

AGENDA 2000: THE UNANSWERED QUESTIONS, ATA GLANCE

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Purpose of Agenda 2000

Historians of the future will certainly regard *Agenda 2000* as a masterpiece of technocratic drafting. It has something to please everybody. It appears to have vision, yet in reality it paves over the difficult issues. It seems to be analytical, but some of the figures it presents appear like rabbits out of a magician's hat. Perhaps this is inevitable in the highly politicised context of the next enlargement of the European Union.

Agenda 2000 presents the opinions ("avis") of the Commission on the applications for membership of the EU submitted by ten Central and East European countries (CEECs) and considers the impact of their accession (and that of Cyprus) on the Union and its policies. These opinions and the impact analysis were requested by the Madrid European Council in December 1995.

The Agenda also contains the Commission's ideas on certain other issues such as employment and competitiveness. These are the issues which the Commission regards as pivotal for the growth and prosperity of the Union as it enters the third millennium; hence the title *Agenda 2000*.

The Contents of Agenda 2000

Most of the Agenda which runs to more than 1,300 pages is taken up by the opinions on the ten membership applications. In addition, it considers the impact of enlargement on both the Union and the applicant countries, it outlines a strategy for enlargement and an accession partnership and touches upon a number of other issues of significance to the Union.

With respect to the impact of the Union itself, the Commission addresses primarily three policies/activities: the common agricultural policy, cohesion policy and the structural funds and the budget or financial perspective for the period 2000-2006.

The Opinions (Avis)

The Commission bases its assessment of the eligibility for membership of the applicant countries on four sets of criteria:

(a) political: stability of democratic institutions, rule of law, protection of human rights and minority rights;

(b) economic: functioning market economy and ability to withstand the competitive pressure of membership;

(c) membership obligations: ability to adopt the full *acquis communautaire* and adherence to the objectives of economic and monetary union and political union;

(d) administrative capacity: effective administrative structure for the implementation of EU laws and policies.

On the basis of this criteria the Commission reaches the conclusion that none of the applicants is ready to accept the full obligations of membership but five of them are likely to be in that position in the medium term. These five are the Czech Republic, Estonia, Hungary, Poland and Slovenia. The Commission therefore, recommends that these five join Cyprus in accession negotiations which are scheduled to begin in the Spring of 1998. The remaining applicants are to be involved in the negotiations when the Commission finds that they have reached a satisfactory level of preparedness.

Although any new member of the EU only has the obligation to accept what is legally binding on the existing member states, the Commission's assessment, apparently goes beyond what is included in the current *acquis*. This is because the prevailing political conditions and even some of the economic conditions of existing member states are not placed under the same degree of scrutiny, nor is their administrative structure and judicial system normally examined.

Strategy for Enlargement

Agenda 2000 enunciates the principle that new member states must apply the full *acquis* and especially the internal market rules on the date of accession. No derogations will be allowed and any transitional periods will have to be justified and be short.

It is unclear how the EU can stick to this principle given that no country that has acceded to the EU in the past was able to assume the whole of the *acquis* on the date of entry. Also it is difficult to see how the EU can demand full compliance with the rules when it will be seeking transitional arrangements for the gradual entry of the new members in the common agricultural and regional policies and the gradual utilisation of rights such as the freedom of movement of people.

The Commission expects the *acquis* to be adopted by the applicants during the negotiating period. The Commission will monitor the applicants in this respect and will issue regular reports. This is something that has never happened in past enlargements and the modalities of such monitoring as well as the actual role of the Commission are unclear.

Accession Partnership

The monitoring on behalf of the Commission is part of an accession partnership which will consist of three components:

- (a) definition of commitments with precise timetables for the introduction of EU rules (with priority given to problematic sectors);
- (b) participation by the applicants in EU programmes;
- (c) financial assistance to the applicants through reorientation of the *Phare* programme (ECU 1.5/year) and offering of additional resources (as of 2000) for agriculture (ECU 500 mn/year) and structural aid (ECU 1bn/year).

As already mentioned, the definition of pre-accession commitments has never before been used in previous enlargements. So it is as yet unclear when applicants will be regarded to have completed their preparation. Moreover, the Commission proposes a "conditionality" requirement. Aid money will be released only if the timetables of commitments are kept. This raises the question whether those applicants that will find themselves penalised will in fact be those in greater need for assistance precisely because they find it more difficult to implement the required measures.

Economic and Social Cohesion

The statistics presented in *Agenda 2000* indicate the magnitude of the problem of applying the EU's current cohesion policy to the CEECs:

- (a) the CEEC GDP/capita is just 32% of the EU average GDP/capita;
- (b) the ten CEECs will increase by only 9% the EU GDP;
- (c) the ten CEECs, however, will increase the EU population by 29%;
- (d) 100% of the CEEC population would be covered by Objective 1 structural funds.

If the ten CEECs would obtain EU funds at the same *per capita* rate as those received at present, for example, by Ireland and Greece, the extra financing that will be needed would exceed ECU 40 billion. The Commission, therefore, proposes that

cohesion policy is reformed so that:

- (a) the current seven objectives are reduced to three;
- (b) no transfers should exceed 4% of the GDP of the recipient countries;
- (c) structural funds are capped at 0.46% of the EU GDP;
- (d) Objective 1 regions should receive 2/3 of the structural funds;
- (e) the phasing out of non-eligible regions should be done gradually;
- (f) special arrangements should be found for Objective 6 regions;
- (g) the Cohesion Fund should be maintained.

As a result of these reforms, the Commission expects that:

- (a) Objectives 1 and 2 would cover only 35-40% of EU 15 population (as opposed to the present 52% coverage);
- (b) in 2000 - 2006 the total amount needed (at 1997 prices) will be ECU 275 billion (1993-9: 200 bn) of which ECU 45 billion will be for the new member states (including ECU 7bn in pre-accession aid).

The main problem with the Commission's proposals is not whether EU economies would grow fast enough so that 0.46% of GDP could generate enough revenue to find structural expenditure. Rather, the issue is more political:

- (a) will existing member states accept phasing out of programmes that benefit them?
- (b) will the countries participating in the Cohesion Fund continue to do so after they qualify for membership of the Monetary Union?
- (c) how short (or long) will be the transitional arrangements envisaged by the Commission for the new and existing members?
- (d) what are these special arrangements which will replace Objective 6?
- (e) will there be real concentration of resources given that the three new objectives look more like repackaging of old objectives?
- (f) how will the proposed concentration of funds actually be implemented, given that income disparities within member states are as large as disparities between them?

These questions are not answered in *Agenda 2000*.

Common Agricultural Policy

As with cohesion policy, the prospect of entry into the union of ten relatively more agriculturally-oriented countries raises a number of problems with regard to the functioning of the common agricultural policy. The statistics also indicate the magnitude of the problem:

(a) CEEC employment in agriculture is 22% of economically active population while in the EU is only 5%;

(b) the contribution