLOR, KLIMA, ADDRESSING THE CONFERENCE AS A GUEST OF HONOUR, ALSO SAID IT WAS BETTER TO TALK OF CO-ORDINATION, RATHER THAN HARMONISATION, OF TAXATION.

NET CONTRIBUTIONS

7. SCHROEDER SAID THE EU SHOULD APPLY THE SAME BUDGET DISCIPLINE AT EUROPEAN LEVEL AS MEMBER STATES DID AT NATIONAL LEVEL. GERMANY WOULD NO LONGER ACT AS PAYMASTER TO THE UNION. GERMANY DID NOT EXPECT 'TO WIN THE LOTTERY' IN THE AGENDA 2000 NEGOTIATIONS, BUT WANTED A FAIRER SYSTEM. THE CAP NEEDED REFORM. THIS SHOULD INCLUDE A FOCUS ON SMALL FARMERS AND ON THE ENVIRONMENT, WITH BETTER FINANCIAL MANAGEMENT AND CO-FINANCING. OVERALL SPENDING SHOULD BE CUT: 'BAVARIAN REGIONAL POLITICS CAN NO LONGER GOVERN GERMAN EU POLICY'.

COMMENT

8. WE ATTENDED THE CONFERENCE. LAFONTAINE'S COMMENTS ABOUT THE UK WERE DELIVERED WITH A SMILE: HE DOES NOT WANT TO BE SEEN TO BE CLIMBING DOWN. BUT SCHROEDER'S WISH TO BE HELPFUL, AS SHOWN BY TODAY'S JOINT STATEMENT ON TAXATION, IS NOT IN DOUBT.

9. TO THE UNTRAINED EYE, THE DIFFERENCE BETWEEN THE 'HARMFUL COMPETITION TO SET THE LOWEST TAXES', TO WHICH LAFONTAINE REFERRED IN SAARBRUECKEN, AND THE 'HARMFUL TAX COMPETITION' TO WHICH THE GERMAN-BRITISH STATEMENT REFERS, IS NOT IMMEDIATELY OBVIOUS. BUT THE DIFFERENCE IS THERE: AND LAFONTAINE'S CONTINUED REFERENCES IN SAARBRUECKEN TO 'TAX DUMPING' ARE A REMINDER THAT THIS ISSUE WILL CONTINUE TO NEED MANAGING.

LEVER

YYYY

BPLNAN 2544

FROM: M E Donnelly
DATE: 9 December, 1998

✓
JOHN HOLMES

file
13/12

cc: Jonathan Powell
Jeremy Heywood
Roger Liddle
Sebastian Wood
Brian Bender

AGENDA 2000 AND UK ABATEMENT: HANDLING AT VIENNA

1. Worth underlining two points on **handling of the UK abatement** at Vienna.

Tactics

2. **Vienna will not be a real negotiation.** It is too early in the Agenda 2000 negotiation. Others will not make any substantive concessions. Any moves we make will simply be pocketed by them before the end-game. **So we should not, even privately, say anything that could imply any prospect of movement on the abatement.**

Substance

3. Our position on the **justification of the abatement** is simple, and logical:
 - it is a **safety net**, which still leaves the **UK paying more than its fair share** relative to net wealth;
 - so the **abatement** is not related to any single spending programme but **is designed to deal with the cumulative effect of all EU spending**. Overall the **UK gets less EU money per head** than anybody else;
 - we **understand concerns of others who pay too much** and want to explore ways of helping them. But UK contribution is not the problem;

- after **enlargement** we will be an even **larger net contributor than today**.

We will wish to look again at tactics and substance as we approach the end game. But our strong view is that it is important to maintain our position on these lines now.

4. I attach as **annex** a note commenting on some specific points raised in Roger Liddle's minute of 8 December.

Martin Donnelly
M E DONNELLY
European Secretariat
Room 323 70W
☎270 0177

FROM: Martin Donnelly
DATE: 9 December, 1998

ROGER LIDDLE
No 10 Policy Unit

cc: Jonathan Powell
Jeremy Heywood
Alastair Campbell
David Miliband
Roger Liddle
Derek Scott
Liz Lloyd
Sir Nigel Wicks - HMT
Colin Budd - FCO

UK ABATEMENT

1. Perhaps we could offer some comments on points raised in the second part of your note of 8 December.
 - **the CAP and our net budget position** - The CAP still takes 45% of the budget. But the abatement is a **mechanism set up to rectify an imbalance across the whole of expenditure**, not any particular segment of it. Our receipts on some CAP programmes (but not all) are very low - less than 8%. But 8% is our receipts figure across all Structural Fund spending, and 9% the proportion of EC spending in total that comes to the UK. In comparison, our gross contribution without the abatement would be in the order of 15%;
 - **the timescale for CAP reform** - As you say, even if relatively radical reform is agreed CAP spending will remain at a high level. **Savings to the taxpayer are likely to be very long term;**
 - **tactics** - Your note raises the possibility of arguing a different case from our public position privately in the Council. **But could such a position realistically be kept private?** Other Member States would take the shift as a **sign of weakness**, interpret it as meaning that the UK **rebate was now firmly on the table**, and tell the press so. The idea of a review in five years would become a starting position from which to argue the Prime Minister down, whatever happens to the CAP.

2. To define the UK budget problem as essentially CAP-related undermines our wider approach to net balances, without any evidence that it will make radical CAP reform more likely. Once the idea of a time-limited UK abatement is on the table it will stay there.

What does this mean for Vienna?

3. We agree that a purely negative approach to defending the abatement (unanimity needed etc) would not be the best approach. We need to follow a firm but constructive line, stressing that:

- in devising solutions to the imbalances some now face, **we should not aggravate the UK's problem.** The solution to their problem cannot lie in re-creating the same problem again for the UK;
- **we are willing to look constructively at other solutions** to budget imbalances, in addition to budget stabilisation. CAP co-financing is an example. But such solutions will not be acceptable if they worsen disproportionately the UK position;
- several **other Member States with a greater capacity to pay make significantly less of a net contribution to the budget than we do, even after the abatement.**

4. On **post-enlargement spending** we can argue at Vienna that the same points apply, regardless of the level of CAP spending in the acceding countries: **even with the abatement we will contribute more overall, including the post-enlargement spending, than countries with a higher capacity to pay.**


MARTIN DONNELLY
European Secretariat
Room 323 70W
☎ 270 0177



SECRET - POLICY

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public

PRIME MINISTER

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JEH
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UK ABATEMENT

CC JJH
PU.

I have seen Roger Liddle's note to you of 8 December. At the beginning of his letter, Roger sets out the case for the abatement very well. But I disagree profoundly with his conclusion, for reasons of substance, tactics and presentation.

2. On substance, his minute does not take account of three important points:
 - CAP reform may not mean that spending will be dramatically reduced over the long term. Many others may want to use savings from the current CAP for other purposes - protecting rural communities, safeguarding the environment, and so on. We cannot rely on them to face down their farmers in the interests of budgetary discipline;
 - there is no reason to believe that CAP reform will have such a material impact on the distribution of CAP receipts that the need for our abatement will disappear;
 - the UK gets a low share of budget receipts generally, not just from the CAP.

3. So Roger's approach would have us trading the certainty of the abatement, set in formulae protected by unanimity and Parliamentary ratification, for grave uncertainty over the future of CAP spending.



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4. It would therefore be a mistake to signal in the Agenda 2000 negotiations that we would be prepared to reduce the rebate in the longer term, in return for radical CAP reform. For even if long-run CAP spending were significantly reduced, we cannot assume that our net contribution without the abatement would be much improved.

5. Roger's note suggests that we will get budgetary relief by denying the new member states access to direct CAP payments. The Commission also make this assumption. But it is not one that we can rely on. Nor might the UK, when it comes to it, be too comfortable in attempting to force the new member states to accept second class status. In any case, once they are in they will use their voting power to ensure they are given equal treatment.

6. On tactics it is wholly unrealistic to suggest that you could "argue privately in the Council" that you could make a concession in the future. This first weakening in our stance on the abatement would be seized on. It would encourage all fourteen to gang up on us and press for concessions as a condition for settling Agenda 2000. In those circumstances we would be very hard pressed to avoid concessions which took effect sooner rather than later.

7. On presentation, even in the unlikely event that our partners respected the "private" nature of your remarks to this Council, the storm would break over you once the final deal was done and published. More probably our partners would take this evidence of weakness straight to their Press as a triumph: they would have an interest in putting our concession on the record quickly. Our own media would have a field day. The public and Parliamentary reaction would be just as difficult.



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8. Finally, I think Roger is quite wrong to suggest that our strong support for enlargement should force us to make concessions on the abatement. He uses the argument our opponents use: that we will contribute only £1 for every £3 that others will pay. But this ignores the point that enlargement costs are only one part of the overall budget. The figures for 2006, based on the Commission's work, show quite clearly that after including the first tranche of enlargement costs the UK remains a higher net contributor than France and a number of others. So we must reject Vienna Conclusions language which attempts a narrow and unjustified focus on enlargement costs.

9. We should hold to our established tactics of resolute defence of the abatement. At the same time we should demonstrate to the Germans and other large net contributors that we have a shared agenda with them based on stabilising the budget at current levels by 2005 and, within that, cofinancing the CAP. This will mean taking a tough line with the (increasingly prosperous) net recipients on issues like the cohesion fund. But that is essential to our strategy.

10. I am writing this in Gordon's absence, but I know he shares these views.

11. Copies of this letter go to Robin Cook, Roger Liddle, Alistair Campbell and Sir Richard Wilson. Given the acute sensitivity of this subject I would be grateful if further circulation could be kept to the minimum necessary.

S. B.

STEPHEN BYERS

9 December 1998

CONFIDENTIAL

From: Roger Liddle
Date: 8 December 1998

File 13/12.

PRIME MINISTER

- box

Jonathan Powell
John Holmes
Jeremy Heywood
Alastair Campbell
Liz Lloyd
Derek Scott
David Miliband
Brian Bender
Martin Donnelly
Colin Budd, FCO
Sir Nigel Wicks

UK ABATEMENT

As you requested yesterday, this note puts the political argument for the defence of the rebate. "What we have we hold" and "you need unanimity to change it" sounds fine in the British press. But it is not a case that will be persuasive with our partners, especially after several repetitions over the next few months.

The case for the rebate:

- The justification for the British budget rebate is as strong as ever. It is based on **fairness and logic**.
- **The facts are indisputable.** The UK, even with the rebate, is still the EU's fifth largest net contributor despite the fact that in terms of our national wealth, we rank only eleventh in Europe. Our total contribution is about £3bn. In contrast France makes a negligible contribution: yet French GDP is some 10% per head higher than ours.
- **EC spending per head is the lowest on any country in the EU15 – only 55% of the average.** While it is true that in terms of net contributions per head Germany, Sweden, the Netherlands and Austria pay more than the UK, in terms of GNP per head, these are all significantly richer countries than us.

- Without the rebate, Britain's contribution to the EU would rise from around £3 billion to £5 billion.
- In a community budget which is designed to promote common policies and facilitate budgetary transfers to poorer Member States, there are bound to be net losers and net gainers. Britain is not arguing that every country should get out of the EU what it puts in (the doctrine of the so-called 'juste retour'). But **without the rebate, the British contribution would be totally disproportionate to the UK's national wealth.**
- **The debate about the British budgetary contribution is as long standing as the debate about Britain and Europe.** The potential scale of the UK contribution was subject to considerable analysis in the various government White Papers in the 1960s and 70s. Short term arrangements that gave temporary relief to the British budget were negotiated by Harold Wilson in 1974 as part of his "renegotiation of the terms of entry" and by Mrs Thatcher at Dublin in 1981. However, our partners recognised **the fundamental weakness of these temporary expedients was that they threw the Community into turmoil every time they were due for negotiation.** So the case for a **permanent solution** to the British budgetary question was eventually accepted at Fountainebleu in 1984.
- **Historically the reason for the underlying problem with Britain's contribution has been the size of the CAP within the EU budget.** Because Britain failed to join Europe at the start, and because the CAP had been fashioned in our partners' interests and not ours, by the time we eventually joined, Britain ended up making a large net transfer to Continental farming. Our domestic farming industry was much smaller and more efficient than farmers on the Continent with the result that it required much less support from the CAP.
- Since the Fountainebleu agreement, European agriculture has undergone considerable structural change. Successive CAP reforms have been implemented and CAP spending has fallen from a peak of 70% of the Community budget to around 50% today. But **these CAP reforms, though welcome, have merely reduced the scale of the British imbalance** (and therefore the amount of rebate we receive) **they have not removed the underlying logic** of the rebate.

- **CAP spending is set to remain at a high level.** Under the toughest budgetary proposal on the table as part of Agenda 2000, CAP spending would stay constant at its present level in real terms. The Commission's own proposals would see an increase in CAP spending in order to fund compensation payments to farmers for lower prices. This increase in cost to tax payers would be in return for bigger price cuts for consumers, especially for beef and arable products, that would reduce prices to world levels and at long last allow efficient EU farmers free access to world markets. Britain welcomes these CAP reforms and wants them to go further, especially in the dairy sector. **But within the time scale of Agenda 2000 – by 2006 - the financial burden of the CAP on the European tax payer will not fall.** The case for a special arrangement to deal with Britain's budgetary imbalance remains as strong as ever.
- **Also the UK does relatively badly out of the Structural Funds – receiving back only £1 for every £1.50 that we put in.** Under the pressure of enlargement, the UK share of Structural Funds receipts will fall further. Other richer Member States – but with poor regions within them – for example Germany with the East and Italy with the South – stand to do relatively better.

How this public case leaves you room for manoeuvre

Linking the existence of the rebate to the fundamental imbalances caused by the CAP has several tactical advantages:

- It enables you to argue privately in the Council that **if the root cause of the fundamental imbalance was actually dealt with**, you would in five years time, be prepared to reconsider the justification for the rebate – but not for the next financial period.
- It poses a **challenge to our partners to be radical on CAP reform** – in order to achieve big savings on a 10-15 year time horizon.
- However, it is a challenge that in the period to 2006 they will not be able to meet: **in the short term CAP reform inevitably puts up costs.** So the rebate should stay for the next period ahead.

- But **in the very long term**, if Agenda 2000 led to acceptance of the principle of degressivity in the CAP that compensation payments to farmers will fall over time, then the **fundamental imbalances in the budget that gave rise to the rebate could be much reduced over a 10-15 year time horizon.**
- And post-enlargement, if Agenda 2000 can agree that agricultural prices in all sectors including dairy will be reduced to world levels, the EU might be able to **ring fence CAP spending to the existing EU-15.** Compensation payments should not apply to the enlargement countries because their farmers would not have "lost" anything. In that case, **if there is minimum CAP spending in the enlargement countries, then the case for a special UK rebate on EU spending in those countries falls.**

That would give you a **logical basis for justifying this end-game concession.** I do not see how politically we can sustain the position that as the country most committed to enlargement, we intend to contribute only £1 for every £3 that we expect others to pay to the cost of it.

*I like this.
What are Bob's comments
on it?*

① EU Tax harmonization.
 Spain, Sweden, Germany, Italy,
 French Ben UNICE. // Andriou Wendis
 (never are responsible for
 uniform ~~taxes~~ or personal taxes

② British media: at its best level
 in the world.

but, a part of them, on this issue
 we are there to promote facts,
 but propaganda.

is dated. E vs Britain // Britain always
 look at
 British press
 U.S.

③ B. rebate not up for negotiation.
 But (a) other countries have their
 own left an lines in enlargement.
 S.C.F. ; to financing

(b) rebate there for a reason.

④ Britain stronger than ever
 from budgeted. Take Britain
 Tories Run By
 Scripts

FA/APS

24-NOV-1998 13:51 FROM JOYCE QUIN'S OFFICE

TO

98399044 P.02

TURKISH EMBASSY

43 Belgrave Square
London SW1X 8PA
Tel.: 0171-393 0202
Fax : 0171-393 0066

2013/830-98 ✓ cc. Mr Barton, No10 By fax
As discussed.

2. cc. Minister
PS
PS/AS
Mr. Bradd
Mr. Sturmdel
Hd. SED
EUD (C)
CFSP
News
Sp. Advs.

3. Mr Featherstone EUD (C)
Please ensure the PM's
Nick Houghton briefing covering
this. 24/11

23rd November, 1998.

Dear Minister of State,

I would like to convey to your notice the text of the Note on Turkey's expectations regarding the enlargement of the European Union. This Note was presented to H.E. Mr. Klima, the Austrian Chancellor by the President of the Turkish Republic, H.E. Mr. Süleyman Demirel, during his visit to Vienna between 17th -19th November 1998.

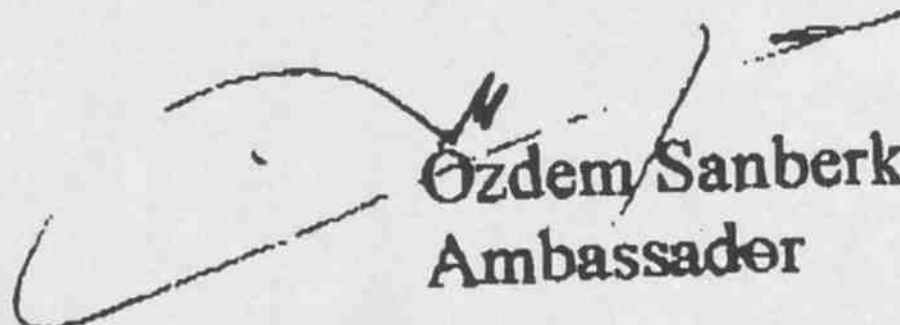
I would appreciate it if you would draw this Note to the Prime Minister's attention before the Austrian Chancellor's arrival in London for consultations prior to the Vienna Summit.

John

To see before Klima meeting.

Paul
24/11

Yours sincerely


Ozdem Sanberk
Ambassador

The Rt Hon. Ms Joyce Quin, MP,
Minister of State for European Affairs,
Foreign & Commonwealth Office,
King Charles Street,
London, SW1A 2AH.

ENLARGEMENT OF THE EUROPEAN UNION TURKEY'S EXPECTATIONS

Turkey's basic expectation in relation to the process of enlargement of the EU has always been twofold: a) to have its candidate status recognized and; b) to be treated in the same way as the other candidates. Turkey has never claimed that it had already fulfilled the Copenhagen criteria and that it was ready to start accession negotiations. Indeed, and as recognized recently by the European Commission in its "Composite Paper" on the reports relating the progress which candidate countries are making towards accession, none of them "today fully meets the Copenhagen criteria".

a) Recognition of Turkey's candidate status: The European Council has so far been unable to explicitly recognize Turkey as a candidate. Implicit recognition has occurred at the Cardiff Summit in the form of a request addressed to the Commission to prepare a report on the progress made by Turkey towards accession. This report which was published on 4 November 1998 reflects the Commission's acknowledgement of Turkey as a candidate. However, for this approach to be effective it has to be endorsed by the forthcoming Vienna Summit. Equally, the Summit should instruct the Commission to take the concrete steps which would follow from such recognition.

b) Equal treatment with the other candidates: Mere recognition of Turkey's candidate status cannot be considered sufficient if it is not accompanied by concrete steps to help Turkey along the path towards accession. Indeed, it would be illogical for this recognition to occur without the supporting action being taken. While Turkey accepts that its needs and requirements are different from those of the other candidates, it considers itself entitled to receiving comparable assistance to prepare it for accession. An indicative and non-exhaustive list of measures which could be taken in this respect is as follows:

* Implementation and extension of the European Strategy: The Cardiff Summit has welcomed the proposals made by the Commission with respect to the European Strategy for Turkey. Work has already started at a technical level on these proposals which have been complemented by Turkey's own suggestions. However, the political support of the Council is needed for the implementation of individual proposals contained in the Strategy, particularly those which relate to services and agriculture. Moreover, and as indicated in the Commission's progress report on Turkey, the strategy should be extended to cover other areas, particularly

./..

/2

those where Turkey will be expected to adopt the "acquis communautaire" as part of preparations for accession.

* Provision of adequate financial resources: As indicated by the Commission in the strategy document itself, the implementation of the proposals contained in it will depend of financial resources being made available. The commitments undertaken by the EU in this area have failed to materialize so far. The package proposed by the Commission in the draft Regulations which it has recently submitted to the Council can only be considered as a first step, particularly when compared to the resources which are being proposed for the other candidates and which have been described as a new "Marshall Plan" by President Santer. Meanwhile, efforts should be made to unblock the Special Action Facility and EIB loans promised to Turkey as part of the Financial Declaration adopted by the EU Council on 6 March 1995.

* Support for Turkey's efforts to adopt the acquis: The European Commission is developing a series of mechanisms, i.e "Twinning", invitation to take part in training activities, participation in ministerial meetings etc. which are all designed to help the candidates adopt the "acquis communautaire". Turkey should be invited to participate in all such activities on an equal footing with the other candidates.

File

From: Jeremy Heywood
Date: 10 November 1998

BRIAN BENDER

cc: Jonathan Powell
John Holmes
Roger Liddle
Derek Scott
Mark Langdale
Sebastian Wood
Willy Rickett

UK ABATEMENT: ENLARGEMENT AND CAP CO-FINANCING

The Prime Minister was most grateful for your minute of 9 November. He has noted the key importance of reducing the Commission's spending proposals.

9.

JEREMY HEYWOOD

dl663

FROM: Brian Bender
DATE: 9 November, 1998

JEREMY HEYWOOD
No 10

cc Jonathan Powell
John Holmes
Roger Liddle
Derek Scott
Mark Langdale
Sebastian Wood
Willy Rickett

17

It is clear from X that it would
be a big concession on our part to
agree to directly be adjacent to
spending on EU member states
It also brings out the key importance of
getting the lowest possible increase in total
EU spending. This would also provide the

UK ABATEMENT: ENLARGEMENT AND CAP CO-FINANCING digest

1. Your note of 26 October asked two further questions about the UK abatement (copies of my earlier minute and your response attached for convenience). *reactive for the Agriculture Council to accept reform!*

The costs of enlargement

2. Spending in new Member States will be significant: on the Commission's proposals it will rise to **16bn euro a year in 2006 (£11½bn)**; this compares to the EU15's planned spending of **just over £2bn a year on pre-accession aid** for the candidate countries for the next 7 years. At the moment our gross contribution to EU revenue is around 15%, so, if this remains stable, **our contribution to post-accession spending in the new Member States would be about £1.7bn a year if the abatement did not apply to it, or about £600m with it.**

9.1 agreed

3. The comparison with the contributions of our major EU partners to the £11½bn is striking: **the Germans would pay £3½bn, the French £2.2bn, and the Italians £1½bn.** Against this background you can see why our partners think that we would be paying less than our fair share of the cost of enlargement.

4. But this is only part of the story: we need (and need to get others) to look at total net contributions. If the abatement is applied to all internal spending (including in the new Member States), the UK would be paying just

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over £4bn in 2006 - similar to the likely figure for the richer French. If the abatement were disapplied to spending in the new Member States, this would add a further £1bn to our net contribution, taking us much higher than the French again. We should continue to reiterate the Commission's helpful line in the Own Resources Report that:

"even after the rebate the United Kingdom remains a larger net contributor to the EU budget than Member States with a higher capacity to pay"

5. Others will nonetheless argue that the final deal will require some pain for everyone, and that we should expect to take our share of it (on the abatement). As noted in my earlier minute, the tough question for us will be whether to consider a concession in the end-game. This could range from agreeing to a non-prejudicial review of the abatement after the first enlargement (cost-free); through disapplying the abatement to some of the expenditure in the new Member States (eg the level they received pre-accession (to which the abatement does not of course currently apply) - cost to the UK some £220m a year); to disapplying the abatement to all the expenditure in the new Member States (cost to the UK some £1.1bn per year).

CAP co-financing

6. You asked why the Commission's partial national financing of the CAP ideas are not the best approach for us.

7. The Commission's ideas would involve Member States compulsorily financing from national budgets some 25% of the direct aid to their farmers. They would benefit Member States like the UK, which are net contributors to the CAP: the cost of financing the national element would be less than the net cost to them of routing this money via the EC budget. The savings to the UK of CAP co-financing (assuming the Commission's spending plans and reform proposals) might be **about 0.2bn euro (about £130m)** in 2006, declining from a higher figure in 2000. The decline is because CAP reform will gradually reduce receipts in some of the countries that currently get the most, so the UK will do relatively less badly financially from the CAP as reform kicks in. **The Germans would stand to benefit by more than 1bn euro**, and the Netherlands by 0.3bn euro. So co-financing is attractive: it helps the Germans and other net contributors (and thereby reduces their pressure for a general rebate mechanism), and benefits us financially.

8. But co-financing is a zero-sum game, and so produces **big losers too among those who are net recipients from the CAP: particularly the French, Spanish, and Greeks** (in that order), all losing about ½bn euro. The Irish would also lose significantly, perhaps ¼bn euro. Furthermore, these

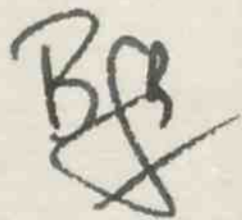
Member States are opposed to CAP reform, and they will put up an even stiffer resistance to reform if they think that co-financing endangers their receipts anyway. Hence our line that co-financing must not be a substitute for reform.

9. Whilst co-financing would be financially beneficial, the taxpayer gain to be had from a reduction in the overall spending totals are substantially higher to the UK. **Reducing the Commission proposals for spending in 2006 by 20bn euro would probably save the UK over £1bn** (in comparison to £130m saved through co-financing).

10. **Pushing CAP co-financing is tactically useful**, as it distracts discussion away from the UK abatement. However, the benefits to consumers of real CAP reform, and the savings from overall budget discipline, are greater, more transparent, and possibly more permanent than savings to the taxpayer from co-financing.

Strategy

- **costs of enlargement** - We should continue to put the argument of principle (para 4) for the foreseeable future. The abatement is concerned with compensating us for a budgetary imbalance across the whole of Community expenditure, so it is not legitimate to remove elements of spending from its scope whilst it remains fully justified as a system overall. We may need to review that line for the end-game, but should certainly show no hint of flexibility at this stage;
- **CAP co-financing** - We can see real benefits to co-financing, and should support the Germans in exploring the option. However, we should not get out in front on this, because we do not want to allow it to dilute our key objectives, which must be overall spending control, and genuine CAP reform.



Brian Bender
European Secretariat
Room 322, 70W
☎ 270 0044

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10 DOWNING STREET
LONDON SW1A 2AA

BRIAN BENDER
CABINET OFFICE

UK ABATEMENT

The Prime Minister has seen your minute of 23 October. He had two further questions:

- (i) you say that others will argue that the UK should pay "its share" of the costs of enlargement. How strong would this argument be objectively?
- (ii) why isn't the Commission idea of introducing partial national financing of the CAP the best approach from the UK's perspective?

A handwritten signature in dark ink, appearing to be 'JH'.

JEREMY HEYWOOD

26 October 1998

e\abatement mel

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bc: MD
MK
RB
OR
BB
+JSW
+NS.

dl624

FROM: Brian Bender
DATE: 23 October, 1998

JEREMY HEYWOOD
No 10

cc Jonathan Powell
John Holmes
Roger Liddle
Derek Scott
Mark Langdale
Sebastian Wood
Willy Rickett

UK ABATEMENT

1. As requested, I attach a note (prepared by Oliver Robbins here) which sets out the history of the UK abatement, what it does, what it is worth, the arguments likely to arise over it during the Agenda 2000 negotiations, and our negotiating strategy. It also addresses your related question about the cost to the UK taxpayer of different outcomes of the negotiations on EU expenditure.

2. Key points:

- others eventually (reluctantly) accepted the case for the abatement in 1984, as a safety net to correct the imbalance between UK contributions to the EU budget, and the low level of UK receipts from the budget (exacerbated by the predominance of the CAP in EC spending at the time). It was of course only achieved after 5 years of handbagging, and because the UK had a lock on the parallel (unanimous) decision to increase the ceiling on EC own resources;
- it requires unanimity (and national Parliamentary ratification) to get rid of the abatement - or indeed to replace it by a generalised capping system of the sort Germany, The Netherlands, Sweden and Austria are seeking;

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- its value to the UK is around £2 bn a year (reducing our annual net contribution to the budget to around £3 bn). In 2006, under the Commission's proposals for the EU 15, the UK net contribution would amount to around £4 bn;
- any generalised rebate system devised to meet the concerns of the other net contributors is highly unlikely to be as favourable for us. A substantial number of other member states (including France and Spain), however, would fiercely oppose establishing such arrangements;
- the most likely line of attack on the abatement during the Agenda 2000 negotiations will be based on the fact that it does not apply to expenditure outside the EU but would (as matters stand now) apply to expenditure in the new member states, once in the EU. Others will therefore argue that continuation of the present arrangements would give us a bonus; and that, if we want enlargement, we should be prepared to pay our share of the costs of it. Non-application of the abatement to all likely expenditure in the new member states could cost us £1b in 2006;
- our negotiating strategy is a twin-track one of (a) maintaining robustly the arguments for the abatement; and (b) arguing for changes to the Commission proposals on the expenditure side which would improve the situation of the net contributors (including ourselves of course), by
 - * having lower overall expenditure figures than proposed by the Commission (broadly maintaining current levels in real terms for the EU 15); and
 - * being receptive to ideas for a compulsory national element of CAP financing, providing this is not a substitute for CAP reform.

3. This line will certainly see us through Vienna. I do not believe, however, that it will see us through the end-game of the negotiations if, as I would expect, others press the argument about the UK paying "its share" of the costs of enlargement. The least cost concession would be to agree to a (non prejudicial) review of the abatement after the first enlargement. The tough question is whether there will be real pressure on us to go further and make a concession over the treatment of (?some of the) expenditure in the new member states.

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4. These are issues for March 1999, not before (any opening we were to offer on the abatement before the final hours of the negotiations would be seized on by the others as a sign of weakness). But it would be useful if the Prime Minister and Gordon Brown compared notes on how they saw this in due course.



Brian Bender
European Secretariat
Room 322, 70W
☎ 270 0044

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THE UK ABATEMENT: BACKGROUND

What did we want?

During the accession negotiations for our membership of the EEC, the issue of budgetary position was raised repeatedly, and re-emerged immediately post-accession. The large imbalance was essentially due to two factors:

- on the expenditure side, a smaller and more efficient agricultural sector than those of other Member States, which results in much lower CAP spending in the UK (CAP was worth 74% of the EC Budget in 1975);
- on the revenue side, a proportionately larger contribution to the financing of the Community Budget due to having a relatively higher share in the harmonised VAT base on which some Community revenue is based, than in total Community GNP.

The expenditure side problem has proven to be more enduring and financially significant.

What did Fontainebleau conclude?

2. The UK's budgetary complaint dominated EU relations in the first Thatcher Government, from the time Mrs Thatcher first "demanded her money back" (at Dublin in November 1979) until the negotiation was concluded at the Fontainebleau European Council in June 1984.

According to the Fontainebleau Conclusions:

"Expenditure policy is ultimately the essential means of resolving the question of budgetary imbalances.

However, it has been decided that any Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time."

This is the text now quoted by Germany, the Netherlands, Austria, and Sweden, in their bid for a correction mechanism.

3. The Fontainebleau Conclusions were given effect by the new Own Resources Decision (ORD) of 7 May 1985, with subsequent revisions which essentially left the abatement unchanged in 1988 and 1992. The

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ORD requires unanimity in the Council, and "adoption by all the Member States in accordance with their respective constitutional requirements", which in our case means an Act of Parliament. Hence the Prime Minister's assurance to Parliament after Cardiff that the abatement arrangement cannot be changed without the agreement of the Government and of Parliament.

What precisely did we get?

4. In broad terms the abatement refunds 66% of the difference between the UK's gross contribution to the EU and our receipts, one year in arrears. Changes to the resources system in 1988 and 1992 have complicated the calculation, but the essentials remain the same, and the abatement is calculated from "total allocated expenditure". The calculation is done by the Commission, on the basis of the methodology contained within a document known as the Working Methods Paper (which defines "total allocated expenditure").

How much is it worth to the taxpayer?

5. The annual value of the abatement fluctuates wildly (the calculation is much affected by differences in receipts between years), but averages about £2 billion a year (it will be almost £3 billion this year). **In crude terms, a 1 billion euro increase in Community spending, from which we were to get an average return (about 90 meuro), would have a net cost to the UK of 150 meuro (~£105m) without the abatement, and 110 meuro (~£80m) with it.** This is explained, and other scenarios examined, in the Annex.

What do others think of the abatement?

6. At the risk of stating the obvious, the abatement is not popular with other Member States. The UK spent much political capital in getting it, and the whole concept of a budgetary imbalance, although now tacitly accepted by the Commission, is not regarded as *communautaire*. In addition, of course, the abatement has the effect of driving up contributions from other Member States.

7. Attitudes to the abatement amongst the four Member States arguing for their own correction mechanism are confused: on the one hand it is a

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contributory factor to their own imbalances; on the other, it would be unwise to attack the principle given their own desire to get something similar (for the same reason, it ill behoves us to attack the principle of them seeking a corrective mechanism). Ironically the Dutch were particularly fierce critics of its underlying principles in the 1980s.

8. The message that the abatement is not up for negotiation has been put across very clearly, and it is well understood that we will tolerate no change to the ORD which weakens it. Whilst others acknowledge that this is our position, there are threats, some of them as a result of the Commission's recent Own Resources Report (ORR).

What does the Own Resources Report say?

9. The Commission themselves acknowledge in the Own Resources Report (ORR), that:

"even after the rebate the United Kingdom remains a larger net contributor to the EU budget than Member States with a higher capacity to pay"

The Report does not recommend change to any aspect of the OR system at this stage. It says:

"The shortcomings of the system discussed ... do not by themselves provide grounds to justify an urgent modification of the Own Resources Decision."

10. However, the ORR presents three options for changes to the ORD if and when this becomes necessary. These are:

- **return to a more straightforward system** - this is code for phasing out the abatement. The threat is clear, but our line in response is to point out that the justification remains;
- **a correction on the expenditure side** - i.e. part national financing of the CAP. The Commission have suggested that Member States might compulsorily meet 25% of the costs of CAP direct aids to farmers. There could be problems with this approach - it might weaken Member States' resolve in pursuing genuine CAP reform - but it is worth keeping in play not least because it may help the Germans and so divert attention away from the abatement. The French are however strongly opposed (they would pay more for the same level of support);

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- **a generalised correction mechanism** - this is roughly what the Germans, Dutch, Swedes and Austrians have been asking for. However, the UK abatement cannot simply be transposed onto all net contributors, and no one has yet come up with a system which generalises the correction mechanism without weakening ours - which is unacceptable to us, and also to others (e.g. the French) who would have to contribute towards a general system.

What are the threats to the abatement?

11. Our basic argument is that the abatement remains justified on any reasonable analysis: even after it, the UK is the fifth largest contributor, and the fifth poorest Member State.

There are three categories of threat to the abatement at this stage:

- **others may insist on a generalised abatement mechanism, (with a resultant weakening effect on our present arrangements).** The crux here, as noted previously, is whether this will be a real bottom line for the new German Government. It is too soon to tell, but it looks as though they will be looking for alternative ways of tackling their problem;
- **the justification for the abatement may become weaker.** There are two arguments we may have to counter -
 - the incorporation of the new Member States at enlargement will introduce probably six countries with lower GDP than us, and we will no longer look near the bottom of the league. This makes the presentation more difficult, but not the substance, as our position relative to other net contributors will not have changed;
 - CAP co-financing may weaken our argument, as the abatement is still commonly seen as a mechanism designed to correct disparities caused mainly by CAP spending;
- **others may seek to make us pay more towards the cost of enlargement by disapplying the abatement from expenditure in the new Member States.** The target would be a change to the base for calculation of the abatement (see paragraph 4 above). Some are already beginning to argue that applying the abatement to spending

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in new Member States post-enlargement would give us an unfair bonus; that we would not be paying our fair share of the costs of enlargement (spending in them under current programmes counts as external assistance, and is therefore not part of "total allocated expenditure" as currently defined, and not abated); and that, as we favour enlargement, we should pay more towards it. A very rough estimate of the cost to the UK of losing all expenditure in the new Member States from the abatement calculation might be £1bn a year after enlargement.

What is our strategy for defending the abatement?

12. We should pursue a twin track approach:

- hold firm on the principle. The abatement is justified, and most interlocutors understand our position. Our key aim must be to make it a non-issue in the negotiations, and when it is raised encourage others to move on to more constructive topics.
- show a readiness to discuss other ways of dealing with the problems of net contributors. Thus, we should press for the tight control of expenditure (without undermining our policy objectives on CAP reform and Structural Funds receipts). And we should be receptive to idea on CAP co-financing (providing it is parallel to, and not a substitute for, CAP reform).

13. This should take us beyond Vienna. However, in the end-game we shall need to consider how to handle the likely pressure to make us pay more of the costs of enlargement (last indent of paragraph 11 above), whether by disapplying the abatement to some or all of the expenditure in the new Member States, or at the least through accepting a review of the abatement at the first enlargement.

European Secretariat

October 1998

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ANNEX

EFFECT OF THE ABATEMENT AND DIFFERENT LEVELS OF EC SPENDING

[Caution throughout: figures for Community spending, receipts and revenue fluctuate considerably from year to year. Figures used here are averages.]

1. Before the abatement, the UK contributes approximately 15% of Community revenue.
2. The UK receives approximately 9% of the EC budget - although its receipts vary for different areas (up to 15% for R&D, some CAP spending - below 8%).
3. **Example of the effect of the abatement:** If the EC Budget increases by an hypothetical £1bn, then the UK's gross contribution, before the abatement, goes up by £150m (15% of £1bn). However, on average, the UK can expect £90m of this new spending to come back to the UK (9% of £1bn). The abatement means that the difference between £150m and £90m, £60m, is reduced by 2/3. The abatement thus saves the UK £40m extra, bringing our gross contribution to this extra £1bn down to £110m, or 11%.
4. If we were to get our "fair share" of the new spending (15%), the abatement would not come into effect, and so our gross contribution would be £150m.
5. If more than 15% of the money was spent in the UK, our contribution would begin to rise above £150m, as we would begin to lose abatement money from spending in other Member States.
6. Using this example as a rough guide, we can see the difference between 105 beuro (£75bn) Commission figure and a 90 beuro (£65bn) figure for the 2006 Financial Perspective saves the UK 1.65 beuro, or around £1bn, gross. A further 5 beuro cut to 85 beuro might be worth another 550 meuro (£390m) in gross UK savings. All of these figures are highly approximate however, and the outcome would be heavily determined by the effect on the abatement of how well the UK does from the programmes that were cut.



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Foreign Secretary

EU ENLARGEMENT

I was interested to see your minute of 24 September to the Prime Minister on prospects for the EU enlargement process up to the Vienna European Council.

2. I agree generally with your analysis of the main issues, especially with regard to the complications caused by Malta's renewed application and the difficulties inherent in Cyprus's accession to the Union as a divided island. And I certainly share your view that Ministers should adopt a high profile on enlargement generally, and be prepared to strengthen their relations with counterparts in the CEEs and Cyprus. As you will know, during the United Kingdom Presidency, Joyce Quin visited Poland, Hungary and the Czech Republic and I chaired an Accession Process meeting of the JHA Council with the applicant countries to approve the Pre-Accession Pact on Organised Crime. I and other Home Office Ministers will consider what we can do to follow this up with further visits.

3. You also referred in your minute to the issue of whether substantive negotiations should open now with the first wave countries or wait until the screening of all the chapters of the acquis is finished. As you say, the Presidency, with strong support from the Commission, the UK and others wants to press ahead, since there are strong political advantages to be gained from this. I am quite happy to go along with that judgement, but if the Council does agree to an early opening of substantive negotiations with the applicants, we shall need to dampen any expectations this may create that there will be an early end to the negotiations. The fact is that the screening process has not got very far and there are some major chapters of the acquis, such as JHA, which still lie ahead in the screening process and which will need to be the subject of possibly extended negotiations. In the case of JHA, the issues will be particularly difficult and sensitive, covering such matters as control of external borders, removal of internal frontiers, capacity to tackle organised crime and application of the rule of law.

4. I am copying this note to the Prime Minister, (E) DOP members, Sir Richard Wilson and Sir Stephen Wall.

JACK STRAW
19 OCT 1998

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PM/98/046

PRIME MINISTER

Michael Parkerton

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+me

② MD

③ SH/KO'D

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see the Bender

EU Enlargement

1. Pressure to widen the enlargement process, Malta and Cyprus are the main issues between now and the Vienna European Council.
2. The Commission will produce annual reports on the candidates. They (or Member States) might recommend inclusion of other countries (Latvia, Lithuania, Slovakia?) as ready to start negotiations proper. The Vienna Council will decide.
3. The decision by the new government in Malta to reactivate its application to accede might complicate enlargement. We want to avoid that, while being generally supportive of Maltese entry. It is for to the Commission in the first place to make recommendations on suitability and timing.
4. For the six countries in the first negotiating group, the move from screening the acquis to substantive negotiations should take place in November. France is showing signs of flexibility ie not insisting the whole screening exercise be completed before negotiations begin.
5. But missile delivery or deployment by Cyprus would make it difficult to continue Cyprus's accession negotiations. In which case, Greece would block negotiations with the Central Europeans. We need a strategy to cover that contingency. But the priority is to head off delivery/deployment of missiles.

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6. Our public profile is important. We must continue to be active in contacts with, and visits to/from, Central Europe.

7. We face some potentially difficult issues on EU enlargement this autumn: the pressure for other countries to join the enlargement process, Cyprus, and how to handle Malta.

8. But we start from a good basis. Our Presidency met our objectives on EU enlargement by:

- getting negotiations with the six (ie Poland, Hungary, the Czech Republic, Slovenia and Estonia plus Cyprus) underway, overcoming difficulties over Cyprus;

- engaging the less advanced (Bulgaria, Romania, Slovakia and the other Balts) in the parallel process of "analytical examination" of the acquis;

- establishing the European Conference, with a subsidiary expert group on drugs and crime;

- providing accession-focused aid, eg Phare, through the Accession Partnerships;

- opening the way for the European Strategy for Turkey.

9. Our credentials as a Member State committed to enlargement are strong. We need to remain active to ensure (a) that we retain our position and (b) that the process itself is not unravelled by those Member States who are less committed to it.

Political and Economic Background

10. There are uncertainties in the general background. The economic crisis in Russia, while unlikely to have a dramatic impact on the applicants overall, is being felt in Latvia and Lithuania and to a lesser extent elsewhere. On

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the other hand, there is evidence that some applicants are using this as an argument for accelerating reforms.

11. The German elections are also relevant. No conceivable new German government will turn its back on enlargement, but its attitude to the detail, especially financially, will have a big effect.

12. There is also a feeling among the Central Europeans that at least some in the EU (especially France) lack commitment to enlargement, and that the process will be unduly prolonged, causing them serious political difficulties. This uncertain environment makes the autumn agenda more difficult.

Agenda 2000

13. There are also important links to Agenda 2000 and the financial settlement up to 2006 for existing Member States. Both will impact directly on enlargement.

Commission Progress Reports

14. The first decision is whether to agree that further applicants are ready to begin negotiations. The Vienna Council will respond to the Commission's progress reports on the applicants, which we expect to go to the General Affairs Council on 9 November. These reports are intended to keep up the pressure on all the applicants to maintain the momentum of their preparations for membership. Present indications are that the Commission will not propose any new participants in the negotiating process.

15. We can expect pressure, especially from Latvia and Lithuania (with support from the Scandinavians), to expand the negotiation process. But there are political problems (citizenship) in Latvia, and economic/restructuring ones in Lithuania. Slovakia presents a different scenario. If the election there produces a government with solid democratic credentials, there will be political pressure for moves to



reward and encourage it. The counter-argument would be to wait until change has been consolidated.

Malta

16. The Fenechi Adami government which came to office on 6 September has reactivated Malta's application for EU membership frozen in 1996. The Commission is keen to respond and will revisit the 1993 Opinion on Malta's eligibility. It is likely that, subject to the new government addressing the need to increase competitiveness, Malta will be well-equipped for EU accession. This issue might go to the Vienna European Council.

17. The Maltese bid raises problems:

- possibly unsettling the existing "pre-ins". The Scandinavians for example may argue that Malta be included in negotiations only if eg Latvia/Lithuania are treated similarly;

- institutional concerns. Should Malta, which is the same size as Luxembourg, have equivalent institutional arrangements? This will need to be addressed during the accession negotiations or during any new new IGC. Officials are doing detailed work on these issues.

18. There are several UK objectives to balance here. But our top one is to ensure that the negotiations already started with the six, and particularly the Central Europeans, are not complicated or delayed. For example, significant expansion of the negotiating process might (a) overload the Commission, and (b) give Spain and others a pretext to argue for a radical uplift in expenditure, with an adverse impact on Agenda 2000.

19. So the UK interest will be to:

- keep any expansion of the process to a minimum. But including Malta by itself should not present major



difficulties;

- maintain our general political support for Malta, but avoid getting far out ahead of key partners. If the Commission's new opinion did not appear until early 1999, this would not be the end of the world, and would make it difficult for others to argue for linking the Balts' case with Malta at Vienna in December;

- meanwhile, continue to back the need for objective Commission assessment on merit of each applicant's case, but bearing in mind in particular the possibility of political special pleading for a democratic Slovakia.

Opening substantive negotiations

20. At the same time, the negotiating process itself will, we hope, enter a new phase this autumn. Screening of the applicants - to assess how close they are to meeting the EU acquis and where weak areas remain - will not be completed until July 1999. But the applicants, keen to move to negotiations proper, are already submitting position papers. The Council will have to decide whether to open substantive negotiations now on the basis of some (probably 7) relatively straightforward chapters, or wait until screening of all 31 chapters is finished.

21. The Presidency, with strong support from ourselves, the Commission and others, wants to press ahead. It is an important political point for the applicants and has tangible benefits for the transition process by keeping reform in these countries at the top of the agenda. France has in the past argued against, stating that the screening process should be concluded first. But the latest French position is more encouraging - to let negotiation proper begin provided that the Council has first had a discussion on the basis of a Commission report. This should be manageable unless hardliners in Paris regain ground or Cyprus blows up (see below). We will need to:



- ensure that the applicants are aware of the positive line we are taking, but guard against any expectation that this will accelerate or shorten the process as a whole;
- work on this in our contacts with the French (and the Germans) in particular;
- continue to keep in close contact with the Presidency and the Commission.

Cyprus

22. The Cyprus issue has the potential to spill over into the enlargement negotiations and beyond. France remains determined that Cyprus should not proceed to membership as a divided island. They will want to put down a marker on this in November and ensure it is addressed later. They are now indicating they might not block the decision on that score. However, all bets would be off if the Clerides government proceeded with missile delivery or deployment.

23. The Greeks have threatened to take reciprocal action against the Central Europeans if Cyprus' accession process is blocked. That reduces our leverage. But it should not stop us from warning Clerides of the consequences of delivery/deployment.

24. Clerides looks unlikely to take delivery of the missiles before the end of the year. But any subsequent delivery or deployment of missiles would very probably produce the same stand-off between Member States and leave EU enlargement blocked. We need:

- to continue to work with the Americans and the NATO Secretary General on a formula which allows Clerides a way out;
- to continue to encourage EU partners to stress to Clerides that missile delivery/deployment cannot be in his interest;



- to work with Paris and other capitals on a strategy if Clerides does take delivery. That will mean bringing pressure to bear on Athens - eg by linking the Cyprus problem to other EU issues of importance to Greece.

25. The EU has so far not addressed other problems arising from the division of the island. Our officials will need to consider the options should the UN process fail to make progress. We should continue to seek to involve the Turkish Cypriots in the accession process. Screening/negotiations should address those aspects of North/South relations which have implications for the application of the acquis, regardless of the settlement issue, such as the trade embargo.

Turkey -

26. The Austrian Presidency and Commission will take forward the European Strategy intended to provide a means to intensify contacts between the EU and Turkey: Ankara has responded in reasonably positive terms to the Commission proposals endorsed at Cardiff.

27. An important issue will be how to finance the customs union between the EU and Turkey. The Commission expect to bring forward proposals in October. We will need to work with key partners to persuade Greece not to block this.

Public Profile

28. I will be visiting Bulgaria, Romania and Slovenia next month. I hope other colleagues will find time to visit Central Europe in the near future and/or invite opposite numbers to the UK: the applicants see ministerial contact as a real test of political commitment. We should all get into the habit of treating Central Europe as part of the regular EU circuit. I have asked officials to consider how such ministerial contact can be most effectively deployed by improving coordination between Departments.

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29. I hope that, in addition to conducting their own departments' business, colleagues will have opportunities to discuss the wider UK approach to Europe and enlargement. Twinning (secondment of policy advisers) is a key area where we can secure influence for years to come (my minute of 3 August). We must also continue to make clear the benefits of enlargement to the UK, EU and the applicants.

30. Copies go to (E)DOP members, Sir Richard Wilson and Sir Stephen Wall.

A handwritten signature in black ink, appearing to read 'Rob Cook'.

for ROBIN COOK
(Approved by the Foreign
Secretary and signed by
Private Secretary in his
absence overseas)

Foreign and Commonwealth Office
24 September 1998

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From: N E Sheinwald
Date: 19 October 1998

cc: Mr Budd
Mr de Fonblanque
Mr Puce, EUD(E)
Mr Roberts, CFSPD
Mr Bender, Cabinet Office
Mr Chilcott, UKRep Brussels

To: Mr Featherstone, EUD(E)

SUBJECT: PRIME MINISTER/KLIMA MEETING: ENLARGEMENT

1. John ~~Homes~~' record does not record me entirely accurately at the end. After referring to the general Commission report on all the applicants, I went on to say that the Commission report on Malta might not be ready before Vienna; and that would not necessarily be the end of the world.

Nigel Sheinwald

N E Sheinwald
Director EU
E110
Tel: 270 2270
Fax: 270 3936

FILE
RESTRICTED - POLICY

AS



10 DOWNING STREET
LONDON SW1A 2AA

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From the Principal Private Secretary

12 October 1998

Dear Tim,

EU ENLARGEMENT

The Prime Minister was grateful for the Foreign Secretary's minute of 24 September. He regards enlargement as a key plank of our European policy. We should continue to work to ensure that it is pushed forward successfully.

The Prime Minister endorses the importance the Foreign Secretary attaches to public presentation of the UK approach to enlargement by all Ministers when opportunities arise.

The Prime Minister is concerned about the potential for the Cyprus issue to spill over into the enlargement negotiations and beyond, and agrees we need to look at the options should the UN process fail to make progress. He would be grateful for further advice in due course on some of the difficult underlying issues, e.g.: should we be prepared to accept a divided Cyprus as a member of the EU at the end of the day (perhaps even through acceptance of partition); what should we say about this meanwhile; are there tactics we could use to avoid this issue coming to a head prematurely, while maximising pressure on the parties; can we persuade/cajole the Greeks into not holding the enlargement process for other countries hostage to Cyprus issues e.g. by using EMU as leverage?

I am copying this letter only to Tom Scholar (H.M. Treasury), Tom McKane (Ministry of Defence), Sebastian Wood (Cabinet Office) and Sir Stephen Wall (UKRep Brussels).

Yours

JOHN HOLMES

T. Barrow, Esq.,
Foreign and Commonwealth Office.

RESTRICTED - POLICY

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FROM: Brian Bender
DATE: 2 October, 1998

JOHN HOLMES
No 10

cc Roger Liddle
David North
Mark Langdale
Sebastian Wood
Michael Pakenham

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Pl. type
letter filed
by
my.

Prime Minister
not much in Robin's minute,
but the questions in the draft
letter behind are very pertinent -
and we have to stop Robin's
concern for the Greeks cyphits obscuring
the importance of our own policy.

EU ENLARGEMENT

✓ OK? p. 10/10.

- A
1. In his minute of 24 September Robin Cook reported on the position on EU enlargement and likely developments over the autumn.
 2. I think it would be useful if you replied making 3 points:
 - reasserting the importance the Prime Minister attaches to EU enlargement;
 - endorsing the need for consistent public presentation of the UK approach to enlargement by Ministerial colleagues;
 - asking for further advice in due course on Cyprus (as you and I discussed with David Hannay on 30 September): would we be prepared to accept a divided island into the EU; what tactics should we adopt to avoid this coming to a head prematurely while maximising pressure on the parties; what leverage can we use with the Greeks to stop them holding the CE enlargement process hostage, etc?
- B Draft letter attached. I would envisage following your reply up with one at official level to FCO setting up further work on the Cyprus issues.

Brian Bender
European Secretariat
Room 322, 70W
☎ 270 0044

Handwritten initials



PM/98/046

PRIME MINISTER

See letter at Top JEH

file of JPO
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ACEU Enlargement

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30. Copies go to (E)DOP members, Sir Richard Wilson and Sir Stephen Wall.

for ROBIN COOK
(Approved by the Foreign
Secretary and signed by
Private Secretary in his
absence overseas)

Foreign and Commonwealth Office
24 September 1998

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10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

FILE
bc FCO
FAXED
SUB
MASTER

- To Resident Clerk
(FCO) for onwards
Transmission to Turkish
PM
by Fax 16/6/98

16 June 1998

Filed on:

Dear Prime Minister,

I wanted to let you have an early read-out of the Cardiff European Council Conclusions. Our Ambassador in Ankara, David Logan, has already delivered the relevant text to Foreign Minister Cem.

I believe that the outcome is a good basis for re-establishing the European Union/Turkey relationship, and that we are back on track.

The Conclusions recognise clearly that Turkey is a candidate for membership of the EU. The Commission will prepare regular reports for the European Council on Turkey's progress to accession. As you wanted, Article 28 of the Ankara Agreement will be a basis for Turkey's report.

The Commission's communication on Turkey's European Strategy has been explicitly welcomed. The Commission will carry forward the Strategy, which can be enriched over time by Turkey's own ideas.

Moreover, the Commission has been invited to table any proposals necessary for implementation of the Strategy. This includes financing. The European Council took note of the Commission's intention to work out ways of

underpinning implementation of the Strategy and to table appropriate proposals. I hope this will provide a way through the previous impasse in this area.

We have worked hard to achieve this result. I hope that you will see the outcome as positive, and that you will react positively to it. We now have the basis for moving forward together.

Yours ever
Tony Blair

His Excellency Dr Mesut Yilmaz

CONFIDENTIAL
FM UKDEL CARDIFF
TO IMMEDIATE FCO
TELNO 10
OF 161915Z JUNE 98
AND TO IMMEDIATE UKREP BRUSSELS
INFO IMMEDIATE EU POSTS, WASHINGTON
INFO IMMEDIATE CENTRAL EUROPEAN POSTS, NICOSIA, ANKARA, VALLETTA

*File
M 12/6.*

FRAME GENERAL

SUBJECT: CARDIFF EUROPEAN COUNCIL: ENLARGEMENT/TURKEY

SUMMARY

1. On enlargement, no dissension from the Prime Minister's proposal that Cardiff should note progress to date and look forward to its continuance. On Turkey, the Prime Minister set out the case for putting the EU's relationship with Turkey back on the rails. Simitis insisted that Turkish behaviour since Luxembourg merited no change in the EU's position, and certainly nothing that could be construed as a move in Turkey's direction. Helpful interventions from Prodi, Kok and Chirac. A sour grape from Juncker. Back to Heads for the Conclusions.

DETAIL

Enlargement

2. The Prime Minister said the Luxembourg mandate had been fulfilled and the accession process launched. Negotiations had been opened with six countries, and the inaugural meeting of the European Conference held in March. Work was proceeding well. He envisaged conclusions noting this and looking forward to continuing progress. (Comment: subsequent discussion centred entirely on Turkey, and no-one dissented from the Presidency's proposed way forward.)

Turkey

3. The Prime Minister said the Luxembourg conclusions represented a substantial package. But the EU's relationship with Turkey had stalled. His preparatory bilaterals had showed widespread

agreement - though obviously Simitis would want to comment - on the need to re-establish a more constructive relationship with Turkey. The Commission had produced a helpful communication on the basis of the Luxembourg remit. Heads should endorse this and take it forward. The EU also needed to tackle its outstanding financial obligations to Turkey and to finance the European strategy.

4. In line with the Luxembourg outcome, it should be made clear that the same conditions and criteria applied to Turkey as to the other applicants. That was both positive and negative for Turkey. The Commission should be asked to monitor Turkish progress against these criteria. This would be within the Luxembourg conclusions, but with a positive message highlighting where more progress needed to be made. Cardiff needed to get the EU's relations with Turkey back on the rails. There was no question of going beyond Luxembourg. But we needed to develop some form of forward strategy that put the relationship on a better footing.

5. Simitis recalled the extensive discussion in Luxembourg. The decisions taken there had been unanimous. The European Council had agreed on a European strategy for Turkey. Turkey could participate in the European Conference if it so wished, and have the same rules applied to it as to the other candidates. Turkey had been neither condemned nor favoured. On the contrary the EU had shown itself ready to cooperate with Turkey. But this positive approach had been intemperately rejected. Turkey had said Luxembourg had been wrong not to recognise its status as a candidate country, and that setting down pre-conditions was unacceptable. But the EU had not done this. It had simply repeated for Turkey the same rules and principles on, eg, human rights and respect for international law and the rules governing relations between countries as applied to the other applicants.

6. Yet the Presidency was now proposing to express through the Cardiff Conclusions what would in substance be a change of the EU's position. The objective was to make this position more palatable for Turkey and more likely to be accepted by them. This amounted to an apology to Turkey. Greece did not see why or how the EU had insulted Turkey; or why only six months after Luxembourg, that analysis should be changed or declared erroneous. Yilmaz had acknowledged publicly that Turkey's internal instability meant it was not in a position to be a

candidate. It had rejected the EU's Common Position at the proposed Association Council last month. The EU should be patient and cool-headed. There was no reason to change Luxembourg. It would be a real mistake to make any move that suggested that Turkey's threats and rejections should be rewarded.

7. Prodi thanked the Presidency for its efforts on enlargement and for launching the London Conference. Turkey's reaction to Luxembourg had been as he had feared. The Luxembourg language had not been conducive to a constructive Turkish response. The Turkish Government had compounded this by over-dramatising. The EU now had to take the heat from the issue and tackle the enlargement dossier as a whole, both to the east and the south. He hoped the Presidency would find new conclusions language for Turkey, and progress the release of the financial protocol. The Commission could also usefully submit new analyses on the five second-wavers.

8. Kok did not find the Greek reaction surprising. But he also recognised the Presidency's efforts to repackage Luxembourg; and endorsed them wholeheartedly. The European Council needed to send a message that would clear the air. It was not a question of making concessions, but of giving signals. The time had come to make a gesture. He understood the background to Greece's reaction; but it was exaggerated. Strategically and geopolitically, Turkey was important for Europe. The EU had to maintain its efforts. He hoped progress could be implemented on the lines the Presidency proposed.

9. Chirac said he unreservedly supported Kok's intervention. Dehaene spoke similarly.

10. The Prime Minister said he did think that what Kok and Chirac had said represented the consensus. There was a general wish to put relations with Turkey back on track, without transgressing Luxembourg. The European Council had agreed there that Turkey did not fit in the same category as the six or the five; but it had not said that Turkey could not be considered as a candidate. That said, he recognised the position Greece had adopted. The Presidency were trying to draw conclusions commensurate with that.

11. Simitis did not think that Cardiff should repackage the

Luxembourg Conclusions in any way. To repeat, Luxembourg had offered a positive package. It had given an opening. Turkey had rejected this. There was no reason now to send any different message. Since 1996, Turkey had rejected the EU's invitation to say it respected international law. There was no reason to think that, if Cardiff moved on from Luxembourg, there would be any reciprocal response from Turkey on human rights or international law. Turkey would simply pocket this further concession, and make new demands. We should be positive where possible and keep our temper. But the time was not yet ripe for new decisions.

12. Kohl looked forward to the Presidency's conclusions with bated breath.

13. Juncker said there seemed different views round the table on how to treat the Luxembourg agreement. In the room at the time, all had agreed that Turkey could not be treated in exactly the same way as the other candidates. Outside the room, some had subsequently behaved in a way disrespectful of that conclusion.

14. The Prime Minister concluded that the new element since Luxembourg was the Commission's European Strategy. It was important to find a way to re-establish the EU's relationship with Turkey. It should meet exactly the same rules as the other candidates. But we had to recognise that an important strategic interest was at stake. The Commission's strategy was underway. Heads would need to return to this in the Conclusions.

Conclusions

15. Despite the Greek position, discussion of the draft Presidency conclusions produced agreement. The final text recognised Turkey as a candidate for membership. Regular reports would be made on its progress to accession, based on Article 28 of the Association Agreement and on the Luxembourg Conclusions. The proposed European Strategy was welcomed and the Commission charged to carry it forward. The Council noted the Commission's intention to work out ways of underpinning implementation of the Strategy. Taken together, they represent a sound basis for getting the EU's relations with Turkey back on track.

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cc JPO

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JB/mc

16 June 1998

Mr John Holmes
No 10 Downing Street

GD
Mr. Lybe to Mr. (1) (17)
AS/1
JH 16/6.

Dear John

DRAFT MESSAGE TO YILMAZ FROM THE PRIME MINISTER

1. As agreed, I attach a draft message. David Logan has already passed the Conclusions language to the Turkish MFA and is trying to see Cem. We have briefed Turkish Embassy and Brussels representation. The Americans are briefed to encourage a positive Turkish reaction. Yilmaz should be available for a telephone contact at 1000 BST on 17 June. Given that the outcome should be good news, a phone call may be more attractive than usual.

Love ever
Emyr Jones Parry

Emyr Jones Parry
Director European Union

PS
PS/Mr Henderson
PS/PUS
Mr Greenstock
Mr Budd
Heads of EUD(E)
SED
News Dept
Sir S Wall, UKRep Brussels
Mr Logan, Ankara

DRAFT MESSAGE FROM THE PRIME MINISTER TO YILMAZ

Over Ankara made in Ankara,
I wanted to let you have an early read-out of the Cardiff European Council Conclusions. David Logan has already delivered the relevant text to Foreign Minister Cem.

I believe that
The outcome is a good basis for re-establishing the European Union/Turkey relationship. *and lead* We are back on track.

The Conclusions ~~unequivocally~~ *clearly* recognise that Turkey is a candidate for membership of the EU. The Commission will prepare regular reports for the European Council on Turkey's progress to accession. As you wanted, Article 28 of the Ankara Agreement will be a basis for Turkey's report.

The Commission's communication on Turkey's European Strategy has been explicitly welcomed. The Commission will carry forward the Strategy, which can be enriched over time by Turkey's own ideas.

Moreover the Commission has been invited to table any proposals necessary for implementation of the Strategy. This includes financing. The European Council took note of the Commission's intention to work out ways of underpinning implementation of the Strategy and to table appropriate proposals.

I hope this will provide a way through the previous implicit
~~The Presidency has sought to play its part.~~ I hope that you will ~~feel that~~ *feel* the *in this* outcome ~~is~~ positive, and that you will ~~be able to~~ react positively to it. We now *area.* have the basis for moving forward together.

We have worked hard to achieve this result.

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2 June 1998

TPO
cc Rolande Anderson DTI
cc as below

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1 Victoria Street
LONDON SW1

By fax: 215 56 34

United Kingdom
Permanent Representation
To the European Union

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Re-reading this in the
cold light of day, I failed
to record that Sir S Wall
also registered that a
unilateral decision/announcement
by NUTS Eurostat would
be unacceptable.

Dear Rolande,

AMMaw 3/6/98

NUTS - SIR S WALL'S CALL ON DE SILGUY, 2 JUNE 1998

① cc SH/JR
tme

② MD ③ GA *BE* 3/6

Summary

1. Silguy responds to Sir S Wall's approach along standard lines, emphasising in particular that the UK is not the only Member State wanting to change its NUTS 2 boundaries. Agrees to ask Eurostat to consider scope for further negotiation, and takes note of point that ONS still awaits a detailed, case by case response on the NUTS 2 proposals.

Detail

2. Sir S Wall called on Commissioner de Silguy this afternoon to highlight UK concerns about the stalled NUTS negotiations. Christophe Daulmerie from the Cabinet and I also attended the meeting.

3. Sir S Wall opened by setting out the problem: Ministers, up to and including the Prime Minister, were concerned that this negotiation had stalled. The potential consequences of the review were clearly important in the context of structural fund reform, but the statistical case was well-founded, and was the result of a lengthy review involving wide consultation and the knowledge and co-operation of Eurostat.

4. Local government and administrative changes had made review of the map necessary. As our NUTS 2 map had always been unsatisfactory and was now out of date as well, the opportunity had been taken to include NUTS 2 in the review, again with the knowledge of Eurostat. Negotiations had initially appeared to go well, with compromises on both sides, but they had stalled with only NUTS 2 areas outstanding. We were not asking Silguy to intervene in the substance, but to encourage Eurostat to resume negotiations and work towards a compromise. UK interests had already been affected by the lack of agreement, as our new regional aid ceilings had been set on the basis of the old map. Getting agreement on a new map was now urgent.

cc Angus Lapsley for info.

Brian Blader
4/6

FM

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(3)

5. Silguy's response was predictable. He was no expert, and the matter was in Eurostat's hands, but he knew that the criteria for accepting new boundaries were whether they matched with those of administrative boundaries, whether the Member State had the capacity to collect valid statistics at that level, and whether the dimensions were broadly coherent. There was a wider political consideration: there were at least three other Member State waiting in the wings with proposals to change their NUTS 2 boundaries who take their cue from a successful UK bid. (Comment: he named no names, but they are Ireland, Italy and Portugal). Had the UK thought through all the consequences? This was a real Pandora's box: new NUTS 2 boundaries for the UK even for, say, two regions might lead other Member States to argue for changes at NUTS 2, which would squeeze the Objective 1 pot, which would in turn squeeze the Objective 2 pot, and all this would upset the Spanish and others and could even end up calling the abatement into question.

6. Sir S Wall replied that the UK case was very different from that of any other Member State who might seek to tweak NUTS 2 boundaries in order to maximise Objective 1 eligibility. Only the UK had a fundamental review of all its NUTS boundaries on the table and had had it there for some time. A review that began nearly three years ago could not be portrayed as an eligibility manoeuvre. The cases were fundamentally different.

7. Sir S Wall went on to point out that the UK NUTS 2 case could not be dismissed on grounds of size. There were currently eight Member States with smaller average NUTS 2 regions and two of those whose average was higher treated their whole territory as a single region, which skewed the average. The position would not be changed much by our proposed changes. Administrative boundaries were not a helpful guide at NUTS 2 in the UK context. UK statisticians believed they had the capacity to collect meaningful statistics for the proposed new areas, and this had not emerged as a particular problem when the negotiations were going on.

8. Silguy stressed that Eurostat was independent, and that he could not issue instructions or make any promises, but said that he would ask Eurostat to consider the scope for resuming the negotiation. Sir S Wall said that this would be helpful. The UK's independent statisticians believed that compromise was possible. As a first step, it would be helpful to have a detailed, case by case response from Eurostat to the NUTS 2 proposals as we had only ever had a general response. Silguy expressed surprise at this and instructed his private secretary to take careful note of that point.

Comment

9. Silguy was very careful not to make or imply any promise of help but acknowledged that Sir S Wall's approach underlined the political importance that the UK attaches to resolving the issue. Eurostat may be encouraged to resume negotiations. We probably can expect a further letter which, if it is the detailed response we have asked for, will represent some progress. We need to ensure Eurostat produces a letter (I will keep in touch with the Cabinet, as well as with the Kinnocks and Brittans - perhaps you/ONS

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could make sure that the message has been received in Eurostat) and find further ways of keeping the political pressure on. (Sir S Wall aims to speak to Jim Cloos, Santer's Chef de Cabinet, to this end tomorrow).

Yours,

Anne Marie

Anne-Marie Lawlor

First Secretary, Regional Policy

cc: Brian Bender, Cab Off
Edward Oakden, EUD(I)
Tim Holt, ONS
Dennis Roberts, ONS
Dev Virdee, ONS
David Smith, DTI
Henry Bottomley, DTI
Mike Bolton, HMT
Alan Riddell, DETR
Alan Lansdown, WO
Doreen Mellon, SO
Jack Layberry, DFP NI
Sarah Hendry, Cab Off
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Foreign &
Commonwealth
Office

13 May 1998

London SW1A 2AH

~~ATA~~ Not raised

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M 18/5

C: JEH
AC
VDC

Dear Philip

Security Council Enlargement and UN Finance

Both these dossiers are stuck, largely because of US domestic politics. It is in UK interests to break the logjam as soon as possible. If we are to persuade the Administration to move arrears and Security Council enlargement up its agenda, the Prime Minister needs to raise them both with President Clinton. The best opportunity to do so would be when Clinton comes to Chequers for the EU/US Summit or in the margins of Birmingham.

The US position remains the key to progress on Security Council enlargement. Ambassador Richardson has made one or two encouraging remarks about flexibility on Council size once progress has been made with Congress on finance. But Mrs Albright is still dead against any proposal above 21, as she confirmed to the Foreign Secretary on 7 May. She believes that a Council of 24 is simply too big and that putting this issue to Congress at the moment would ruin the prospects for arrears. We, the Germans, Japanese and French believe that we have to accept 24 if we are to have a package saleable to the wider UN membership. We see one last opportunity this year to exploit the momentum created by the Razali proposal. If that fails, stalemate will again ensue and when the issue arises again, as it inevitably will, it is likely to do so in a form distinctly less manageable for us.

Chancellor Kohl and Hashimoto are both expected to raise the question of Council size with President Clinton in the margins of Birmingham. The Germans and Japanese have expressed the hope that the Prime Minister will do the same. The Japanese are making a similar request to the French. A coordinated series of bilateral approaches at Birmingham would send a powerful signal to the Americans as well as demonstrating our solidarity with key partners on an issue where UK national interests are also at stake.

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On finance, the prospects of getting an improved (or indeed any) UN arrears package out of Congress this year look poor. Helms and others continue to oppose any improvement in last year's package and the abortion problem remains. The adoption by the Senate on 28 April of an authorisation bill on UN arrears with anti-abortion provisions attached is likely to force a Presidential veto.

US officials have privately encouraged close allies to raise arrears with President Clinton at Birmingham. We know that the Canadians (and possibly others) intend to do so. Although Mrs Albright and Ambassador Richardson have put the Administration's case at Congressional hearings and on public platforms, officials tell us that the President is still not fully seized of the issue. The problem, they claim, is that no-one (apart from the Canadians) has so far been prepared to tell Clinton how strongly US allies feel about this issue or how much it is damaging wider US (and Western) interests. The damage being done to US foreign policy interests is well brought out in Ambassador Richardson's recent testimony to the House Appropriations Committee (relevant extract attached). But President Clinton needs to hear this from other Heads of Government.

...

The Prime Minister could tell President Clinton that:

- We welcome reaffirmation in State of the Union address of his determination to deal with UN arrears.
- As Ambassador Richardson acknowledged in his testimony to the House Appropriations Committee last month, US failure to pay its arrears has seriously damaged US standing and credibility in UN system and is damaging wider US and Western foreign policy interests.
- Health and vitality of the UN depends on engagement and commitment of its most powerful member. UN is a valuable asset in enlisting help of other nations in pursuit of American and British foreign policy goals eg the work of UNSCOM in Iraq, the International Police Task Force in Bosnia and the war crimes tribunals. If UN is allowed to atrophy through neglect, it may not be around, at least in the form we require, when we need it most.
- Understand that abortion problem remains an obstacle but in view of the damage it is doing to wider US and Western interests, hope a way can be found to resolve arrears issue as soon as possible.



- When Administration judges that time is right, we would be ready to help sell an improved finance package within the EU, provided it satisfies our three key requirements, namely: payment of at least \$1 billion in arrears; a US Regular Budget share of no less than 22% (not 20%); and a comprehensive reform of the peacekeeping scale of assessment, including an increased share for China and removal of the 80% discount currently enjoyed by several richer countries, so that the burden of a reduced US share does not fall on the UK and France alone.

- A solution on finance would be facilitated by having Germany and Japan as permanent members. Security Council enlargement cannot be put on the backburner indefinitely. We have one last chance this year to exploit the momentum created by the Razali proposal. If we miss this opportunity, there is a serious risk of the debate in New York running away from us. It could then resurface in a much less palatable form. For example, we could find ourselves facing proposals for a much larger Council, with an increase in non-permanent members only.

- We would be only too happy to settle for a Council of 20 or 21. But Council of 21 is simply not negotiable. Do not believe that a Council of 24 would be significantly less effective than a Council of 21. Most of difficulties we face in the Council are not caused by the overall number of Council members but by the position adopted by some of the permanent members. Having Germany and Japan on the Council would strengthen Western influence.

- US insistence on 21 as the upper limit for Council enlargement is now the only obstacle to the P3 plus Germany and Japan being able to table a draft GA resolution and thus taking charge of the debate before the current window of opportunity closes. Hope Administration will therefore be prepared to reconsider.

*Yours ever
Andrew Patrick*

(Andrew Patrick)
Private Secretary

Philip Barton Esq OBE
10 Downing Street

Bill Richardson
U.S. Permanent Representative to the United Nations
Testimony Before the Subcommittee on Commerce, Justice,
State, the Judiciary and Related Agencies and
The House Committee on Appropriations,
Washington, DC, April 23, 1998

As prepared for delivery.

Mr. Chairman, members of the subcommittee;

I welcome this opportunity to testify in support of the Administration's requests for funding for U.S. contributions to international organizations and peacekeeping for fiscal year 1999. Given the prominent role that multilateral diplomacy plays in advancing our foreign policy objectives, these are key items indeed in the foreign affairs budget.

In brief, we are seeking \$930,773,000 for Contributions to International Organizations, which, consistent with statutory restrictions, will enable us to pay in full U.S. assessed contributions to the 49 international organizations funded through this appropriation. We are asking for \$231 million for Contributions for International Peacekeeping Activities, sufficient to meet our share of the costs of operations currently projected for fiscal year 1999, again consistent with statutory restrictions. And we are also seeking \$1,223,000 for assessed contributions to new or provisional international organizations. Full funding by the Congress of these requests is essential to meeting our international obligations and to upholding the President's commitment to maintain the financial stability of the UN and other international organizations.

Before addressing the details of these two accounts, I would like to stand back for a moment to emphasize a point that senior Administration witnesses have repeatedly made before this and other Congressional bodies in recent years, namely that active engagement in the United Nations, its affiliated agencies, and other international organizations directly serves important national interests and brings real, tangible benefits to the American people. Knowing how committed the Congress is to promoting reform at the United Nations, I would also like to review for you the remarkable progress that has been made in this area in the last twelve months.

Secretary Albright spoke eloquently of the importance of international organizations to the United States in her testimony before this subcommittee two months ago. Citing the work of UNSCOM in Iraq, IPTF in Bosnia, and the war crimes tribunals for Rwanda and former Yugoslavia, she characterized the United Nations as a valuable means of enlisting the help of others in pursuit of goals we support. She went on to note the role of the IAEA in protecting us from the dangers of nuclear proliferation; of the WHO in containing and preventing disease; of the FAO in enhancing international trade in agricultural and fisheries products; and of the ILO in promoting respect for human rights in the workplace and minimizing unfair international competition. Without any difficulty I could describe numerous other instances of how the UN helps us to leverage our influence on the world scene, and identify a host of other international organizations that directly benefit American citizens. Instead, I will make just three main points in embellishing on the Secretary's presentation of a month ago.

First, nothing in recent months has so graphically illustrated how the United Nations serves to advance American interests as the work of the UN Special Commission in Iraq. UNSCOM is clearly key to eliminating the threat posed by Iraqi weapons of mass destruction and the production facilities for such weapons--indisputably a major national interest of the United States. It has carried out its work forthrightly and courageously, despite repeated intimidation on the part of Saddam Hussein. And it has met with considerable success--Executive Chairman Butler frequently reminds

us that more Iraqi weapons of mass destruction have been eliminated thanks to UNSCOM's efforts than during the Gulf War. I recognize that the arrangements Secretary General Annan negotiated in Baghdad for access to sensitive sites have been subjected to criticism in some quarters as yielding to Iraqi blackmail. We do not agree with this criticism, because as Richard Butler has stated, the agreement fully preserves UNSCOM's authority. This criticism of the Secretary General's diplomacy also tends to obscure the main point here--that without the UNSCOM mechanism established by the Security Council and operating under its authority we would have had no means in the first place, even with massive military action, for eliminating Iraq's threat to its neighbors and to ourselves. Here, truly, we are enlisting the help of others in pursuit of goals we support.

My second point on this theme of the UN's importance to us is that over the past year American business has increasingly come to recognize the role that the United Nations and its specialized agencies play in protecting and expanding our export markets. On a macro level, business leaders appreciate that trade depends to a great extent on international stability and the rule of law, both of which the UN works to uphold, and that UN peacekeeping operations often provide strife-torn societies the breathing room they need to build viable economies that can become markets for American products. UN assistance also helps impoverished countries move up the development ladder and enter the global trade arena. On a more everyday level, American business leaders attach great importance to the regulatory and normative functions of an array of UN specialized agencies: the FAO and the ILO I have already mentioned, but also in this category are the WIPO, which helps to protect billions of dollars worth in American intellectual property exports, the ITU, which assigns positions for communications satellites, the ICAO, which sets high aviation safety standards best met by American manufacturers, and the WMO, which collects and disseminates vital worldwide weather data. Clear testimony of the value that American business places on the UN system was the fact that some 90 CEO's, including from a number of major corporations, signed an open letter published in the *New York Times* and the *Washington Post* on February 11 urging, among other things, prompt payment of U.S. arrears to the United Nations.

My third point on this theme of the importance of the UN is that it is sometimes not readily apparent just how much average Americans benefit from the organization and its affiliated agencies, in a very practical way. We often point to the work of the WHO in eradicating smallpox worldwide, and the success of the WHO and the PAHO in eliminating polio in the Western Hemisphere--but without knowing how much of a price tag to attach to this. Now, the Centers for Disease Control in Atlanta have recently estimated that the eradication of smallpox in 1977 has saved Americans more than \$17 billion so far, a truly astounding sum. Seventeen billion dollars, Mr. Chairman; and all we are asking for is just slightly over one billion to pay our arrears to international organizations, and less than one billion to pay our assessed contributions to 49 international organizations in the coming fiscal year.

Turning to the issue of UN reform, I noted briefly earlier that substantial progress has been made in this area over the past twelve months. As Secretary General Annan observes, reform is a process rather than a one-time event; and I can assure you that the reform process at the UN is ongoing and unstoppable. The UN is steadily, incrementally becoming a more efficient and effective institution, although much work remains to be done. As in the past, the U.S. will be actively engaged in this reform process; we will ensure that the momentum does not flag, and will hold the UN and member states to reform commitments already undertaken.

Just a year ago, Secretary General Annan unveiled a series of internal management reforms that he planned to make on his own authority. These included cutting UN administrative costs by one third, merging three Secretariat Departments into one, instituting a code of conduct, and eliminating 1,000 personnel slots. These "Track I" measures, as they came to be known, were endorsed by the General Assembly in November--technically an unnecessary step but an important illustration of the support they enjoyed. Long before that vote, the Secretary General had begun to implement these changes. He has substantially improved coordination at senior levels of the Secretariat by creating executive committees that cut across traditional department and program boundaries, and has introduced a

more effective system of strategic planning. Over the opposition of some member state delegations tired in the ways of the past, he has prepared a proposal for results-based budgeting at the UN for presentation to the General Assembly this spring. It is true that the Secretary General has not exactly met his target for the elimination of personnel slots. But he has eliminated some 950, a solid achievement that we should praise rather than belittle. This represents a watershed in the management culture of the UN.

In mid-July the Secretary General announced a second tranche of reform measures, in the form of proposals for General Assembly approval. These included rationalizing the work of existing departments; consolidating programs and subsidiary bodies; establishing the post of Deputy Secretary General; reprogramming savings from reduced administrative costs to development-related activities; and, significantly, introducing sunset provisions for the first time in the history of the United Nations. With a few exceptions, such as creation of a Revolving Credit Fund to ease cash flow problems when member states fall behind on their dues, the U.S. strongly backed this set of reform proposals and worked actively for their adoption against some fairly stiff resistance. In December the General Assembly approved most of the Secretary General's recommendations, while remanding some for further study. This latter group included institution of sunset provisions for UN programs, a reform that we consider very important and that we intend to press diligently in coming months.

Meanwhile, our efforts to rein in UN system budgets continue to enjoy success. In December the UN adopted a biennial budget for 1998-99 of \$2.533 billion, well below the corresponding figure for the previous biennium as initially adopted in December 1995 and then revised a year later. We have made crystal clear our position that any additional expenses approved in the course of the biennium must be offset elsewhere in the budget. And the three largest specialized agencies affiliated with the UN--the FAO, the WHO and the ILO--have adopted either no-growth budgets or budgets reflecting a nominal decline. These represent sea-changes in the way the UN system has traditionally operated.

Mr. Chairman, a year ago the Administration projected that our requirement for the Contributions to International Organizations (CIO) account for fiscal year 1999 would be limited to \$900 million. But this estimate was based on the assumption that a UN arrears and reform package would be passed by the Congress last fall and that, with this in hand, we would be able to negotiate a revision of the scales of assessment in December that would reduce the U.S. share of the regular UN budget to 22 percent. With the failure of the legislation, the Administration was deprived of leverage to reduce our rate of assessment, which accordingly remains at 25 percent. Hence our current need for just under \$931 million for this account, the price of paying at 25 rather than 22 percent.

Let me emphasize once again the paramount importance of the Congress funding this request in full. \$931 million represents what we are obligated to pay towards UN and other international organization budgets that are now fixed. Any appropriation less than this amount means that we will incur new arrears to add to those we have already accumulated. It is the Administration's--and I believe the Congress's--intent to resolve the arrears problem and put it behind us for once and for all. We cannot afford to exacerbate the situation by a shortfall in annual appropriations. Adhering to the \$900 million level for fiscal year 1999 would be consistent neither with our obligations nor our own best interests.

The CIO account provides funding for numerous organizations of vital importance to Americans; it is crucial that we maintain our voice and influence in them, in large part by paying our dues in full. If we do not, we can be sure that our economic competitors will not hesitate to try to steal a march on us in those international organizations that have a major bearing on trade--the FAO, for example--using their own good payment records as leverage. I would note that in addition to the UN and affiliated agencies, the CIO account also funds contributions to major regional organizations that advance our security, economic or political interests, such as NATO, the OECD and the OAS.

I also wish to underscore the importance of fully funding the Administration's request for \$231 million in the Contributions for International Peacekeeping Activities (CIPA) account to cover the peacekeeping assessments that we currently anticipate in the course of fiscal year 1999. These UN peacekeeping missions help to promote peace and stability in some of the world's most volatile regions.

Given the nature of international peacekeeping, it is virtually impossible to predict some six to eighteen months in advance precisely what our CIPA requirements will be. We can estimate our share of the anticipated costs of ongoing UN peacekeeping operations; and this is reflected in our \$231 million request. But more likely than not unexpected crises will arise and conflicts erupt in the course of the upcoming fiscal year. Some of these will not be suited to UN peacekeeping operations, but others may well be. In the latter case the UN needs to be able to respond, and the U.S. needs to be in a position to bear its fair share of the costs. To give but one example, our CIPA request for fiscal year 1999 was predicated on the assumption that UNPREDEP would be closed out at the end of the current fiscal year, with only some \$2 million in close-out costs to be borne in the coming fiscal year. Now, with the recent increase in tensions in Kosovo and the prospect that the situation there may not improve for some months, active consideration is being given to how best to guard against a spillover into neighboring countries. One possible option might be to extend the UNPREDEP mandate. Conceivably we might be able to meet any additional costs that could result within our \$231 million request, but only barely and only if the costs of ongoing peacekeeping operations turn out to be less than we now project. The essentially unpredictable nature of peacekeeping underscores the vital importance of fully funding the CIPA account.

The unpredictable nature of peacekeeping is also the main reason for the Administration's request that these funds be appropriated on a "no-year" basis, to be available until used. The potential ability to call upon a reserve of funds, subject to customary reprogramming requirements, would substantially improve our response to unexpected crises where UN peacekeeping operations might be warranted. "No-year" funding would also make it easier for us to pay for multi-year operations which have mandates that overlap the U.S. fiscal year.

The UN peacekeeping function has shrunk appreciably over the past several years, in terms of both expenditures and troops in the field. From an all-time high of almost \$3.5 billion in the mid-1990s, the cost of all UN peacekeeping activities has declined to less than \$1 billion annually. The number of troops in the field has at the same time dwindled from some 78,000 to under 15,000. This shrinkage of the peacekeeping function represents another fundamental change in the old ways of doing things at the UN. New peacekeeping proposals are now more carefully and systematically reviewed than was once the case for size, mission and exit strategy, as well as appropriateness to the task at hand. There will clearly be no more UNPROFOR's. At the same time a number of peacekeeping operations have been successfully closed out over the past few years, as they have met their objectives. Over the past twelve months, UNOMIL in Liberia has been terminated, UNTAES in Eastern Slavonia has been supplanted by a modest UN civilian/police operation, and the operation in Angola has been substantially reduced in size and cost. UNOMIL was a significant factor in promoting reconciliation and stability in a country with strong historical ties to the U.S.; while UNTAES served successfully as a transitional mechanism to reintegrate Eastern Slavonia peacefully into Croatia, thereby contributing to stability in the wider Balkan area.

The point I wish to make here is that, while the UN peacekeeping function has diminished substantially in recent years, it has now reached a level that is consistent with the role we would want the UN to play. Given persistent volatility in many parts of the world, we must enable the UN to respond where instability threatens our interests. As we close out a UNOMIL or downsize UNTAES, other potential missions will be considered and possibly approved--as is now the case with the Central African Republic and Sierra Leone. I know there was significant opposition to our decision to support a small peacekeeping operation in the Central African Republic. Mr. Chairman, that is the type of investment that serves America's interest. We negotiated a tight, limited mandate for the operation. We secured extra, non-reimbursed funding from France. But most of all, we

enabled the UN and African peacekeepers to continue to contain a situation that could otherwise spread death and disaster in the volatile Central Africa region.

Some ask where is our vital interest in this case? The answer lies in Sierra Leone, in Liberia, in Rwanda. When civil war broke out in Sierra Leone, the American taxpayer financed \$30 million in emergency relief. In Liberia our humanitarian relief bill was \$76 million. In the wake of genocide in Rwanda, the United States spent \$700 million for relief: \$700 million for a nation of 12 million people, equal to a year's development aid for the entire sub-Saharan continent. The American people, wonderful as we are, respond generously in the face of such disasters. But the American people also have a right to ask us in Washington and New York why we cannot contain such situations in advance, why we cannot use that ounce of prevention that would save lives and precious American assets. That was what was at stake in the Central African Republic. If we could not develop the capacity of the UN and African nations to respond to that crisis, we would risk facing more and more humanitarian disasters and more need for relief funds. For \$9.5 million in peacekeeping money, we have served that interest.

As is the case for the coming fiscal year, it will continue to be very important that our CIPA requests be fully funded by the Congress, given the unpredictable nature of peacekeeping that I have already spoken about. You may rest assured that we will persist in our efforts to keep UN peacekeeping expenditures at a minimum level consistent with our and other Security Council members' obligation to promote international peace and security, and that accordingly the Administration's funding requests will be as lean as we can make them.

Mr. Chairman, I recognize that this hearing is not designed specifically to address the Administration's supplemental appropriation request for \$921 million for payment of our accumulated arrears to the UN and other international organizations. Yet I would count myself remiss if I did not take advantage of this opportunity to stress the cardinal importance of the Congress acting promptly to appropriate these monies in full, free from any linkage to unrelated issues. Payment of our arrears is a necessity and a high foreign policy priority, as the President has emphasized on two separate occasions quite recently--during Secretary General Annan's visit to Washington on March 11, and in his weekly radio address on March 14. As we have sought to make clear, it is vital that we have the UN arrears package enacted into law by the end of May so that we can take advantage of the unique opportunity--earned through a major diplomatic push on our part--to reopen the scales of assessment this summer to secure a reduction in the U.S. rate to 22 percent, to take effect in January 1999. Failure to pass the necessary legislation in time will cause us to squander this unique opportunity, and will be unable to reopen the scales of assessment until the fall of the year 2000. In the meantime, since our rate of assessment in the UN and the specialized agencies will remain at 25 percent, we will be required to pay as much as \$100 million more annually than would be the case if the Administration were provided the funding to pay our arrears and thereby to leverage a lower U.S. assessment rate. Mr. Chairman, the American taxpayer should not be saddled with this additional and quite unnecessary expense.

Mr. Chairman, I realize of course that the House Appropriations Committee has recently voted to appropriate \$505 million for payment of UN arrears, together with the \$100 million appropriated last year, both subject to authorization. While we appreciate the recognition that there are arrears to be paid, the amount to be appropriated falls far short of what is needed. With only \$605 million available--and, we hope, an additional \$107 million to cover peacekeeping credits--we cannot possibly leverage, against some very tough resistance, a reduction to 22 percent in the U.S. rate of assessment for the regular UN budget and to 25 percent for the peacekeeping budget. Our closest friends in the UN are warning us that we face a decidedly uphill battle even with the full amount that the Administration is requesting. Furthermore, an appropriation of this size would not allow us to pay the substantial debts that we owe to specialized agencies in the UN system such as the FAO, the WHO and the ILO. These agencies are of vital importance to American trade and the well-being of American citizens, and we simply cannot afford through fiscal default to yield leadership of them to our economic competitors. Moreover, unless we undertake to pay our debts to these specialized

agencies it is most unlikely that other member states will agree to a reduction in our rate of assessment for the UN regular budget, since the specialized agencies will for the most part adopt any changes in the assessment scale. I should add that we also have arrears to be paid to important non-UN organizations. For all these reasons, it is essential that the Congress fully meet the Administration's request for arrears funding.

Several commentators on international affairs have spoken recently of a "defining moment" for the United Nations--both for the organization itself and for U.S. participation in it. This is, I believe, an apt phrase. Because of our outstanding arrears, and the absence of any clear plan for addressing them, our influence in the UN system has diminished substantially and our credibility is at an all-time low. We are faced with constant, unremitting animosity in the corridors and meeting halls in New York, in practically every venue. We also risk a steady erosion of our ability to protect American products and workers in the many trade-related bodies of the UN. Mr. Chairman, this is plainly not as it should be. The United States, as the most powerful nation and the greatest force for good in the world, should not be held in such low regard and stand by while its influence progressively declines. It concerns me very much that we have little time to turn this situation around--to repair our tarnished image, to restore our influence to where it once was and should be, and to position ourselves to make most effective use of the organization to advance American interests--both on the larger global scale and in the myriad ways that the UN system benefits the American people. And there is only one way to achieve this--to pay off our debts now and to pay our annual assessments in full in the future. This is a matter of both international obligation and political necessity.

Now is also a "defining moment" for the UN itself, in the sense that the health and vitality of the organization are dependent to great extent on the engagement and commitment of its most powerful member and largest contributor. Our failure to pay our past bills is the principal cause of the current financial crisis of the UN, which remains solvent only through the forbearance of nations owed hundreds of millions for past peacekeeping contributions. But this is more than a matter of dollars and cents: the very air of uncertainty that surrounds our participation in the UN has served to drag the organization down and to raise questions about its future role and capabilities. This acts to our own detriment as well as the UN's. For the very reasons that Secretary Albright reviewed with this subcommittee a month ago and that I have already touched on myself, the U.S. needs the UN as a vehicle for enlisting the help of other nations in support of our foreign policy objectives, for sharing burdens and costs, and for setting international rules of the road that benefit American producers and consumers alike. If we allow the organization to atrophy through our neglect, it may not be around when we need it most, at least in the form and shape that we require. Our own self-interest dictates that we act now to shore up the UN's ability to act and to equip it, through ongoing reform and payment of our debts, to meet the challenges of the new millennium.

In closing, Mr. Chairman, let me once more ask for your support for the President's budget requests for the CIO, CIPA and ICC accounts for fiscal year 1999. As I have tried to make clear in my remarks today, it is vital that these requests be funded in full. I should like to express my gratitude for the cooperation and assistance that I and my colleagues have received from this subcommittee. As a recent refugee from the Congressional ranks, I appreciate very well that the United States is best served in the international arena when the executive and legislative branches are working with each other and not against each other.

Thank you very much.

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FRAME ENLARGEMENT

MIPT

SUBJECT: EUROPEAN CONFERENCE: PRIME MINISTER'S LETTER OF INVITATION

SUMMARY

1. Text of letter of invitation for delivery on 9 March.

DETAIL

2. TEXT BEGINS:

The European Council in Luxembourg decided to set up a European Conference to bring together the Member States of the European Union and the European states aspiring to accede to it and sharing its values and internal and external objectives. The British Presidency, as you know, is following up its remit to convene the first meeting of the Conference which will be held in London on 12 March.

It will be for the inaugural meeting to implement the conclusions of the Luxembourg European Council and establish the basis for the continuing work of the Conference. A broad consensus is already emerging on the Conference's themes and how these should be followed up. I envisage that this should be set out in the Chairman's Conclusions, the text of which our officials have been preparing. That text will be available at the beginning of the Conference. If there are substantive political points to be made about this text, I suggest that these be taken by Foreign Ministers at Robin Cook's lunch.

I hope the Conference will provide a single, inclusive and overarching enlargement framework which will permit frank and

informal discussion. Discussions in the European Conference should add genuine value to work in other international fora.

To make the best use of our time on 12 March, and to provoke a genuine debate, I would like our meeting to concentrate on two vital issues of immediate and general concern: drugs and organised crime, and the environment. We might address the following questions:

- How can we best meet the challenge of the international drugs trade?
- What more can we do to reduce drugs demand, especially among the young? We might consider whether we should conduct an audit of our existing activities in this area.
- How can our exchanges in the Conference help our future work in other fora, including the EU's Pre-Accession Pact on Organised Crime which is due to be concluded at the end of May?

On the environment, I think we might aim for a more general discussion:

- We might consider the nature of the major environmental challenges post-Kyoto.
- We might then try to identify two or three priority areas for future Conference consideration, for example water resources management and the integration of the environment into other policies.
- We might also consider other forthcoming multilateral activities. I have in mind the planned discussions of water issues at the next CSD meeting and at next year's London Environment and Health Conference, and also the Environment for Europe Conference in Aarhus in June, including its work on transboundary air pollution.

I look forward to a good first discussion of these issues, with no set speeches. At the end of our meeting I hope I will be able to conclude that the Chairman's Conclusions have been adopted, and then

sum up my impressions of the day's discussions. Depending on events, we may also want to say something together about topical issues of concern to us all. Recent developments in Kosovo may fall into this category.

On practical arrangements, we will begin by meeting in Lancaster House (I plan to start the first session at 10.30). Her Majesty The Queen will offer lunch to Heads of State and Government at Buckingham Palace. We will continue our discussion at Lancaster House in the afternoon - concluding at the latest by 4.00pm. Robin Cook will give a separate lunch for Foreign Ministers where discussion will concentrate on Bosnia. Carlos Westendorp will be present. There will also be a briefing on the preparation for the second Europe/Asia meeting, which will be held in London on 2-4 April.

I much look forward to seeing you on 12 March.

TONY BLAIR

TEXT ENDS

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FRAME ENLARGEMENT

MIFT

SUBJECT: EUROPEAN CONFERENCE: PRIME MINISTER'S LETTER OF INVITATION

SUMMARY

1. Instructions to deliver letter of invitation as early as possible on 9 March.

DETAIL

2. MIFT contains the text of the Prime Minister's letter to his colleagues inviting them to the first meeting of the European Conference in London on 12 March. There will be no signed original.

3. In delivering the letter, it would be helpful if all posts could underline the Prime Minister's hope that the discussions on 12 March will be focused and productive (with a serious contribution from the non-EU participants). He does not want a series of speeches about the historic nature of enlargement (which could easily occupy the entire day). In order to ensure that the discussion gets off to a good start and allows the Prime Minister to draw some worthwhile operational conclusions at the end, we need substantive interventions. Based on contacts here and on the interests of participants, we have identified the following possibilities for priming some participants in advance. Grateful if the following posts could suggest that their hosts might include in their interventions elements on the following lines:

(a) Organised crime/drugs

Paris: We hope Chirac will intervene early in the discussion (perhaps straight after the Prime Minister). On drugs, it would be particularly helpful if he could say something about demand

reduction: we would like to be able to conclude at the end of the day that the Conference should undertake an audit of existing efforts in this area.

Warsaw: We want the CEs to feel fully part of the discussion. Could you therefore encourage Kwasniewski to chip in early (ideally, as with Chirac, to say something about demand reduction).

Riga: Same message as Warsaw, perhaps giving the views on organised crime of one of Russia's small neighbours (to encourage a small, second-waver to speak early).

Vienna: We also want to address cross-border organised crime more generally. It would be helpful if the Austrians could give their perspective on this in the context of enlargement.

Stockholm: Please follow up the Embassy in London's approach and say we would welcome Persson intervening on regional cooperation/joint operations in the fight against organised crime.

The Hague: Please suggest that Kok might aim to come in towards the end and launch/endorse the idea of an audit of demand reduction activity.

Bonn: Would Kohl like to come in at the end of the morning session to underline the importance of the discussion and pull the threads together?

UKRep: Could the Commission take on the demand reduction audit?

(b) Environment

Copenhagen: We want to look ahead to the meeting of European Environment Ministers in Aarhus in June. Please encourage Rasmussen to intervene early and to flag up the importance of the Aarhus meeting.

Prague: We hope that the Czechs will be able to say something on their own environmental difficulties and their efforts to tackle them.

Ljubljana: A similar message (we gather from the Slovene Environment Minister that his Prime Minister might be open to this).

Bucharest: In addition to flagging up the benefits of regional cooperation, which they appear keen to do, it would be good if the Romanians could give their views on Black Sea cooperation (they might mention Turkey in this context).

4. On Turkey, we want to be able to conclude that the door remains very much open. It would be helpful if Paris, Rome and The Hague could make this clear and encourage Chirac, Prodi and Kok to mention Turkey in their opening interventions. But we do not want them to labour the point and provoke a lengthy debate with Simitis and Clerides.

5. For Ankara: Grateful if, when delivering the Prime Minister's letter, you would explain that the Prime Minister fully respects Yilmaz's decision not to attend the Conference; but that the letter confirms our intention to treat Turkey on exactly the same basis as the other countries listed in the Luxembourg Conclusions.

6. For UKRep: When delivering the letter to Gil-Robles we should be grateful if you could highlight our continuing hope that the Accession Partnerships Framework Regulation will be approved by the EP at its Plenary on 11 March.

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SUBJECT
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Filed on: _____

Prime Minister of the
Republic of Hungary

The Rt Hon Tony Blair, MP
Prime Minister of the
United Kingdom of
Great Britain and
Northern Ireland

London

Dear Prime Minister,

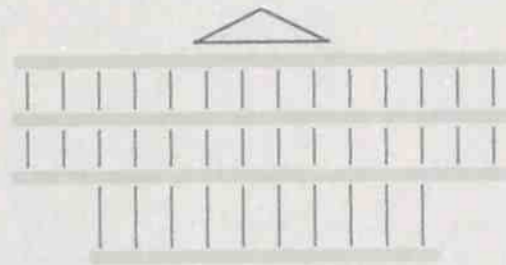
I would like to take this opportunity to thank you and your colleagues once again for your hospitality extended to me during my working visit to London. Our talks convinced me that during the forthcoming six months the United Kingdom - being in the presidency of the European Union - will do everything to commence the process of enlargement of the organisation. I highly appreciate your endeavours to ensure the impetus of the whole process by giving the negotiations a dynamic and transparent outset. I would like to emphasize repeatedly that Hungary is prepared to start negotiations and hopes to become full-member of the Union as soon as possible along with other countries meeting the criteria.

I take this opportunity to reconfirm my invitation to you, Mr. Prime Minister, for a visit to Budapest. This visit would provide new opportunities to review the development of Hungarian-British relations and further strengthen the dialogue and cooperation between our two countries.

Budapest, February 10, 1998

With regards

Gyula Horn



Bertelsmann Stiftung

Mr Prime Minister
Tony Blair, MP
10 Downing Street

GB-London SW1A 1AL

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December 22, 1997

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Dear Mr Prime Minister,
Dear Mr Blair,

Dec?

We hope you had a pleasant stay in Luxemburg during last week's summit. As announced by Professor Werner Weidenfeld in his recent letter we are now able to provide you with the English version of our study 'Benefits, costs and chances of the EU-enlargement'. We would be delighted if this report turned out to be of use to you.

With best regards,

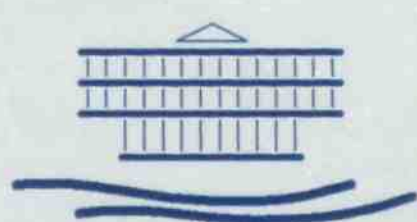
yours sincerely,

Cornelius Ochmann, Director Central and Eastern Europe

Costs, Benefits and Chances of Eastern Enlargement for the European Union

Bertelsmann Foundation

Research Group on
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(eds.)



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Eric von Breska
Martin Brusis
Claus Giering
András Inotai
Monika Wohlfeld

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Executive Summary

Eastern enlargement is going to change the face of the European Union in fundamental ways. For the first time since the beginnings of Western European integration the vision of a United Europe may become true. But instead of making every effort to seize this historical chance, Politicians hesitate and prevaricate.

It is becoming increasingly obvious that many Western European governments - though paying lip service to the contrary - do not really want to have an enlarged European Union or, if they do, it should be established in accordance with their rules. The Amsterdam Summit, which once again postponed necessary institutional reforms to beyond the year 2000, has proved to be another impressive case in point. European politics - thus the conclusion to be drawn - cannot at present accomplish more than the tiniest steps towards reform. The struggle for millimetres dominates the political scene. Deep-rooted conflicting and contrasting interests also characterise the enlargement concept of the European Commission, the Agenda 2000. It makes do with half-hearted changes to the existing system, which guarantee that the vested rights of current members remain largely intact.

Taken together, the Treaty of Amsterdam and Agenda 2000 reinforce the status quo. They impede a quick, comprehensive and smooth Eastern enlargement of the European Union. Given this inauspicious situation, the enlarged Europe will face great difficulties in manifesting itself. The EU members will approach enlargement and its consequences rather hesitantly. They will interrupt the process repetitively in order to renegotiate vested rights and burdens amongst each other.

All those who deem themselves losers of Eastern enlargement try to secure their vested rights with the cost argument. It could be summed up as follows: Eastern enlargement is desirable and useful in political terms. However, for the EU members, their industries and citizens this step will be fraught with an enormous financial burden. If benefits for the present EU members are mentioned at all, they are described in rather vague terms and mainly seen in the area of security policy. This fixation on costs of Eastern enlargement dominates political discussions as well as public opinion in Western Europe. Not only is this view one-sided, though, it is also wrong.

There can be no doubt that the prospective EU members from Central and Eastern Europe will be among the net recipients of the Union for the time being. As their economic prosperity will stay below the standard of most European countries for the foreseeable future, even if the most auspicious estimates for economic growth materialise, they will depend on long-term transfer payments from the EU budget. On the other hand Eastern enlargement also holds considerable economic benefits for the European Union:

- Even today the EU is profiting from the substantially increased trade with the Central and Eastern European countries. Thus imports from the region into the EU have more than tripled since 1989, while exports into the region have even quadrupled. It is true that the share of Central and Eastern Europe in the total foreign trade of the EU is still relatively small, but the trade potential has by far not been exhausted yet. In view of the need for further liberalisation in

the countries of Central and Eastern Europe, EU trading profits will continue to grow also in the future.

- Enlargement supports this dynamism as it increases the economic integration between the present EU and the Central and Eastern European countries. The approximation of legal norms and administrative regulations, of tax system and the infrastructure as well as the increased security of foreign investors will accelerate the economic growth of the newly admitted countries of Central and Eastern Europe. This will also improve the export chances of Western European countries.
- It is true that the transfer payments Central and Eastern European accession candidates will receive as a consequence of their membership will constitute a burden on the Community budget, to start with. On the other hand, they also give a boost to the EU economy, as part of the money will be used to finance imports from the more prosperous EU member countries.
- The expanded market will not only increase the sales potential, but also the purchasing resources for EU companies. It also generates comparative advantages, growing economies of scale, as well as transfer of technologies and know-how. At the same time the enlarged market also forces the domestic economy to monitor its costs and prices continuously, which leads to sustained improvement in consumer satisfaction (through lower prices and a greater range of products on offer).
- With its effects on growth, the welfare state and economic structures, Eastern enlargement helps the EU to increase its global competitiveness. Numerous indicators suggest that the EU is about to lose ground in the dynamic and future-oriented sectors of the world economy. Under the influence of a Eurocentric view of the world, the industrial division of labour practised within the EU is concentrated on countries with high wage costs. Lower wage costs in Central and Eastern Europe provide incentives to outsource labour-intensive production into the direct geographical neighbourhood instead of the traditional low wage countries. However, in many branches the countries of Central and Eastern Europe not only provide cheap and unskilled labour, but also a highly skilled workforce. Thus an intra-industrial division of labour can emerge which provides a comparative advantage for the EU in global competition. Integrating cost-efficient locations into the Union not only increases job security for Western European workplaces, it also forces to move on to higher quality and technology-intensive production and thus increases competitiveness.

Through their EU membership the Central and Eastern European countries increase the pressure on Western Europe to go ahead with reforms to replace an outdated and increasingly costly status-quo mentality with innovative and flexible behaviour. The EU needs the new and dynamic Central and Eastern European markets, as it is not able at present to develop an economic dynamism of its own.

Needless to say that the benefits of Eastern enlargement will vary from country to country, region to region and sector to sector. Those EU members like Germany that maintain more intensive contacts with the Central and Eastern European accession candidates or that are favoured by their geographical position will profit more than others. The situation is more difficult for less competitive EU countries like Spain, Portugal and Ireland. But even in their case there is little reason to

think that they could be squeezed out of the markets by new competition. It is more likely that they will be competitive enough to hold their own in a competition with the countries of Central and Eastern Europe, or rather that they will also derive direct advantages from trade with the neighbours to the east.

A credible calculation of the costs for EU enlargement towards the East has to take these positive economic effects into account. It will come to the conclusion that the actual costs of enlargement (transfer payments minus economic benefits) are extremely low in view of this historic challenge.

Concrete benefits also arise in the area of security. As compared with NATO membership, accepting the states of Central and Eastern Europe into the European Union provides an adequate answer to new security risks.

- On the intergovernmental level, the EU offers a framework to improve the relationships of its new members. It has firm and well-attuned structures in place to allow questions from all policy fields being discussed while at the same time furthering the respect for human and minority rights. With its need to obtain majority decisions the EU teaches its members to solve conflicts by mutual agreement and compromise.
- The freedom of travel within the EU increases social contacts, thus taking the strain out of historically difficult relationships (as in the case of Germany and France). Open borders can defuse the tension of ethnic disputes. Transnational co-operation, which is an underdeveloped area in all Central and Eastern European states and which the EU furthers and supports, also has the effect of building up confidence and minimising conflict.
- Access to the common market, to the structural and cohesion funds of the Union as well as to the Common Agricultural Policy will ease the explosive potential of social tension in the accession countries. EU membership thus provides an effective protection against the risks of poverty migration. The same applies to the fight against organised crime, which has reached hitherto unknown dimensions in the Central and Eastern European states. Co-operation in the areas of national security and justice, Europol and since Amsterdam also the Schengen Agreement provide suitable tools to deal with this threat.
- Not least, Eastern enlargement helps to decrease serious ecological problems which the Central and Eastern European countries have inherited from their socialist past and which continue to exist. By taking over EU environmental standards and technology transfer the corresponding risks, which could endanger all of Europe in view of their transnational nature, have been defused.

Even without enlargement a reform of the institutions and the procedures of the EU is necessary since the current system dates back to the time when the initial 'Europe of Six' was founded. Earlier enlargements only led to marginal reforms, which by and large continued the existing system. This has resulted in a Union based on outdated institutional structures which are not up to meeting current requirements of efficiency. Without the pressure of the forthcoming enlargement the current EU members will not be able to implement a fundamental reform of the institutions because the interests among them are too different and the

institutional questions ultimately determine the balance of power and thus the distribution of resources within the EU.

Enlargement may provide the required pressure for the necessary reforms because the institutional system would be overstrained without reform - under conditions which do no longer pose the question of „whether“ but rather of „how“ to enlarge. Eastern enlargement does not entail a direct institutional benefit since the institutional fabric of the Union would become even more complicated and fragile if more and more member states participated. If the EU implements its internal reforms in the course of enlargement appropriately, however, this will have considerable optimisation potentials for the existing institutions and procedures and thus substantial benefits for the Union and its member states.

Benefits which may be traced back directly to the envisaged enlargement can already be discerned in some passages of the Amsterdam Treaty. This supports the assumption that the pressure of enlargement reinforces the need for a reform of the EU which persists further and has not been addressed adequately in the Amsterdam Treaty.

Not least, EU enlargement will have positive effects in social and cultural areas:

- Europe can be hardly explained any more. The wild growth of competencies and procedures on Union level, the lack of democratic legitimatisation for EU institutions as well as the lack of trust in the Brussels bureaucracy have led to a substantial loss of confidence among European citizens. More than ever, Europe needs convincing leitmotifs, easy to understand and explain, in order to maintain social acceptance for a further deepening of European integration. Eastern enlargement is such a central idea. It is not only supported by a majority of the citizens within the Union, but also linked closely to the basic values of the European Union and the idea of unification. It can serve as the symbol and motor for a new phase of European integration.
- Although the EU has always declared its support for European unification, it did not take the appropriate institutional steps after the end of the East-West conflict. It only signed Association Agreements with the Central and East European states, promising membership, but only making provisions for trade liberalisation in terms of concrete steps. By doing so, the EU excluded the states of Central and Eastern Europe from its decision making processes. In this respect the formal structure of the Union contributes to the division of Europe. Only if the Central and Eastern European states are accepted into the Union and put on an equal footing with the current EU members can these traces of a divided Europe be overcome.
- Empirical studies show that the young democracies of Central and Eastern Europe are by no means thoroughly consolidated yet. This increases the danger of nationalist and populist elites gaining ground beneath the cloak of formal democracy and establishing authoritarian practices. In addition, a further „nationalisation“ of political culture and politics in Central and Eastern Europe would endanger the European integration process in a more fundamental way than the problems of governing an enlarged Union. Eastern enlargement minimises this risk, as the new EU members will be bound into a democratic system with strong civil societies, which would also accelerate the transformation towards a democratic political culture.

- Eight years after the fall of the Iron Curtain there are still too few opportunities for citizens of Eastern and Western Europe to meet. Therefore Western Europeans still associate mostly negative features with Eastern Europe. The EU membership of Central and Eastern European countries will improve the conditions and incentives for private meetings. It will network the societies of Eastern and Western Europe on different levels, which may lead to better mutual understanding and fewer stereotypes. In addition, it offers both sides the opportunity to learn, as there is a widespread attitude, especially in Western Europe, to ignore the experiences of Eastern Europe. This also ignores the fact that the societies in Central and Eastern Europe possess plenty of social capital that translates into characteristics like flexibility, the ability to improvise, self-help and solidarity.

With its single-minded fixation on costs the discussion about EU enlargement towards the East has become somewhat lopsided. For a balanced view it would be necessary to take the benefits of Eastern enlargement as well as the costs of non-enlargement into account, too. It goes without saying that costs and benefits of enlargement will vary according to area and time, and also in degree. Not all elements of the cost-benefit account are quantifiable. Qualitative elements in areas like politics, security or society may not be measurable in exact terms, they can, however, be just as or even more important than quantifiable indicators. The complexity of the cost-benefit account is illustrated by the fact that there will not only be winners and losers of enlargement in each EU member state, one and the same person will even be affected in different ways in different spheres (e.g. as employee or consumer). The persuasive power of the argument that Eastern enlargement will also generate considerable benefits for the EU is impaired by two aspects:

Firstly, the potential losers can most often describe their position more precisely and attract more public attention than the beneficiaries. While the latter take the benefits to be the results of a natural development, the interest groups that feel threatened by enlargement want to hold on to the status quo. Thus looming job losses are more obvious than possible new jobs created through structural change. The losses are concentrated in certain regions and industries and are therefore easily translated into political pressure.

Secondly, it is always difficult to be convincing when the arguments used are "negative arguments", i.e. to point out the additional costs and the gains not realised because of non-enlargement. European history shows that European politics and the European public only tend to become aware of them with hindsight.

Economy

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1. General remarks

Eastern enlargement is the historic task for Europe and the most important and promising European investment into its future. It appears on the agenda of the European Union (EU), the EU member states and the accession candidates at a time when the whole continent is faced with global challenges. Not only the countries undergoing transformation but all European states and the European institutions built up during the past half-century are in an unprecedented need to modernise themselves. The resulting costs of modernisation cannot be attributed to Eastern enlargement. They would arise even without this step, maybe even - in all probability - in a more pronounced way.

These global considerations lead to the conclusion that enlargement towards the East must not deteriorate into a small-minded „Euro-centric“ affair. From the very beginning it is to be interpreted and carried out within the framework of global processes. Maximum benefits can only be derived if the EU (re)formulates its integration strategy on the basis of already existing global challenges and those yet to come. The enlargement will substantially increase the economic power of Europe and facilitate an open European regionalism with all its advantages. The ten Central and Eastern European countries (CEEC)¹ would enlarge the total territory of the EU by 1.078 million square kilometres or a third, the population would increase by 106 million people (or by about 30 per cent) and economic performance by US-\$ 637 billion (by about nine per cent in terms of purchasing power parities). At first glance this additional economic potential does not seem to be very big in an international comparison. Its qualitative dimension should also be taken into account, though: it contributes to the stability of the continent; to the accelerated economic growth of a continent whose growth rates are below average on an international scale; to structural change, which is indispensable for Europe to assert itself successfully in global competition; as well as to an increased pressure on Western Europe to reform its structures in order to replace the outdated and increasingly costly status-quo mentality with new, innovative behaviour.

Economic modernisation of the Central and Eastern European Countries will be the decisive factor for future security and stability in Europe. Security and economic modernisation cannot be separated, not even for a time. The successful modernisation with its outward anchor in integration into the EU will constitute the most important step forward towards increasing stability for Europe.

Successful modernisation is impeded, or at least challenged by several factors. Three of them have to be mentioned in connection with the EU. Firstly, the EU

¹ The term CEEC is here defined as comprising the ten states which have signed association agreements with the European Union (Bulgaria, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, the Czech Republic, and Hungary).

has no comprehensive and clear strategy as regards the enlargement of the EU and thus creates insecurities. Secondly, the balance of trade deficits threatening to get out of hand in the more advanced transformation countries point towards a basic flaw in the construction of the Association Agreements. In the past, the trade of less developed countries was liberalised to the same extent as these countries gained access to EU transfers so that the - as a rule growing - trade deficits could be compensated by a considerable influx of resources. For the associated countries a corresponding mechanism does not exist. Thirdly, as a precondition to their membership, all membership candidates are supposed to take over an *acquis communautaire* which is much more complicated. This task is extremely expensive and the lion's share of these costs is to be borne by capital-starved transformation countries **before** they gain (potential) access to (potential) transfers. The timelag between the costs arising and the profits being gained constitutes a considerable risk factor for modernisation and stability in Europe, which has still not been properly recognised up to now.

It also has to be emphasised that economic modernisation is not (only) a precondition for membership in the EU, it also appears to be a consequence of becoming a member of the EU, a phenomenon which could be observed several times in the past. In this context it has to be pointed out that earlier enlargements by less developed countries first of all created a macroeconomic interdependence (integration) which then served as the basis for a further increase and extension of microeconomic interdependencies. In the case of the more advanced CEEC² we can see this process in reverse. Microeconomic interdependence has already reached the integration stage, whereas macroeconomic and institutional interdependence still seem to be a long time in coming.

As experiences in the less developed Southern European member states have shown, the dynamisation of the integration process achieved through the membership of the new countries has produced gains for all concerned. In addition, a considerable proportion of the transfer payments has flown back to the net payers. Import financing has created jobs in net-payment countries, increased exports and production, boosted the tax revenue of the country and thus contributed to a further growth in prosperity. In view of the dynamics of the transformation and the flexibility of their societies, some of the CEEC may be able to eliminate their comparative backwardness in a relatively short period of time. The calculations of pent-up demand (in years) based on differing growth rates miss one crucial point: similar to the less developed countries in the EU (and other parts of the world) the process of catching up successfully may be attributed mainly to a real revaluation of national currencies (75 to 90 per cent) and only to a limited degree (10 to 20 per cent) to differences in growth rates.³

² To define this group clearly sometimes creates problems since in none of the countries the transformation process has been finished and neither positive nor negative „surprises“ may be excluded. Due to the macroeconomic development and, even more important, due to microeconomic and political developments the central European transformation countries (Poland, Slovenia, Czech Republic, and Hungary, partly also Slovakia) and Estonia may be assigned to this group.

³ Artner, A./ Inotai, András: Felzárkozási esélyek a statisztikai adatok alapján (Catch-up chances on the basis of statistical data), in: Statisztikai Szemle 1997 No.4-5, 292-302.

There is a danger that the costs resulting from the transformation process within the EU, which would arise in any case and could not be avoided even without Eastern enlargement (and might even be higher), are subsumed in the costs for Eastern enlargement. Just as the transformation countries have to solve numerous problems even without preparing for EU membership, the EU should not charge the costs for reforms (long) overdue to the account of Eastern enlargement. Furthermore there is no mistaking that the indirect costs of Eastern enlargement, which could result from compensating certain member states in case of an enlargement, could even be higher than the direct costs and that this would lead to completely inaccurate cost accounting.

Costs and gains of Eastern enlargement are not independent of politics. Measures should be taken, in the countries that are membership candidates as well as in Brussels and the present member states, to decrease costs and maximise gains. It is true that membership candidates have to carry most of the burden of adjustment, yet this process of adjustment is no one-way street. In its role as **policy maker** the EU also has to carry out certain (in some parts fundamental) reforms in order to maximise the gains of enlargement.

The fears expressed in EU countries and societies can be divided into four groups: security risks (including migration), growing competition, increase and/or redistribution of the EU budget, changes to the balance within the EU. These factors affect the 15 members states in varying degrees. This in turn influences how they define their different spheres of interest and how they argue for and against Eastern enlargement. All EU countries are interested - albeit to a different extent - in the security policy factor. All of them have problems with future funding, be it as (until now) net payers or as net receivers. The biggest differences can be seen with respect to assessing future competitiveness, as well as concerning shifts in the balance of power within the Union. Shifts are occurring in two areas. From a geographical point of view, the Eastern enlargement will include further Baltic Sea countries and thus revalue the role of the Nordic regions. In addition, there will also be a west-east shift, from the Atlantic coast towards the central European mainland of the continent. The admission of new, mostly small states (with the exception of Poland and Romania) can also upset the institutional balance of power.

Some experts see the gradual enlargement of the EU as a danger to the stability of the Continent as they fear that this approach will create a further fault line at the new outer borders of the EU. However, it has to be pointed out that in Europe, as a result of the different historical, political and economic developments there are already several fault lines. They had never disappeared completely, but the strategic division into two parts and the compulsory community existing in Eastern Europe for decades concealed various older fault lines and at the same time imprinted the East-West line as the only one into the minds of the European peoples. After the fall of communism, the former fault lines reappeared at an unprecedented speed. Today they can be traced in - among other indicators - the course the economic transformation process is taking, in the geographic and structural reorientation of foreign trade, in the distribution of foreign capital and the activities of transnational companies.⁴

⁴ More than 80 per cent of EU foreign trade with the ten associated countries is carried out with the five Central European economies. This concentration is even more noticeable in the bi-national

All approaches aimed at removing the fault lines within Central and Eastern Europe by delaying EU enlargement to include the more developed CEE states are fraught with fatal consequences. For one, they deepen not only the economic but also the psychological and political lines between the Central European states and the EU states sharing their borders. This would not only increase the instability of the continent in general, it would also push instability directly to the outer borders of the EU. The consequence would be an East-West transfer of instability which would contradict the declared interest to move the border of instability successively from the centre of the continent towards the east. The existing fault lines can only be defused and removed in the long term within the framework of a clear EU accession strategy, which should be applied from the start. The Enlargement Strategy of the Commission published in July 1997 is based on this insight. The accession candidates of the first group should also be included from the beginning in mastering this historic task.⁵

The common European goal mentioned above must not disguise the fact that the interests and benefit-cost calculations behind this common goal may differ, in the west as well as in the east of the continent. First at all, the geographical position of each country influences its interests. Secondly, the most important defining questions like security, economy and culture rate differently in each single country. Thirdly, the interests concerned will change with time. Despite these changes and differences, no European country must ever lose the common goal out of the sight, not even temporarily.

Provided the basic stability of the continent can be ensured also in future, the EU will be enlarged towards the East step by step. This means that the costs will be spread over a longer period of time. In addition, costs could be reduced by better adjustments on both sides. This approach will reduce the competitive pressure on both sides; in this context it has to be pointed out, though, that due to the liberalisation achieved the pressure has already taken effect to a large extent. The remaining competitive pressure is not so much caused by Eastern enlargement but by global competition, which means that it has to be faced regardless of Eastern enlargement.

Last but not least the costs of non-enlargement have to be mentioned too, costs that are to be compared with the benefits and adjustment costs arising from Eastern enlargement. These costs would manifest themselves in the benefits lost as well as in a rising risk to stability. It also has to be emphasised that these costs cannot be seen as independent of the passage of time. The longer enlargement towards the East is postponed, the more the costs are going to rise and the benefits realisable today likely to decrease. In addition, the developments in the CEEC may influence the cost-benefit account to a considerable extent. Despite spectacular transformation results in some areas, the achievements are not yet established

trade in technology-intensive goods. More than 90 per cent of foreign investment in the regions concerned went to Hungary, Poland, and the Czech Republic (cf. Eurostat: External and intra-European Union Trade. Monthly Statistics).

⁵ The Commission programmes announced, like an extended PHARE programme, intensified cross-border co-operation as well as a political framework for all candidate states are valuable tools which have to be regularly adjusted to meet the new requirements, though. Special attention should be given in this context to extending transnational infrastructure, as this has a psychological effect on the countries not joining yet, demonstrating that they are not excluded from the unification of Europe.

firmly enough to completely exclude negative developments. Any delay in Eastern enlargement could therefore also impair the approximation process in Central and Eastern Europe and have repercussions on the framework conditions of European economic co-operation.

2. Trade

In the trade sector, the empirical calculations of the effects of regional integration are based on an elaborate methodology. Whereas the so-called static effects of trade creation and trade diversion⁶ can be calculated fairly accurately, however, a quantitative analysis of the dynamic trade effects is much more difficult. There is unanimous agreement that the dynamic effects clearly outweigh the static (and one-off) effects in most cases.

The static advantages of trade liberalisation have been fully utilised by both sides in recent years. The EU can, however, expect further advantages from liberalisation in the CEEC as some steps have yet to be carried out in accordance with the Association Agreements. By the year 2001, that is to say before the actual accession, an industrial free-trade zone will be established between the EU and the membership candidates. Later static trade gains can then merely be expected from the agricultural sector, which will only be fully liberalised upon accession. Up to now the EU - despite the temporary asymmetrical treatment - has profited more from trade with the CEEC than the latter. In view of the further, now unilateral liberalisation requirements of the CEEC, the static trade gains of the EU will increase further. Between 1989 and 1994 EU exports into the CEE region increased by 171 per cent, whereas the growth rate in the opposite direction amounted to only 116 per cent. In 1996 EU exports into the CEEC grew by 20.8 per cent (total exports by only 9.2 per cent), whereas imports from this region increased by only 5.7 per cent (total imports by 6.3 per cent). Thus the balance of trade of the CEEC also turned from a slight surplus into an increasingly serious deficit.⁷

Between 1992 and 1996 the bilateral trade not only proved to be the most dynamic factor for the total foreign trade of the EU, but it also became an important factor of world trade. During this period the current six CEFTA states⁸ increased their share within the EU's overall export by 3.4 percentage points (from 5.8 to 9.2 per cent). As regards the imports from the EU, the CEFTA states could extend their share by 2.6 percentage points to 7.2 per cent.⁹ The dynamic development of bilateral trade has resulted in a comprehensive and unprecedentedly fast

⁶ International trade is created if a good can be produced and imported cheaper by a foreign than by a domestic company. A diversion of trade results from import duties and restrictions which affect the trade flows between countries. The reduction of trade restrictions causes trade diversion which improve the allocative efficiency of an economy. Trade creation and trade diversion are „static effects“, in contrast with the „dynamic effects“ explained below.

⁷ Eurostat: External and intra-European Union Trade. Monthly Statistics 10/1997.

⁸ Currently, the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia participate in the Central European Free Trade Agreement.

⁹ Eurostat: External Trade. Monthly Statistics 1/1994; External and intra-European Union Trade. Monthly Statistics 10/1997.

geographical reorientation of the CEEC's foreign trade. The share of the EU lies between 55 and 80 per cent of the CEFTA states' overall trade, which means that trade has doubled within a period of five years.¹⁰

While the still existing static gains are fairly limited and can only insignificantly increase the degree of interpenetration already achieved, dynamic gains may still take on great importance in the near future. Inter alia, this includes the following factors:

- increased economic growth in the CEEC will (also) stimulate import demand (the more developed economies expect average growth rates of four to five per cent for the coming years);¹¹
- economic modernisation, which has already started in some of the transformation countries, will increase demand for capital goods (this demand may reach between eight and ten per cent p.a., depending also on the affluency);
- revaluation of national currencies will increase the populations' purchasing power for imported goods and services (strong productivity growth presumed, an annual revaluation of two to four per cent is acceptable in the medium term);
- apart from a revaluation, the sometimes considerable increase in real wages will also stimulate demand (this demand will continue to lag behind the general growth but may increase by 2.5 to 3.5 per cent annually);
- although the CEEC are all relatively foreign trade and export oriented, per-capita export and import values (between nearly US-\$ 3000 in Slovenia and US-\$ 500 in Poland) still lie clearly under those of most EU countries. As a consequence of catching up economically there is thus a strong potential for import (and export);¹²
- trade links between CEEC and the EU are concentrated in three countries. Trade with Germany, Austria and Italy account for 75 to 80 per cent of their total trade with the EU, which means that membership still holds a big potential for other EU countries;¹³
- the most important factor is probably the intra-industrial division of labour which is developing an unprecedented dynamism. Intra-industrial trade with the CEFTA countries has reached a proportion (and an intensity), the less developed member states only experienced after they had become members of the EU. Machinery already constitutes the main share of Hungary's export into the EU (more than 42 per cent of export in 1996),¹⁴ but also Slovenia and the Czech Republic are increasingly specializing on high-technology goods which are produced in co-operation with multi-national firms. In this sense

¹⁰ WIIW: Countries in Transition 1997, national statistics of CEEC.

¹¹ These and the following figures on demand for capital goods, purchasing power and real wages are based upon the author's estimates.

¹² WIIW: Countries in Transition 1997, national statistics of CEEC.

¹³ Ibid.

¹⁴ Eurostat: External and intra-European Union Trade. Monthly Statistics 10/1997.

the interpenetration achieved at the microeconomic level can be regarded as an "anticipated integration".

- the increasing investment of foreign capital will help to expand intra-industrial trade and generate long-term and continuous import demand in several sectors (especially in the services and municipal utilities sectors, like energy, water, telecommunications, etc.). For Central and Eastern Europe, we expect an average inflow of foreign direct investment between US-\$ 12 and 15 billion in the next years;¹⁵
- the European Commission's Agenda 2000 integrates the PHARE programm into the pre-accession strategy and makes available the structural funds with the envisaged accession of the first candidates at 2002. Both measures will strengthen the CEEC's growth prospects, thus considerably increasing the already dynamic demand for West European goods (according to the Agenda 2000, relatively low transfer payments might already prompt an enormous growth of import demand).

Calculations carried out on the basis of a gravity model in recent years point towards a further as yet untapped trade potential of 20 to 50 per cent.¹⁶ Consequently Eastern enlargement will not only have a positive influence on bilateral trade, but also - to a lesser but still not negligible extent - on economic growth within the EU. An annual import growth rate of 10 per cent in the CEEC would give an upward turn to growth in the present EU countries of, on average, 0.1 to 0.5 percentage points.¹⁷ In this context it has to be pointed out that for Germany and Austria, the countries with the most intensive trade in the region, the trade gains achieved in the CEEC had a mitigating effect even as early as 1993 during the last recession. The growth factor can have an even bigger influence if the growth rates remain high in the accession states and stay at a low level in the EU countries in the medium term in the wake of preparations for economic and monetary union. In this case, which cannot be ruled out off hand, the higher growth rates in the CEE region may not only have an intensifying effect on trade and thus the economic development in Western Europe, but also create a qualitative demonstration effect which would improve the growth and competition prospects of the region even further.

The **bigger market**, which is based on liberalisation (market gains) and higher growth rates (economic gains), creates economies of scale and/or higher profits. Both increase competitiveness: economies of scale directly by decreasing costs, higher profits indirectly if the higher profits are (re)invested in competitive areas.

The progressing institutional integration also initiates important positive effects for the economy. Strategic investors may interpret the start of official negotiations as an important signal for future full membership. It is true that numerous multinational companies have already invested in selected CEEC in recent years,

¹⁵ Author's estimates.

¹⁶ Author's calculations. Gravity models are econometric models which allow to estimate the expectable foreign trade volume, basing on the commodity structure of a country's trade, the geographic proximity and other parameters (cf. e.g. Daniel Gros/ Alfred Steinherr (1995): *Winds of change. Economic transition in Central and Eastern Europe*, London/ New York: Longman 509-514.

¹⁷ Author's calculations.

pre-empting Eastern enlargement, and that they "calculated" on EU membership of the countries concerned. The start of negotiations - together with negotiations about NATO membership - could create an atmosphere of trust, however, and lead to stability gains which would attract as yet reluctant or cautious companies into the region. The multiplier effects created in this way would be considerable, though hard to quantify.

Needless to say that the harmonisation already under way and the EU approximation of legal standards contribute to increasing the accountability of mutual trade developments and reducing the risk of a return to protectionism or a slow-down of the liberalisation process. In this respect it is becoming increasingly important that the Single European Market is extended to the CEEC. While the classical instruments of trade - in accordance with the global liberalisation of trade within the framework of the General Agreement on Terms of Trade/ World Trade Organisation (GATT/WTO) - are playing a less and less important role, the trade-related instruments of the Single European Market are gaining importance and thus the European companies' scope for action is increasing. Particularly large profits could be generated in the services sector as, for one, in most CEEC the services sector is hardly developed and, secondly, increased growth and intensified intra-industrial penetration as well as growing foreign direct investments generate a strong and persistent demand for services.

Strong trading profits can be predicted for the period after accession. Both sides will certainly have made maximum use of the static trade advantages in most sectors until the actual accession (in contrast to former admissions). Nevertheless, the additional trading profits will not be diminished. They will consist of four elements:

- static gains from the complete (if gradual) liberalisation of agricultural trade;
- dynamic gains from economic and institutional stability, increasing intra-industrial trade, even more lively activity of strategic (multinational) corporations;
- an increase in import capacity caused by access to EU funding for financing important projects;
- maybe not in the short term but important gains from an above-average increase in trade among the newly admitted countries (CEFTA group). This trade creates additional demand also for imports from the present EU territory and improves the competitive position and the development prospect of those foreign companies already active in the region.

In conclusion it can be assumed that the share of CEEC in the foreign trade of the EU will increase further and that it will reach 13 to 15 per cent of trade outside the EU by 2002.¹⁸ Germany, Austria and Italy will remain the most important trading partners but trade with the other European countries should grow disproportionately. On the part of the CEEC, the changes will only to some extent be reflected in a further increase of the EU share in trade. There are certainly still several CEEC that could continue to increase their share in EU trade dynamically, but in countries like Poland and Slovenia (also, to some degree, Hungary) the

¹⁸ Author's estimates.

ceiling has probably already been reached. Therefore further dynamism can only be expected from the fast growing per-capita results of bilateral trade.

Needless to say that the profits mentioned above will not be spread evenly across the countries, regions and sectors. Neither will they coincide in terms of time. Those EU countries that have shown little economic interest in an enlargement towards the East so far will also derive direct or indirect benefits from this process. While those western neighbours of the CEE region who already at an early stage maintained numerous economic, social and cultural contacts with the countries undergoing transformation could develop their position early on in the wake of liberalisation, there are growing signs that the other EU countries are quickly catching up.

The effects of allocation and accumulation as well as the impact of reduced risk on investment, which eastward enlargement may create in the trade between the EU and CEEC, can be simulated in an equilibrium model.¹⁹ On the basis of these simulations and taking sectoral differences into account, the increase in trade is going to generate growth in real income for the current EU member states. Though it is true that the bigger EU countries profit more than the average, as can be seen in the table below, even the smaller South European countries are still able to at least keep up their income level.

Distribution of trading profits derived from eastward enlargement by EU member²⁰

| | ECU bn (1992 prices) | share of total EU-15 real income gain (per cent) |
|-------------------|----------------------|--|
| Germany | 3.8 | 33.8 |
| France | 2.2 | 19.3 |
| United Kingdom | 1.6 | 14.1 |
| Italy | 1.0 | 8.5 |
| Spain | 0.8 | 7.0 |
| Netherlands | 0.5 | 4.6 |
| Sweden | 0.4 | 3.9 |
| Belgium/Luxemburg | 0.3 | 2.6 |
| Austria | 0.3 | 2.6 |
| Denmark | 0.2 | 1.9 |
| Finland | 0.2 | 1.4 |
| Ireland | 0.0 | 0.3 |
| Greece | 0.0 | 0.3 |
| Portugal | -0.0 | -0.4 |
| EU-15 | 11.2 | 100.0 |

¹⁹ Richard Baldwin et al. (1997): The costs and benefits of Eastern enlargement: the impact on the EU and Central Europe, in: Economic Policy April.

²⁰ Richard Baldwin et al. (1997): *ibid.* p. 149. The simulation includes seven CEEC (Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia).

Although such simulations are subject to certain imponderables, they support the assumption that even those EU countries that hardly ever operated in the markets of the CEEC before, will get new market chances through Eastern enlargement. This way the countries of the Mediterranean and Central and Eastern Europe can deepen their trade relations. As a result, the at present rather unilateral orientation of central and eastern European trade will diversify. In case of non-enlargement, these opportunities could hardly be taken up.²¹ An indirect benefit is derived from the fact that the „core“ countries for trade with Eastern Europe, i.e. Germany, Austria, but also Italy and to an increasing degree France, improve their chances for economic growth and can carry out structural changes. This creates additional demand for goods from other EU countries. Furthermore, German and Austrian exporters are increasingly supplying the CEEC with goods whose components were produced in other EU countries - particular in the less developed Mediterranean countries. So all EU countries are going to benefit, either directly or indirectly, from this expansion of trade. Benefit for all does not mean the same benefits for each participant, though. In comparison with the costs of non-enlargement, which should be borne by all EU countries, this benefit, however, is undeniable.

The development outlined above may be endangered by the escalating deficit in bilateral trade. An important proof that the EU has derived more advantages from the trade liberalisation of recent years is the EU surplus, which is gaining in volume year after year. While in 1996 the ten CEEC accounted for about eight per cent of EU imports only, the EU generated more than one-third (37 per cent in 1996) of its total trade surplus from this relationship. In 1996 (and 1997) this surplus increased at undiminished speed, especially in the cases of the Czech Republic and Poland, but also in relation to Slovakia.²² The forthcoming further (unilateral) liberalisation, the commitments entered into the GATT/WTO negotiations, the abolition of import restrictions temporarily introduced with respect to sensitive goods as well as the yet increasing demand for modernisation imports could further impair the balance of trade situation and thus aggravate the problems of external balance for the CEE states.

Three scenarios can be outlined. In the first case, the temporary (or in the medium term reproducing) balance of trade deficits could be financed consistently and without problems through other revenues (tourism, other services, foreign investment, borrowing, activating parts of the currency reserves). In the second case, the import surplus will improve the capital stock and competitiveness of domestic firms, thus creating an export potential within a couple of years, which would enable the countries to re-establish their balance of trade. In the third scenario, the instruments available are not sufficient to finance the deficit. In this case the introduction of protectionist instruments can only be avoided if additional financing facilities are made available. A quick liberalisation of the EU agricultural market would be one possibility, another would be increased financial transfers (even before accession).

²¹ The example of Austria is a good case in point, insofar as the unilateral orientation towards Germany was at least partly caused by Austria not joining the EU for several decades. After Austria joined the EU, diversification started as other EU countries could also profit more from the new situation.

²² Eurostat: External and intra-European Union Trade. Monthly Statistics 10/1997.

Should it come to significant financing bottlenecks, this would not only endanger Eastern enlargement so far. The strong EU trading interests in the CEE region would also be affected adversely. Through quick and unilateral export deals, many EU-based companies have gained remarkably from the liberalisation of the CEE markets and thus improved their ailing global (and European) competitive position by huge profits. This situation can only last for any length of time if the CEE markets keep enough purchasing power. If they do not, this will not only lead to setbacks in the export business and a loss of the static advantages already gained, but also to a non-utilisation of the dynamic trade advantages. What carries even more weight is the fact that the continuity of the modernisation process might be questioned. A discontinuation of this process could lead to unpredictable consequences not only for the economic future of the Continent, but also for European security and stability. The grave mistakes mentioned earlier on, made in drawing up the Association Agreements, are undoubtedly increasing this danger.

The market gains already achieved by the EU states in the CEE region should not be seen as natural and irrevocable. Most market players will become aware of the risk of a setback only when they face a loss of market shares. Without enlargement this scenario might become true. In this respect the Eastern enlargement appears to be a crucial instrument for the consolidation of gains achieved and the basis for the development of new market positions.

3. Competitiveness

Eastern enlargement will also help the European Union and Europe as a whole to enhance its global competitiveness. In the past decade Europe could not keep up with its most important economic rivals, the USA and Japan, in decisive sectors. It is true that the EU's general loss of market share cannot be verified by statistical data as substantial market gains in eastern and central Europe just made up for corresponding losses in other regions, at least for the time being. There is no mistaking, however, that a structural analysis of trade points towards the EU being squeezed out of the dynamic sectors and promising industries of the future in the world economy. This loss is not least due to a lack of intra-industrial division of labour between the EU and moderately developed emerging economies. Under the influence of a "Europe as the hub of the universe" attitude the division of labour within the EU was more and more concentrated in high-wage countries which - despite the gains from subsequent enlargements - had no lasting effect on the competitive position of the Union. The associated former colonies in Africa, the Caribbean and the Pacific region on the other hand could not offer the economic (and cultural) level of development necessary for modern intra-industrial division of labour.²³

The Eastern enlargement represents a unique, if to some extent belated opportunity to intensify trade with this group of countries and to achieve cost advantages in global competition through transnational specialisation. The issue at

²³ Cf. e.g. United Nations: *The state of the world economy at the beginning of 1997*, New York: UN; Aspen Institute: *The future of the world economy*, Washington 1995; Peter Nunnenkamp: *Winners and losers in the global economy*, Kiel 1996; Werner Weidenfeld (ed.): *Reform der Europäischen Union (Reform of the European Union)*, Gütersloh: Verlag Bertelsmann Stiftung 1996.

stake here is not a belated attempt to copy the USA or Japan, which put this kind of network in place in the emerging regions in their neighbourhoods (like Mexico, or East and South-East Asia respectively) in the 1980s. The CEEC do not only offer cheap, unskilled or partly skilled labour, but also rather specialised and in some areas highly educated staff, even on an international scale. Up to now, these exceptional conditions have not led to a noticeable international co-operation between economies on different levels of economic development. It is an open question, to which extent the EU is able or wants to avail itself of these potential advantages and for how long the CEEC will still have these advantages at their disposal. First attempts at using these advantages are already visible, they are not the result of a coherent EU enlargement strategy, though, but of the strategic planning of some multinational corporations (transfer of skill-intensive production into selected Central European countries, establishment of regional or European research and development centres etc.). As yet, Eastern enlargement has not been seen from this strategic point of view.²⁴ Current affairs, single-minded concentration on the deepening tasks, as well as increasing internal problems (unemployment) pushed this topic down on the list of priorities.

The delayed interest in these huge potentials is particularly regrettable at a time, when world economy and world society are moving on to the era of information technology. The global framework conditions of Eastern enlargement are already determined by this transition. Whereas earlier enlargements could still for the most part follow the European rules of the game, the forthcoming Eastern enlargement has to be seen within the wider context of globalisation, accelerated technological development and the establishment of an information society. In at least two areas the CEEC can contribute to improving the European starting position.

Firstly, they possess a large amount of innovative capacity. Secondly, they have shown a surprisingly high degree of social and institutional flexibility in recent years - qualities which are going to influence competitiveness in the 21st century to a large extent. Evidently, it remains an open question, to what extent the (forced) high level of flexibility will be maintained in future. As this is both a European asset in international competition and a risk to European stability, it would be advisable to develop relevant European policies already today in order to preserve the potentially positive contribution and to minimise the risks.

In the context of global competition, the EU needs new and dynamic markets in its vicinity. In recent years the average growth rate in the EU amounted to less than two per cent per year. Some of the transformation countries, on the other hand, achieved annual growth rates of four to seven per cent. If the growth rates for productivity growth in the manufacturing industry are compared, the differences are even bigger. A higher average European growth rate, which could be produced by the membership candidates, would be necessary to maintain the relative importance of the European region in comparison with the fast growing markets in the Far East and partly also in Latin America.

In addition, the qualitative aspects of growth have to be underlined, which manifest themselves mainly in technological progress, in more flexible labour and education markets, in closer attention paid to environmental problems and in an

²⁴ In this respect multinational companies have more of a long-term strategy than prominent politicians in Europe do.

individualisation of demand. It is not least the permanent economic upturn in the accession countries which can - provided there is a consistent strategy - create the conditions for this qualitative growth in Europe.

For the foreseeable future the present EU with its 15 members does not seem able to increase the dynamic of its own economic development. The supreme effort necessary to introduce the Euro is deflecting further growth potential (in the hope of creating medium-term potentials). It is precisely in these key years just before and immediately after the year 2000 that the EU needs dynamic regions in its neighbourhood. The CEEC have the best prospects to play this role, provided they remain stable and Eastern enlargement is carried out promptly and in accordance with a coherent strategy.

A successful model change in (western) Europe presupposes increased growth. On the one hand, this rather painful and conflict-ridden change - to which the experiences of the CEEC can already testify - can be coped with more easily against a backdrop of higher growth rates. On the other hand, the so-called "European model" can only continue to exist in a global "ideological" and economic competition, if the contributions created by the CEEC are put to a constructive use. This, though, is one of the most difficult dilemmas the present EU is confronted with. It needs (and already makes use of) the CEE region in order to increase its competitiveness. By contrast, it regards this region as a danger to the "social achievements" of the Western European welfare state.

One should add that certain social costs are inevitable. The gradual enlargement of the EU, however, might make the costs of this adaptation bearable, unlike an EU confronting global challenge **without** enlargement. In this respect a consistent Eastern enlargement may be seen and also used as "protection" (not, however, as an "blockade") against unwanted global influences.

Conversely, not enlarging the EU would, on the one hand, cast doubt on the potentially positive effects of a globally competitive division of labour in Europe and, on the other hand, cause instabilities, forcing the application of measures to limit the damage. The costs of these measures would usurp resources from investments to enhance competitiveness. Increasing all-European instability, moreover, would also deter non-European investors and thus cause a further deterioration of Europe's global position.

4. The role of international capital

International capital, not least Western European capital is playing a catalytic role in the adjustment and enlargement process. In this context too little attention is paid to the fact that the CEEC are prepared for EU membership not only on the government level, but also to a considerable extent on a micro level as a result of the involvement of foreign and multinational companies in the CEE economic actors. This capital is the main agent behind international specialisation and thus furthers growing intra-industrial penetration, increases (western) European competitiveness and ensures higher profits for further investment. At the same time, this capital creates new trade flows and stimulates the demand for services in both directions. (For example, in 1996 the share of foreign companies and joint

ventures in Hungarian exports of finished goods into the EU amounted to considerably more than 70 per cent.²⁵)

When the advantages of an Eastern enlargement for the EU are considered, sight is often lost of the fact that due to the privatisation EU capital has often acquired substantial influence, in some CEE economies even key economic positions. The influence of CEE capital on Western European markets on the other hand remained at a minimum. This one-sided advantage may lead to fairly different positions in the years (maybe decades) to come.

International, including Western European, capital moves in a global framework. Unfavourable conditions in one country will lead it to look for new locations all over the world. These movements cannot be regulated. In this quest for new locations Central European membership candidates have been ranking higher and higher in recent years. It seems a fair assumption that this tendency will continue for the coming years. Differences in growth rates between Western and Eastern Europe, different factor mobility as well as institutional problems are contributing to such a development. The NATO enlargement resolution announced recently may further speed up and deepen this process.

Nevertheless, relocation of some production facilities does not necessarily have to lead to redundancies, destruction of the industrial base, decreasing domestic tax potential etc. in the EU-countries. First of all, in view of global competition these company decisions cannot be "nationalised" any more. Of course Eastern enlargement has a considerable effect. But even without the enlargement this capital would look for and find new locations. In this respect the CEE region is not competing against the EU region but against potential locations all over the world. Capital (and labour) currently moving into the CEEC would be transferred to even farther destinations, if the growth region Central and Eastern Europe did not exist, and not necessarily stay in Western Europe. One of the advantages of the EU is precisely the fact that production is relocated in the direct geographical vicinity.

Secondly, the relocation of production facilities is a precondition for retaining jobs in the EU "heartland". The global competitiveness of the EU and thus the safety of European workplaces can only be retained if cost-efficient production is integrated into the production chain. Moreover, relocation enforces structural change and moves towards high-quality and technology-intensive production, when all is said and done it will increase competitiveness in the EU countries.

The present lack of capital spending despite the cyclical upswing emerging in several EU countries cannot be attributed to the fact that domestic companies do not invest, but rather to the fact that for cost reasons they increasingly invest abroad. A non-enlargement of the EU could not solve this problem, on the contrary, it would just diminish Western European competitiveness even further.

As the individual EU countries contribute to this relocation process to varying degrees, this may lead to a steadily widening gap in performance and

²⁵ Központi Statisztikai Hivatal (KSH) (Central Statistical Office): Ipari és Építőipari Statisztikai Évkönyv (Statistical yearbook for industry and construction), Budapest 1996; KSH: Külföldi tőkével működő vállalkozások (Companies with foreign capital), Budapest 3/1996; KSH: Ujjonnan alakult külföldi érdekeltségű vállalkozások (Newly established companies with foreign capital), Budapest 3/1997.

competitiveness in the medium term and exert strong pressure on the monetary union in the next few years.²⁶ The danger of such a "divergent development" could be diminished if Eastern enlargement was already based on a clear EU strategy. It would be necessary to formulate such a strategy in connection with the NATO membership of some CEEC in order to keep the possibly enormous divergence effects caused by the capital flows to be expected at a manageable level, for the EU countries as well as for those CEEC that do not join NATO, at least for the time being.

5. Research and development

One specific feature of the membership applicants, even in an international comparison, is their inherited high general level of education and a well-developed class of skilled workers and highly qualified experts. These advantages constitute the potential foundation for cost-efficient specialisation and division of labour in international co-operation.

Of course, this advantage - like all other advantages - is not for ever. The transformation process has already destroyed part of the potential advantages, while at the same time enhancing the importance of other advantages and generating new ones (innovation, flexibility, and a dynamic youth). The efficient exploitation of these advantages depends on the right timing and the right strategy. As a consequence of a mutual learning process the pioneering multinational groups have not only understood the potential advantages in the research and development potentials of the CEE region, but also started to use this advantage intensively. Some corporations have already integrated their locations in several CEEC into their world-wide R&D network. Others have moved their regional or even European R&D activities into the region applying for membership.

It is an interesting development that it is mainly non-European (American and Japanese) companies that make use of the R&D potential of the CEEC, in the form of a brain drain (workplaces are less protected in the USA than in Western Europe) as well as by making better use of local R&D capacity. The technological and research-related links established between the USA and the CEE region, more or less "over the EU's head", could have lasting negative effects for the competitiveness of (western) Europe.

Not enlarging the EU might accelerate this process with two unwanted consequences in the medium term: First, It would be detrimental to the European potential for innovation.²⁷ Secondly, the modernisation process in the CEEC

²⁶ This conclusion is based on the assumption that companies in the individual states participating in the Economic and Monetary Union (EMU) will use the possibilities to enhance their competitiveness by cooperating with the CEE states in different ways. Thus, the development of the competitiveness of will be different for each company and thereby for each EMU economy. As the EMU has no national currency (and, consequently, no national depreciation), these differences in the competitiveness will lead to different social, economic and even political costs in each EMU state.

²⁷ At issue here is not only the loss of concrete technological achievements in the CEE region, but more prominently the fact that the CEE states have the advantages characteristic of "late comers" in certain areas (i.e., they are in the position to transfer modern technology not hampered by special institutional, juridical, social and mental barriers). Such a process is hard

might come to a halt for lack of the necessary "critical mass of intellectual-innovative potential". This would lead to instabilities (also in the form of an increasing unemployment rate and a higher migration potential) and harm Europe's chances in terms of development and competitiveness significantly.

The new channels of co-operation recently created allow CEEC to take part in selected EU-controlled R&D programmes. This, however, is only a first step which does not as yet establish an organic link between R&D capacities in the "two Europes", neither will it be enough to strengthen the global competitiveness of European R&D potentials in the long term. As a matter of fact, this co-operation is more in the nature of a "high-quality wage contract", without any binding commitment on the side of the EU to develop the Central and Eastern European research and development capacities.

6. Manufacturing industry

The EU has already made use of the short-term advantages resulting from privatisation, direct investments and trade liberalisation. The increased market share achieved in this way may lead to a considerable increase in competitiveness in certain industries, on average, however, it amounts to about three per cent.²⁸

The strategic advantages are on the supply side. Important competitive effects may be expected from the industrial base of the CEEC being integrated as an organic part into the "background capacity" of EU industry. Though this would mean far more than producing spare parts and half-products. CEE industries can carry out upstream and downstream functions and also produce small batches of custom-built products economically. The integration of that part of the CEEC's industrial base that can be modernised at low costs and put back into business will contribute to higher flexibility, short-term optimum capacity utilisation and a reduction of the specific advance costs. The Hungarian car industry is a case in point with several good examples.

Industrial co-operation plays an important role in developing organic microeconomic integration. It is above all the companies producing spare parts and components, which bring about a strategic interlocking between a company in an EU and a CEE country. Such a connection is not only based on technologies and employees of the same standard, but also on great trust being placed in the efficiency of the new location, including the services available. A several hours loss of production in a Hungarian car plant, be it for technical problems or strikes, could lead to considerable losses in a German car company. (This kind of disruption did occur in the case of an Iberian components supplier, but not - as yet - in the Hungarian factories.)

Industrial relocation to some of the membership candidates has influenced the labour markets in the EU states differently than those in the CEE region. The Austrian Institute for Economic Research (WIFO) has estimated that without

to imagine for Western Europe. At the brink of information society, such an advantage may be decisive.

²⁸ Eurostat: External and intra-European Union Trade. Monthly Statistics 10/1997; Eurostat External Trade. Monthly Statistics 1/1994.

relocation the Austrian economic growth would drop by approximately 0.5 per cent in 1998 and 1999 with evident consequences for the labour market.²⁹ In Western Europe the basic rule is that only an economic growth rate above three per cent will reduce unemployment rates. The CEE states will probably need an even higher growth rate to achieve the same effects on the labour market, as the productivity reserves are larger here. New technology will make better use of these reserves without engaging additional employees. The technological requirements and the organic interlocking of relocated and domestic production did not allow a labour-intensive production in many cases. What was far more important were the indirect (multiplier) effects, on the labour market as well as in the service sector and in trade (department store chains, service stations etc.).

There are few areas in a better position to draw attention to the relatively narrow geographical scope than industrial relocation investments. Due to their cost advantages, they have integrated the first, advanced circle of CEEC into the EU-wide (and partly global) division of labour. The cost differences between the Central European and the other membership candidates are not so big as to make up for the greater geographical distance, the infrastructural bottlenecks (physical and natural obstacles), legal uncertainty (administrative and technical obstacles), the already existing links and basis of trust (strategic obstacles). Therefore the next stage will be characterised by different production structures, location qualities and models for division of labour which is a further but rather important microeconomic reason for a gradual Eastern enlargement.

It has to be emphasised that the necessary restructuring of EU industry cannot be carried out without relocating into the CEEC. Western European resistance against relocation processes exerted by trade unions, local and sectoral interest groups etc. cannot stem the flow of North American and Far Eastern investment expanding into the CEE space. In selected CEE economies the development of a modern production base is already under way. If this process continues without strategic co-operation with the EU, this will have two unpleasant consequences for the EU. On the one hand, the EU will not keep the advantages of industrial co-operation. On the other hand, highly competitive and non-European companies will establish themselves in its immediate vicinity, far beyond the "critical number".

7. Agriculture

EU fears concerning the integration of CEE agriculture have not come true so far. On the contrary, the EU has proved to be the beneficiary of the integration process. To start with, the EU could speedily extend its agricultural exports into the CEEC (sometimes with the help of heavy subsidies the CEEC cannot match). Agricultural goods make up about eight per cent of EU exports into the CEE region, whereas the share of agricultural products from the CEE region in EU imports only amounts to about five per cent. In the first half of the 90s the EU to some extent reoriented its agricultural exports into the direction of the CEEC. The agricultural exports from the CEEC, however, suffered a loss in market share and were thus the only product groups not to improve its relative market share in EU

²⁹ Holzmann/ Neck: *Ostöffnung: wirtschaftliche Folgen für Österreich (Opening towards the East: economic consequences for Austria)*, Wien: Manz 1996.

imports. This development has led to a considerable, persistent EU surplus in agricultural trade with the membership candidates.³⁰

The further step-by-step liberalisation of bilateral agricultural trade as well as complete liberalisation once full membership has been achieved promise a continuation of this trend; similar developments could be seen in the wake of enlargement towards the south and towards the states of the European Free Trade Agreement (EFTA). The reasons behind this tendency can be found in Western European surpluses, increased economic growth and rising real incomes in the CEEC.

In the course of privatisation multinational companies, not least EU multinationals, have built up a dominating (strategic) position in the food industries of the membership candidates. Some of these multinationals are mainly focused on the domestic markets and do not favour an EU Eastern enlargement, as this would mean increased competition in this area and the introduction of rules conforming to EU regulations (environmental-, consumer protection) respectively. Others, and their number is growing, have started with building up a vertical production chain in CEEC, though, and are preparing themselves for the Eastern enlargement, from which they expect further growing profits.

CEE agriculture offers the following advantages for the EU:

- low-cost production, which helps to reduce the high consumer prices in the EU (in the interest of the consumers);
- bigger natural farming potential (30 per cent of arable EU land), which allows appropriate specialisation;
- relatively less polluted environment due to less intensive farming methods: fields were "saved" from intensive cultivation methods after 1990 for lack of capital and the abolishment of former organisation and farming structures (good chances for organic products and proper specialisation);
- comparatively efficient farm sizes; since the collectivisation which took place in most CEEC (exceptions are Poland and Slovenia) was only partially reverted, CEEC now dispose of comparatively efficient organisational structures of production which may prove to be an advantage in international competition (cf. the example of the former GDR);
- extensive modernisation requirements, which will be of particular benefit to EU manufacturers of farming equipment, machinery but also chemicals. Additional modernisation requirements are generated by the development and technical restructuring of the food industry (in the interest of the capital goods industry);
- the implementation of coherent rural development programmes, which are to build up a modern infrastructure, strengthen environmental protection and stimulate rural tourism, will induce a demand for investments which will, to a considerable part, be covered by imports from EU countries. Access to EU funds is expected to accelerate this development.

³⁰ Eurostat: External and intra-European Union trade. Monthly Statistics 10/1997; Eurostat: External trade. Monthly Statistics 1/1994.

The future of world agricultural markets has become less predictable than a couple of years ago. For the medium term a development cannot be ruled out in which the purchasing power in the Asian countries (mainly China and Southeast Asia) is growing faster than the supplies available. If the current surpluses, in particular for certain staples, can be reduced, prices will rise and the agricultural production capacities will be revalued. Under these circumstances the EU will also no longer be interested in a forced reduction of its (efficient) production, but in building up a strong market position in the fast growing regions. In this case the agricultural potential of the CEE region can contribute enormously to a global consolidation of European (agricultural) interests.

Last but not least, Eastern enlargement already exerts some scarcely measurable influence on the reform of the Common Agricultural Policy. There can be no doubt that the Common Agricultural Policy would have to be principally reformed and structured in a more cost-conscious way, even without Eastern enlargement. The imminent Eastern enlargement can accelerate this process of change, create healthier production structures and decrease the price level. The "reformers" in the Commission and in single EU countries appear therefore to welcome the enlargement.

8. Labour market, labour force

Fears that the Central and Eastern European labour potential could flood the EU labour market have not come true so far. On the contrary, it is obvious that the EU labour market profited from the liberalisation of the CEE markets. Austria, which was hit most by the opening towards the east, lost about 50,000 workplaces while 60,000 new ones were created.³¹ According to calculations of the German Institute for Economic Research in Germany, the trade with the CEEC increased employment by 60,000 workplaces in 1993.³² At the same time unemployment in the CEEC grew significantly. In parts this is a consequence of competition with imports from EU countries.

The increasing EU balance of trade surplus in its trade with the CEEC is further proof that in their mutual trade more jobs are devoted to exports from the EU than to exports from the CEEC. According to Polish estimates, the officially registered balance of trade deficit of Poland with the EU means the loss of 1.2 to 1.4 million jobs, whereas in the EU due to the balance of trade surplus workplaces could be preserved or newly created.³³

³¹ Gudrun Biffl: Die Zuwanderung von Ausländern nach Österreich (The immigration of foreigners to Austria), in: WIFO-Monatsberichte 9/1997 557-567; Gudrun Biffl: Erfassung der „wahren“ Arbeitslosigkeit in Österreich (Measuring „true“ unemployment in Austria), in: WIFO-Monatsberichte 1/1997 41-51.

³² This calculation is based upon the trade between Germany and the four Visegrád states including Romania and Bulgaria. Cf. Christian Weise et al.: Osteuropa auf dem Weg in die EU - Transformation, Verflechtung, Reformbedarf (Eastern Europe on the way into the European Union - transformation, interpenetration, reform requirements) Beiträge zur Strukturforchung des DIW, Nr. 167, 1997.

³³ Mieczyslaw Kabaj: Jobless or employment-oriented growth strategy? Searching for a dual model of development of the Polish economy (1996-2000), Warsaw: mimeo; Mieczyslaw Kabaj:

Privatisation, moreover, has created additional jobs for West European personnel, particularly in Hungary. According to official Hungarian statistics more West European citizens are currently working in Hungary than Hungarian citizens in the EU states.³⁴

The high unemployment rate all over Europe is not so much a consequence of the intensified business contacts between the two parts of the continent but rather proof of its decreasing international competitiveness and the inflexible labour markets. The real threats result from these factors and they will persist as long as these factors cannot be changed. Not only do the strong restrictions to the free movement of labour (which may be implemented due to the newly established "employment chapter" in the EU treaty) leave the potential competitive advantages unused, in the long term they can also undermine the international position of the European integration system.

The labour force in the CEEC consists of about 55 to 60 million people or roughly one quarter of the labour force available in the 15 EU countries. It would be wrong to assume that the CEEC are only a "reservoir of cheap labour" as employment of these numbers of people on the high western European level of production would require a correspondingly high capital stock. Accumulating this amount of capital, including direct capital imports, will take decades. Of course it cannot be denied that there is a certain migration potential in the CEEC. A clear distinction has to be made, however, between latent and actual migration potential. For various reasons the latter amounts only to a fraction of the former. Among these reasons are divergent professional qualification, lacking language skills, geographical distance, psychological factors on the part of the CEE citizens and significant administrative restrictions as well as a lack of demand on the part of the EU.

The competitiveness of the labour force in the CEEC differs according to sectors. In the "industries of the '60s" (textile, footwear and steel industry) it is higher than in the EU, in the "industries of the '70s" (automobile industry, petrochemicals, consumer electronics) it is on the same level and in the "industries of the '80s" (pharmaceuticals, professional electronics, traditional services) it may reach EU levels in a couple of years. In modern sectors, however, the CEEC continue to lag behind EU levels considerably (modern services, skill-intensive and high-tech construction, banking). In these sectors wage differences play a subordinate role. The mutual advantages of an intensified division of labour can not be utilised if the CEEC - like the EU - restrict access to the CEE markets in the last-mentioned sector for west European workers. It should be acknowledged that east and west European labour forces do not so much compete against but supplement each other.

The attitude of the EU is ambivalent. On the one hand, it wants to make use of the comparative advantages of Eastern and Central European labour forces in the framework of global competition. On the other hand, it talks about social dumping. While western European employers tend to be more interested in the comparative advantages, most employees and trade unions focus more on the

Transformation, internal determinants, and threats for the competitiveness of the Polish economy, Warsaw: mimeo.

³⁴ Központi Statisztikai Hivatal (Central Statistical Office): Magyar Statisztikai Évkönyv 1996 (Hungarian Statistical Yearbook 1996), Budapest 1997.

aspect of "social dumping". As capital, however, can move freely around the world, there are relatively few problems to bypass the rigidities of the labour market. The more rigid the labour market of a country, the more incentive there will be for the relocation process, accompanied by an outflow of capital. The export of capital can reduce migration pressures, as it creates jobs in countries with migration potential.

Conversely, any attempt to introduce West European social norms in the CEE states could under current economic and structural conditions lead to a loss of competitiveness. One consequence would be an (at best) temporary "liberation" of Western Europe from the competition "from the East." The world market, however, would take over these market shares overnight. This would change the geographic location, not the pressures of competition themselves. Another consequence would be a significant impact on the growth rates in the CEE states, making the closure of companies (some of them with EU capital) and an increase of unemployment rates unavoidable. Ultimately, the "all-European social peace" championed by representatives of the status quo mentality in the EU states would be in grave danger: Increasing unemployment, the accompanying psychological shock of an apparent end of the catch-up process in the transformation countries would lead to a really critical migration potential. This potential in its turn would trigger actual migration or higher EU transfers in order to stabilise the social situation in the CEEC.

The development of the European labour market has one more typical characteristic that has becoming more prominent recently. The international competitiveness of the CEEC increasingly relies on the highly educated sectors:³⁵ The insufficient utilisation of this potential will lead to a decrease in competitiveness for all of Europe. In addition it may slow down or stop the modernisation process in the CEEC, which could in turn lead to political and social instabilities that do not stop at the border. This risk could take shape in two ways: on the one hand it is always more dangerous for any existing system if highly educated people are unemployed than unskilled labourers; on the other hand, educated people could emigrate, severely reducing the qualified intellectual potential necessary for a successful modernisation. Furthermore, emigration that is not directed towards Europe but towards an overseas country will increase the competitiveness of other continents and thus have a negative impact on European competitiveness.

The current difficult situation of the labour markets (high unemployment) all over Europe cannot be fundamentally changed by a speedy Eastern enlargement. Eastern enlargement can, however, have a positive impact on the development of the labour market. In the short and medium term it creates new jobs due to intensified trade and increasing specialisation as well as improving economic growth mainly in the CEEC. At the same time enlargement protects the labour force in both parts of Europe as the cost advantages in the CEEC improve the global competitiveness of the EU economies. In addition it is going to reduce the migration pressure on Western Europe because the chances for catching up economically in the CEEC are increasing.

³⁵ In these sectors there are the most extreme wage differences between the Western countries and the CEEC.

In the long term the current situation can be expected to change fundamentally. Almost all European populations are characterised by ageing fast. In about 15 to 20 years Europe can expect a general shortage of workers or, if technological progress replaces human labour even further, find itself in a situation where fewer and fewer people have to support more and more people. The costs for pensions, health care and other social costs which are rising anyway in an ageing society have to be met by new employees producing added value. A controlled European migration of labour starting now would probably be a better solution to this problem than uncontrolled abrupt migration triggered off by a demand manifesting itself in the long run. In case of the latter, the European workforce would be replaced by a non-European workforce which could be the beginning of unpredictable changes to the European system of social values.

9. Physical infrastructure

Eastern enlargement will be the first enlargement not to reach and integrate Europe's geographical periphery into the Union. All earlier enlargements touched upon this periphery. Eastern enlargement, especially if it is achieved step by step, does not come to a geographical head but inserts transit regions from west to east and north to south into the EU. This will increase the potential multiplier effects of infrastructural investments, provided a development strategy is realised which links the development of the main transit routes (roads, railways, telecommunication etc.) to the extension of local networks. (Concentrating on transit links only would not have the same positive effects, it could even lead to structural distortions, increased regional differentiation and heavy pollution.)

Not only the membership candidates but also several EU groups have a vital interest in a comprehensive modernisation of the infrastructure:

- in order to utilise existing and newly created sales opportunities it is necessary to extend transport links, warehousing and cold storage capacities, distribution networks etc.;
- the dynamically expanding trade between the EU and the CEEC requires continuous modernisation of the infrastructure so as not to become an obstacle to trade contacts;
- the relocation strategy of numerous multinationals can only realise the cost advantages if an efficient and reliable infrastructure is in place (or at least one that does not outweigh the cost advantages);
- in view of the scale of infrastructural investment requirements in this region, many EU companies have a fundamental interest in developing the infrastructure. Vital sectors of the manufacturing industry, many service providers and - with a downstream interest - also the automotive and vehicle industry are influential supporters of these investments. EU funds could supply as in many other areas also the financial backing for large-scale developments;
- the scale of the development may not only increase the economies of scale but also introduce new technologies whose costs become viable only if the investment is large-scale and regionally adjusted;

- this sector may develop into a power house for all of Europe. Investments in the CEEC will create jobs, generate demand for material and pioneering work, reduce regional differences, offer improved locational conditions. At the same time, these investments require imported input (goods and services) and improve the utilisation of the EU capital invested;
- linking up national and regional power grids may lead to considerable cost reductions and secure energy supplies for all of Europe (improvement of the competitive position).

The EU clearly has to catch up in some key areas of infrastructure, like computer technology (information networks) or international air traffic. Eastern enlargement could not only narrow this gap, but also help to reduce the current dominance of non-European companies in this area. A good example here is the global development of telecommunication. The developing countries constitute only 20 per cent of the global telecommunications market, but the annual growth rate of this sector in these countries is 14 per cent, compared to 3.5 per cent in the developed industrial states.³⁶ The "late comer" effect in the CEE region is obvious in this sector already today.

The extension of infrastructure is not merely an economic task with economic consequences: It is rather a significant contribution to all-European stability. In this situation those associated states which are most likely not to be part of the first round of Eastern enlargement are of particular importance. A cleavage within the continent is as undesirable in infrastructural development as it is in security and stability issues. Ambitious large infrastructural projects should make the unification of the continent a real phenomenon of daily observation in these countries.

10. Regional development

The total length of all external frontiers of the EU amounts to 5421 km, of which 56 per cent (3033 km) are borders with CEEC (Poland, the Czech Republic, Slovakia, Hungary, Slovenia and Bulgaria). "Internalising" these borders could reduce the existing and sometimes alarming income gaps (gaps in purchasing power) in the medium term. Moreover, it would also facilitate the return towards the "normal" geographical structure of the European continent. Finally, it would also mean a significant increase in security.

Eastern enlargement is the only way to help countries like Germany, Austria and to some extent also Italy overcome the drawbacks of their geographical position on the periphery. In this context it is especially important to adjust the peripheral positions of such European centres as Berlin and Vienna. On a smaller scale, the same applies to Graz, Dresden and Helsinki. Trieste and Thessaloniki could recover their historical roles as mediators by integrating their "hinterland". In this way, new growth centres could establish themselves which could positively influence the economic development throughout Europe. Taking also into account that "internalising" the current external EU frontiers would extend to the most dynamic membership candidates and would help to activate the billions of money

³⁶ Cf. World Bank: World development report 1997.

already invested in the modernisation of the new German states, a considerable growth potential could be expected for Europe.

Needless to say that the regional shifts mentioned above will not affect all EU countries to the same extent (and above all, not with the same positive effects). The accrued gain derived from growth, new markets, competitive locations and not least stability on the continent, however, clearly seems to rank higher in a European model calculation than the "loss" of present centres or preferred peripheries. Each voluntary or involuntary obstacle put in the way of this process could do disproportionately more and lasting damage to Europe as a competitive international player and a stable continent.

It should also be born in mind that Eastern enlargement would have at least three important consequences for the region. To start with, virtually all of the Baltic region would be (re)integrated into modern Europe. Secondly, all of the Danube basin could become an integrated part of the continent. Thirdly, Greece would cease to be in an isolated geographical position. In conclusion, the argument could be summed up as follows: enlargement could put in motion considerable developments (changes) in regional policy and economy for several decades to come. Actually these changes are already under way in numerous sectors of the economy (and society). In order to accelerate and harmonise these processes and to make the best use of potential multiplier effects, a comprehensive enlargement strategy with clear institutional backing should be of utmost interest for further European development.

Not enlarging the EU might determine the German (and also the Austrian, Italian, and later the Greek) border as the external border of the EU and these states as border states for a long time to come. This would cast doubt on not only the stability of the external borders of the EU, but also on the internal cohesion of the current EU: Unpredictable, but not impossible developments in the neighbouring countries might lead to countermeasures and unco-ordinated national initiatives.

11. Environment

Effective environmental protection is based on international co-operation. In most cases pollution does not stop at the borders of a country so that neighbouring countries and bigger (integrated) regions should have a common interest in implementing an effective environmental policy. EU Eastern enlargement will extend the geographical purview of an ecological and environmentally friendly policy. There is a common interest in decreasing air and water pollution as well as avoiding industrial (nuclear) disasters. Membership candidates can make a positive contribution to the European environment in certain areas:

- CEEC have vast genetic resources at their disposal, which are no longer or - not to that extent - available in western Europe;
- on their low level of income the lifestyle (consumption) of the CEEC is less damaging for the environment than the western lifestyle (waste);
- in view of the institutional changes as well as the lack (the abolition) of influential lobbies as a consequence of the breakdown of the old system the chances for introducing environmentally friendly technologies are in some

areas better than in Western Europe (the biggest problem is caused by financing environmental policy);

Manifest economic advantages for the EU members can be found in the following areas:

- paying more attention to the environment will require new technologies and environmentally friendly equipment, which in turn will lead to orders being placed with western manufacturers and exporters:
- the scope of environmental policy on the Continent as well as the task to repair earlier environmental damage could lead to the development of new technologies and procedures successful in global competition which would be based on western and eastern European research potential. The considerable demand for these kinds of equipment and technology may reduce the specific research and development costs as well as the costs for mass production and thus lay the foundations for a competitive European eco-industry.

Not enlarging the EU will not only lead to a loss of the potential gains mentioned above, but it will also become basis (and justification) for a continued lack of coordination in European environmental policies. Consequently, the chances for effective control of so-called "environmental dumping" would be reduced.

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Security

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1. Introduction

Although discussions of enlargement and security issues invariably focus on NATO, enlargement of the EU will also have security implications both for the current members as well as for the Central and Eastern European states that will join (and for those that will be left out). Vital to this recognition is the contemporary broad definition of security. Security was usually equated with the ability of states to preserve the independence of their territory and identity. The traditional definition had as its core the analysis of a military threat and the use and control of military force as a tool for defence and diplomacy used by state actors. In addition to military threats, political, economic, social and environmental concerns affecting both states and non-state actors are taken into consideration by broader definitions of security.

With the end of the Cold War this broader definition of security has been embraced by the policy-making community and spread into Central and Eastern Europe. It has also been accepted in the mandate of international organisations, such as the West European Union (WEU) and the EU.

This chapter summarises the impact EU enlargement by the first group of Central European candidates will have on its members' security.¹ The debate on EU enlargement is complicated by several factors. First, some of the security benefits which this paper will outline do not necessarily require full membership - strong links between the various dimensions of the EU and the candidates may in some cases suffice to create security benefits. However, the security concerns of EU member states (such as, for example, nuclear safety) are often addressed by applicant countries responding to the principle of conditionality, which the EU linked to the prospect of integration. Additionally, new members must "buy" the entire package of the EU's *acquis*, which includes the Common Foreign and Security Policy, justice and home affairs as well as the objectives of political, economic and monetary union. Thus, EU membership is the most explicit and stable means of co-operation, not only because it is comprehensive but also because it allows for issue linkages and gives new members political influence in a process which is based on partnership.

Secondly, not all the security benefits affect all current EU members to the same degree: countries immediately neighbouring on candidate countries (such as Germany and Austria) may experience a greater positive change in their security situation than those that are located elsewhere. Nevertheless, security of the EU countries is not a zero-sum game since security benefits to one or more of its members imply an improvement in the EU's overall security situation.

¹ The EU Commission, in its Agenda 2000, suggests that the first group of candidates should include the Czech Republic, Estonia, Hungary, Poland, and Slovenia.

Thirdly, in Europe, a great number of organisations deal with security issues and many of them overlap in their efforts and areas of responsibility. The EU is generally not considered the primary European security organisation - this role is reserved for NATO. Other organisations, such as the Organisation for Security and Co-operation in Europe, take on responsibility for some aspects of security.

Both the European Union and NATO have committed themselves to accepting new members from Central and Eastern Europe. These two processes of enlargement are conceptually and politically linked and it is generally recognised that they should be pursued in parallel. Although the congruence of membership of the EU, the WEU and NATO is considered as the best ultimate scenario for European security, diverging approaches are imposed by the different accession requirements of the various organisations.

NATO will probably include new Central European members before the EU does so, but the EU is expected to follow shortly. The EU will presumably begin negotiations with the three states that NATO invited to start accession negotiations (Poland, Hungary, Czech Republic) as well as with Slovenia, Estonia and Cyprus. NATO membership for the three countries invited to join first may take care particularly of their hard security concerns and aspects of transfer of stability. The EU Commission's July 1997 Agenda 2000 emphasises that "the enlargement of the European Union must ... make aim to make an additional stabilising impact complementary to that made by the enlargement of NATO."

The OSCE will continue to play an important role in the field of conflict prevention and overcoming the consequences of conflict (political reconstruction) as well as arms control. The example of the OSCE-mandated, Italian-led "Alba" operation in Albania (in which the EU was not involved) shows that there may be some overlap between the capacities and areas of responsibility of the EU and the OSCE. However, because of its large membership, slow decision-making processes and broadly defined areas of responsibility it may have difficulty taking on primary responsibility for most security areas in which the EU will act.

2. "Soft" security

Political stability

The process of integration, particularly in the context of the EU, aids domestic stabilisation and supports the democratisation of Central and Eastern European societies. The Intergovernmental Conference made the principles of liberty, democracy and respect for human rights and fundamental freedoms and the rule of law an explicit condition for membership, reflecting the recognition that these principles are among the best guarantees of peaceful, predictable and co-operative behaviour between states. The prospect of enlargement also assures that candidate states exhibit behavioural predictability and stability in the political and economic realms. However, enlargement and the corresponding reform processes may simultaneously have the effect of further increasing economic and social differentiation and possibly also political polarisation of societies of new member

states. This socio-economic differentiation, particularly if combined with regional discrepancies could prove destabilising.

Additionally, EU enlargement will have positive consequences for civil-military relations. While NATO tackles the issue of civilian control of the military mainly from the military side, the EU focuses primarily on the civilian side. It emphasises support for democratic institutions and the creation of civic societies and uses political conditionality on this issue. As WEU's "Common Reflection" indicates, democratic institutions best "ensure that national armed forces, and the machinery of government as a whole, are properly answerable to public opinion and democratic institutions and cannot be used as an instrument of oppression either inside or beyond the state."

On the bilateral level, the EU provides an environment for improving relations between its new members. Although the EU emphasises settling bilateral problems or submitting them to the International Court of Justice as a precondition for membership, the EU constitutes an environment in which new members can find co-operative solutions to long-standing issues with neighbouring countries. It provides a comprehensive framework for discussion of issues ranging from economics to justice, while encouraging support for human rights and respect for minority rights. The prospect of EU membership has already resulted in bilateral agreements of various kinds among countries which have traditionally had difficult relations, and in general rapprochement in the region.

Access to the Single Market, to structural and cohesion funds and to the EU's Common Agricultural Policy will reduce the economic and social differences between single regions in the accession countries. This could bring the accession candidates economically closer and contain migration due to poverty. The free flow of people among EU countries increases cultural and social contacts and could heal old wounds (as has been the case with Germany and France) as permeability of borders de-emphasises citizenship issues and eases minority-related tensions and possibly also migratory pressures.

Additionally, membership of the EU is a lesson in compromising. Lack of tolerance and propensity to compromise is seen by some observers as the biggest problem of civic societies in Eastern, Central and Southeast Europe and as the cause of intra- and inter-state conflicts. The experiences of intergovernmentalism and, even more so, Qualified Majority Voting will thus have an indirect conflict prevention function.

EU enlargement could have a positive impact on the a dimension which is rather underdeveloped in Central and Eastern Europe: subregional co-operation. It is generally understood to have an indirect or direct confidence-building role. The EU conditionalities support subregional co-operation and the Commission is already a member or observer in some groupings. With enlargement, the number of EU member states among their participants will increase and so will EU involvement in their activities. Subregional frameworks could take on conflict-prevention and peacekeeping functions under the auspices of other international organisations. It also appears possible, however, that enlargement may undermine subregional structures which often serve only one function - of a preparatory stage for membership of NATO and the EU, and that stronger subregional co-operation which would not draw in Russia may have a negative impact of EU's relations with this country.

Furthermore, although enlargement will bring the EU closer to destabilised areas, it has been argued that it could potentially also serve as a bridge to reinforce the EU's relations with more distant countries, particularly in Eastern and Southeast Europe. The Commission points out in the Agenda 2000 that "geographic proximity, important traditional economic ties, cultural and religious affinities between acceding members and New Independent States are assets to a closer relationship", conducive to positive solutions to problems in these regions. However, the structure of EU-Eastern and South-eastern Europe dialogue gives the candidate countries currently only a very small role to play, and the Agenda's positive tone may reflect more the wish of Central European states not to be excluded from that dialogue than a realistic assessment of their capabilities. Nevertheless, an EU enlargement to include one or more Baltic or Balkan countries could support the process of creation of civil societies in Eastern and Southeastern Europe.

Finally, EU enlargement to the Central and Eastern European countries should have an assuring effect for Germany's Western partners, which may be weary of its strictly bilateral involvement in that region, and strengthen and deepen Europe's relations with the United States and Canada which have articulated strong support of the EU enlargement process on several occasions. Assuming greater responsibility for the reform processes underway in Central and Eastern Europe will make Western European countries a more credible and valuable partner for its North American allies. EU enlargement may finally strengthen the weight and negotiating power of the Union in international organisations, thus reinforcing the influence of its "common positions".

Economic stability

Political stability in general, and particularly in the post-Cold War period, is not possible without economic stability. The unrest in Albania which followed the collapse of financial pyramid schemes clearly shows the relevance of economic stability to issues of security. The Central European states' EU membership may create conditions for increased investment and economic stability. However, the experience of other states which have entered the EU in the past, such as Greece or Portugal, indicates that membership does not always translate into a higher economic growth rate.

A specific aspect of economic security is the impact of the end of the Cold War on armament industries of the Central and Eastern European countries. Their defence industries are forced simultaneously to restructure (downsize) and modernise. The EU provides support for conversion and regional development funds in support of regions affected by the closing down of defence industries for its own member states and may extend them to new members.

However, it is international armaments co-operation that is a key to affordable modernisation in Central and Eastern Europe. Western industries are likely to form partnerships with firms in Central and Eastern Europe to implement national procurement programmes, possibly through insertion of Western sub-systems into existing local technology (currently industrial co-operation is limited largely to maintenance, repair and training capabilities). In this area, both the EU countries and the US will compete for markets and industrial partnerships. The new

members are thus likely to co-operate with countries on both sides of the Atlantic although the exact scope of each will depend on how attractive the respective partners will appear.

Currently, there are two European armaments co-operation arrangements: the Western European Armaments Group (WEAG; a political framework of 10 WEU full members and three of the four other European NATO states) and the Western European Armaments Organisation (WEAO; tasked with co-operative research on armament technologies and limited to WEAG members) are seen by the WEU as part of "progressive framing of a common European defence policy". Both are rather weak. In addition, rules of admission to the WEAG are not yet fully established. Although part of the framework of the WEU (not of the WEU itself), the WEAG and the WEAO do not link their membership to any European organisation (although, of course, EU membership creates trust and confidence needed for armaments co-operation).

However, a number of EU and WEU documents (the WEU declaration annexed to the Maastricht Treaty, the Amsterdam decisions and the WEU declaration annexed to the Amsterdam Treaty, as well as the November 1997 Erfurt Declaration of the WEU Ministerial Council) make reference to the need of creating a European Armaments Agency as contribution to improving Europe's military independence. Such an agency would improve operational performance through common requirements, standards, specifications, development methods and means of production. So far the conditions for a European Armaments Agency are not given. Should it, however, become reality, it may be beneficial to include all new EU members to enlarge its base in order to be competitive in the world market.

Task-sharing, complementary ideas, pooling of resources in order to improve competitiveness in the world markets and effective co-ordination for acquisitions would be useful; joint research and development efforts also appear possible.

3. New risks (internal/domestic security)

New risks are not per se new. The perception of the intimate link they have to national and international security is, however, a relatively new phenomenon. Central and Eastern European countries are vulnerable to new risks and their effects are already felt in Western Europe as they cannot remain limited to one national territory. Problems such as environmental threats, illegal migration or organised crime affect the citizens much more directly than Cold War military threats and therefore influence the electoral behaviour. This makes them highly relevant to politicians both in the West and in the East of Europe.

In dealing with new risks, the EU is the most important security framework. Not only does it have the right combination of tools, ranging from economic to foreign policy, but it can create linkages and "package deals" which make adjustments among new (and old) members possible and palatable.

Organised crime

Organised crime has international repercussions as it can provoke internal instability and affect relations between countries. The EU Reflection Group's 1995 Report points out that "there is an obvious contradiction between the effective international organisation of such crime and the national character of the main instrument used to combat it, which explains their limited effectiveness."

Organised crime has, in many instances, close links with the production and trafficking of narcotics, money laundering, weapons smuggling and terrorist organisations. Instances of nuclear smuggling have also been associated with organised crime although they are sporadic and do not constitute a security risk at this time.

"Grey zones" such as Central and Eastern Europe, where legislation and law enforcement are not yet fully developed, are the preferred locations for organised crime to operate (although in most cases organised criminal groups are not indigenous to the candidate countries). The freedom to travel, new trade channels, abundance of weapons, corruption of officials, and large numbers of unemployed former members of the armed forces or espionage organisations as well as "the value vacuum" in the Eastern and Central European countries, but particularly in the post-Soviet republics, provide a suitable environment for its operations.

Enlargement will thus bring problems of organised crime closer into the framework of the EU, but it will also provide the tools needed to address this security problem. There is a need for co-operation in law enforcement, particularly in common legal standards and definitions, as well as procedures and comprehensive crime prevention programmes (including transmission of information between police authorities) with the support of Western expertise, which is available in co-operation under the third pillar of the EU (including Europol, and since Amsterdam also the Schengen agreement.² However, the EU in itself is not a sufficient guarantee against organised crime until its third pillar will become fully effective.

Amsterdam mentions the need for a step-by-step creation of a European space of freedom, security and law. This will have implications for enhancing the third pillar and creating European law standards, for example in the area of asylum procedures, customs co-operation and standards for minimal punishment for criminal activities (in view of joint efforts to combat terrorism, drug smuggling and other forms of organised crime). Full participation of new members in a functional third pillar would create conditions for efficient ways of addressing problems of organised crime and illegal immigration.

Illegal migration

Migration as such is not a security problem. Nevertheless, many analysts associate stability and security problems with uncontrolled or illegal migration and argue that they have grown considerably in Europe in recent years. Migration could pose

²Schengen provides for co-operation in cross-border surveillance, the establishment of a common electronic database, collaboration in the procedures of extradition and mutual assistance in criminal justice matters and in the joint fight against drug trafficking.

security concerns associated with financial and social costs, links with organised crime, and "importation" of political conflicts for the "final destination" and the "transit" countries as well. (While Western Europe has traditionally been the destination and Central Europe the origin or "transit" zone, more and more illegal migrants choose to stay in Central and Eastern European countries, which have little experience in dealing with this issue.)

Causes of illegal migration include differences in employment prospects and earnings among the states of the EU and other countries, social and political unrest, violations of human or minority rights as well as porous borders and weak control mechanisms in many countries. These problems must be tackled by a variety of means aimed both at the causes and the stemming of migration, such as economic development, regional initiatives, legal approximation and enforcement, joint customs regimes and cross-border surveillance, all of which are provided by the EU.

Bilateral treaties on curbing illegal migration have already been reached between the EU countries, such as Germany, and their eastern neighbours, but only membership of the EU framework would ensure going beyond bilateralism and guarantee the necessary multilateral co-ordination in addressing this all-European problem. EU enlargement will allow for concerted technical support for monitoring and tightening external borders of the EU in the east, which will shift to become a responsibility of the new Central European members. The new members will become part of the Schengen regime, although a lengthy transition time may be necessary to ensure that its requirements are fulfilled. Particularly the issue of Schengen agreements' effect on relations between neighbouring countries in the Central and Eastern European region may raise problems: visa-free travel for ethnic Hungarians from Romania entering Hungary, or Slovaks entering the Czech Republic may in the future not be possible, should Hungary and the Czech Republic constitute the EU's external border.

Enlarging the EU will, according to the Agenda 2000, also have the benefit for its current member states of increasing "the pool of states which meet common criteria to act as potential recipients for asylum applicants" and allow for concerted technical support for monitoring and tightening external borders of the EU in the east, which will shift to become a responsibility of the new Central European members.

Environmental problems

Environmental risks are inherently of a cross-border character, thus easily affecting parts or all of Europe (and beyond). There is, however, another dimension to environmental risks: they could be used in the domestic political discourse, for example to appeal to group identity in disputes over natural resources.

Environmental risks, particularly water and air pollution and waste management, are more acute in Central and Eastern Europe than in Western Europe, reflecting the concentrations of industry and military installations handling dangerous materials as well as lower safety standards and environmental concerns. Most of the problems are legacies from the past (insufficient preoccupation with controls

of industrial emissions and waste, underpricing of energy), but some have intensified during the rapid transition process.

Candidate countries implement some measures in the field of environmental protection, with EU and other international support. Little is done, though, in the area of combating environmental problems in sectors such as agriculture, transport, energy, tourism and specific industrial branches which the EU currently focuses on.

EU enlargement criteria will bring higher environmental standards for new members and prevent eco-dumping. The EU can also support environmentally friendly projects through its programmes, reflecting the comparative advantage of investing in environmental protection in heavily polluted Central and Eastern European areas where one can reach higher marginal environmental benefits of investments. The costs of emission reduction, for example, differ widely between countries with divergent levels of economic development, which means that the EU could contribute to European or global reduction by financing and transferring technology to new member countries. This could be done, for example, under the auspices of the EU Cohesion Fund in the field of environment (and Transeuropean Networks in the area of transport infrastructure) for which the new members will be eligible. The EU also provides a framework to help to mediate in inter-state environmental problems (of the kind of the Slovak-Hungarian dispute over the Gabčíkovo-Nagymaros dam in which the EU played a mediating role).

Nuclear safety constitutes a very specific area of the EU's environmental policy. The EU's concerns about nuclear safety in Central and Eastern Europe are independent of enlargement and would have to be addressed anyway as most of the nuclear power stations in those regions do not meet international safety standards. Conditionality and the need for new members to accept the EU's *acquis* provide the most important means in dealing with nuclear safety problems among candidate states (for other states using Soviet-style nuclear power technology distinct methods of addressing nuclear safety, for example conditionality of technical aid or loans, must be developed). Agenda 2000 specifies that the Commission expects applicants and new members to co-operate fully in reaching internationally accepted nuclear safety standards. The Community *acquis* in this area is based on a framework of legal and political instruments, including international agreements, which address issues of health, safety of nuclear installations, management of radioactive waste, investment, , promotion of research, nuclear common market, safeguards and international relations. The EU assists in identifying and using other sources of energy and transfers know-how and technology where needed. Where necessary, it can push for the closure of non-upgradeable units. Most importantly, thus, the EU promotes "nuclear safety culture" among its members and non-members, for example by ensuring that the timetables already laid down in the Nuclear Safety Account Agreements are observed. In fact, it has been argued that technological environmental standards can only be internationally enforced by organisations such as the EU (and not by looser frameworks).

To sum up, the main security benefits of EU enlargement are in cooperation in non-territorial defence matters; stability transfer in terms of extending both implicit security guarantees to new members and improving their socio-economic conditions; and including those states in an improved framework of cooperation

aiming at addressing transnational "new risks", such as organised crime, illegal migration and environmental risks.

4. "Hard" security

Explicit security guarantees: territorial self-defence (Art. V modified Brussels Treaty)

The EU had no security dimension per se, until the Treaty on the European Union (TEU) gave it a security and defence policy dimension and linked it to the WEU by means of Art. J.4.2. of the Maastricht Treaty. The decisions of the TEU Review Conference (IGC) foresee the possibility of closer links between the EU and the WEU (which could lead to a merger in the more distant future). The task of territorial self-defence in Europe is entrusted primarily to NATO although it is also laid down in the WEU Treaty (modified Brussels Treaty). Art. V of the WEU Treaty makes it formally more compelling for its member states to act in cases of aggression than the relevant clause of the NATO Treaty (Washington Treaty), as the WEU-Treaty specifies that members will afford the attacked state "all the military and other aid and assistance in their power". However, the WEU's underdeveloped military capabilities and the matching memberships of the two organisations (the 10 full members of WEU are also NATO - and EU - members) result in an implicit dependence on NATO's Art. V.

The enlargement of the EU to countries which have - at this time - not been offered the possibility to enter NATO (such as for example Estonia) will have consequences for the efforts to create congruence and matching memberships among the triad of European organisations EU, WEU and NATO. The process of creation of a European Security and Defence Identity may suffer when closer co-operation between these organisations, for example in the context of crisis management, becomes more difficult.

The EU enlargement will also change the composition of the "WEU family" of states (currently 28 countries are linked to the WEU in four different ways - as members, associate members, observers and associate partners - while Russia, Ukraine and six Mediterranean countries participate in a special dialogue with the organisation). Some of the countries which will join the EU will by that time also be in NATO and benefit from NATO's security guarantees. They will then be invited by the WEU to become full members.

The unanswered question is whether other candidates (including new EU members which may not be NATO members) should be offered WEU membership as a contribution to their security needs. Some observers have suggested to disentangle the interlocking relations between the WEU and NATO thus freeing the WEU from its implicit dependence on Art. 5 of the NATO Treaty. Full membership of the WEU with security guarantees (or of the EU with a security guarantee codified in the TEU), it is argued, could help satisfy Central and Eastern European security needs, possibly without provoking Moscow in the way that further NATO expansion might. In fact, this could even contribute to eliminate the dividing lines in Europe, provide the whole of Europe with a more

explicit conflict prevention and management dimension and thereby assist in the stabilisation of the Central and Eastern European countries.

However, an enlargement of the WEU separate from developments in NATO would disrupt the attempt to achieve congruous memberships among Euro-Atlantic institutions (although congruence could be reached between the EU and the WEU alone). It could even result in a disengagement of the WEU from its function as the European pillar of NATO in Art. V matters - although that should not affect the WEU's non-Art. V tasks (humanitarian and rescue tasks, peacekeeping tasks and tasks of combat forces in crisis management, including peace-making - the so-called Petersberg tasks, according to a declaration adopted at a WEU meeting which took place in June 1992 on the Petersberg by Bonn).

Even if Art. V of the WEU's modified Brussels Treaty was eliminated, for current WEU members the question of applicability of the collective self-defence article of the Washington Treaty to non-NATO members of the WEU would arise. For example, a conflict in which WEU members decided to apply the Petersberg mechanism could escalate and leave the WEU states to decide whether Central European countries participating in that operation should be defended even if there was no formal obligation to do so. Thus, independent European security guarantees for Central and Eastern European countries appear unlikely for the moment.

In fact, Central European leaders consider the WEU and the EU unsuitable to address their countries' hard security needs because, compared with NATO, they have modest military capabilities and a low operational profile. The small visibility of the WEU in the former Yugoslavia is a case in point. While the WEU's Maastricht provisions and the Combined Joint Task Forces (CJTF) concept, which would allow for the use of NATO's assets in European-led operations in which the United States chose not to be directly involved, sound promising, they have yet to be translated into practice.

Some observers emphasise that Central and Eastern European candidates must be educated to realise that the various forms of politico-military co-operation short of hard security guarantees provided by the EU and the WEU could go some ways towards addressing their needs. So far, most Central and Eastern European countries focus almost entirely on NATO as a security guarantees provider.

Non-Art. V tasks

Following the end of the Cold War, organisations such as NATO and the WEU have turned increasingly to non-Art. V/5 tasks (Petersberg tasks). These operations differ from the provisions of Art. V/5 operations as the participation in them is not obligatory and allows for the inclusion of non-member states.

Central and Eastern European countries will increasingly become "security providers". The new EU members will have an incentive to take on additional responsibilities in their neighbouring regions, also because they know that good-neighbourliness is an essential criterion for membership of European organisations.

In addition to their participation in UN or NATO peacekeeping, the new EU members will contribute troops to European-led Petersberg operations

(irrespective of whether these are conducted in the future under the auspices of the WEU or EU). This could include contributing to crisis prevention, management and peacekeeping efforts and to national and multinational formations answerable to the WEU (such as the Eurocorps).

In this respect, their knowledge of and their traditional links with Eastern and Southeast Europe may be useful. It could thus be advantageous if subregional co-operation frameworks could take on a role in the context of non-Art. V EU/WEU operations in those geographical areas. The European framework offers itself for this purpose because the EU maintains links with subregional arrangements that NATO does not have. Even though this is conceivable, such a development will not become reality in the short or medium term, as it requires added political and financial support from Western European partners, and acceptance by Russia.

Implicit guarantees

As the strategic security issues in Europe (such as the threat of nuclear confrontation) have virtually disappeared with the end of the Cold War, forestalling destabilisation and conflict in the vicinity is now the overriding motive for the enlargement of EU. The area of relative stability and prosperity, provided in Europe by the EU and NATO, attracts a number of Central and Eastern European applicants and in this way stabilises the neighbouring regions.

The WEU's 1995 "Common Reflection" document (prepared by the then 27 countries of the WEU family) observes that growing economic and political integration driven by the EU "has created and reinforced interdependence and solidarity among Europeans. The political initiatives taken by the European Union towards its Central and Eastern partners are a logical extension of the same process." The EU, as a club of democratic countries with strong links among them, strengthens the European identity of states and citizens and contributes to the stability of the entire continent.

The multitude of social, economic and political links, which characterise the interaction between EU members and could be likened to "Gulliver's threads", has the effect of making conflict within the EU unthinkable and abandoning a member in case of aggression impossible. The "threads" enforce solidarity among EU member states which may be a more reliable security guarantee than a signature on an alliance treaty. It is for this reason that the EU has an implicit hard security dimension.

Chances for institutional reform

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In order to answer the question in which way the institutional structures and procedures of the EU could benefit from an Eastern enlargement, one first has to decide, what kind of future Union is envisaged. In the following arguments, the envisaged Union should be able to look after the competences entrusted to it in an efficient way, deal with the challenge of globalisation as well as guarantee the internal and external ability to act. The institutions and procedures should be able to cope with demands in terms of efficiency, subsidiarity, transparency, and democratic legitimacy. This goal can only be achieved by means of a federalist equilibrium in a well-balanced supra-national institutional system.¹

1. Deficits in the existing institutional system

A substantial reform of the common institutions and procedures to optimise the ability to act and the federalist equilibrium is, however, essential, even without the forthcoming enlargement: The incremental continuation of the structures of the Europe of Six has strained the current system and reduced its efficiency. After all, the institutions and procedures of the EU had originally been designed for six member states. In the course of several rounds of enlargement, adjustments to the institutional system were only made in the form of supplementary reforms and extrapolation of existing institutions. Thus the current European Union with its 15 member states depends on a framework of institutions which has grown in an uncontrolled and erratic way: past intergovernmental conferences failed to improve its efficiency and ability to act fundamentally, but only adjusted the framework to the development at hand and the number of member states of the Union. The institutions function, but they do not function to optimum effect.

A more efficient decision-finding is impeded by several factors:

- Perpetuating the system when the EU was enlarged from six to fifteen member states has led to overstaffing.
- Overextended staffing levels were accompanied by a dysfunctional division of tasks, especially in the Commission - thus as many as four of the twenty commissioners are directly involved in dealing with the Union's foreign affairs.
- The perpetuation of the system has also intensified the disproportion in the distribution of votes in the Council and of seats in the European Parliament. This mainly affects the bigger member states.

¹ The main points of a reform of the federalist equilibrium have already been developed by the European Structure Commission in co-operation with the Bertelsmann Foundation. For the results, see: Werner Weidenfeld (ed.): *Reform der Europäischen Union. Materialien zur Revision des Maastrichter Vertrages 1996*, Gütersloh 1995. The reform proposals outlined here essentially have not lost their urgency after the Treaty of Amsterdam.

- Domestic political motives have made the Council presidencies less than effective in several cases.
- Distrust and national reservations are blocking a substantial extension of majority-vote decision-making or have led to a proliferation of safety precautions respectively, for instance, the Luxembourg compromise, the agreement of Ioanina, "national interests" in the Treaty of Amsterdam. Adhering to the principle of unanimity, however, is the primary factor in preventing many purposive and efficient measures even before they have come up for decision in the Council.

This catalogue of deficits in the existing system demonstrates that the institutional structures are in need of fundamental reforms, even without the enlargement, and all the more so as the European Union will have to face future challenges - economic globalisation, active crisis management in foreign policy and the fight against transnational crime: The challenging problems are likely to increase and only a Union with efficient structures of decision-making will be able to react adequately.

2. The different scopes of interest of the member states

Without a shared ideal and without the necessary external pressure the current member states are not likely to be able to achieve a fundamental reform of the institutions. One cause of this inability are the fundamental differences in the interests of the member states as far as the concept of a future integration and the way to achieve it are concerned. Another cause is the fact that institutional questions determine the balance of power within the European Union and, thus, decide the question, who pays how much for what.

Up to now, each fundamental structural reform of the European Union (or the Community respectively) has been linked to a certain programme, an overriding objective.² The Single European Act was directed at completing the single European market, the Maastricht Treaty at economic and monetary union. In the interest of achieving these objectives, institutional and procedural reforms were accepted.

However, no such overriding objective crystallised during the intergovernmental conference on the revision of the Maastricht Treaty. The debate about reforms with its original targets - improving the capacity to act in the field of common foreign and security policy and domestic and justice policy as well as the institutional preparation for Eastern enlargement - was too much influenced by a variety of conflicting topics and interests. Mainly it was the euro that overshadowed - at least rhetorically - the big reform goals. Due to the elections in Great Britain and France, the reform focus had shifted increasingly towards common employment policy by the end of the intergovernmental conference and at the summit in Amsterdam.

² Cf. Helen and William Wallace, *Flying together in a larger and more diverse European Union*, Working Documents, The Hague: Netherlands Scientific Council for Government Policy, pp. 23-25.

It is true that the Amsterdam Treaty succeeded in bringing about institutional improvements in some details, a fundamental reform of the structures, however, was postponed into the next century when the enlargement is being prepared. The date of the intergovernmental conference seems to have been too early for extensive reforms and thus the pressure of imminent enlargement had not yet built up. Decisions on European policy - like decisions in politics in general - are hardly ever taken in advance.³ Thus, the Amsterdam Treaty is primarily associated with finalising the stability pact and employment policies.

The forthcoming enlargement of the Union to more than 20 members has to be prepared by fundamental institutional and structural reforms, however, if the deficits already existing are to be overcome and symptoms of paralysis after enlargement are to be prevented. Thus the Union is confronted with the dilemma that on the one hand institutional reforms are being called for as a necessary prerequisite for European enlargement, that on the other hand, however, no consensus can be reached with respect to the specific issues to be reformed.⁴ Therefore, enlargement should be defined as the overriding political aim in order to create a similar dynamic like previous economic aims - single European market, economic and monetary union - and thus create acceptance for the necessary institutional reforms.⁵

The problem with this approach is that the current member states do not present a homogeneous front, neither with respect to European enlargement, nor where institutional reforms are concerned. Thus Great Britain and Denmark, for instance, are in favour of Eastern enlargement in principle, their opposition against increased centralisation and pursuing an intergovernmental approach, however, is indicative of their sceptical attitude towards supranational decision-making structures. This also applies to the up to now neutral former EFTA members, at least in the area of the Common Foreign and Security Policy.

Although it basically supports Eastern enlargement, Germany took up a rather reticent attitude in Amsterdam, especially with respect to extending majority vote. Other countries like Spain and Portugal are not against increasingly supranational decision making but are concerned about a quick and comprehensive enlargement, as this would entail financial losses because financial means, especially from the structural funds, would be redistributed. Belgium, France and Italy support Eastern enlargement but only on condition that fundamental institutional reforms be carried out before an enlargement.⁶

In none of the member states reservations against substantial reforms are linked to a rejection of the idea of Eastern enlargement. Thus enlargement has become a

³ Cf. Josef Janning, Claus Giering (1997): *Mythos der Erweiterungsfähigkeit Die EU vor ihrer ersten Osterweiterung* [The myth of the enlargement capability. The EU and its first Eastern enlargement]. In: *Internationale Politik*, Issue 11, pp. 31-38.

⁴ Cf. Christian Jung (1995): *Die Osterweiterung und die Interessen der EU-Mitglieder* [European enlargement and the interests of EU members]. In: *Wirtschaftspolitische Blätter*, Issue 3-4, pp. 246-253.

⁵ Cf. Günther F. Schäfer, *Die institutionellen Herausforderungen einer EU Osterweiterung* [The institutional challenges of EU enlargement towards the east], in: Werner Weidenfeld (ed.): *Europa öffnen. Anforderungen an die Erweiterung*, Gütersloh 1997.

⁶ In view of these convictions, the Treaty of Amsterdam signed on 2 October 1997 includes a corresponding declaration by the three countries.

key factor for implementing institutional reforms. It benefits those members favouring both options as well as those that have a sceptical attitude towards European enlargement but principally welcome institutional reforms. Assuming that enlargement unavoidably entails institutional reform would create a strong rationale to commit those members preferring enlargement to institutional reform to support an institutional reform necessitated by Eastern enlargement. In its turn, both the EU itself and its current and future member states will profit from well-functioning institutions and decision-making procedures in dealing and coping adequately with the internal and external challenges the community and the individual members face.

3. Institutional overextension through enlargement

Eastern enlargement might generate the necessary pressure for institutional reforms, as the question is no longer "if" an enlargement will take place, but only "how." Consequently, the EU should prepare itself for enlargement, as envisaged at the Copenhagen summit: Without this preparatory reform the institutional system would become extremely strained. At the moment, both Eastern enlargement and the reform of the European Union are largely parallel debates. It is true that enlargement is mentioned as a motive for reform most of the time, but its concrete implications are rarely investigated more closely. The core challenge, however, lies in linking these two topics. The "accession capability" of the Central and Eastern European states and the "enlargement capacity" of the European Union constitute two sides of the same coin. In contrast to earlier rounds of enlargement, Eastern enlargement causes the European Union to exceed the critical limits of its ability to act and its governability.

Thus, the absolute number of member states is going to overtax most EU institutions laid out to accommodate six to fifteen member states, if these are to be staffed according to the procedures currently in place. Upon enlargement to more than 20 member states, the intergovernmental "bottom-up principle" – a certain number of member states resulting in a corresponding number of positions – would cause the excessive number of decision-making positions in some bodies to rise even further. Not only would this be counterproductive as regards any efficiency considerations, it would also substantiate existing prejudices against the "Brussels bureaucracy" considerably.

Without a preceding reform, the vote rates in the Council of the Union would continue to change to the disadvantage of the larger member states (see: charts 1 and 2):

Thus, after the accession of the six candidates proposed by the Commission for opening admission negotiations (Estonia, Poland, Slovenia, the Czech Republic, Hungary and Cyprus) Germany, France, Great Britain and Italy which cover together 59 per cent of the population of the EU would be left with a mere 35 per cent of the votes in the Council. Together with Spain and Poland the proportion would be 77 per cent of the population and 50 per cent of the votes.

The reform of the allocation of votes seems to be all the more urgent in view of the fact that the five small new members (without Poland) would have 15.9 per cent of the votes in the Council and only 5.6 per cent of the EU population.

Without reform neither the "core states" Germany, France and the Benelux, nor three larger states (e.g. Germany, France and Great Britain) would be able to reach the blocking minority of 30 votes (or 33 votes in the EU-21).

Even for all the larger and middle-sized (Spain, Poland) states with their combined 56 votes the qualified majority of then 80 votes would be out of reach. A constructive majority of the larger states, let alone an institutional reform in favour of the larger member states would be out of the question in such circumstances.

Even the number of the members of the European Parliament (MPs) would surpass the 700 limit determined in the Amsterdam Treaty. An enlargement including the five CEE candidates and Cyprus only already increases the number of MPs to 763. How to achieve a reduction by 63 seats: at the expense of the smaller states, which already have very few MPs, or at the expense of the larger states, already underrepresented. Currently, every Luxembourg MP represents 67,000 Luxembourgers, every German MP more than 800,000 Germans. After the enlargement, the 700 seats limit would - without a fundamental reform - lead to a further shift at the expense of the larger member states.

Chart 1: Inhabitants, Votes and Seats in the EU-26⁷

| Country | population (mn) | votes in the Council | seats in the Parliament |
|----------------|-----------------|----------------------|-------------------------|
| Germany | 81.5 | 10 | 99 |
| United Kingdom | 58.3 | 10 | 87 |
| France | 58.0 | 10 | 87 |
| Italy | 57.2 | 10 | 87 |
| Spain | 39.6 | 8 | 64 |
| Netherlands | 15.4 | 5 | 31 |
| Greece | 10.4 | 5 | 25 |
| Belgium | 10.1 | 5 | 25 |
| Portugal | 9.9 | 5 | 25 |
| Sweden | 8.8 | 4 | 22 |
| Austria | 8.0 | 4 | 21 |
| Denmark | 5.2 | 3 | 16 |
| Finland | 5.1 | 3 | 16 |
| Ireland | 3.6 | 3 | 15 |
| Luxemburg | 0.4 | 2 | 6 |
| . | 371.5 | 87 | 626 |
| Poland | 38.4 | 8 | 64 |
| Czech Republic | 10.3 | 5 | 25 |

⁷ The votes in the Council and seats in the Parliament were calculated on the basis of a continuation of the current system: Cf. for the votes in the Council EU document CONF/3815/97 and similar calculations in: Roland Bieber, Florian Bieber: Institutionelle Voraussetzungen der Osterweiterung der Europäischen Union [Institutional preconditions for the Eastern enlargement of the European Union]. In: Werner Weidenfeld (ed.) Europa öffnen. Anforderungen an die Erweiterung [Opening Europe. Requirements of enlargement], Gütersloh 1997, pp. 101-155.

| | | | |
|-----------------|-------------|-----------|------------|
| Hungary | 10.1 | 5 | 25 |
| Slovenia | 2.0 | 3 | 9 |
| Estonia | 1.5 | 3 | 8 |
| Cyprus | 0.7 | 2 | 6 |
| <i>Subtotal</i> | <i>63.0</i> | <i>26</i> | <i>137</i> |
| | 434.5 | 113 | 763 |
| Romania | 22.8 | 6 | 40 |
| Bulgaria | 8.8 | 4 | 22 |
| Slovakia | 5.4 | 3 | 16 |
| Lithuania | 3.7 | 3 | 15 |
| Latvia | 2.6 | 3 | 10 |
| <i>Subtotal</i> | <i>43.3</i> | <i>19</i> | <i>103</i> |
| | 477.8 | 132 | 866 |

Similarly, the number of Commission members would increase correspondingly. Although the Amsterdam Treaty determined that at the time of the enlargement the larger member states would give up their second commissioners in order to limit the number of commissioners to 20. How to solve this question in case of an enlargement by more than five new members remained unanswered. The problems of personnel overloading will also arise for the European Court, the Committee of the Regions and the Economic and Social Committee. The adjustment of these institutions to the demands of an enlarged Union has not yet been prepared.

Chart 2: Inhabitants, Votes and Seats - Summary

| | million inhabitants | votes in the Council | seats in the Parliament |
|----------------------------------|---------------------|----------------------|-------------------------|
| EU 15 | 371.5 | 87 | 626 |
| 6 candidates of the first round* | 63.0 | 26 | 137 |
| EU 21 | 434.5 | 113 | 763 |
| increase compared to EU 15 | +17% | +29% | +22% |
| 5 more candidates | 43.3 | 19 | 103 |
| EU 26 | 477.8 | 132 | 866 |
| increase compared to EU 15 | +29% | +52% | +38% |

*Cyprus, Czech Republic, Estonia, Hungary, Poland, Slovenia

Most of all, however, the possibilities for a blockade in the Council would increase because money issues - agricultural and structural policies, fiscal constitution - and power issues - the Common Foreign and Security Policy (CFSP), judiciary and domestic politics - still have to be decided unanimously in the Council. It is hard to imagine how a Union with 26 member states could reach unanimous decisions in policy areas which touch upon the essentials of national sovereignty. Therefore an enlargement without previous extension of majority decisions would only strengthen the position of those who consider the intergovernmental co-operation of sovereign nation states as the desired level of integration, rejecting a decision process without national veto options.

Another consideration reveals an additional blockade for the institutional system of the EU: Even the current members failed to agree on a fundamental reform of the institutions in the Amsterdam Treaty. The treaty did contain a number of detailed improvements, but in total these improvements were not up to the demands the heads of state and government leaders themselves had formulated: to make the EU institutions ready for the enlargement. The main cause is the consideration that a new balance of the votes in the Council or parting with one commissioner touches upon the very fundamentals of the balance of power in the EU. The cleavages in the reform coalition were not only between smaller and larger states, but even among similar states like the Netherlands and Belgium which usually favour integration but failed to agree on the allocation of votes.

In the enlargement process the coalition advocating an adjustment of the institutional system, in particular in favour of the larger member states, will presumably not be strengthened: Except for Poland and, to a certain extent, Romania, all candidates for accession are smaller and smallest states (cf. chart 1). Consequently, a postponement of reforms or a limitation to minimal adjustments during the first partial enlargement might improve the position of the small states, but would thwart fundamental improvements in the institutional system.

In addition, enlargement will probably be drawn out over the next 10 to 15 years in several rounds of enlargement – and even then it has to be assumed that some European countries unwilling to join up to now (e.g. Switzerland, Norway, Iceland, Liechtenstein) and the successor states of former Yugoslavia respectively may want to become members later on. If each round of enlargement required some specific fine-tuning, this would set off a spiral of reform negotiations becoming increasingly difficult. On top, this procedure also necessitates specific ratification procedures as well.

Assuming that the future European Union will need to have the ability to act and the efficient institutions to do so, the “costs” of enlargement may seem to be major in terms of institutions and procedures at first sight, without direct corresponding benefits. Quite on the contrary: every new EU member makes the interests of the member states more heterogeneous and the institutional structures more complicated and unstable.

4. Optimisation potentials of the EU

Therefore it is necessary to develop an **institutional approach** early on in the run-up to enlargement, ensuring that joint decision-making can function independent of the respective number of member states and accession candidates, takes the size of different member states into account and only needs one single further ratification process. A new institutional approach would have to guarantee that the dilemma of proportionality and representation is solved and that each country can fill a suitable number of influential positions. If the European Union appropriately does its homework in the course of Eastern enlargement, it will have considerable optimisation potentials for the current institutional system of the EU. Thus substantial benefits for the Union and its members are possible.

In this perspective enlargement offers the opportunity to turn away from current integration logic. It can no longer be taken for granted that a certain number of

seats – in EU institutions that are in principle not linked to member states like the Commission or the European Court – can be reserved for the corresponding number of member states. The approach could rather be for each institution to require a certain number of seats in order to allow **optimum operability** (functional "top-down principle"). If, however, the number of positions in certain institutions is not increased but rather decreased to some extent, it becomes impossible for all member states to be equally represented in all institutions.

This approach would imply a return to the original responsibilities and the nature of the **Commission** and regard it as an institution independent of the member states and national quotas in its composition. For according to the EC Treaty the commissioners are not subject to directives and as a community institution only represent the interests of the Community. Therefore there is no reason why the member state governments should send commissioners into the Commission as "their representatives". In addition the need for a down-sizing of the Commission to a maximum of 15 departments and thus a maximum of 15 commissioners entitled to decide and to vote has been felt for some time now, in order to improve functional efficiency.⁸ In spite of the functional restructuring of the Commission new models should be developed in order to secure the principle of national presence: for example, the installation of senior and junior commissioners or the upgrading of the directors of the general secretariats (comparable to the German undersecretaries of state).

A further institutional problem which is going to be aggravated by Eastern enlargement is the **number and distribution of seats in the European Parliament**. Up to now the distribution of seats has been renegotiated by the heads of state and government upon each accession or after German reunification. In the case of the enlargement rounds to be expected there is no telling which countries are going to accede in which combination at what time so that this question would have to be negotiated from scratch each time. By setting an upper limit of 700 seats a first step has been taken to prevent the parliament from growing excessively; up to now it has not been worked out, however, how the limitation and distribution is to be implemented. In this context, a standardised procedure could be suitable which devotes an appropriate number of seats to each member state according to its population. The restructuring in the allocation of seats that becomes necessary upon enlargement would thus open up an opportunity to adjust the uneven allocation of "representatives" to certain member states.

The same regulation – capping the number of seats allocated to the member states represented at any given time – has to be applied in appointing members for the **Committee of Regions** and the **Economic and Social Committee**. The top-down approach would offer a fundamental solution independent of the number of member states, for the European Parliament as well as for the Economic and

⁸ Cf. the position of France at the intergovernmental conference on the revision of the Maastricht Treaty. Also the Forschungsgruppe Europa in various contributions, cf. Werner Weidenfeld (ed.): Europa '96. Reformprogramm für die Europäische Union, Gütersloh 1994; Forschungsgruppe Europa (ed.): Auf dem Weg nach Amsterdam. Europapolitische Essentials für die Reform der Europäischen Union. Policy document presented by Forschungsgruppe Europa, May 1997; others even assume an optimum size of 12 members in the Commission, see e.g. Club von Florenz (ed.): Europa: Der unmögliche Status quo (Europe: The impossible status quo) Baden-Baden 1996, p.84.

Social Committee and the Committee of Regions. This is the only way in which the EU institutions can be prepared for a graduated enlargement with respect to the allocation procedure and the absolute number of members without having to set up new regulations for each round of enlargement. The same applies to the **European Court**. It is true that there are no contractual regulations concerning the nationality of the judges, it has become customary policy, though, for each member state to provide one judge. The European Court has thus to be denationalised in the same way as the Commission.⁹

For the **allocation of votes in the Council** the situation is slightly different. In theory, an analogous system with a certain number of basic votes calculated as a percentage of the members at any given time – in this case changes in the number of votes would only occur if there are "excess votes" – could be established for this institution, too. The Council, however, then faces the problem of the small member countries holding a majority over the large ones and vice versa.¹⁰ The 15 member states failed to achieve an adjustment of the disproportionate voting system worked out on the basis of a percentage of the population to be represented – the system which developed from continuing the old procedure adopted by the six member states – in the Treaty of Amsterdam. The necessary reform was also postponed to the run-up towards enlargement. Therefore the pressure resulting from Eastern enlargement is necessary to achieve long overdue reforms in this area, too. Enlargement will thus put an end to an asymmetry mainly putting the large member states at a disadvantage.

Introducing and guaranteeing effective majorities may also help to diminish existing distrust and the resulting safety precautions. This may in turn clear the path for a substantial **extension of majority votes**. For enlargement also creates additional reform pressure in the direction of extending majority vote. This results from the danger posed by a Council that may lose its ability to decide if 27 members have to come to a unanimous decision. The principle of unanimity allows each member state the same amount of influence on decisions and offers each member the possibility to block all decisions. Even after Amsterdam this is also still true for a considerable number of decisions taken in the Council of Ministers.

But even today the unanimity requirement does not only lead to decisions being blocked in the Council but also, to a much larger extent, to a situation where only suggestions regarded as likely to achieve a consensus are even presented to the councils responsible. Instead of starting a political debate about factual questions, which would in the end be settled by the majority faction with the better arguments winning, many proposals are not even presented because of the high hurdle erected by the unanimity requirement. The initiatives in question get stuck in the preliminary bodies and committees or are reduced to the lowest common

⁹ Cf. also Tanja Wielgoß (1997): *Die Europäische Union vor ihrer ersten Osterweiterung. Vorbereitung, Probleme und Konsequenzen* [The European Union on the eve of its first enlargement towards the east. Preparations, Problems and Consequences], Berlin, p. 49.

¹⁰ Cf. in this context Josef Janning (1993): *Am Ende der Regierbarkeit? Gefährliche Folgen der Erweiterung der Europäischen Union* (At the end of governability? Dangerous consequences of enlarging the European Union) in: *Europa-Archiv* 22/1993, pp. 645-652; Christian Deubner & Josef Janning (1996): *Zur Reform des Abstimmungsverfahrens im Rat der Europäischen Union: Überlegungen und Modellrechnungen* (On the reform of the voting procedure in the EU's Council: Reflections and model calculations), in: *integration* 3/1996, pp. 146-158.

denominator. Compared to the formal blocking of votes in the Council, unanimity therefore constitutes a much greater "blockade potential", as it leads to draft bills not being dealt with or the original propositions submitted by the Commission watered down through compromise, respectively.

In effect, not the factual implications of an issue tend to provide the crucial criteria for a decision but the perceived acceptability of national interests. This tendency will increase considerably after an enlargement of the Council. Fears of a Council with more than 20 members having to come to unanimous decisions being paralysed may therefore strengthen the support for an extension of majority vote.¹¹ The unanimity provision would certainly be retained, though, for decisions concerning the constitution or decisions with strong financial implications. Extended majority voting would nevertheless have a strengthening effect on the ability to act and on efficiency.

Majority voting on its own, however, will not be sufficient to secure democratic legitimacy. This would best be achieved by converting the existing legislative procedures into a **two-house system**. Council and Parliament would have to be two houses with equal rights representing legislative power on the European level. In the context of a two-house system a rough proportion according to the respective population in one of the two houses (probably the Parliament) would be sufficient.¹²

This would also mean a fundamental extension of **co-decision procedures** to all policy areas where the Council takes majority decisions. In this context enlargement could have the useful effect that the young democracies of Central and Eastern Europe, and above all their parliaments, will only agree to EU membership, if the powers they cede to the European level are represented, or rather controlled, by a competent parliament with the corresponding legitimisation. By laying down the entry requirements for the accession candidates – **democracy, human rights and basic liberties** – the member states of the European Union also established basic values for themselves and for the Union. In this catalogue of requirements to determine accession capacity, a functioning parliamentary system has been given top priority. This principle should also be applied on the European level.

Furthermore the question of Council leadership has to be settled by a reform of the **Council Presidency**. The current rotation principle is no longer practicable in a Union with more than 20 member states. Even today there are good reasons to doubt the efficiency of this system. Thus a number of past presidencies were overshadowed by national election campaigns or the presidents failed to take over full leadership responsibility because of domestic crises in their countries. Therefore the presidency should be equipped with more efficient and controllable

¹¹ For instance Belgium, France and Italy in their institutional policy statement which was attached to the Amsterdam Treaty. This statement has been drawn up in order to guarantee that EU enlargement will only come into force after the fifteen current members have jointly agreed on essential aspects of reform, and not only as far as membership in the Commission and voting structure in the Council are concerned, but above all with respect to an extension of majority vote.

¹² In the U.S. each federal state has two votes in the Senate, in the German Bundesrat each Bundesland has three to six votes according its population. In this sense the current allocation of votes in the European Council (2-10 votes) already represents a higher degree of proportion.

procedures which will still do justice to the principle of basic equality – in the sense of being based on equal rights. The only way to arrive at a presidency meeting these requirements is to have the president elected by the member states in a democratic election. Even today it is almost impossible to preserve the administrative know-how necessary to run a presidency. Preparation, execution, handing-over and follow-up procedures constitute an enormous burden on both finances and staff.

If the present procedures remained in place, each country in an enlarged Union with e.g. 26 members would hold the presidency only every 13 years (currently every 7 1/2 years), which would hardly hold any political motivation for the governments concerned, as most heads of government would know that a presidency during their term in office was almost impossible. An elected presidency, by contrast, would stimulate political competition for this position, even if, for reasons of continuity, the period of office was prolonged to one year. After this period each member state would in principle have a new chance to be elected president.

An election could also prevent states from taking over the presidency if it is clear that they will hold national elections in the foreseeable future, that they are going through a period of political or economic crisis or if they are fledgling members who have just joined the Union. On the other hand there is no discernible reason why an election should not lead to a balanced mixture of small and large countries taking over the presidency. The fact that the more successful presidencies in recent years have been staffed by small and medium-sized countries shows that fears voiced from time to time regarding the ability of small countries to hold the presidency effectively are unfounded.

In addition enlargement could be used to review and bundle the current stock of **contractual structures** and law-making procedures in a new way. A fundamental revision of the treaties would also meet the claim for more **transparency** in the decision and responsibility structures. The intricate organisation of the EU into three separate legal entities (EC, ECSC, Euratom) and three different areas of co-operation (pillars) with numerous supplementary protocols (the Amsterdam Treaty alone includes 13 protocols and 59 declarations) can neither be explained to the citizens nor do they provide an adequate basis for efficient policy making. Therefore a merger of the various contract bases is just as necessary as their linguistic simplification and joining the terms "Community" and "Union" under one umbrella term.

A further problem, already existing and probably exacerbated by enlargement towards the east, is the multitude of languages. At the moment there are eleven **working languages** and thus 33 interpreters for every meeting of any EU body. Enlargement by four member states with a language of their own would increase the number of interpreters by 12 for every meeting.¹³ Apart from the resulting costs, this is also detrimental to efficiency. The even now excessive number of working languages could be reduced in the process of enlargement. This does not mean that all documents and, above all, legal texts will no longer be translated into all official languages, though.

¹³ Cf. Tanja Wielgoß (1997): Die Europäische Union vor ihrer ersten Osterweiterung. op. cit. p. 49.

To sum up it can be said that there are a number of starting points to reduce the deficits of the existing institutional system, or rather to improve it significantly. The costs of non-enlargement would be the missed reform chances, or rather the non-realisation of the optimisation potentials which could be used and implemented in the course of enlargement.

5. Benefits already gained in the Amsterdam Treaty

With a view to the forthcoming rounds of enlargement, some adjustments have already been made to the institutional system in the Amsterdam Treaty. The extension of majority votes and co-decision procedures to a number of fields of Community activities - like employment policy, social policy, equal opportunities for men and women, data protection, research as well as environmental policy - can be mentioned.

A first step in the right direction has been taken for the Commission by limiting the number of commissioners to a maximum of 20 and strengthening the position of the president in choosing commissioners and allotting their responsibilities. In the course of the first round of enlargement - by a maximum of five membership candidates - the large member states are to relinquish one of their two commissioners. They will only do so, however, if a unanimous decision about new regulations on the allocation of votes has been reached in advance. If more than five candidates should join, an intergovernmental conference on institutional reforms has to take place at least one year before the sixth new member state is joining. By doing so, the EU's heads of government already took the fact into account that a substantial reorganisation of the institutional system is necessary in this case.¹⁴

Under the impact of the forthcoming enlargement Amsterdam also included a number of **measures to increase flexibility** in the EU treaties. As a rule the main argument in favour of differentiated integration was that this would maintain the Union's ability to act, even if it grew to comprise 20 and more member states. The introduction of these mechanisms had the effect that blockades already established by member states unwilling to integrate can now be overcome. It is true that each member state can veto the start of flexibilisation if the intended measures contravene their national interest - which considerably restricts the creative power of these clauses - yet nevertheless the pressure of enlargement helped to establish an effective action principle for the future of European integration.

The institutional and procedural reforms of the Amsterdam Treaty have not created the preconditions to enlarge the European Union. However, the measures taken in Amsterdam have to be considered positively as far as the effectiveness of European decision-making processes is concerned. They can be directly traced back to the pressure of the forthcoming enlargement.

¹⁴ However, an intergovernmental conference has to take place before the first enlargement round. Apart from the above mentioned junctim substantial reforms are necessary even in the case of an accession of less than six candidates: The number of seats in the European Parliament has been limited to 700 without determining provisions on how to limit the seats, for example. The same applies to the other Community institutions and committees. The question of representation remains unsolved, while staff ceilings do not exist.

6. Conclusion: pressures of enlargement increase willingness to implement reform

European policy is still faced with the necessity to abolish existing deficits and create the institutional preconditions for smoothly functioning procedures in a Union enlarged to more than 20 states. The proposals agreed in Amsterdam will not be sufficient to achieve this aim. In order to equip a Union of this size suitably and efficiently, further attempts at reform are pre-programmed even now. This position is also held by the Commission, whose president Jacques Santer confirmed its attitude to the European Parliament: "If we want the European Union to remain a unique model for success, if we want to maintain our ability to act despite the large number of member states, [...] then we also have to be prepared to take one further step in reforming institutions and decision procedures. The intergovernmental conference just ended has given a first answer. But we know even now that this will not be sufficient."¹⁵

Thus the forthcoming accession of the Central and Eastern European countries and Cyprus has become the driving force behind the reforms of the institutions and procedures of the European Union that had been postponed for decades. The pressure of enlargement will, however, vary according to the enlargement strategy which will be pursued:

- Should it become evident during accession negotiations that just about all candidates will become members at the same time, the pressure for reform would be highest. In this case the ceilings set in the Amsterdam Treaty would be exceeded and the dangers of a blockade in all policy areas where common decisions have to be taken unanimously would become obvious to all parties concerned.
- If countries join in groups, the first group - provided it does not comprise more than five candidates - could still accede within the framework of rules laid down in Amsterdam. Compromise solutions for population-based institutions - European Parliament, Economic and Social Committee, Committee of Regions - would be comparatively easy to find, even if the group included Poland. In the case of several small countries joining, clear pressure to adjust would only be brought upon the allocation of votes in the Council. If a strategy of muddling through is applied to the first group of countries, though, then this would increase the pressure for principle reforms in the run-up to further accessions correspondingly and would, in view of the unanimity required, also make substantial reforms in an enlarged Union considerably more difficult.
- In case the bilateral negotiations currently envisaged lead to single countries joining, with an appropriate period of time between each accession, the pressure for reforms would certainly be lowest. The option to make only marginal adjustments each time would be too tempting, the chances to find coalition partners for a reform correspondingly small. A perpetuation of the muddling-through strategy would, however, mean to continue a situation in which decisions have to be found in an environment of less than optimal structures and hampered by procedure, to risk blockades in questions of

¹⁵ Quoted after: Europäische Kommission - Vertretung in der Bundesrepublik Deutschland (ed.): EU-Nachrichten, no. 29/1997, p.1.

conflicting national interests and to find compromise formulas on a usually very small and therefore not very efficient common denominator.

- The more states there are involved in the first and all subsequent rounds of enlargement, the higher the pressure for principal reforms. Further requests for membership, e.g. by the successor states of former Yugoslavia or the former Soviet Union respectively, as well as by Switzerland or once again Norway, would add to the need for reforms.

The basic conclusion to be drawn is thus that eastward enlargement without adjustment of the common institutions and procedures would on the one hand lead to paralysis in the ability to act and the disintegration of decision-making procedures that were originally designed for six members. Without enlargement, however, the European Union - or rather its member states - could, on the other hand, hardly muster enough strength to abolish the existing institutional and procedural deficits. Eastern enlargement thus forcefully stresses the already existing need to reform the European Union, which even the Amsterdam Treaty did not meet sufficiently.

Society and culture

by Martin Brusis and Eric von Breska (Research Group on European Affairs, Munich)

1. Legitimacy through symbolic recommitment to founding ideas

The EU institutions are not sufficiently legitimised democratically and this democracy deficit has increased further in the 1990s. The referendum on the Maastricht Treaty foundered in Denmark, to start with, and the scant majority in France, but also opinion polls in the other member countries prove that the "permissive consensus" of the post-war period, which formed the basis for integration-oriented political elites to step-by-step consolidate and deepen co-operation between western European states, has been used up. The complexity of the legal and political structures of the Union as well as fears of a centralist magnetism have accelerated the loss of acceptance in the populations.

Neither can the European Parliament make up for the deficit in legitimacy, as it still lacks the competencies to take decisions, even after the Amsterdam summit. Its fundamental problem, however, lies in the fact that there is no one European people which could act as sovereign and give democratic legitimacy to its representatives. Neither the European public nor the process of political decision-making, nor people's collective identity to feel as Europeans are sufficiently well developed to transfer the source of legitimacy for the Union from intergovernmental co-operation legitimised by national parliaments to the European Parliament.¹

Independent of European enlargement, a further deepening of integration would aggravate the legitimacy deficit of the Union. For the simple reason that it requires an extension of the majority principle in the EU Council of Ministers and thus weakens the legitimacy-conveying vetoing-power of the member states. A technocratic definition of legitimacy, which would define the EU as "regulatory state"² justifying its existence through its competent and efficient control functions, can only serve as a substitute of limited value. For not only does such a definition presuppose a well-informed expert public able to reflect and monitor EU policy but also and above all a basic consensus about the standards and objectives of politics. The EU could gain additional legitimacy by strengthening its ties with the easily comprehensible, conveyable and highly accepted ideas leading to its foundation. The closer the activities of Council, Parliament and Commission are linked to the unification of Europe, the more they will be approved of by the citizens in the EU member states.

¹ Peter Graf Kielmansegg (1996), *Integration und Demokratie (Integration and democracy)*, in: Markus Jachtenfuchs/Beate Kohler-Koch (1994): *Europäische Integration*, Opladen, Leske und Budrich pp. 47-72.

² Giandomenico Majone (1994), *The rise of the regulatory state in Europe*, in: *West European Politics*, vol. 17, pp. 77-101.

The importance of attractive symbols and central ideas is underlined by an analysis of the Eurobarometer opinion polls.³ The surveys document that support for European integration in the population decreased in all member countries in the second half of the 1970s, regained strength in the 1980s and decreased again in the first half of the 1990s. The factors that can be measured as "support" consist of a general, affective and a specific, utilitarian component. The former results from people approving of European unification in general, of their country's membership in the EU and from rejecting the idea of dissolving the EU. As is to be expected, this component scores higher marks in the Eurobarometer surveys than specific, utilitarian support, which can be deduced from the fact that and to what extent respondents appreciate the concrete advantages of EU membership for their own country.

Affective as well as utilitarian support are both influenced by a number of factors, including political events on national and European levels, party-political preferences, experiences in economic crises, changing values, learning processes and respondents' numerous status features. On the assumption that European politics influences citizens' attitudes towards European institutions, the project of creating a single European market could obviously mainly mobilise utilitarian attitudes. The Maastricht Treaty and above all the economic and monetary union – presented to the general public in a predominantly negative way – weakened utilitarian support.

Considerations of economic benefit seem to have only little impact on strengthening affective orientation.⁴ On the contrary, affective support for European unification seems to tilt the balance of the individual cost-benefit calculus in favour of the benefit aspect. These results suggest that societal acceptance for a further deepening of European integration can mainly be expected from growing affective support. Affective support, in turn, depends on the creation of central ideas with an affective impact and strong enough to base integration on.

An opinion poll carried out by the European Commission (Europinion Survey) in the period between September and December 1996 documents that the affective, diffuse support for enlargement towards the East is relatively high in the member countries of the EU: 61 percent of EU citizens thought that enlargement towards the east was a good idea, it met with the highest rate of approval in Greece, where 76 percent of respondents were in favour of enlargement.⁵ A policy interpreting

³ Oskar Niedermayer (1991), *Bevölkerungsorientierungen gegenüber dem politischen System der Europäischen Gemeinschaft (Popular orientations towards the political system of the European Community)*, in: Rudolf Wildenmann (ed.) (1991): *Die Staatswerdung Europas*, Baden-Baden, Nomos, pp. 321-354; Oskar Niedermayer (1995), *Trends and contrast*, in Oskar Niedermayer/Richard Sinnott (eds) (1995), *Public opinion and internationalized governance*, Oxford, Oxford University Press, pp. 53-72.

⁴ Niedermayer 1991, p. 342, resp. Agusti Bosch/Kenneth Newton, *Economic calculus or familiarity breeds content*, in: Niedermayer/Sinnott 1995, pp. 73-104.

⁵ Agence Europe no. 6924 of 28 February 1997. Contrary to the Europinion Survey a Eurobarometer opinion poll in 1996 reported that only 13 percent of respondents were in favour of accepting new members, thus showing significantly less support. This result can be explained by the fact that the respondents were asked to name specific benefits of an enlargement towards the east and that the wording of the question made them decide between "enlargement or deepening" as alternatives.

enlargement towards the East as symbol and motor for a new phase of integration can proceed from this basis.

The policy debates around the Maastricht and the Amsterdam Treaties lacked convincing central ideas strong enough to further integration, like the ideas characterising the founding phase of the EU, viz. economic restructuring, political and societal modernisation and stabilisation in security policy.⁶ Enlargement towards the East may become such a central idea, as it is closely linked to the basic political values of the European Union and to the idea of unification. As a new central idea for the integration process, enlargement towards the east can renew and strengthen the legitimacy of the European institutions and lend new dynamism to a deepened integration as well.

2. Transcending the marks of a divided Europe

In the eight years since the opening of the Iron Curtain, it has become evident that one of the most unwieldy and unyielding obstacles on the way to a united Europe consists in the difficulty to reconcile the diverging opinions in the West and in the East regarding the significance of a divided Europe. From the Polish, Hungarian or Czech point of view, the division of Europe agreed between the allies at the end of World War II fitted into an unfortunate historical continuity. Yalta was in line with a number of historical disasters which had for centuries been cutting off East Central Europe from Central European developments since the Middle Ages.

From this point of view the Baltic countries, Poland, the Czech and Slovak Republics, Hungary, Parts of Romania, Slovenia and Croatia are comparable to Central European patterns of development rather than Eastern or South Eastern types with respect to their cultural, economic and social development.⁷ The affinity between Central European societies could clearly be seen in the feudal system of rule, in the relationship between state and church, in the influence of Reformation and Enlightenment or in the parallel patterns of industrialisation, urbanisation and trade links. The historical development in Western and Eastern Central Europe was clearly different from the pattern of development in South Eastern Europe – which would comprise Bulgaria, Albania, parts of Romania and former Yugoslavia – and from Eastern Europe which consisted of Russia and the European successor states of the former Soviet Union. Propagators of the East Central European point of view point out that the two latter regions had for centuries been under the cultural and political influence of the Orthodox Church, tsarism and the Ottoman Empire, their economic and social structure had mainly been characterised by agriculture till after World War II.

⁶ Cf. e.g. Helen Wallace (1994), *The EC and Western Europe after Maastricht*, in: Hugh Miall (ed.) (1994), *Redefining Europe. New patterns of conflict and cooperation*, London/New York, Pinter Publishers; Werner Weidenfeld (ed.) (1994), *Maastricht in der Analyse (Maastricht under scrutiny)*, Gütersloh, Bertelsmann Verlag.

⁷ Cf. István Bibó (1981), *A kelet-európai kisállamok nyomorúsága*, in: Bibó, István *összegyűjtött munkái*, vol. 1, pp. 202-252, Basle [1946] (*The misery of East European small states*); Jenő Szücs (1990), *The Three Historical Regions of Europe*, in John Keane (ed.) (1989), *Civil society and the state*; Iván Berend/György Ránki (1974), *Economic development in East Central Europe in the 19th and 20th centuries*, New York.

Against this historical background, the events of 1989 and 1990 are interpreted as a favourable historical constellation in East Central Europe, which allows East Central European countries to catch up with developments in the West. Even though South Eastern European intellectuals and politicians usually regard their differences to East Central Europe as rather minor, they also see the new relationship to Western Europe as a historic chance to catch up economically.

The Western European attitude towards the division of Europe has to this day been characterised by a contradiction between the attitude as declared in official statements and the attitude taken in real life. On the one hand, the EEC, EC and EU countries have always claimed to support European unification over the past forty years. Thus the EC summit in The Hague in 1969 called the European Communities the "initial nucleus from which European unity has developed and derived its impetus". "In the preamble to the Single European Act of 28 February 1986 the parliament of the twelve member states was explicitly called the "instrument of expression" for the political activities of the "democratic peoples of Europe" – in other words: the European Union about to emerge was to represent the democratic Europe "pars pro toto", so to speak."⁸ After 1989 the European Council claimed to take over responsibility for "Europe" – i.e. also for those European countries not belonging to the circle of EU members.⁹

On the other hand, the European Economic Community, and later on the European Communities, in fact became part of the Western community of nations, despite the pan-European aims of their founders. They became part of the East-West confrontation and developed into a political and economic pillar of the Western community next to NATO. In this context the Community was given, inter alia, the politico-strategic aim to integrate a re-emerging Germany. The geopolitical border between East and West became a constitutive element of the EC and was reflected in the way institutional boundaries were drawn.¹⁰

After a phase of stagnation in the 1970s, the project of creating the single European market was superimposed on the original motives behind foundation and integration. The objectives of the organisation were gradually shifted, i.e. the aspect of mutual economic benefit of a co-operation gained importance over the vision of a politically united Europe. This had the effect that after 1989 the new, primarily economic aim of the Community became dominant and that the changes in the East were not perceived as an impulse to change the organisation. The historic declarations at the end of the East-West conflict did not lead to institutional consequences. While the EU heads of government were conjuring up a new Europe and the Eastern European governments saw the EU as their ideal of Europe, the Union continued to embody the Western European community of nations (and in some institutional relics the Europe of the six founding members).

Instead of redefining their own foundations and adjusting them to the new situation, the Union negotiated Europe agreements with the Central and Eastern

⁸ Quotation in: Heinrich Schneider (1991), *Gesamteuropäische Herausforderung an eine Europäische Union* (Pan-european challenges to a European Union), in: Rudolf Wildenmann (ed.) (1991), *Die Staatswerdung Europas*, Baden-Baden, Nomos.

⁹ *Ibidem*.

¹⁰ Michael Smith (1996), *The European Union and a changing Europe: Establishing the boundaries of order*, in: *Journal of Common Market Studies*, vol. 34 no.1, March, pp. 5-28

European states which do indeed offer the prospect of future EU membership to the associated countries, but the only concrete step they provided was a graduated liberalisation of trade. The concept of the division of Europe expressed in this gesture completely ignored the historic significance of the situation as perceived in East Central Europe. In addition, the graduated liberalisation of trade agreed upon fitted into the central idea of the single European market which, compared with other objectives, had dominated the 1980s.

In actual fact the Union created the status of a "not-yet-member", although at the same time the legitimisation which formed the basis for this graduation and exclusion had become questionable. By creating this status, the Union excluded the Central and Eastern European countries from the institutionalised redistribution mechanisms and decision-making processes which were linked to membership. Insofar the EU with its formal structure contributes to the division of Europe, the construction of its institutions reflects the constellation created by division. Only accepting the Central and Eastern European states into the Union and granting them the same formal rights as the current member states can transcend the institutionalised marks of European division.

3. Establishing trust in democratic institutions in Eastern Europe

Empirical studies on political culture in Central and Eastern Europe document that most citizens reject the idea of returning to the socialist governmental system as well as a military dictatorship or replacing parliament by a strong leader.¹¹ The majority of the population prefer the current political system to the old system and expects a positive development for the future. These results do not mean, however, that the Western idea of democracy is generally accepted in Eastern Europe. The fact that two-thirds of the population support the opinion to leave decisions concerning the economy to experts, indicates a lack of trust in the competence of politicians and a high rate of acceptance for expert rule.

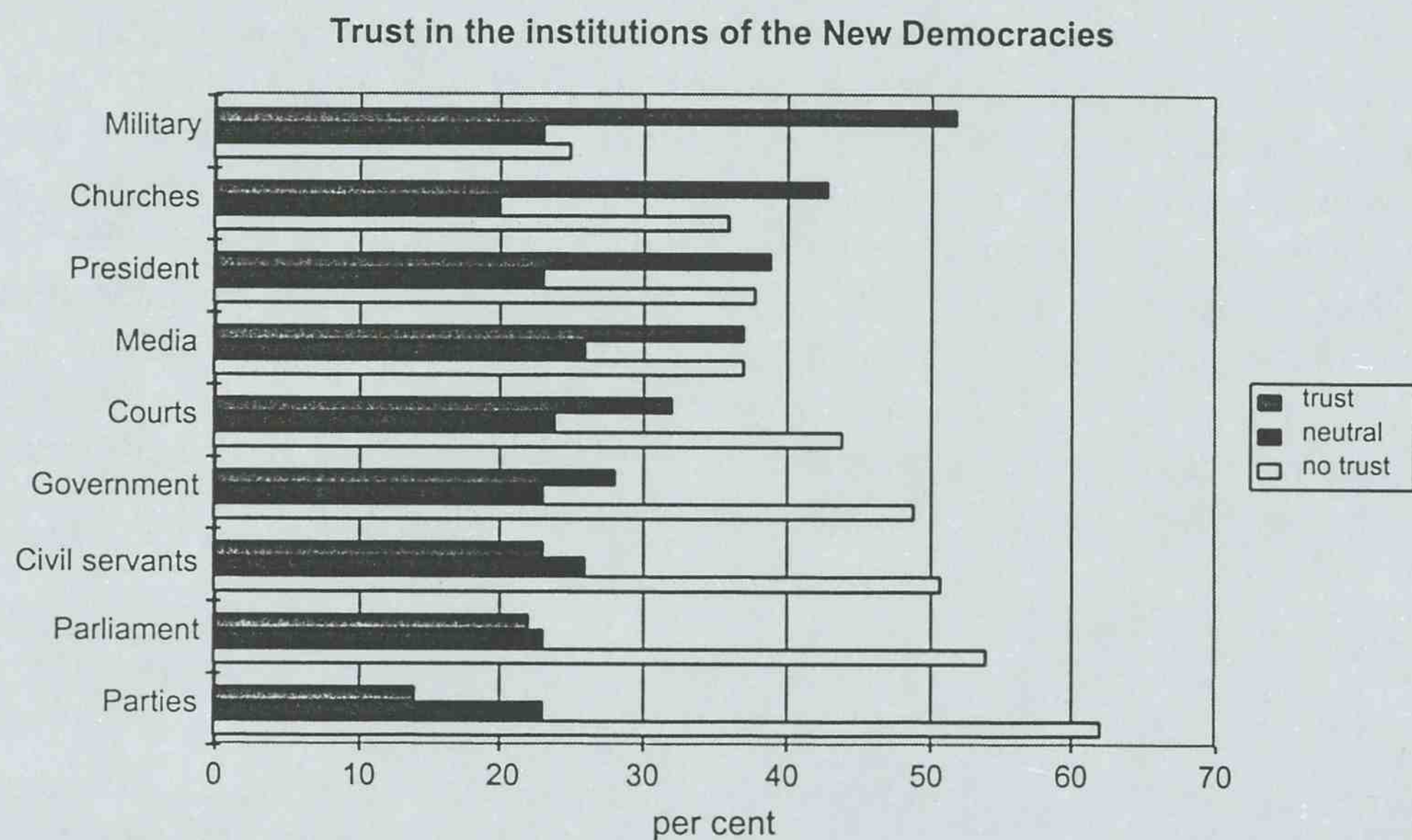
About 30 percent of the citizens think a dissolution of parliament and abolition of party pluralism likely, 27 percent would show understanding for such a move or support it, respectively. Most Eastern Europeans doubt that civil rights stand a real chance to assert themselves in their countries. Less than 20 percent of the citizens are convinced that they could defend themselves against a government decision violating their interests. The corresponding rates in Western European countries by contrast, are many times higher (e.g. Great Britain 62 percent, the Netherlands 38 percent).¹² Furthermore, Eastern Europeans show little trust in political institutions like parties, government and parliament. Trust is placed in the army and the church, two institutions not exactly well-known examples for democratic practice (Chart 1).

¹¹ Richard Rose and Christian Haerpfer (1996), *New Democracies Barometer IV: A 10-nation survey*, Centre for the Study of Public Policy, *Studies in Public Policy* 262; Rose, Richard/Haerpfer, Christian (1995), *Democracy and enlarging the European Union eastwards*, in: *Journal of Common Market Studies*, vol. 33, no. 3, September, pp. 427-449.

¹² Adam Przeworski et al. (1996), *Sustainable Democracy*, Cambridge, Cambridge University Press

These findings point towards the fact that the young democracies in Central and Eastern Europe are not consolidated comprehensively yet. This does not mean that there is a danger of authoritarian regimes returning in the new Central and Eastern European democracies. It does increase the risk, however, that populist elites get a chance to establish themselves under the guise of formal democracies and re-establish authoritarian practices.¹³

Chart 1:¹⁴



Eastern enlargement of the Union reduces this risk, as the new EU members will become part of a democratic system with stable institutions and strong civil societies. As they will have to transfer parts of their national sovereignty in the course of being integrated into the EU and also have to co-operate and submit to majority decisions, interdependent systems will be created that contravene national going-it-alone strategies and nationalist policies. This would accelerate the change towards a democratic political culture in the region. The southward enlargement by Greece (1981) as well as Spain and Portugal (1986) can be seen as an example of such a development. In these countries early membership in the EU contributed to securing a stable democratic development after years of authoritarian rule. Contrary to the widespread opposition today against enlargement towards the east, which always points to the supposedly unmanageable difference in economic performance between these countries and the EU, supporting democracy was at that time given clear priority over aspects of difference in economic development.

Western Europe profits from stable democracies in its neighbourhood in many respects. Democracies do not wage wars against each other and an international environment based on democratic principles will reduce the influence of nationalist ideologies. Established democracies develop symmetrical internal

¹³ The Slovak Republic is an example for such a development. The Meciar government does not openly violate the principles of the Slovak constitution. It abuses its constitutional competencies, though, in order to fight against other constitutional entities or democratic institutions (media, NGOs), respectively.

¹⁴ Chart 1 presents mean values of the following countries: Bulgaria, Czech Republic, Slovak Republic, Hungary, Poland, Romania, Slovenia, Croatia, Belarus and Ukraine.

societal structures which allow diverse transnational co-operation, and economic and cultural exchange. Stable democracies guarantee a rule-of-law framework which is a precondition for economic development, co-operation and the reciprocal use of comparative advantages.

A protracted exclusion from the EU on the other hand would offer incentives for populist tendencies in Central and Eastern Europe. In all associated countries there is a more or less distinct conflict line between liberal Western, Europe-oriented political players and political powers that want to go their own national way, combined with authoritarian populist models of law and order. International support and prospective membership in the EU allow the liberal political players to harness the symbol of "Europe" with its positive connotations to their reform programmes. Up to now they have succeeded in securing a broad social basis for their transformation policy through this interconnection. In doing so, they have raised high expectations for a "return to Europe." More than 40 percent of the citizens in the ten associated countries believe that the future of their country lies with the EU. The majority are expecting a significant improvement of their economic situation.¹⁵ A postponement of eastward enlargement, but also Western gestures that could be interpreted as rejection and disrespect would compromise these expectations, shift political power to favour populist alternatives and endanger the reform consensus in Central and Eastern Europe.

4. Integration of societies

Although a majority approves of eastward enlargement, many EU citizens currently take a rather sceptical attitude towards the integration of Central and Eastern European countries. In a Eurobarometer survey carried out in 1996, the citizens of almost all EU member states associated negative connotations with Eastern Europe.¹⁶ This negative image mainly results from the fact that many Western Europeans are not sufficiently informed about Eastern Europe, as this region was perceived and depicted as a monolithic unit, as "the Eastern block, the countries of the Warsaw Pact, the Communist systems," for decades and Western Europeans were hardly given any chance to gain firsthand experience with Eastern Europe.

Even eight years after the fall of the Iron Curtain there are still very few opportunities for personal contacts which could be extended in order to initiate a change in awareness. The accession of the Central and Eastern European states to

¹⁵ European Commission: Central and Eastern Eurobarometer, no. 7, March 1997, p. 21 and chart 10.

¹⁶ Eurobarometer no. 46, issue autumn 1996, p. 51. Looking at how agreement to eastward enlargement has developed over time shows that in the valuation of the general public eastward enlargement has in the meantime been superseded by other topics and has been pushed into the background as a task that has to be achieved some time. Under the impression of the dramatic events of 1989, an average of 74 percent of EC citizens supported EU membership for the Central and Eastern European countries once democratisation had been completed (Eurobarometer no.32, December 1989). In spring 1996 only 13 percent of respondents in the 15 EU countries were in favour of accepting new members. 16 percent, by contrast, thought the EU should stay the way it was, 55 percent were of the opinion that the current members of the existing EU should work more closely together (Eurobarometer no. 45, spring 1996, p.63).

the EU will improve the institutional conditions and incentives for private meetings and contacts.¹⁷ Private contacts are especially important as these are an expression of mutual interest in each other and can thus contribute to eradicating mutual clichés. Thus, for instance, it is easily forgotten that the present right to unrestricted travel within the EU could not be taken for granted in former times. How successful European unification has been in the integration process can be seen from the fact that this right not only exists but that in the meantime citizens have come to take it for granted.¹⁸

To the same extent as EU membership will increase the exchange of goods and information¹⁹ as well as the structural integration of non-government organisations and public interest groups²⁰ between Western and Eastern Europe, the societies of Western and Eastern Europe will interlock more and more strongly and develop conflict-containing symmetries.

The rise in the number of personal contacts need not automatically also lead to a positive attitude in society, better understanding and fewer stereotypes. The opportunities for co-operation in an enlarged Union can be used in a positive way, however, as they take common interests as a starting point. The EU offers numerous possibilities for co-operation: from training and human resources development programmes to promoting inter-regional co-operation, from town twinnings and cultural events to international research and technology projects.

5. Learning ground for social and cultural innovation

Usually the transformation of systems in Eastern Europe is interpreted as catch-up modernisation in which the Eastern European countries establish basic institutions along the line of those in Western capitalist societies. This interpretation fails to note that the radical transformation of social realities in Eastern Europe also holds lessons for Western countries to learn. The political actors in Central and Eastern Europe have the visions, strategies, and resources to organise a peaceful and successful change of system to a liberal and constitutional democracy.²¹ Through

¹⁷ Among other features, the intensity of private contacts can be assessed from "regular regional border crossings", cross-border tourism, the number of private letters and telephone calls or the number of transnational marriages.

¹⁸ A fundamental study on this topic: Claus Giering (1997), *Europa zwischen Zweckverband und Superstaat. Die Entwicklung der politikwissenschaftlichen Intergrationstheorie im Prozeß der europäischen Integration* (Europe between functional body and supra-state. The development of integration theory in the process of European integration), Bonn: Europa Union Verlag.

¹⁹ The volume of traffic in goods and information can be measured in terms of the amount and value of goods, loans, patents, insurance policies, etc. transferred between the member states of the Union. Another indicator is the transnational mobility of workers and trainees. The flow of information is measured in the number of letters and telephone calls, the sale of foreign print media or the exchange of programmes between electronic media.

²⁰ The degree of structural integration between non-government organisations and public interest groups can be assessed from the number of joint activities and transnational links established by trade unions, employers' associations and trade bodies as well as public and regional interest groups and parties.

²¹ Bruce Ackermann (1993), *The future of liberal revolution*. New Haven/London, Yale University Press; Dieter Senghaas (1990), *Jenseits des Nebels der Zukunft. Eine geschichtsmächtige*

enlargement towards the east, Western Europe gains the players, the symbolism, the experience and the procedural knowledge of this comprehensive restructuring process as valuable assets. The close co-operation with Central and Eastern Europe and its integration also allow the diffusion of social capital which these societies have collected in their struggle with socialism. The following dimensions of experience and learning can be identified in this context:

- The development of a "second society": Side by side with the official, politicised society of socialist Eastern Europe there also existed a second social sphere which succeeded in evading the efforts to interfere and control made by party and government.²² This sphere generated lifestyles, milieus and social practices which derived enormous intellectual productivity and capacity for social innovation from the differences and contrasts between both spheres of society.
- The development of a "second economy": The deficits and bottlenecks inherent in the system of a socialist planned economy required ability to improvise, self-help and solidarity in Central and Eastern European business life. In a symbiotic relationship with the state sector this led to the development of a second economy which comprised agricultural subsistence and part-time farming, various kinds of trade and services and semi-legal ways of earning a living in the shadow economy. From a regulative point of view it may seem problematic that some types of second economy can still be found in Eastern Europe. The ability not only to maintain one's own economic existence but often even to manage to be successful in business, despite unfavourable framework conditions and scarce resources, represents a valuable social capital, though. This ability currently helps to improve the flexibility and adaptability of the Central and Eastern European countries and constitutes one of the implicit preconditions for the economic changeover in Central and Eastern Europe difficult to measure.
- Directing a transformation experiment: The Central and Eastern European countries succeeded in reorganising their economic systems according to the principles of a free-market economy, in making their legal systems compatible with market economy and a liberal parliamentary democracy, in establishing new political players and institutions and restructuring their social structures fundamentally in a very short time without creating social and political conflicts big enough to endanger the system.

Social sciences have come to the conclusion that modern Western industrial societies, by contrast, consist of subsystems differentiated along functional lines, each based on its own rationale for its actions. Therefore they see very little chance for projects aimed at comprehensive reform, which would depend on the co-operation of various players, to be realised. The Eastern European transformation of systems represents such a project of comprehensive social reform which would have been given hardly any chance for success under the conditions of modern societies. Transformation processes that have been successful despite these prognoses to the contrary, give some insight into the

Kontroverse neigt sich ihrem Ende zu (Beyond the mist of future. A historically influential controversy approaches its end), in: *Leviathan* no.2, pp. 184-195.

²² Elemer Hankiss (1989), *East-European alternatives*, Oxford, Oxford University Press.

preconditions of successful political leadership.²³ In view of the, for instance, economic and ecological challenges Western societies have to face in the coming century it becomes evident that knowledge about directing complex social processes will be in great demand.

Eastward enlargement of the European Union is certainly not the only strategy to turn this knowledge and social capital to good account. There are some indicators, however, that ignoring Eastern European experiences and realities is part of a widespread attitude which perceives defending the institutional status quo for as long as possible as the best answer to the challenge presented by Eastern Europe.

6. Codification of common European values

The young Central and Eastern European democracies' (and Turkey's) request to become members of the European Union has forced the Union to look closer into questions of basic liberties and human rights and how the accession candidates respect these rights. But as the Union can hardly expect accession candidates to meet criteria that are either not clearly defined or are not even respected by the present member states, the Union and its member states are compelled to draft a catalogue of basic rights and to come to a binding mutual agreement.

This has led to the implementation of the changes to Art. F proposed by the Dutch presidency and the introduction of an Art. F.1 into the text of the treaty. By implementing these changes the Union and its member states commit themselves to the principles of liberty, democracy, respect of human rights and basic liberties as well as rule of law. On the basis of Art. F.1 the Council can determine that a member state has seriously and continuously violated the principles mentioned and suspend certain rights, including the right to vote in the Council.

In membership negotiations the amendment to Art. O EUT – "Each European country respecting the principles mentioned under Art. F (...) can submit an application to become a member of the Union" – provides the European Union with an additional means to exert pressure and control, which commits prospective members to the common (western) European values.

The codification of basic rights promoted by membership applications – added were also (again a Dutch proposition) a ban on discriminatory treatment (Art. 6a ECT), equal opportunities for men and women (Art. 2 and 3 ECT) as well as regulations on data protection (new article 213 b ECT) – will ensure the enforceability of a citizens' Europe and thus strengthen its credibility. In the long run this also constitutes a step forward to consolidate and secure the values regarded as basic principles of a democratic social order by the present member states.

²³ Helmut Wiesenthal (1994), *Die Krise holistischer Politikansätze und das Projekt der gesteuerten Systemtransformation*. Berlin (The crisis of holistic policy approaches and the project of geared system transformation), working paper AG TRAP 94/10.

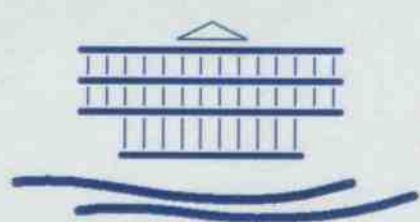
7. Building a European collective identity

In all Central and Eastern European countries advocates of democracy and market economy struggle with those who support nationalist ideologies and separate development. The reformers need the European Union and the firm prospect of future membership as an important point of reference in their policy. Western European interests in supporting the liberal political forces are not confined to democracy and security policy. In view of the future development of the Union there is also the further interest not to allow national patterns of thinking and interpretation to gain a hold in Central and Eastern Europe. If a collective identity mainly influenced by nationalist ideas is allowed to develop and take hold in the single countries of the region, then nationalist politicians will have a lot of scope to pursue a selfish policy of "national interest" in their relationship with the EU countries. In connection with the EU institutions, which have been given hardly more scope for action by the Amsterdam reforms of the treaty, a self-centred, nationalist policy would reinforce the mechanism of a "negative integration".²⁴

These tendencies are supported by the fact that in the minds of many Central and Eastern Europeans the end of Communism is linked to regaining national sovereignty. As a consequence on the one hand many citizens tend to equate the transfer of sovereignty rights with relinquishing sovereignty, or rather being patronised by foreign powers; on the other hand the importance of national sovereignty in the globalised, interdependent world of today is overestimated. A further "nationalisation" of political culture and politics in Central and Eastern Europe would cast more fundamental doubts on the process of European integration than the problems of governing an enlarged European Union. Insofar supporting the emergence of a European collective identity in the countries of the region means more than providing a "safety anchor". At the same time, a convincing policy of Europeanisation means – and that is what enlargement towards the east is all about – to invest into the cultural and identity-providing foundations of a united Europe.

²⁴ Fritz W. Scharf (1996), Politische Optionen im vollendeten Binnenmarkt (Political options in the finalized Single Market), in Markus Jachtenfuchs/Beate Kohler-Koch (eds) (1996), Europäische Integration, Opladen, Leske und Budrich, pp.109-140.

The eastward enlargement of the European Union has presented the greatest challenge to the EU since its inception. For this reason the Bertelsmann Foundation, in collaboration with the Research Group on European Affairs at the University of Munich as well as experts from both EU member countries and potential members, has drawn up the study "Costs, Benefits and Chances of Eastern Enlargement for the European Union," in which the economic, cultural and security policy aspects of the forthcoming enlarged Europe are analyzed. This report focuses on the benefits of extension whereas past studies have emphasized the negative aspects of the process, i.e. the costs involved. It deals with the enormous potential for development of the European Union and its policies at the outset of the new millennium.



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15/12.*

FRAME ENLARGEMENT

SUBJECT: MIPT: LUXEMBOURG EUROPEAN COUNCIL: MESSAGES FROM
THE PRIME MINISTER TO HIS CENTRAL EUROPEAN COLLEAGUES

SUMMARY

1. Please forward following messages on 15 December.

DETAIL

2. MIPT set out the key points on the results of the Luxembourg European Council. Posts in Central European applicant countries should also forward the following personal messages from the Prime Minister to his opposite numbers on 15 December. There will be no (no) signed originals.

3. Messages begin:

POLAND

I have just returned from a highly successful meeting of the European Council in Luxembourg. Its outcome will allow the United Kingdom, as Presidency, to launch the enlargement process on 30 March by a meeting of Foreign Ministers of the EU Member States and the ten Central European applicant states and Cyprus. We plan the opening of formal negotiations with Poland soon thereafter.

This is very good news. It marks a decisive step in Poland's path to EU membership. Making good progress in the accession negotiations will be one of the key priorities of our Presidency. I want to ensure we build

up real momentum in their early stages and that, as Robin Cook said last month in Warsaw, together we can build a European Union of equal partners.

At the same time, we will take forward work on the European Conference and the reinforced pre-accession strategy. I am determined that enlargement should be an inclusive process. We have a responsibility to seize this historic opportunity to end the division that have scarred our continent for far too long.

I am delighted that we had the opportunity to meet, albeit briefly in Luxembourg, and hope that we can have a longer meeting early in the New Year. I much look forward to working closely with you during the UK Presidency and over the coming years, and to seeing you at the inaugural meeting of the European Conference in London in March.

HUNGARY

I have just returned from the European Council in Luxembourg. This was a highly successful meeting which will allow the United Kingdom, as Presidency, to launch the enlargement process on 30 March by a meeting of Foreign Ministers of the EU Member States and the ten Central European applicant states and Cyprus. We plan the opening of formal negotiations with Hungary soon thereafter.

This is very good news. It marks a decisive step in Hungary's path to EU membership. Making good progress in the accession negotiations will be one of the key priorities of our Presidency. I want to ensure we build up real momentum in their early stages.

Robin Cook was able to explain to you during his recent visit to Budapest our plans to take forward work on the European Conference and the reinforced pre-accession strategy. I am determined that enlargement should be an inclusive process. We have a responsibility to seize this historic opportunity to end the divisions that have scarred our continent for far too long.

I hope to be in touch soon with a date when we can meet in January. I much look forward to working closely with you during the UK Presidency and over the coming years, and to

seeing you at the inaugural meeting of the European Conference in London in March.

THE CZECH REPUBLIC

I have just returned from the European Council in Luxembourg. This was a highly successful meeting which will allow the United Kingdom, as Presidency, to launch the enlargement process on 30 March by a meeting of Foreign Ministers of the EU Member States and the ten Central European applicant states and Cyprus. We plan the opening of formal negotiations with the Czech Republic soon thereafter.

This is very good news. It marks a decisive step in the Czech Republic's path to EU membership. Making good progress in the accession negotiations will be one of the key priorities of our Presidency. I want to ensure we build up real momentum in their early stages.

At the same time, we will take forward work on the European Conference and the reinforced pre-accession strategy. I am determined that enlargement should be an inclusive process. We have a responsibility to seize this historic opportunity to end the divisions that have scarred our continent for far too long.

I realise that this message reaches you at a time of political change in the Czech Republic. I greatly admire the personal contribution which you have made to the remarkable transformation which has taken place in your country over the last eight years. I much look forward to working closely with the Czech Republic during the UK Presidency and over the coming years.

SLOVENIA

I have just returned from the European Council in Luxembourg. This was a highly successful meeting which will allow the United Kingdom, as Presidency, to launch the enlargement process on 30 March by a meeting of Foreign Ministers of the EU Member States and the ten Central European applicant states and Cyprus. We plan the formal opening of negotiations with Slovenia soon thereafter.

This is very good news. It marks a decisive step in Slovenias path to EU membership. Making good progress in the accession negotiations will be one of the key priorities of our Presidency. I want to ensure we build up real momentum in their early stages.

At the same time, we will take forward work on the European Conference and the reinforced pre-accession strategy. I am determined that enlargement should be an inclusive process. We have a responsibility to seize this historic opportunity to end the divisions that have scarred our continent for far too long.

Slovenia's membership of the Security Council for the next two years makes it all the more important for our two countries to cooperate closely in addressing a wide range of international issues. I much look forward to working closely with you during the UK Presidency and to meeting you at the inaugural meeting of the European Conference in London in March.

ESTONIA

I have just returned from the European Council in Luxembourg. This was a highly successful meeting which will allow the United Kingdom, as Presidency, to launch the enlargement process on 30 March by a meeting of Foreign Ministers of the EU Member States and the ten Central European applicant states and Cyprus. We plan the opening of formal negotiations with Estonia soon thereafter.

This is very good news. It marks a decisive step in Estonia's path to EU membership. Making good progress in the accession negotiations will be one of the key priorities of our Presidency. I want to ensure we build up real momentum in their early stages and that, as Robin Cook said last month in Warsaw.

At the same time, we will take forward work on the European Conference and the reinforced pre-accession strategy. I am determined that enlargement should be an inclusive process. We have a responsibility to seize this historic opportunity to end the divisions that have

scarred our continent for far too long.

I greatly admire the remarkable progress which Estonia has made since regaining her independence. The decisions taken in Luxembourg bear witness to that. I much look forward to working closely with you during the UK Presidency and to meeting you at the inaugural meeting of the European Conference in London in March.

LITHUANIA

I have just returned from a successful meeting of the European Council in Luxembourg. Its outcome will allow the United Kingdom, as Presidency, to launch the enlargement process within a single framework on 30 March by a meeting of Foreign Ministers of the EU Member States and the ten Central European applicant states and Cyprus.

The European Council recognised that Lithuania, like these other applicants, is destined to join the European Union on the basis of the same criteria and will participate in the process on an equal footing. We are committed to making this enlargement an inclusive process, and have agreed means of ensuring this. The Union will also take account of the dynamic progress which your Government has achieved since it took office a year ago.

During the British Presidency we will take forward work as a matter of urgency - including the inauguration of the European Conference in March and decisions on the content of individual partnership agreements. We have a responsibility to seize this historic opportunity to end the divisions that have scarred our continent for far too long.

I much look forward to working closely with you during the UK Presidency, and to seeing you in London in March at the inaugural meeting of the European Conference.

LATVIA

I have just returned from the European Council in Luxembourg. This was a successful meeting which

will allow the United Kingdom, as Presidency, to launch the next stage of the enlargement process within a single framework on 30 March by a meeting of Foreign Ministers of the EU Member States and the ten Central European applicant states and Cyprus.

I realise that the decisions taken at Luxembourg may contain some disappointment for you. But I believe that they chart the best way forward and bring accession to the EU closer for Latvia and all of the Central European applicants. I admire the progress Latvia has already made since regaining her independence.

During the British Presidency we will take forward work as a matter of urgency - including the inauguration of the European Conference and the launching of the reinforced pre-accession strategy. I am determined that enlargement should be an inclusive process, and that those countries which do not at once begin full accession negotiations should be free to start them as soon as they are ready, and complete them as quickly as they can. We have a responsibility to seize this historic opportunity to end the divisions that have scarred our continent for far too long.

I much look forward to working closely with you during the UK Presidency and seeing you in London in March at the inaugural meeting of the European Conference.

SLOVAKIA

I have just returned from the European Council in Luxembourg. This was a successful meeting which will allow the United Kingdom, as Presidency, to launch the enlargement process within a single framework on 30 March by a meeting of Foreign Ministers of the EU Member States and the ten Central European applicant states and Cyprus.

We will take forward work as a matter of urgency - including the inauguration of the European Conference and the launching of the reinforced pre-accession strategy. We have a responsibility to seize this historic opportunity to end the divisions that have scarred our continent for far too long. We shall play our part, and

we rely on Slovakia to play hers.

I much look forward to working closely with you during the UK Presidency, and to seeing you in London in March at the inaugural meeting of the European Conference.

BULGARIA

I have just returned from the European Council in Luxembourg. This was a successful meeting which will allow the United Kingdom, as Presidency, to launch the enlargement process within a single framework on 30 March by a meeting of Foreign Ministers of the EU Member States and the ten Central European applicant states and Cyprus. We have a responsibility to seize this historic opportunity to end the divisions that have scarred our continent for far too long.

Your letter of 27 November set out your views on EU enlargement. So I know that the decisions taken at Luxembourg may contain some disappointments for you. But I believe that they chart the best way forward and bring accession to the EU closer for Bulgaria and all of the Central European applicants.

During the British Presidency we will take forward work as a matter of urgency - including the inauguration of the European Conference and the launching of the reinforced pre-accession strategy. I am determined that enlargement should be an inclusive process, and to signal this intention clearly to your people.

I recognise and admire the courage and determination which your government has shown since it took office in August. You have made remarkable achievements in the last eight months. I am conscious that Bulgaria stands at a critical point in the reform process, and that you deserve from the UK Presidency all the help and encouragement we can give you.

I much look forward to working closely with you during the UK Presidency and to seeing you in London in March at the inaugural meeting of the European Conference.

ROMANIA

I have just returned from the European Council in Luxembourg. This was a successful meeting which will allow the United Kingdom, as Presidency, to launch the enlargement process within a single framework on 30 March by a meeting of Foreign Ministers of the EU Member States and the ten Central European applicant states and Cyprus.

We discussed your governments concerns about the enlargement process when we met in Strasbourg in October. I know that the decisions taken in Luxembourg may contain some disappointments for you. But I believe that they chart the best way forward and bring accession to the EU closer for Romania and all the Central European applicants.

During the British Presidency we will take forward work as a matter of urgency - including the inauguration of the European Conference and the launching of the reinforced pre-accession strategy. I am determined that enlargement should be an inclusive process, and to signal this intention clearly to your people. We have a responsibility to seize this historic opportunity to end the divisions that have scarred our continent for far too long.

I recognise and admire the determination and courage which your government has shown since it took office a year ago. I regard what your government has achieved in terms of reform as one of the most encouraging developments in the region, and am determined that the UK Presidency should give as much support and encouragement to this process as we can.

I much look forward to working closely with you during the UK Presidency, and to seeing you in London in March at the inaugural meeting of the European Conference

4. Messages end.

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10 DOWNING STREET
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From the Private Secretary

8 December 1997

De Amirich,

LETTER FROM THE BULGARIAN PRIME MINISTER

I attach a letter to the Prime Minister from his Bulgarian counterpart. It is a lobbying letter about accession negotiations in advance of the European Council later this week. I imagine a similar letter has gone to all EU Heads of State and Government. I would be grateful for an appropriate draft reply after the European Council. This should reach us by 17 December at the latest.

I am copying this to Brian Bender (Cabinet Office).

Yours ever

JOHN HOLMES

Dominick Chilcott Esq
Foreign and Commonwealth Office

BU



EU Enlargement. KK

✓ NATO: Policy Enlargement

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

8 December 1997

Dear Dominick,

LETTER FROM PRESIDENT OF LATVIA

The Latvian Ambassador called on me this morning to deliver a letter to the Prime Minister from Ulmanis. A copy is enclosed. The Ambassador said that he and his authorities were well aware of our position on enlargement of the EU. Nevertheless, they understood that there was no consensus among Member States on the issue. They hoped that any compromise reached at Luxembourg would mean accession negotiations starting with all three Baltic States.

I doubt that Ulmanis's letter requires a reply. Please let me know if you disagree.

Yours ever,

Philip

PHILIP BARTON

Dominick Chilcott Esq
Foreign and Commonwealth Office

ca

Embassy of the Republic of Bulgaria

**SUBJECT
MASTER**

CPD

File
186-188 Queen's Gate
London SW7 5HL
Tel: 0171-584 9400
0171-584 9433
Fax: 0171-584 4948

4 December, 1997

Dear Mr Holmes,

I have the honor to submit to you the letter of HE Mr Ivan Kostov - Prime Minister of the Republic of Bulgaria to the Rt. Hon. Tony Blair - Prime Minister of the United Kingdom and Northern Ireland.

I avail myself of this opportunity to express our hope that the position of Bulgaria regarding the future enlargement of the European Union would get the endorsement of Her Majesty's Government.

Yours faithfully,



Milen Lutzkanov

Charge d'Affaires a. i.

**Mr John Holmes
Principal Private Secretary
of the Prime Minister
10 Downing Street
London**

София, 27 ноември 1997 година

УВАЖАЕМИ ГОСПОДИН МИНИСТЪР-ПРЕДСЕДАТЕЛ,

В навечерието на Европейския съвет в Люксембург, който ще вземе историческото решение, определящо очертанията на Европа на XXI век, бих желал да изразя позицията на България по бъдещото разширяване на Европейския съюз.

България разглежда разширяването на Европейския съюз като двупосочен акт на солидарност и като процес, който ще има значим политически и икономически ефект както върху Съюза, така и върху бъдещите страни-членки предвид възможностите за създаване на една по-стабилна и сигурна Европа. Точно заради това считам, че разширяването следва да удовлетворява желанията и надеждите на всички.

В Европа съществува широко разбиране за всеобхватността и недискриминационния характер на бъдещото разширяване. Надяваме се, че на основата на този принцип държавите-членки на Европейския съюз ще вземат такова политическо решение в Люксембург, което няма да позволи създаването на нови разделителни линии и ще даде шанс на България да вземе пряко участие в интеграционните процеси на нашия континент, чието начало бе поставено със събарянето на Берлинската стена.

Очакваме, че при вземането на решение за започване на преговори Европейският съвет в Люксембург ще отчете значителния напредък в реформите, осъществен от нашето правителство през 1997 г., включително и в периода след публикуването на становището на Европейската комисия. Със своите решителни действия, водено от разбирането, че европейската интеграция е въпрос на вътрешни реформи и усилия, в рамките на няколко месеца правителството успя да постигне значителни, международно признати резултати във финансовата стабилизация, структурните реформи и приватизацията, в осъществяването на необходимите административни реформи и в създаването на правните рамки за успешно интегриране в Европейския съюз.

ДО
Н.ПР.Г-Н ТОНИ БЛЕЪР
МИНИСТЪР-ПРЕДСЕДАТЕЛ
НА ВЕЛИКОБРИТАНИЯ
ЛОНДОН

Считам, че тази коренна промяна в динамиката на подготовката на България следва да бъде определяща при вземането на решение за започване на преговори за присъединяване към Съюза.

Започването на преговори с България ще консолидира процеса на реформи и ще има мобилизиращ ефект за тяхното успешно провеждане. От друга страна, всяко решение, отлагащо началото на преговорите на този етап, ще раздоби масовата обществена подкрепа за реформата в моята страна, чиято крайна цел е да се присъедини към европейската и трансатлантическата система в икономиката, политиката и сигурността.

Откриването на преговори и с България ще бъде ясно послание към международната политическа, икономическа и културна общност за позитивната оценка на Европейския съюз за промените в България. Това решение несъмнено ще засили и присъствието на Съюза в Югоизточна Европа и ще има положително влияние върху укрепването на регионалната стабилност, което е в интерес на цяла Европа.

Ние не очакваме преговорите с асоциираните страни от Централна и Източна Европа да протичат с еднаква динамика и да приключат едновременно. Считам, че всяка страна-кандидат следва да докаже в своите индивидуални преговори готовността си за участие във всичките измерения на европейския интеграционен процес.

Известни са ни аргументите, които Вашето правителство е излагало в подкрепа на диференцирания подход. Но ни е известно и че Великобритания подкрепя процеса на разширяване и се надяваме, че в този исторически момент ще дадете приоритет в полза на политическите аргументи, тъй като това е преди всичко политически процес, който може да сложи край на дългогодишното разделение на нашия континент.

Искрено Ваш,

ИВАН КОСТОВ

**Republic of Bulgaria
Prime Minister**

Sofia, 27 November 1997

Mr. Prime Minister,

On the eve of the European Council in Luxembourg which will take the historic decision determining the outline of Europe of the 21st century I would like to inform you of the position of Bulgaria regarding the future enlargement of the European Union.

In view of the opportunities now open to build a more stable and secure Europe Bulgaria regards the enlargement of the European Union as an act of mutual solidarity and as a process with significant political and economic impact both on the Union and the future Member States. That is why I believe that enlargement should answer the hopes and expectations that it raises.

There is wide agreement in Europe on the inclusive and non-discriminatory character of future enlargement. We hope that on the basis of this principle the European Union Member States will take a political decision in Luxembourg that will not draw new dividing lines and will give Bulgaria the chance to participate fully in the integration processes on our continent that started with the fall of the Berlin wall.

It is our expectation that when taking the decision for starting negotiations the European Council in Luxembourg will take into account the real progress of the reforms accomplished by my government in 1997 namely in the period following the publication of the *avis* of the European Commission. Acting with determination guided by the understanding that European integration is a matter of domestic reforms and efforts within just a few months we attained considerable and internationally acknowledged results in financial stabilisation, speeded structural reform and privatisation, in implementing the necessary administrative reform and establishing the legal framework for successful integration in the European Union. I believe this profound change in the dynamics of Bulgaria's preparations should be judged determining when the Union takes a decision for opening accession negotiations.

**The Rt. Hon. Anthony Blair
Prime Minister of the United Kingdom
of Great Britain and Northern Ireland
London**

Opening negotiations with Bulgaria will consolidate the process of reforms and will have a mobilising effect on their successful implementation. On the other hand, any decision postponing the start of negotiations will undermine public support to reforms in my country for Bulgaria's major objective is to join the European and Transatlantic system of economy, politics and security.

Starting negotiations with Bulgaria will send a clear message to the international political, business and cultural community about the European Union's positive assessment of the changes in Bulgaria. Such a decision will undoubtedly reinforce the presence of the Union in south-eastern Europe and will have a positive impact on strengthening regional stability which will be in the best interest of Europe as a whole.

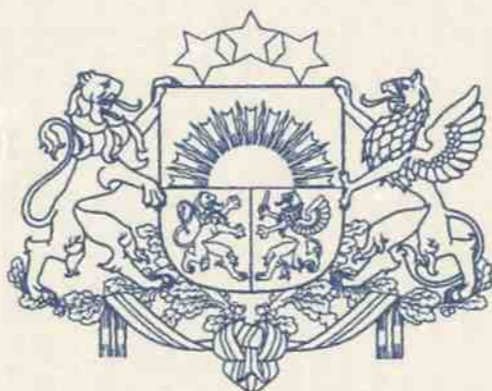
We do not expect the negotiations with the associated countries of central and eastern Europe to have the same dynamics and to be concluded simultaneously. I believe that each applicant country should prove in the individual negotiations with the Union its readiness for participation in all the dimensions of the European integration process.

We are aware of the reasoning which your government has given in support of a differentiated approach. We are also aware that the United Kingdom is in favour of enlargement and we hope that at this historic moment you will give priority to the political approach since this is, above all, a political process which can put an end to the long-standing division of our continent.

Yours sincerely,

/s/

Ivan Kostov



SUBJECT
MASTER

Filed on:

Latvijas Valsts prezidents

1st December 1997

Dear Mr. Prime Minister,

With a great interest I read your last letter where you had expressed the views on the process of NATO enlargement and our bilateral co-operation. I would like to continue the exchange of views and ideas that you have started so kindly.

Latvia sees the decisions made in Madrid as a good basis for developing the future security architecture in Europe. The European security is the first condition for prosperous Europe ready for the next millennium. Latvia would like to enhance its contribution to the efforts of building new Europe with a common security structure that will ensure stability and development in Europe.

As you know the priority of Latvia's foreign policy is integration into the EU and Transatlantic security structures. Latvia views the Luxembourg summit and the following period of the UK presidency as a time of crucial decisions that will shape the future of the European Union. We believe that the decision in Luxembourg will be well balanced and acceptable for all EU and CEE countries involved.

The debate on the EU enlargement is moving from the discussion of the role of the accession negotiations towards other elements of the process such as Permanent European Conference and Reinforced Pre-Accession Strategy. Latvia recognises the necessity of discussing these elements. It is equally important that the Luxembourg summit precisely determines the responsibility of the EU member states for the content and monitoring of the Pre-Accession Strategy.

At the same time it should be noted that the negotiations are an important instrument for the acceleration of the European integration process. We view the negotiations as the only strategy on offer that ensures all-inclusiveness and equal opportunities for the applicant countries from the very beginning of the enlargement process.

According to the Copenhagen criteria Latvia has achieved high democratic standards in its political development. We have joined the international human rights conventions and incorporated their principles in the national legislation and implemented them in the political process. The Government of Latvia concentrates

on creating an integrated society by promoting the role of Latvia's more than 2000 non-governmental organisations in building civic society. Furthermore, the naturalisation issue has been included in the Declaration of the Government.

In a relatively short period of time Latvia has successfully mastering the difficult tasks of economic reforms. With the process of transition broadly completed, the main challenge now is to secure the gains already made and to put particular emphasis on structural reforms which firmly establish Latvia as a market economy, together with continued tight financial and budgetary policies.

I would also like to share with you some thoughts concerning the situation in the Baltic sea region wishing to stress that co-operation of the states involved has acquired an increased quality. One of the reasons for this success can be sought in the positive impact of the overall European integration processes, with every state of the region having concrete expectations in the framework of the EU enlargement. Latvia is convinced that strong involvement of the EU in subregional processes and concrete activities in this framework is of utmost importance. There have been several initiatives addressing the necessity and future possibilities for co-operation in our region. We highly appreciate the interest of Russia in strengthening joint efforts to this end. Although some of its recent proposals contained aspects which the Baltic states cannot consider as acceptable and which have already received due profile and responses in the international community, the involvement of Russia in the Baltic sea region and overall European processes is being highly welcomed. Let me stress that we are fully aware of our share of responsibility in making this challenge a success.

In the context of Latvia's integration into European structures, let me express a hope that also our good bilateral relations will further develop towards the mutual benefit of both our countries.

Thank you for your continuing support and co-operation. It has been a great help in preparing us for integration into Western structures.

Yours sincerely

Guntis Ulmanis
President of Latvia

The Rt. Hon. Prime Minister Tony Blair

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file

RC



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

2 December 1997

Dear Dominick,

ENLARGEMENT

When the Prime Minister spoke to Juncker this morning, the latter mentioned that he had just learnt from the Turks that they were no longer interested in the proposed European Conference. They had apparently concluded that if the conference was decoupled from enlargement, there was no point their being there. They were either treated as equals to other candidates, or they would stay away.

The Prime Minister said that it would be difficult to accommodate the Turks if they insisted on being treated just like the other candidates.

v
10/12/97

Angus

ANGUS LAPSLEY

Dominick Chilcott Esq,
The Foreign and Commonwealth Office

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British Embassy
Bonn

From The Minister

24 November 1997

John Holmes Esq CMG
PS/N010Friedrich-Ebert-Allee 77
53113 BonnTelephone: 0228 9167126 or 270
Facsimile: 0228 9167163 or 200

Dear John,

ENLARGEMENT: GERMAN POSITION

1. I have seen a copy of your letter of 20 November to Dominick Chilcott reporting the discussion over dinner at the Special European Council.
2. Kohl's apparent lack of support for differentiation was indeed surprising. We have raised this with contacts here. Duckwitz, Chancellery and Heusgen, Auswärtiges Amt, both assured us there was no change in the German position.
3. Heusgen said that Bitterlich was concerned that the Chancellor's remarks should not be "over interpreted". Kohl continued to support differentiation. The German concern was how this could be sold to the CEEs not taking part in accession negotiations, and to the member states supporting a regatta start. Hence their proposal for an enlargement committee at 15 + 11. The Commission understood that Germany was still backing their proposal.
4. Duckwitz, slightly more cautiously, said that the German position was in principle unchanged. They had always expected the majority to go for the regatta. But negotiating with everybody would end up meaning negotiating with nobody. Their objective for Luxembourg was to come out where the Commission proposed.
5. As I am reporting separately, Duckwitz emphasised heavily how pleased Kohl was with his cooperation with the Prime Minister on employment. The Prime Minister had spoken at the Summit exactly as he had to Kohl at Chequers. This quality, delivering what was promised, was, above all, what Kohl appreciated most in his colleagues.

Yours ever,
Robert.Robert Cooper
Chargé d'Affaires

24/11/97

17:44

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BRITISH EMBASSY BONN

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cc: Dominick Chilcott Esq, FCO
Gabs Makhlouf Esq, HM Treasury
Ms Jan Polley, Cabinet office
Sir Stephen Wall KCMG LVO, UKRep Brussels

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24/xi

FRAME ENLARGEMENT

FOLLOWING FROM WALL

SUBJECT: EUROPEAN COUNCIL: HEADS OF GOVERNMENT DINNER (20
NOVEMBER): ENLARGEMENT AND THE EUROPEAN CONFERENCE

1. The following account of the European Council dinner discussion is based on information given to us in confidence by someone who was present. Its existence and content should not therefore be quoted to the Commission or any of our partners.
2. The Prime Minister opened the debate. The European Conference should not be a decision-making conference but it should include Turkey. For the negotiations themselves, we could not start at once with all. There had to be differentiation.
3. Dehaene (Belgium) said he was not in favour of the regatta approach but we must ensure that the second group did not feel excluded. Those not in the first wave of negotiations must nonetheless feel part of the enlargement process.
4. Kohl (Germany) set out his view of the European Conference (15 plus 10 plus Turkey plus Santer). It would not discuss accession. It would be an informal gathering designed to deal with psychological problems: more a dialogue than a table round with set speeches. He described Turkey's geo-political importance. Turkey was not at present eligible to join the European Union but she might in the long term. Kohl gave a vivid account of German popular reactions to the three million Turks living in Germany. Berlin was the world's third Turkish city. There were 17 mosques in Frankfurt. On enlargement, the question of the start had become a theological one. We should not try to parcel up the whole thing neatly. We should remember what had happened on Norway.

PAGE 1
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5. Klima (Austria) was open to Turkish accession but the European Conference should not be about accession. Turkey should be in the conference. There would in addition be accession partnerships and bilateral negotiations. We should regard the CEEs as an open group with the possibility of Slovakia and others coming in later.

6. Guterres (Portugal) said that Portugal had nothing to gain economically from enlargement but was committed to it politically. It was a political project and the political reasons for it were valid for all applicants. So the perspective of enlargement must be open to all, albeit with very slightly different modalities for different candidates. We could not negotiate in the same way with everyone but there could be strict and structured negotiations with some and preliminary negotiations with others. The five must not feel rejected. Kohl's European Conference did not offer them much.

7. Kok (Netherlands) had an open mind as to the nature of the European Conference but Turkey should be present. Kok spoke so delphically on the start of the enlargement negotiations that it was not clear whether he was for or against differentiation.

8. Simitis (Greece) favoured the regatta approach. There was no point in a European Conference without Turkey. If Turkey was in the conference it would give her status as a candidate country. He was totally opposed to Turkey's inclusion in the conference. She met none of the political conditions and she should not be rewarded for non-compliance. For Turkey to take part she must fulfil certain conditions, ie

- accepting the jurisdiction of the International Court of Justice;
- not seeking to block Cyprus negotiations;
- not standing in the way of the UN process.

9. Kohl said he had some sympathy with Simitis: Turkey must accept the jurisdiction of the ICJ and collaborate over the Cyprus negotiations.

10. Santer (Commission) argued for a package approach towards Turkey which would give the Turks eligibility for membership (on the Apeldoorn model), a strengthened relationship, participation in

the European Conference and unblocking of the financial protocol. In return, the Turks would have to accept the jurisdiction of the ICJ, support the UN Cyprus peace process, press Denktash to accept a mixed Cypriot delegation and put no veto on Cypriot accession.

11. Santer defended differentiation. The Commission's approach was inclusive, evolutionary and relevant to all the candidates. Differentiation did not amount to discrimination.

12. Persson (Sweden) said we should be more on the offensive with Turkey on human rights, democracy, Cyprus, relations with Greece, the Kurds etc. If Turkey wanted to join the European Union, she must move in that direction. Persson argued for a regatta start to the enlargement negotiations.

13. Rasmussen (Denmark) said that the Union had delivered on customs union. Turkey had yet to deliver on human rights. Any conference involving Turkey should have nothing to do with enlargement. Why not include Switzerland? Kohl indicated he could go along with that. Rasmussen argued in favour of the regatta approach.

14. Aznar (Spain) supported Guterres' line. There was no need to differentiate at the start of negotiations so long as it was clear that all candidates would not finish the negotiations at the same time. A distinction should be made between those who were candidates and those who might be candidates in future, such as Turkey. He drew no conclusions but noted that Yilmaz would be in Madrid on Monday 24 November.

15. Prodi (Italy) said there was no alternative than to put all the ten countries together. We should not divide them into boxes. There must be institutional reform before the end of the first enlargement negotiations. Turkey should be in the European Conference.

16. Chirac (France) was in favour of both the Kohl and the Guterres approaches. He too favoured institutional reform and noted that the financial framework had not yet been addressed. We must be careful not to push Turkey into the arms of the extremists. She was an essential part of the balance in the region.

17. Lipponen (Finland) favoured Turkish participation in the conference and, in lukewarm terms, the Commission's approach to

enlargement.

18. Juncker tried to sum up that all the candidate countries would be included in the enlargement process. There would be detailed and structured negotiations with the more advanced and negotiating discussions of a much more flexible kind with the less advanced. Those discussions with the less advanced should start before Christmas. In parallel there would be the real bilateral negotiations.

19. Juncker said the European Conference had been invented as a means of organising the EU's relations with Turkey as a process quite independent of enlargement. There seemed to be a wide measure of agreement on that. Some wanted a few prior conditions. Simitis wanted several. What would be the repercussions for the enlargement process if we did not find a way of dealing with Turkey? Where would Greek attitudes lead us? We should try for a package in which Turkey conceded jurisdiction of the International Court on the one hand while, on the other hand, Greece lifted her block on the financial protocol. Under those conditions, Turkey would take part in the conference whose content would above all concentrate on pillars two and three. As for Agenda 2000, we should not overload the boat. We should pick two or three issues of which the own resources ceiling could be one (Kohl commented at this point that he certainly did not want to settle everything).

20. Chirac commented that on enlargement he had confidence in the Presidency. The European Conference with Turkey was about good relations. No-one could oppose it.

21. Simitis said that ICJ jurisdiction was only one of several conditions. There must be no veto over the Cyprus negotiations, combined with a positive attitude to the UN peace process.

22. Juncker said that Heads of Government could reconfirm Turkey's eligibility for membership but no-one was suggesting that she be treated as a candidate country. He acknowledged that for some countries Turkey's participation in the Conference depended on certain conditions.

23. Guterres appealed to Simitis to accept Turkey's presence at the conference. Simitis refused, insisting on all his prior conditions.

24. Kohl said he could not understand Simitis' position. We were talking about a forum for discussion with a group of countries which might also include Switzerland and Norway. Turkey was a country of the future and not the sick man of the Bosphorus.

25. Jospin spoke in favour of bringing Turkey closer to the European Union but the Turks must be required to accept the jurisdiction of the ICJ.

26. Simitis repeated his position, saying that he was ready to discuss Turkey's participation on the basis of the package suggested by Santer.

27. Juncker said that he would take account of what had been said at the dinner at his discussions in Ankara on 27 November. He would not fail to confront the Turks with the requirements that some had expressed. Whilst there was not agreement between Heads of Government, he believed respective positions had become closer.

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Filed on:

10 DOWNING STREET
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From the Private Secretary

20 November 1997

Dee Dominich,

**SPECIAL EUROPEAN COUNCIL:
DINNER, 20 NOVEMBER**

The Heads of State and Government spent over three hours on discussion of enlargement and the European Conference over dinner this evening. The Prime Minister gave me the following read-out of what he described as an uninspiring and largely unhelpful discussion.

Initial contributions focussed on the European Conference. All were in favour of such a Conference including Turkey, with the exception of Greece. Simitis spoke for thirty minutes about the need for Turkey to meet conditions first, notably on a Cyprus settlement and on ICJ jurisdiction over Greek/Turkish disputes. Kok made noises about Turkey's human rights record but did not develop his opposition. There was agreement that the Conference should not be a decision-making forum. There was also support for the attendance of Switzerland, and some mentions of the possibility of inviting Norway and Iceland too. But it was not clear to the Prime Minister how far those promoting these extra attendees really had their heart in it.

Discussion then moved on to enlargement itself. The Prime Minister was astonished to find that virtually all speakers were effectively arguing for a regatta-start, and against making any formal distinction between different applicants, although there was acceptance that different negotiations would move at different speeds. Guterres led the charge in favour of the regatta approach, and was supported by Chirac, Prodi, Aznar and (to some extent) even Kohl, as well as the obvious regatta supporters. Santer intervened to say that all this was unrealistic, and took no account of the work the Commission had done, at the request of the Member States. The Prime Minister spoke strongly in support of this, pointing out the distinction between the need for sympathetic presentation of decisions to negotiate with some and not others, and the reality of the need for this approach,

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- 2 -

given the different states of readiness of different countries. Kok appeared to have some sympathy with this, but not very clearly. No-one else spoke in support.

Comment

The Prime Minister described Juncker's chairmanship as ineffective. No conclusions were reached, but the trend of the discussion on enlargement and the regatta start was clearly unhelpful. Those who spoke in favour of a regatta approach appeared to be swayed by emotional concern for those worried about being left out, rather than by the facts of the situation. We will have to work hard to recover this. In particular, there would appear to be a mis-match in some countries between the views of experts and senior advisers on the one hand, and their Heads of State or Government on the other. The Prime Minister was embarrassed by the turn the discussion took, given that he had told Persson only a week previously that the regatta approach now had no real support!

I am copying this letter to Gabs Makhoulf (H M Treasury), Jan Polley (Cabinet Office) and Sir Stephen Wall (UKREP, Brussels).

You are

John

JOHN HOLMES

Dominick Chilcott, Esq.
Foreign and Commonwealth Office

CONFIDENTIAL



cc: PB
RL

Foreign &
Commonwealth
Office

London SW1A 2AH

Sweden

File

21/11

19 November 1997

Dear John,

EU Enlargement: German Views

Thank you for your letter of 12 November recording your meeting with Bitterlich and Nehring. We are still considering their draft Conclusions for the Luxembourg European Council. But it would already be very helpful if you could respond to Bitterlich indicating our desire to maintain a close dialogue while expressing reservations about the German idea to establish a "Multilateral Enlargement Committee".

... I enclose a draft.

Yours sincerely,

Dominick

(Dominick Chilcott)
Private Secretary

John Holmes Esq
10 Downing Street

DRAFT REPLY FROM PS/NO 10

I was grateful for your draft conclusions for the European Council in Luxembourg, and in particular your thinking on the European Conference. While I have not yet studied these in detail I am very pleased that we are continuing to work together on the Conference. We are both looking for creative ways to make the Conference a useful tool, not least in handling Turkey's aspirations.

That said, I do hesitate over your proposals to establish a "Multilateral Enlargement Committee". I am not convinced it would any real value. And it risks reducing the attractiveness of the Conference for Turkey, as it will be the Committee, not the Conference, which would consider horizontal issues of shared interest. I am also wary of creating an additional bureaucratic structure of limited benefit which risks cutting across the accession negotiations (I do not think in any event we want to encourage the candidates to comment on each other's applications and progress towards membership).

Nevertheless, I am very keen to pursue our discussions and have asked Colin Budd to speak to Wilhelm Schoenfelder.

Mr J Bitterlich
Federal Chancellery
Bonn



10 DOWNING STREET
LONDON SW1A 2AA

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From the Principal Private Secretary

12 November 1997

See Aminich,

**VISIT OF BITTERLICH AND NEHRING, 11 NOVEMBER:
EU ISSUES**

Brian Bender and I met Bitterlich and Nehring (Chancellery) in London yesterday. I have written separately to Gabs Makhlouf about our discussion of EMU issues. This letter records the rest.

Enlargement

Bitterlich confirmed that Kohl had told Chirac last week that he could accept the notion of a European Conference, including Turkey, providing it was informal; met only once a year; and was not linked to or about enlargement. Aznar had indicated to Kohl the next day that he too could accept such a concept.

... Bitterlich handed over the attached non-paper (in German) setting out his personal views on what might be said at the Luxembourg European Council on the enlargement process (stressing that this was not - yet - the German Government position). The main elements might be:

- all ten CEEs had an EU vocation;
- accession negotiations would be started with the 5 plus 1 recommended by the Commission, and would be conducted independently of one another;
- there would be an annual examination of the state of readiness of the other 5 CEE candidates, on the specific demand of the countries concerned (this in order to avoid annual 'noes'). Negotiations could be opened with one of those five at any stage, and late starters could overtake those with whom negotiations had begun;

- there would be accession partnerships, involving two elements. First, a bilateral part, involving pre-accession aid, to prepare each country for accession. The Commission would present an annual plan, for decision by the Council (by QMV). The second element would be the creation of a permanent common structure involving a multilateral dialogue (the 15 plus all the candidates) to discuss specific accession-related issues. Pressed on this, Bitterlich said what he envisaged was a bottom-up process involving COREPER and the CEE Ambassadors, the Political Committee and its CEE counterparts and, above that, an annual meeting of the GAC and possibly ECOFIN and the JHA with the candidate countries. The aim would be to inform them of internal EU developments, encourage them to take compatible positions in international fora and generally familiarise them with how we work. The rules that would apply would not be those relating to Association Councils (ie there could be no member state veto of a particular meeting);
- on Turkey, Luxembourg could confirm the possibility of later accession if certain conditions were met. Meanwhile, an intermediate step could be created involving Customs Union plus (including release of the Financial Protocol), a political dialogue and JHA cooperation, with two annual meetings of a new type of Association Council (again without the possibility of any member state vetoing the meeting);
- a final element in this package would be the establishment of a European Conference at Heads of Government level. But Kohl would not accept the Conference meeting at different levels below this, partly for Turkey-related reasons, and partly because he feared that, if a Conference was established with such a sub-structure, it would develop a dynamic of its own.

We said that there was a good deal of common ground between us on all this. The main area of potential difficulty was the multilateral accession-related forum which Bitterlich envisaged (we were not convinced of its utility); its relationship to the Conference; and the impact on Turkey. Bitterlich asked us to look at his note and reflect further. He was open to solutions that would (a) help the five CEEs with whom the EU would not be opening enlargement negotiations in 1998; and (b) give a certain status to Turkey, without creating illusions.

Agenda 2000

We made a standard pitch on the sort of language we would like to see from the Luxembourg European Council. On CAP, we said that the Prime Minister did not wish to put Kohl into a corner; but we did regard it as necessary for the Luxembourg European Council to agree language which agreed the direction of reform proposed by the Commission (we noted in passing that we wanted to go further than the Commission envisaged, while the Germans wanted to go less far); and called for early Commission legislative proposals. After going round this course a couple of times with Bitterlich and Nehring sucking their teeth heavily, they eventually agreed that they thought something like this, making clear that work on these issues should go on, would be acceptable to Kohl; what he could not accept would be language that indicated what the outcome should be or when it should be achieved. They added that Ministries in Bonn, including the Agriculture Ministry, recognised the need for CAP reform after the elections.

Nehring said that he was attracted by the idea of confirming the 1.27% ceiling at Luxembourg. Bitterlich was, however, uneasy about whether pressing for this would provoke the Spaniards into making unwelcome demands. He commented in passing that at the meeting with Kohl last week, Aznar had sounded off at length about the price of enlargement, in generally sceptical terms.

There was a brief discussion about the French idea of trying to establish two columns in the budget, for expenditure in the EU Fifteen and in the new member states. We and the Germans agreed on the underlying need to ensure that there was a margin left below the 1.27% ceiling, to allow for expenditure in the new member states. But Bitterlich and Nehring were unclear about French motivation; they feared that a two column approach would provoke an adverse reaction (a) in some CEEs, on the grounds that they were being treated as poor relations; and/or (b) in some member states.

Jobs Summit

Nehring set out the German position in the following terms. They agreed with our approach on macro-economic conditions, structural policies and follow-up to the Jobs Summit. Any objectives that were set must not involve additional expenditure or new competences, and should tackle the causes of unemployment, not the symptoms. They had problems with the establishment

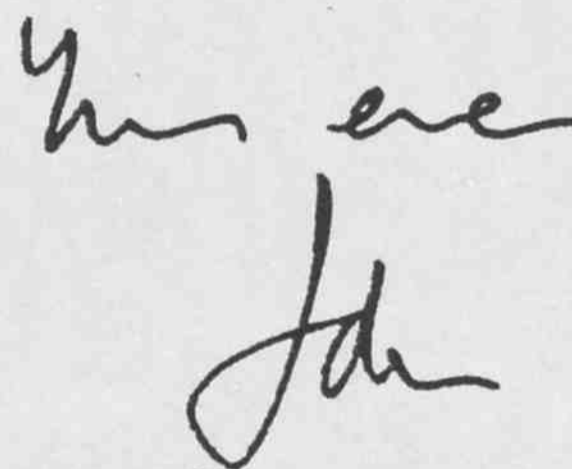
of global targets such as the 7% unemployment figure. There should be chapeau language which made clear that employment policy was an area where subsidiarity applied (the more Juncker was looking for concrete targets, the more necessary this would be). Without pre-judging Kohl's view, specific intermediate labour market policy objectives probably could be accepted, providing they were spelt out in realistic terms. The figures in the Commission paper on youth unemployment were unrealistic; but language which identified trends, or indeed contained a fourchette of the percentage of unemployed that should be offered opportunities, could be discussed. On follow-up, they had a linguistic problem with the phrase "Action Programmes", which implied that Governments could deliver; they preferred "Employment Strategies".

On money, they could agree to the EIB package. As regards an EC budget package, they did not like interest rate subsidies. When we floated our ideas on demonstration projects, Nehring appeared to indicate possible flexibility.

Comment

This was a useful and constructive discussion, with German goodwill towards us once more much in evidence.

I am copying this letter to Gabs Makhoulf (HM Treasury), Alun Evans (DfEE), John Alty (Department of Trade and Industry), David North (MAFF), Jan Polley (Cabinet Office) and by fax to Robert Cooper (Bonn).

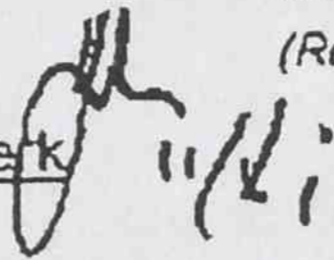


JOHN HOLMES

Dominick Chilcott Esq
Foreign and Commonwealth Office

Bonn, 6. November 1997

(Rev3.)

Vermerk

Betr.: Mögliche Schlußfolgerungen des Europäischen Rats Luxemburg im Dezember 1997 zur EU-Beitrittsstrategie

1. Bestätigung, daß alle zehn Kandidaten in Mittel- und Osteuropa die Berufung haben, Mitglied in der Europäischen Union zu werden. Alle Kandidaten sind Teil des Erweiterungsprozesses.

Entsprechend dem Votum der Europäischen Kommission werden zunächst Beitrittsverhandlungen aufgenommen mit der Tschechischen Republik, Ungarn, Polen, Slowenien und Estland sowie mit Zypern, da diese Länder in ihrer politischen und wirtschaftlichen Beitrittsvorbereitung am weitesten fortgeschritten sind.

Die Beitrittsverhandlungen werden bilateral und individuell zwischen der EU und dem jeweiligen Land - und nicht mit einer Gruppe von Ländern - geführt. Dies bedeutet, daß die Beitrittsverhandlungen mit den einzelnen Ländern gesondert zu unterschiedlichen Terminen durchgeführt werden und sie auch nicht am selben Tag abzuschließen sind.

2. Europäische Kommission und Rat überprüfen grundsätzlich jährlich, ob sich die zunächst noch nicht zu Beitrittsverhandlungen eingeladenen Länder inzwischen ausreichend für die Aufnahme von Beitrittsverhandlungen qualifiziert haben.

Eine solche Überprüfung könnte ggfs. auch nur auf speziellen Wunsch eines Beitrittskandidaten hin stattfinden, um regelmäßige negative Bewertungen zu vermeiden.

- 2 -

Später zu Beitrittsverhandlungen eingeladene Staaten können - entsprechende Anstrengungen vorausgesetzt - durchaus vor den zunächst zu Verhandlungen eingeladenen Ländern abschließen.

3. Die Europäische Union geht mit allen 10 + 1 Beitrittskandidaten eine besondere „Beitrittspartnerschaft“ ein.

Wesentliche Elemente dieser Partnerschaft:

- Einerseits die gezielte Vorbereitung der einzelnen Länder auf bilateralem Wege auf die Mitgliedschaft, im Sinne „Hilfe zur Selbsthilfe“, insbes. durch die Neuorientierung der PHARE-Programme, Beteiligung an Gemeinschaftsprogrammen sowie evtl. durch gezielte Vorbeitritts Hilfen im Agrar- und Strukturbereich.

Die Kommission überprüft jeweils regelmäßig die erzielten Ergebnisse der Umsetzung der Programme (i.S. Kopplung von finanzieller Unterstützung an das Erreichen vorher vereinbarter Ziele) und legt dem Rat jährlich einmal einen Evaluierungsbericht mit konkreten Empfehlungen vor, denen der Rat zustimmen muß.

- Andererseits die Schaffung einer permanenten gemeinsamen Vorbereitungsstruktur.

Ziel ist dabei ein echter europäischer-multilateraler Dialog mit diesen Ländern als Forum zur Unterrichtung über EU-interne Entwicklung und zur Erörterung aktueller Fragen auch in Bezug auf die Vorbereitung auf den Beitritt in allen Bereichen des EU-Vertrages; als Forum zur „Eingewöhnung“ auf den späteren Beitritt; ferner zur Abstimmung von Positionen auch im internationalen Rahmen (z.B. VN etc.).

- 3 -

Hierzu könnte folgende gemeinsame Sitzungen auf verschiedenen Ebenen vorgesehen werden:

- * In regelmäßigen Abständen, denkbar: einmal im Monat, könnte der Ausschuß der Ständigen Vertreter (Botschafter) als zentrales Koordinierungsgremium zu einer ganztägigen Sitzung mit diesen Ländern zusammentreffen;
- * Darüber hinaus könnten in regelmäßigen Abständen (denkbar einmal im Monat oder alle zwei Monate) das Politische Komitee, der Ausschuß der Ständigen Vertreter in den anderen Formationen zur Abdeckung der anderen Pfeiler des EU-Vertrages ebenfalls mit diesen Ländern zusammentreffen.

Gleiches gilt für Einladungen zu Sitzungen von Arbeitsgruppen des Rates und des Politischen Komitees.

- * Der Allgemeine Rat könnte mindestens einmal pro Jahr ebenfalls mit diesen Ländern zusammentreffen; gleiches gilt für die Innen- und Justiz- sowie die Wirtschafts- und Finanzminister; bei Bedarf sollten auch weitere Fachministertreffen vorgesehen werden.
- * Wichtig: Die Tagesordnungen aller dieser Sitzungen sollten unter Anwendung der klassischen EU-Regeln zur Geschäftsordnung festgelegt werden (nicht nach den klassischen Assoziierungsratsregeln, da diese Einstimmigkeit voraussetzen!).

4. Türkei

- ER könnte zunächst die spezifische Rolle, Stellung und Lage der Türkei kurz würdigen

- 4 -

- ER könnte dann die europäische Perspektive der Türkei bekräftigen und zugleich die Möglichkeit eines späteren Beitritts der Türkei bestätigen, wenn zuvor die Türkei den entsprechenden wirtschaftlichen Standard erreicht und die politischen Grundlagen und Übereinstimmungen mit der EU vorhanden sind (Demokratie, Menschen- und Minderheitenrechte; politische EU-Ziele) sowie eine beiderseits befriedigende Lösung der Freizügigkeitsproblematik erreicht ist.
- Ansprache EU-Erwartungshorizont in Bezug auf Beziehungen Türkei/Griechenland sowie Zypern-Konflikt
- Zusage, Beziehungen im Sinne grundsätzlicher Beitrittsperspektive in den kommenden Jahren stufenweise weiterzuentwickeln
- Aufgrund der gegebenen Besonderheiten könnte Verhältnis für die kommenden Jahre als eine „Zwischenlösung“ entwickelt werden, das über das bisherige Assoziierungsverhältnis hinausgeht.

Elemente hierfür könnten sein:

- = „Zollunion plus“, einschließlich Freigabe der entsprechenden Finanzhilfen der EU; Entwicklung des politischen Dialogs über Fragen der Außenpolitik sowie eine engere Zusammenarbeit im Innen- und Rechtsbereich
- = Feste Vereinbarung zweier jährlicher Tagungen des Assoziierungsrates „neuen Typus“ (Festlegung Tagesordnung unter Anwendung klassischer EU-Geschäftsordnungsregeln), einmal auf Botschafter-, einmal auf Außenministerebene.

Ferner ad-hoc Treffen/Hinzuziehung auf Ebene Fachminister-räte, Ständige Vertreter, Politisches Komitee, Arbeitsgruppen des Rates und der Politischen Direktoren zur Erörterung von Fragen gemeinsamen Interesses.

5. Europa-Konferenz

Die Staats- und Regierungschefs der EU kommen einmal im Jahr an einem von den Tagungen des Europäischen Rats losgelösten Termin mit ihren Kollegen aus den zehn mittelosteuropäischen Ländern, die Beitrittskandidaten sind, sowie Zypern und der Türkei zu einem informellen Treffen unter Teilnahme des Präsidenten der Europäischen Kommission zusammen, um über alle Fragen gemeinsamen Interesses (außer Beitritt) i.S. einer „europäischen Meinungsbörse/Dialogforum“ zu sprechen.

RESTRICTED - POLICY

FROM: B G BENDER
DATE: 17 OCTOBER 1997

✓
JOHN HOLMES - NO 10

R14
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21/17.

EU ENLARGEMENT AND POLICY REFORM

- A 1. I attach a note setting out the state of play on this complex, together
B with an updated copy of the table which was in the Prime Minister's pack for
C his dinner with Juncker last week, and Jack Cunningham's letter on CAP reform.
2. There are three messages for the Prime Minister to get across to Kohl on this complex of issues on Monday:
- (a) on CAP reform: that, while he recognises German pre-election sensitivities (and we will not therefore seek to force CAP reform to a conclusion during our Presidency), Kohl must not allow Germany to stand in the way of progress - we want language from Luxembourg that will ensure early legislative proposals from the Commission and detailed discussion on them in the UK Presidency;
 - (b) on Turkey: to try to persuade Kohl that Turkey should be included in the European Conference, and that this can be done without giving any new commitment on Turkish accession;
 - (c) on future financing: (if Kohl makes a big pitch on the German net contribution and the need for a general rebate mechanism) to make clear that there is no way in which the Prime Minister could accept that the UK abatement was up for discussion.
3. I am copying this to Rupert Huxter, Roger Liddle and Jan Polley.

B G BENDER
European Secretariat
Room 322, 70W
270 0044

RESTRICTED - POLICY

dl434

EU ENLARGEMENT AND AGENDA 2000

1. The pace of discussions on this complex of issues is intensifying in the run-up to the 12/13 December European Council. It will be a major feature of the Prime Minister's forthcoming meetings with Kohl, Lipponen, Chirac/Jospin and Persson; and of discussion at the EU Foreign Ministers' Informal on 25/26 October (at which Doug Henderson will represent the UK). (E)DOP will be discussing enlargement/Agenda 2000 under Robin Cook's chairmanship after Cabinet on 23 October (the paper for discussion - a memorandum by the Foreign Secretary - will issue early next week).

i. Enlargement

2. The key decision for Luxembourg is to secure agreement on the opening of enlargement negotiations. **Our aim is to secure a differentiated approach**, ie agreement at Luxembourg to the opening of negotiations with Cyprus and the five CEEs (Poland, Hungary, Czech Republic, Slovenia, Estonia) proposed by the Commission; **with a pre-accession strategy to help all CEE applicants**, including the backmarkers, to prepare for membership (and the possibility of decisions along the way to open enlargement negotiations with one or another additional country); **and the establishment of a European Conference as an inclusive forum for all the CEEs and Cyprus and Turkey**. Possible difficulties:

- hankering by some (notably Denmark and Sweden - but also Spain, probably for opportunistic reasons) for a "regatta start" involving opening negotiations with all;
- scepticism/opposition to Turkish involvement in the European Conference on the part of Germany and Greece in particular. The Luxembourg Foreign Minister shares this scepticism, although Juncker on 9 October was clearly looking for a way through, involving Turkish participation in some aspects of the Conference.

ii. Policy Reform/Future Financing

3. We would like directional conclusions from Luxembourg on policy reform. It was clear from the Prime Minister's dinner with Juncker last week that we and the Presidency are pointing in roughly the same direction on the sort of **minimum conclusions we should like to see** (as are the Commission):

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- **maintenance of the 1.27% of GNP ceiling on the EU budget** (making clear it is a ceiling and if possible that it should apply through enlargement);
 - **language on CAP reform** which will confirm the need for further reform in the direction recommended by the Commission, and invite the Commission to bring forward specific proposals on key market regimes to enable discussion in the UK Presidency (and directional conclusions from Cardiff);
 - **language on reform of the Structural and Cohesion Funds** (SCF) that will establish a ceiling (before and after enlargement) of 0.46% of EU GNP.
4. There are several obstacles to achieving such conclusions, notably:
- on **CAP reform**: most member states have misgivings about what the Commission envisage. There is a lively internal debate under way in France; they might well accept Luxembourg conclusions on the lines set out above. Only the Germans have indicated outright opposition to the Commission's ideas, and have made clear to us privately that we cannot expect progress on CAP reform before their September 1998 elections. Jack Cunningham has recommended that the Prime Minister should use his meeting with Kohl on 20 October to get across two essential messages: first, that he recognises German pre-election sensitivities and will not attempt to force CAP reform issues to a conclusion during the UK Presidency; but, secondly, that for his part Kohl must not allow Germany to stand in the way of any progress during that period - we want language from Luxembourg which will ensure legislative proposals from the Commission early in 1998 and detailed discussion on them during the UK Presidency;
 - on **SCF reform**: the Spaniards (and other southerners) may seek some commitment to preserve their receipts from the funds and their continued eligibility to the Cohesion Fund as an EMU "in";
 - on **future financing**: Spain may want to use attempts to confirm the 1.27% ceiling as leverage to preserve her receipts; and the Germans, Dutch, Sweden and Austrians may seek language on their net contributions to the EC budget, pointing towards a general rebate mechanism (NB any general mechanism which superseded

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our abatement would be bound to leave us worse off than the Fontainebleau arrangement).

5. All this means that we will have **important defensive objectives for Luxembourg: to avoid a German roadblock on CAP reform; to avoid commitments about Spanish and others' receipts at this stage in the negotiations; and to avoid any suggestion that the UK abatement or its scope is up for discussion.**
6. Similar defensive considerations appear to have encouraged the Germans to promote a deal with the Spaniards under which the Luxembourg European Council would say as little as possible on policy reform, and concentrate on the opening of enlargement negotiations. This would be very much a second best for us: **our aim should remain to continue to seek as firm language on the lines outlined in para 4 above as the market will bear** (and stiffen Luxembourg Presidency resolve to maintain the approach indicated by Juncker last week).
7. (E)DOP will rehearse these arguments on 23 October under Robin Cook's chairmanship. There is some disagreement among Departments on tactics: the FCO and UKRep consider that we need to tread carefully between now and Luxembourg to avoid the Spaniards holding the opening of enlargement negotiations hostage to satisfactory assurances over their receipts (I share that view - hence the formula in para 7 above about seeking as firm language on policy commitment as the market will bear); the Treasury believe we run this risk anyway, and should not let it deter us from pressing for clear commitments at Luxembourg on financing and policy reform. I have relayed to Departments the Prime Minister's views (we want enlargement; it is therefore in our interests to ensure that Luxembourg agrees on the opening of enlargement negotiations; we should not therefore imply that our agreement to it could be conditional upon securing adequate commitments on policy reform; but should, rather, argue that policy reform will be essential if enlargement is to be successful). We shall ensure that these views are reflected in the chairman's brief we provide for the Foreign Secretary. When the memorandum for (E)DOP is circulated, No 19 may wish to consider issuing a letter setting out the Prime Minister's views in writing.

European Secretariat
17 October 1997

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ENLARGEMENT/AGENDA 2000: UK OBJECTIVES FOR LUXEMBOURG

| Subject | Commission proposals | UK views | Others' views | UK objectives for Luxembourg |
|-----------------------|---|---|--|---|
| <u>EU Enlargement</u> | EU should open accession negotiations with Cyprus (as already agreed by the European Council) and 5 of the 10 Central and Eastern European (CEE) candidates (Poland, Hungary, Czech Republic, Slovenia, Estonia) whom the Commission judge will in the medium term be able to meet the economic and political criteria for membership laid down by the Council. | <p>Support Commission recommendation to begin negotiations only with those candidates who are ready ("differentiation").</p> <p>Support Commission recommendation on individual candidates.</p> | <p>Key partners (France, Germany, Presidency) support differentiation.</p> <p>Scandinavians still hanker for "regatta start" to negotiations (on behalf of Latvia and Lithuania), i.e. opening negotiations with all.</p> | To secure agreement to opening negotiations with Cyprus and 5 CEEs only during UK Presidency . |
| | <p>"Reinforcement" of the Pre-Accession Strategy (the programme for helping applicants prepare for EU membership) through increased funding and refocusing of activity.</p> | <p>Support Commission's recommendations in principle (though with reservations about some of the detail).</p> | No significant dissent on principle | <p>Endorsement of strategy (subject to resolving detailed concerns).</p> |

(B)

| Subject | Commission proposals | UK views | Others' views | UK objectives for Luxembourg |
|-------------------------------|--|--|--|--|
| Enlargement (cont.) | Establishing the European Conference as a single forum (annually at Head of Government and/or Ministerial level) for member states and all countries "aspiring" to EU membership (i.e including Turkey) to discuss 2 nd and 3 rd pillar issues (Common Foreign and Security Policy and justice and home affairs). | <p>Support establishment of Conference as mechanism (a) to make CEE candidates not in 1st wave of negotiations feel included and (b) to reassure Turkey that its readiness for membership will be judged on same basis as other candidates, but commitment to or specific timescale for Turkish accession.</p> <p>Should cover 1st pillar, and meet at official/ Ministerial level as appropriate.</p> | <p>France shares UK view on usefulness of Conference in managing Turkey.</p> <p>Germany highly sceptical - wary of Turkish involvement, given opposition to Turkish membership.</p> <p>Greece likely to oppose Turkish involvement.</p> <p>Luxembourg Presidency also sceptical about Turkish involvement.</p> | <p>Secure agreement to establishment of and broad aims of Conference with view to inaugural meeting during UK Presidency.</p> <p>Ensure Turkish participation.</p> |
| <u>Future financing of EU</u> | Next financing period should run from 2000-2006 to cover first wave of enlargement. | Ideally, would like period to run beyond 2006 to avoid pressure for increase following the first wave of enlargement (but unrealistic). | | |
| | Current ceiling on overall budget ("Own Resources Ceiling") should remain (1.27% of member states' GNP). | Strongly support Commission recommendation. | <p>Net contributors strongly agree (e.g. Germany, Netherlands)</p> <p>Unlikely to be any real pressure from net recipients for increase (but may be used for leverage by e.g. Spain to preserve receipts).</p> | To secure agreement to 1.27% ceiling. |

| Subject | Commission proposals | UK views | Others' views | UK objectives for Luxembourg |
|---|--|---|--|---|
| Future financing (cont.) | No change in current financing arrangements (ie to calculation of member states' contributions) | Agree. | Germany and Netherlands under domestic political pressure to reduce net contribution. | |
| | UK rebate mechanism (the "abatement") to be reviewed after first enlargement. | Abatement should not be on the table. | Abatement may come under attack (e.g. as part of German tactics on own net contribution). Others may argue that expenditure on enlargement is not covered by abatement. | To avoid any suggestion that UK abatement up for discussion; and any language on scope of abatement. |
| <u>Reform of Common Agricultural Policy</u> | CAP should be reformed, most immediately in arable, beef and dairy sectors, to (a) prevent build-up of surpluses, (b) prepare for enlargement, (c) strengthen negotiating hand for next WTO round, (d) meet environmental and rural development objectives | Strongly support Commission's proposals as a step in the right direction; but they do not go far enough in the direction of necessary radical reform (dairy proposals far too weak; direct aid to farmers to compensate for price cuts should be degressive). | Sweden and Denmark support. Germany strongly opposes market reform (highly sensitive in run-up to 1998 elections). Most others oppose direction of reforms (France undecided) but welcome emphasis on rural development. | To ensure process is not blocked and the Commission is able to bring forward specific proposals on key market regimes in time for discussion in UK Presidency (and directional conclusions from Cardiff). |

| Subject | Commission proposals | UK views | Others' views | UK objectives for Luxembourg |
|--|---|--|---|--|
| <u>Reform of Structural and Cohesion Funds</u> | Maintaining the ceiling on the SCF budget (within the Own Resources ceiling) at 0.46% of member states' GNP. | Strongly support Commission recommendation (0.46% should be ceiling before and after enlargement). | Budget disciplinarians (including France) support . | To secure agreement to 0.46% ceiling . |
| | Earmarking a proportion of the budget for new member states (thus reducing existing member states' receipts). | Support principle that SCF should help poorest member states the most, and that existing member states must therefore take cut in receipts on enlargement. | Budget disciplinarians (including France) support principle . Some net recipients (notably Spain) strongly opposed to any cut in receipts. Others (e.g. Ireland) resigned provided there are transitional arrangements. | To avoid any commitment to preserving receipts of Spain or others. |
| | Streamlining and re-orienting the objectives of the SCF, in particular to focus on unemployment and growth. | Support in principle (though need to ensure that UK is not unfairly discriminated against e.g. through using unemployment as criterion). | Broad support from others , with nuances to protect national positions. | Green light for detailed Commission proposals early in UK Presidency. |
| | Maintaining the Cohesion Fund (aid for environment and transport infrastructure for poorest: Spain, Greece, Portugal, Ireland) in its present form, with continued eligibility for those taking part in the 3rd stage of EMU . | Question need for EMU-ins to receive Cohesion Funding (but without making this a sticking point). | Germany and others opposed to continued eligibility of EMU-ins. Spain strongly defensive of continued eligibility despite EMU. | Silence on this at Luxembourg. |



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Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH

From the Minister

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Prime Minister

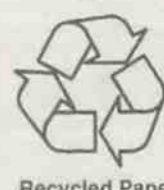
AGENDA 2000: CAP REFORM

1. I have had detailed talks this week with Agriculture Commissioner Franz Fischler during his visit to the UK about the proposals in Agenda 2000 for CAP reform. I am minuting you to outline the common strategy which Fischler and I plan to pursue through this autumn and during the United Kingdom Presidency next year; and to alert you to possible obstacles in the way, notably on the part of Germany. I am aware that you are meeting Chancellor Kohl on 20 October. Although we shall not be discussing Agenda 2000 and CAP reform collectively until after that visit, nonetheless there are important messages which I believe should be conveyed to Kohl which I am sure will be supported by all other colleagues.

2. The proposals in Agenda 2000 for CAP reform are a modest but welcome step in the direction of lowering support prices for major agricultural products in the Community. Though I personally regard the proposals as not going far enough, in particular in relation to the milk sector, discussions in the Agriculture Council this autumn have revealed few member states prepared to take an equally radical view: only Sweden and Denmark share our commitment to far-reaching CAP reform. Be that as it may, I am clear from my discussions with Fischler that the package is as radical as he believes it is possible to go at this juncture. He is anxious to proceed rapidly to serious negotiations on legislative proposals (as distinct from the general principles set out in Agenda 2000) during the United Kingdom Presidency. I have strongly supported his approach, and have made clear that the United Kingdom Government is fully behind him in his efforts.

3. In order to pursue this strategy, Fischler needs to have conclusions drawn at the Luxembourg European Council in December which recognise the need for CAP reform, endorse the Commission's approach as set out in Agenda 2000 and invite the Commission to produce early legislative proposals. This is exactly the scenario which we wish to see.

/If this can ...



Recycled Paper

If this can be achieved, Fischler envisages that detailed work on the legislative texts would be started during the UK Presidency, with further conclusions being drawn at the Cardiff European Council. Whilst both Fischler and I recognise that we shall not conclude the CAP reform debate (which is bound to be protracted) during the UK Presidency, Fischler is keen to see the Cardiff European Council mark a further stage in progress and, in Fischler's own words, represent the point from which there will be no turning back.

4. To reach this outcome would be a considerable achievement for the Commission and for the UK. However it is evident that Germany will make every effort to put obstacles in the way. In their pre-election mood, the Germans are taking a very hostile line on CAP reform, and look willing to block even the most general of language inviting the Commission to take matters forward in 1998. They may believe that their best interests lie in playing the reform beyond us and into their own Presidency in 1999, so that the outcome can be shaped by the German vision of European agricultural policy, which is far from our own. This would be a highly unwelcome outcome for us and for Fischler, who could then face serious obstacles in even getting legislative proposals accepted within the Commission. It would effectively set back the present momentum for CAP reform, and could well prevent the important changes to agricultural regimes taking place in year 2000 as the Fischler proposals envisage. Politically, it would deny the United Kingdom Government, with its clear commitment to CAP reform, the opportunity to advance the negotiation during our Presidency. I believe this is an unacceptable outcome, and I hope you will take the opportunity of your talks with Kohl on 20 October to try to head it off.

5. Given the fact that the CAP reform negotiation will take some time, it seems to me that the message to Kohl can be reassuring in the sense that his Government will not be put under pressure by us to accept or reject a final package during our Presidency. But I do believe you should urge upon Kohl the necessity of the work being taken forward during 1998. I suggest you might take the following line with him:

- The UK Government understands the sensitivities of Germany in its pre-election period as regards CAP reform;
- However Kohl must also understand the political importance to the UK Government of taking forward its clear political commitment, expressed in the Labour Party manifesto, to making the CAP an appropriate policy for an expanding European Union. The Commission's proposals help to do that. The UK will wish to see its Presidency mark a further stage in this process, and we need clear recognition of that in Luxembourg in December;
- The UK will not attempt to force CAP reform issues to a conclusion during our Presidency, bearing in mind German sensitivities; but equally we cannot accept that there be no progress at all during that time. The first six months of 1998 should be spent in working on legislative proposals from the Commission, and the Agriculture Council should then report progress to Heads of Government next June.

/6. As I have ...

6. As I have said, Germany is the main stumbling block to our ambitions in this area. The attitude of France, and the extent to which France may be persuaded to make political common cause with Germany against CAP reform, is very difficult to read at the present time. This is a matter which we will need to consider in (E)DOP on 23 October, and I should like to advise you further on this in advance of the Anglo-French summit in early November.
- > 7. Copies of this minute go to members of (E)DOP and to Sir Robin Butler and Sir Stephen Wall.

J.C. 9/10/97

JACK CUNNINGHAM

FILE



10 DOWNING STREET
LONDON SW1A 2AA

Faked over DCA

cc JEH
JPO
AC
KG

From the Private Secretary

15 October 1997

Dear Dominick,

UK PRESIDENCY: EU ENLARGEMENT

You wrote to John Holmes on 19 September about a date for the proposed European Conference next year. I apologise for the delay in reply. As the Department already know, we have earmarked 26 February in the Prime Minister's diary for this. We will, however, need to be sure that there is some real substance to the Conference (as set out in John's letter to you of 11 September), before we agree that the event should go ahead.

We would also be grateful if you would continue to look at alternatives to Lancaster House as a venue for the Conference.

I am copying this letter to the Private Secretaries of other members of E(DOP), Jan Polley (Cabinet Office) and Sir Stephen Wall (UKRep Brussels).

Yours ever,

Philip

PHILIP BARTON

Dominick Chilcott Esq
Foreign and Commonwealth Office

cc: EMU
IGC
Presidency
Galaxy

From: Jonathan Powell
Date: 2 October 1997

cc: John Holmes

PRIME MINISTER

EUROPE: THE AGENDA

You said you would start to do some serious thinking about Europe over the next weekend. You might want an initial discussion with John and me on the plane back from Moscow. I attach previous notes on the Presidency. The key issues are:

- a) EMU: what line will we take in December (Moirira will put in the weekend box a note on exactly what the Treaty says). How do we present our refusal to join in the first wave and how far can we go in saying that we are apre-in? How can we stop others setting up an ECOFIN of the participants in EMU from which we are excluded? What our are longer term plans? What line do we need to take from December and when should we first table it?
- b) Job Summit: we need clear objectives for the Job Summit, which you should discuss with Gordon. You will need to start to discuss these with Juncker on Thursday.
- c) Vision: we are planning a major speech in December to launch our Presidency. We still have some way to go before we have fleshed out the elements that make up a People's Europe. You and Robin are talking about fairly different things.

- d) Enlargement: your discussion with Guterres made clear the sorts of difficulties we will have with enlargement. Others will try to use it to slow down progress on CAP reform, press for increases in the budget, attack our rebate. We need a clear strategy on how we handle it and how we manage the linkages.

J.P.

JONATHAN POWELL

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*From [unclear]
RC is passing
on this*

*John
see memo note for Robin
attached.*

*Could we try
to [unclear]*

PRIME MINISTER

From: Jonathan Powell
Date: 8 September 1997

cc: John Holmes
Alastair Campbell
David Miliband
Roger Liddle

EUROPE: PRESIDENCY THEME

1. You have promised Robin you will come up with an alternative to his "Quality of Life" theme for our Presidency (attached). The danger of doing nothing is that he will press ahead with his theme tomorrow in Hamburg and elsewhere so that we will be stuck with it - you can't beat something with nothing.
2. Our objectives for the Presidency are to demonstrate a success for the government by achieving certain clear targets and to use it to show that Europe can work to Britain's advantage.
3. You can set the tone for our Presidency in your speech in December (this note does not attempt to suggest the vision for Europe you will need to spell out in your speech). For this you need two things: an overall theme and a number of clear, measurable, concrete and achievable objectives.
4. On the theme, I suggest we put together a number of alternatives and then have Philip test them. I still favour a "People's Europe", which sums up our aim of making Europe more relevant to its people (CAP reform for consumers, jobs not institutions etc). An alternative might be an "Open Europe" to capture free trade, enlargement, open and democratic institutions etc. We could gather another five or six alternatives, e.g. Reform in Europe, a New Europe, a Modern Europe, a 21st Century Europe.

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- 2 -

5. On the content, we need to limit our objectives. The rag-bag Robin put forward is too diffuse (we can only really hope to achieve four or five main objectives and a longer list would distract us from our main objectives) and too woolly (unless they are measurable we cannot demonstrate our success). We also need to go with the flow. The main events during our Presidency will be EMU, enlargement, Agenda 2000 and the meeting with the Asian leaders. I think our list should be:

- Openness to the outside world: begin Enlargement negotiations and the European Conference with meetings in the UK, while stopping others creating linkages e.g. to our budget rebate or to structural funds. Focus on trade particularly with Asia, holding the second EU/Asian leaders meeting in London. Begin preparations for the WTO negotiations with discussions on reform of CAP etc.
- Making the EU relevant by concentrating on real people's concerns about the economy: completion of the single market – set a target in certain easy areas, e.g. telecommunications, for the end of our Presidency. Concentrate on jobs by reforming restrictive labour markets in other European countries and espousing the third way (initiative by Gordon).
- Tackling those international issues that affect people's lives: crime drugs and the environment.
- Reform the EU so that it's institutions so they are more effective and more open: some of this will be necessary anyway with enlargement having been farked at Amsterdam, and we have asked David Williamson to start thinking about it. But it is by necessity longer term, and we could only make a start on it under our Presidency. The

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danger, as we keep pointing out, is tripping into another IGC, and we do need to be very clear about where we want to end up.

6. EMU of course remains the problem, unless things become clearer at Ecofin on 12 September. In your speech you would need to make it clear that we will be honest brokers, but I think you would also need to make it explicit that we are not going in in the first wave. The key question would be how far we went in saying that we were pre-ins.

7. I suggest you discuss this with Gordon in the next few days and use one of your off-days in the next week to give this serious thought before you get bogged down in Conference business.

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Worth
discussing

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10 DOWNING STREET

Prime Minister (Box)

quality of
work
to be put
right ideas
of 1-2-1
which

Europe

I think the attached note from Roger
Cook is very weak. This is on a
important issue and it needs more
more thought.

Roger is working on some ideas to
present to you at next week's
away day. I suggest you then
hold a session in late July and
formulate your ideas clearly after the
summer. We have a big window
of opportunity. This outcome and
we should not waste it on the sort of
stuff.

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cc FA/APS
✓ COS
Press
PU

PM/97/022

PRIME MINISTER

Europe: Quality of Life Project

1. On our recent flights to Malmo and Denver we had a word about how the UK might mould the European Union agenda. The aim would be to divert energy away from the obsession with institutions and towards achievements which have a positive impact on people's lives.
2. I believe that there is an opportunity for us here. The post-IGC European agenda is already filling up with an increasing focus on EMU and enlargement - we should encourage the development of a third way to improve the quality of life of our citizens. This would involve action at the European level in areas like employment and training (where Gordon Brown's initiative has already laid a foundation), growth and competitiveness, the environment, the fight against drugs and crime, and the freedom to live and work within the Union; as well as an external aspect aimed at making Europe a major power not only in foreign policy, but also in trade policy, international environmental agreements and the fight against world poverty.
3. We might use as a working title, Europe's Quality of Life Project. It would provide the central theme for the British Presidency, which otherwise threatens to be dominated by EMU and enlargement, both of which are problematic and remote from people's lives.

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4. As a first step you might flag up our ideas in a ten minute presentation at one of your "meet the people" events. This could be before the Summer Recess. This could be followed by a substantial speech on Europe in September, looking ahead to the British Presidency. We should gear the British Presidency to a Cardiff Declaration committing the EU to a People's Action Plan, setting the EU agenda for the millenium in the way that the single market concept did for the 1980s. This would maximise the potential for using the British Presidency to turn round British opinion on the EU.

5. This could be an exciting project. If successful, it would lead to a European Union which people in Britain and elsewhere are more likely to support.

6. It will not be easy. Firstly we will have to draw up a more detailed prospectus of what we have in mind. This will need political impetus in Whitehall. I therefore hope that ... you will agree to send something on the lines of the attached draft minute to Cabinet colleagues to stimulate thinking on what we could include in such a Quality of Life Project.

7. We will need a programme of ideas which does not require new resources for the Community budget. But redistribution of spending - for example away from the CAP - should be part of our objective. Our aim should also be to work within existing Community competences rather than creating new ones: though we should not be shy of advocating action at the European level within existing resources and competences when it is cost-effective and warranted.

8. Secondly, we will have to be careful how to present it so that it will be supported by our European partners. We should not imply that we are inventing a whole new agenda or seeking to substitute for, or distract attention from, EMU and enlargement - rather that we are working with the grain of thinking in Brussels and other capitals.

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9. I hope you will feel able to give the go-ahead for work on such a project, which would give substance to your very successful call at Noordwijk for a People's Europe.

Dominick Chislet

for ROBIN COOK

(approved by the Foreign
Secretary and signed in
his absence by the
Private Secretary)

Foreign and Commonwealth Office
30 June 1997

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DRAFT MINUTE FROM PRIME MINISTER TO FOREIGN SECRETARY

Europe: Quality of Life Project

You and I have discussed the potential for the UK to exert a real influence on the European Union's agenda. The Union needs to discard some of the baggage which it has collected in the last 40 years. In particular, the old obsession with institutions rather than real achievements must be buried. So over the next 12 months and beyond I would like us to begin to promote an agenda of European business which will be more targeted to bringing real benefits to ordinary people: a Quality of Life Project.

This would not mean turning all of the present European agenda on its head. EMU and enlargement will clearly be key issues for the Union over the next decade. But we can encourage a third dimension, involving action at European level in areas like employment and training (where Gordon Brown's initiative has already laid a foundation), growth and competitiveness, the environment, the fight against drugs and crime, and the freedom to live and work within the Union; as well as an external aspect aimed at making Europe a major power not only in foreign policy, but also in trade policy, international environmental agreements and the fight against world poverty. Quality of life is of course one of the original objectives of the European Community, set out in Article 2 of the Treaty of Rome.

Too
diffuse

I would like you to take forward work on this idea over the next few weeks. As a first step I hope that colleagues will produce imaginative ideas about what EU measures and ideas we could put forward which would make a real difference to ... people's lives. I attach a list of areas which may offer scope. Clearly work in fields which are already part of our political agenda - such as employment and the environment

- are likely to be particularly promising. Indeed, we already have initiatives such as Gordon Brown's proposals to his ECOFIN colleagues on which we can build. I suggest that senior officials meet in the next two or three weeks to assemble more preliminary proposals which could then be considered by (E)DOP.

We must work on the basis that our proposals should not need new Community resources although we will want to encourage a redirection of spending (for example, away from the CAP) where that is feasible. I also believe that it should be possible to work within existing EU competences.

In terms of presentation, I intend to develop the quality of life theme in one of my meetings with the public before the Summer recess. I also want to make a substantial speech on European Union early in the Autumn. We would then use our Presidency to make progress on this agenda, culminating in an action-oriented declaration at the Cardiff European Council.

This is a challenging proposal but one which could lead to a huge prize - a European Union which is more acceptable and relevant to people in the UK and beyond. The support of all our European partners cannot be taken for granted - we will have to be sensitive to their interests and priorities.

It would be helpful if you could let me know what progress is being made by the end of July.

I am copying this minute to all members of the Cabinet, to Sir Robin Butler and to Sir Stephen Wall.

OVERRIDING AIMS

Over the next decade the EU will:

- Secure a clear and continuous improvement in the quality of life of the peoples of Europe;
- Help to improve the quality of life of the peoples of the world.

(Just as the Single Market was an overarching theme for some years, so Quality of Life could be one for the next decade.)

INTERNAL ACTION

Prosperity

- Promote growth;
- Stimulate competitiveness;
- Complete internal market;
- Reduce burdens on business;
- Shift away from subsidies;
- Reduce prices to consumers.

Jobs

- New employment and labour market strategy (Chancellor's initiative);
- Improved skills training.

Quality of Life

- Enhance environmental cooperation;
- Stabilise climate change;
- Improve transport links;
- Strengthen consumer protection;
- Combat drugs, crime and fraud;
- Facilitate freedom to travel, live and work within the EU;
- Ease recognition of educational qualifications and exchanges;

- Promote the quality of civil society;
- Promote human rights.

External Agenda

- Spread this agenda to new and prospective members;
- Reduce trade barriers;
- Lead global efforts on environment, climate change, drugs, crime and fraud;
- Work to reduce poverty;
- Help to prevent and settle disputes;
- Give the Union's external policy an ethical dimension, eg by promoting human rights and good government.

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PRIME MINISTER

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EU Presidency: Themes and Priorities

1. I chaired meetings of the Presidency Task Force on 16 July and 10 September to take stock of our Presidency priorities, on the basis of helpful papers by David Simon (on competitiveness and the Single Market), and Peter Mandelson (on Presentational Strategy) with a paper by officials on Presidency themes and priorities.

2. I also underscored the importance of our continuing to remind people - as we identify and promote specific themes - of the broader backdrop of our approach to Europe. The diversity of issues which will arise during our Presidency means that we cannot set a single, over-arching theme. But I believe that we should set our Presidency priorities within the framework of our longer-term mission, to build towards a "Europe for the People", which brings practical benefits in ways that ordinary people recognise as genuinely responding to their concerns; and is more open, transparent and better regulated. People should come to conclude for themselves that their lives are safer, better and more prosperous through living in the EU.

3. Our discussion identified five key themes:

- (i) jobs, growth, competitiveness and employability
- (ii) enlargement and policy reform (Agenda 2000)
- (iii) promoting the safety and rights of the citizen
- (iv) greening the EU
- (v) a more effective EU external policy

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4. Tires (i) to (iv) lead themselves readily to the general objective of building "A Europe for the People". Last week I met the Foreign Minister for Austria who take over the Presidency after us. I was pleased to find common ground on the priority themes - especially on jobs, crime and the environment. This should enable us to run these themes seamlessly throughout 1998.

5. EMU is a further central issue, though in a category of its own as a Presidency management issue rather than a national priority. But for most Member States, and in public perceptions in the UK and Europe, the Council's decision on Stage III will be the crucial issue of our six months and how we handle it one of the key tests of our Presidency.

... 6. These themes are set out in slightly more detail in the attached Annex. Except for the EMU Council, the EU agenda in the first half of 1998 seems unlikely to provide any ready-made single issue by which the success or failure of our Presidency will be judged, as the IGC was for the Dutch. But this may be to our advantage. We should in any case beware of setting ourselves objectives at the start that we cannot be reasonably confident of meeting by the end. And the above represents a full work programme, which should allow us by Cardiff to register substantial achievements e g on employability, enlargement and the single market. Such an outcome at Cardiff should fit well with the overall messages which you have concluded should result from the four forthcoming major Conferences.

7. We should not risk diffusing the focus by adding further themes at this stage, other than in exceptional circumstances. The identification of these key themes is important mainly for our domestic presentation (please see below). Other Member States will be more concerned with whether we deal efficiently with the heavy programme of ongoing business already before most Councils. The trick

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will be to use the Presidency's ability to organise the agenda to highlight those elements which best fit our messages, without giving other Member States the impression that their priorities and concerns are neglected.

8. For them, the key test, alongside our handling of EMU, will be whether we run the Presidency efficiently and impartially. To that end, we shall all need to set aside the time for the extensive preparation and informal contacts that will be required alongside the formal business.

Presentational Strategy

9. The Task Force agreed with Peter Mandelson's proposed approach. We need to show the domestic audience that Europe is relevant and can address their concerns; the other Member States that Britain is engaged positively on a constructive enterprise with which they too feel comfortable; and the rest of the world that Britain is back in the mainstream of a more dynamic EU and leading a new agenda for the next century. In Peter's phrase, leadership in ideas and partnership in implementation. It will be essential for our messages to be backed up by real substance. Doug Henderson and Peter Mandelson are working up initiatives around the motif of bringing the youth of Europe together, to make the Presidency more lively for the British public.

10. I should be grateful to know that you are content to proceed on this basis.

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11. I am copying this minute and enclosures to other members of the Cabinet, to the Minister without Portfolio, and to Sir Robin Butler and Sir Stephen Wall.

A handwritten signature in cursive script, appearing to read 'Robin Cook'.

ROBIN COOK

Foreign and Commonwealth Office
15 September 1997

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ANNEX: KEY THEMES FOR THE PRESIDENCY

(i) Jobs, Growth, Competitiveness and Employability

This would embrace follow up to the Luxembourg special summit; creating an effective single market; and maximising the opportunities for liberalising EU trade policy and relations with third countries.

In this area above all, substance and presentation will be vital. We will need to show we are delivering not just words but better conditions for job creation and practical benefits for consumers and business, especially SMEs. Putting flesh on these bones is a priority for the Autumn. Carrying forward the Chancellor's initiative will be one important means, and the launch in November of David Simon's Citizen's First Initiative another.

(ii) Enlargement and Policy reform (Agenda 2000)

But the enlargement timetable, even in these early stages, will be vulnerable to disruption. We discussed the difficult potential linkages with our requirements on policy reform at DOP. We shall not be able to bring any of the individual elements of Agenda 2000 to conclusion during our six months; but we shall need to judge nearer the time the scope for an initiative that ties them all together in a way that might set the parameters of the outcome.

(iii) Promoting the safety and rights of the citizen

This would include action against organised crime, drugs, terrorism and fraud and sound financial management.

(iv) Greening the EU.

An important aspect of our approach. EU business across the board needs to take more account of environmental considerations, not least over CAP reform.

(v) A more effective EU External Policy

Managing key foreign policy issues such as Bosnia, the Middle East Peace Process, the Great Lakes and China/Hong Kong will be a central objective. We shall need to put flesh on the IGC outcome. Our Presidency should also spearhead a more coherent EU approach to human rights, raising its profile and taking the subject more consistently into account in EU policy making. Completing the negotiating mandate for the UK's Lomé framework agreement for political dialogue, trade and development assistance with 71 countries of Africa, the Caribbean and the Pacific will also fall to us; and we shall want to lay particular emphasis on enhancing relations with Asia, with the second Asia-Europe Summit as the centre-piece in London in April.

EMU

If the timetable sticks, the decision will be taken at a special summit in Brussels in early May, under the glare of the world's press (and the markets). If EMU were to be postponed, our Presidency would also be heavily effected as others sought to show that the EU remained on the rails. So either way, EMU will be a major preoccupation.

John

11 Oct 0/9



per 221
36

Have you still got the top copy of this? (no trace in DCO).
FCO have been chasing for a reply.

Foreign &
Commonwealth
Office

London SW1A 2AH

Philip

Philip
WPOZ11017/97
15/10

19 September 1997

not aware that have but not impossible either. As long as the dates fit. Dear John, no reason not to earmark 26/2, but the conference itself is far from acquis yet. 15/11

copy for PB

UK Presidency: EU Enlargement

Thank you for your letter of 11 September. We fully agree with the need to ensure that there is some real substance to the proposed European Conference, and are working up some ideas. We are also working on the Turkey problem, which will have to be resolved one way or another for the Luxembourg European Council to decide that the European Conference should proceed.

We need now to press on with making arrangements for the Conference, always recognising that we will not have confirmation that it should go ahead until the Luxembourg European Council. We should provisionally like to earmark 26 February (starting after Cabinet and finishing in the afternoon) for the Conference. I understand that this date is free in the Prime Minister's diary and that The Queen is due to be in London that day and might be able to host a lunch.

I know that you are keen that we should find a good venue for the Conference. The practical attractions of Lancaster House are considerable (it is free, and very close to the Palace). But we will look at more modern options, and propose some alternatives.

I am copying this letter to the Private Secretaries of other members of (E)DOP, Jan Polley (Cabinet Office) and Sir Stephen Wall (UKRep Brussels).

yours ever,

Dominick

(Dominick Chilcott)
Private Secretary

John Holmes Esq
10 Downing Street

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 September 1997

SUBJECT
MASTER

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bc *JPO*
AC
PD

Dee Jamina,

TELEPHONE CALL TO SANTER

Thank you for your letter of 19 September. The Prime Minister and Santer spoke on the telephone this evening for some 10 minutes. It was more a friendly chat than a serious discussion, handicapped as usual by Santer's halting English.

Santer began by expressing surprise at his warm and open-minded reception in Scotland and the North East. He asked various questions about the Scottish and Welsh referendums, and wondered how the English regions might react.

BSE

The Prime Minister said that we were pleased with the conclusions of the Scientific Veterinary Committee earlier in the week, and hoped that further progress could now be made rapidly. How difficult did Santer think the next steps would be? Santer said that he was not sure how problematic discussions would be in the Council, but the Commission had always said it would follow scientific advice, as had others. Member States would therefore not find it easy to object to the SCVC conclusions.

The Prime Minister continued that he hoped the Scientific Veterinary Committee would now look quickly at our proposed Date Based Scheme. Santer said he was not sure about the precise procedures for the next steps, but he hoped there would be an opinion soon, ie in a few weeks. (Comment: I suspect Santer did not understand the Prime Minister's question and was still talking about the Certified Herds Scheme.) The Prime Minister said that progress on BSE could make a big difference to attitudes in Britain to Europe, although these were

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already changing in a favourable direction. Santer agreed, but noted that farmers in Scotland had made clear to him their concerns about being left out by the latest proposals.

EMU

Santer expressed confidence that the criteria would be met and the single currency would go ahead on the planned timetable. This confidence had been increased by the latest Franco-German Summit. The Prime Minister noted that the issue of sustainable convergence had risen up the agenda, particularly in Germany. Santer agreed, and noted that economic convergence among Member States was now far greater than at any stage in his political life. The continental economies were now recovering, which also helped.

The Prime Minister said that we would play a constructive role on EMU during our Presidency, whatever our own position turned out to be. Meanwhile the Government took the view that there was no problem in principle with a single currency.

Jobs Summit

The Prime Minister noted that a successful outcome of the Summit, including a signal that the way labour markets operated in Europe needed to change, was important. It could also affect opinion about a single currency in Britain. At the same time, he understood the difficulties some countries had about references to labour market flexibility. Santer agreed about the different interpretations of the word 'flexibility' in Britain and France, but believed it would be possible to agree on suitable wording for both sides in Luxembourg. He noted in passing that Carlo Trojan and Jim Cloos had had very positive talks with various British officials during the day.

Enlargement

The Prime Minister congratulated the Commission on their excellent work. However he was concerned by what he saw as a slight weakening in the commitment of some Member States to enlargement. This was not official, and was even subconscious in some cases, but it was nevertheless there. Santer commented that the EU had to stick to its commitments. The Commission had put forward its ideas in the Agenda 2000 document and would stick to that. The British Presidency would have a major role to play in all this. The Prime

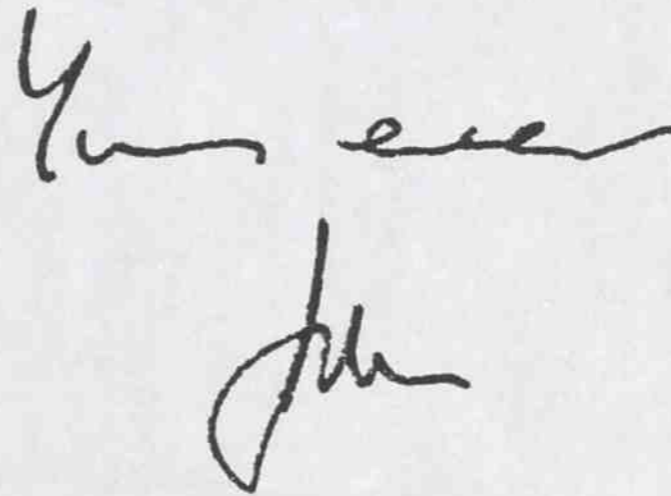
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- 3 -

Minister agreed, and said that enlargement must not be lost sight of because of the attention given to EMU. He looked forward to talking to Santer at greater length before our Presidency. Santer welcomed this suggestion and proposed a meeting before the Luxembourg European Council in November.

The conversation ended with mutual good wishes, and condolences from Santer on the train crash at Southall.

I am copying this letter to Gabs Makhoulf (HM Treasury), John Alty (Department of Trade and Industry), Alun Evans (Department for Education and Employment), David North (MAFF), Jan Polley (Cabinet Office) and to Sir Stephen Wall (UKRep Brussels).

A handwritten signature in black ink, appearing to read 'John Holmes', written in a cursive style.

JOHN HOLMES

Dominick Chilcott Esq
Foreign and Commonwealth Office

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10 DOWNING STREET
LONDON SW1A 2AA

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KG
PP 011

From the Private Secretary

11 September 1997

See Danville.

UK PRESIDENCY: EU ENLARGEMENT

The Prime Minister was grateful for the Foreign Secretary's minute of 5 September, recommending that we offer to host the first European Conference. The Prime Minister is not enthusiastic about yet another Summit during our Presidency, but recognises the attractions for us of a high profile launch of the enlargement process. He is therefore content that we should look for a suitable date on the lines outlined by the Foreign Secretary. But he is concerned that we should ensure there is some real substance in the Conference, so that it is not seen as just a glorified lunch/photo opportunity. We also need to be sure that the Turkey problem has been properly sorted out.

I am copying this letter to the Private Secretaries of other members of EDOP, Jan Polley (Cabinet Office) and Sir Stephen Wall (UKREP-Brussels).

Yours ever
John

JOHN HOLMES

Dominick Chilcott Esq
Foreign and Commonwealth Office

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10 DOWNING STREET
LONDON SW1A 2AA

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~~SUBJECT~~
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THE PRIME MINISTER

10 September 1997

Dear Lionel,

When we met in St Martin d'Oydes last month you raised the idea that Robin Cook and Hubert Vedrine might work together on institutional reform ahead of enlargement.

I hope very much that we can take this idea forward. I am keen too that we should work together on the range of issues generated by the prospect of enlargement, and covered in the Commission's Agenda 2000 Communication.

I have asked my officials to explore with yours the possibility of setting up a joint team, with a view to making real progress on these issues ahead of the UK/France Summit meeting on 6-7 November.

Yours sincerely
Tony

Monsieur le Premier Ministre Lionel Jospin

meel



10 DOWNING STREET

Prime Minister

The point of this
letter is to broaden
the agenda away
from just institutional
issues (we don't
want to encourage
another (GC).

John
8/9.



Top ~~JH~~
CC PB
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8/11

Foreign Secretary

UK PRESIDENCY: EU ENLARGEMENT

Thank you for copying to me your minute of 5 September to the Prime Minister about the proposal for the creation of a European Conference as part of the enlargement process. I have also seen a copy of the letter from John Holmes recording the Prime Minister's views.

2. While I entirely support the proposal for a European Conference, for the reasons you give, I believe the Prime Minister is right to want to ensure that the conference, from its inauguration in London next February, has some real substance. I fear this will not be very easy to achieve on the JHA side, given the wide and disparate membership of the conference and the fact that most of the real work of preparing the applicants for membership will be going on elsewhere, either in bilateral negotiations or in working level meetings or under the PHARE programme.

3. I am also doubtful about the wisdom of the conference concentrating exclusively on the Second and Third Pillars. While I can see that inclusion of Single Market issues may present problems, it needs to be remembered that a number of First Pillar topics, such as drug precursors, fraud and money laundering, are closely linked to JHA matters. Moreover, once the draft Amsterdam Treaty comes into force, immigration and asylum policy will move over into the First Pillar.

4. I also have one procedural point. The current proposal is that the Conference should meet each year at the level of Heads of State or Government with the President of the Commission and at Foreign Minister level twice a year or more often. If the focus of the Conference is to be heavily on JHA matters, then I think JHA Ministers would also need to be involved. No doubt there would also need to be some supporting official-level machinery to prepare the discussions and carry forward any work resulting from them.

5. I am copying this minute to other members of (E)DOP, to the Prime Minister and to Sir Robin Butler and Sir Stephen Wall.

John How

7th September 1997

See letter at

Prime Minister



F.4

John
11/9.

PM/039/97

PRIME MINISTER

While I am not enthusiastic about getting another summit during Presidency, this will be the very high profile launch of the enlargement process (though not the actual negotiations) we need and want to be associated with. I suggest we endorse this in principle but make clear there will need to be some substance, and a paper

The UK Presidency: EU Enlargement

solution for the Turkey problem. Content?

1. The Luxembourg European Council is due to decide whether to follow the Commission's recommendation to open accession negotiations with five Central European countries (Poland, Hungary, the Czech Republic, Slovenia, Estonia), thus opening the way for negotiations to begin formally with those countries, and with Cyprus, during our Presidency. Such an outcome would meet British objectives.

2. At the same time, the European Council will consider the Commission's proposal to establish a process, known as the European Conference, in which all applicants for EU membership, including Turkey, would participate. This process is likely to focus on co-operation in areas covered by the second and third pillars (foreign policy, drugs, organised crime). By involving all the applicants it would help:

- to mitigate disappointment among the applicants not in the first wave of negotiations;
- to deflect pressure from Member States who want to open negotiations with all ten Central and East Europeans;
- to manage Turkish pressure to be treated identically to the other applicants.

For those reasons, we have supported the Commission's proposal.

3. The European Conference would be in existence for at least five years. Heads of State and Government would probably meet once a year and Foreign Ministers twice a year, perhaps more often.

John
8/9.



4. On the assumption that the Luxembourg European Council agrees the Commission approach, I suggest that we plan on holding the first meeting during our Presidency. Hosting the event would secure us credit with the less advanced applicants, underline our commitment to enlargement and generate helpful publicity. The best format might be a half-day meeting (around 2½ hours), which you would chair, followed by a banquet at Buckingham Palace, at which HM The Queen would make a speech setting enlargement in its historical context. (Informal soundings with the Royal Household suggest that Her Majesty would be pleased to do this.) Holding the meeting in London would also make it easier to refuse the inevitable pressure from the applicants to be present in Cardiff.

5. If you are content with this idea, I will ask officials to explore possible dates and practical arrangements. We are discussing funding with the Treasury.

6. I am copying this minute to (E)DOP colleagues, Sir Robin Butler and Sir Stephen Wall.

A handwritten signature in black ink, appearing to read 'Robin Cook'.

ROBIN COOK

Foreign and Commonwealth Office
5 September 1997



Top - JSM
CPB dir

Foreign &
Commonwealth
Office

London SW1A 2AH

4 September 1997

SN
Mr. Lybe for PM's sig,
JL 8/9.

Dear John,

Cooperation with the French on EU Enlargement and
Institutions

^{- PDS}
Your letter of 22 August asked for advice on Jospin's proposal that the UK and France work together on institutional reform ahead of enlargement. The Foreign Secretary agrees with the Prime Minister that we should pursue the idea of a joint initiative with the French.

It would be useful to explore with the French the scope for cooperation over EU institutional reform. In the run-up to Amsterdam the previous French Government made institutional reform - notably the size of the Commission and vote reweighting - one of their main priorities. The Jospin Government was disappointed that these issues were ducked at Amsterdam. It would be in our interest to get agreement on vote reweighting and the size of the Commission early so this would ensure that these issues do not hold up progress on enlargement; and reduce potential pressure to turn a limited negotiation on specific institutional questions into another full-scale Intergovernmental Conference.

But supporting any French desire to address institutional reform going beyond the size of the Commission and vote reweighting carries risks. Once we went beyond those issues which were explicitly set aside at Amsterdam for later resolution, it would probably be impossible to prevent others coming up with unwelcome ideas of their own. This would play into the hands of those like the Commission and the Belgians who believe that Amsterdam was insufficiently ambitious, and who hanker after another full-scale IGC before the next enlargement.

The Foreign Secretary therefore favours casting the joint initiative more widely. Agenda 2000 would be a good starting point. We could help ensure that the right decisions are taken at the Luxembourg European Council in December, allowing accession negotiations to begin early next year, with those countries who are ready.



In addition to its potential substantive benefits, the Foreign Secretary believes that working with the French in this way will provide a real opportunity to advertise the Government's new approach to the EU; to take the lead on issues central to the EU's future; and to demonstrate that we can work constructively with another key Member State. He therefore feels we should follow up quickly with the Matignon and suggest that officials set up a joint working group with a view to making concrete progress by the UK/France Summit on 6-7 November. The composition of our team would be decided in the light of French intentions, but we would assume a delegation comprising representatives of the FCO, Cabinet Office and, possibly, No 10.

I enclose a brief draft message from the Prime Minister to Jospin suggesting official contacts as soon as possible.

I am copying this letter to recipients of yours.

*yours aw,
Dominick*

(Dominick Chilcott)
Private Secretary

John Holmes Esq
10 Downing Street

DRAFT MESSAGE FROM THE PRIME MINISTER TO JOSPIN

When we met in St Martin d'Oydes last month you raised the idea that Robin Cook and Hubert Vedrine might work together on institutional reform ahead of enlargement.

I hope very much that we can take this idea forward. I am keen too that we should work together on the range of issues generated by the prospect of enlargement, and covered in the Commission's Agenda 2000 Communication.

I have asked my officials to explore with yours the possibility of setting up a joint team, with a view to making real progress on these issues ahead of the UK/France Summit meeting on 6-7 November.

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J. A. S.

SUBJECT: EU ENLARGEMENT/INSTITUTIONS: BILATERAL INITIATIVES WITH
THE FRENCH

SUMMARY

1. Thoughts on how we might take forward Jospin's suggestion to the Prime Minister that you and Vedrine work together on enlargement and institutional change. Hope we can widen this to include other Agenda 2000 issues, following on from your bilateral with Vedrine in July.

DETAIL

2. PS/No 10's letter of 22 August to the Private Secretary gave a read-out of the Prime Minister's talks with Jospin on 22 August and asked for advice on how we might take forward Jospin's suggestion that you and Vedrine should work together on enlargement and institutional change. Jospin's proposal follows well and enlarges your agreement with Vedrine on 23 July that France and the UK should work together to find a proposal on reweighting of votes around which we could build support from other large Member States. I am sure we should support it. I hope officials can meet soon to agree an initiative that you and Vedrine can endorse at the Anglo-French Summit on 6-7 November. We might then aim to get Germany, Italy and Spain on board, ideally by the December European Council at which the Quai have told us the French will be pressing for language on institutional reform in the Conclusions.

3. I hope that we can also engage the French in bilateral discussion of some of the other Agenda 2000 issues you discussed with Vedrine in July. These would include the who and when of enlargement and the construction of a process for handling those who are not yet ready to join. We have been working with the French at official level on their ideas for a European Conference but, as you pointed out to Vedrine, more thought is needed on what it should

contain to make it attractive enough to those not in the first wave.

4. As you said to Vedrine, this will be particularly important in the case of Turkey, a policy issue in which he has taken a close interest so far. He sees Ismail Cem here next week. Given the increasing read-across between EU/Turkey and EU/Cyprus and the risk of either or both impeding progress on a Cyprus settlement, it would be useful to explore in greater detail with the French ideas for using EU leverage to help facilitate progress. We could also explore with them how they intend to approach these issues at the December European Council.

5. Other promising Agenda 2000 areas for bilateral discussion with the French would be future financing and the reform of the Structural and Cohesion Funds. Given their budgetary constraints, the French are taking a tough line on reining in Community expenditure. They share our interest in pressing for Structural and Cohesion Funds cuts to bite on all Member States and arguing against EMU ins being eligible for Cohesion Funds.

6. Vedrine told you in July that, if France lost out on reweighting of votes, CAP and Structural Funds, it would have a crisis on its hands. The more we can show willingness to explore with the French common solutions to some of their problems on institutional reform, future financing and Structural Funds, the harder we can press them on CAP reform.

JAY

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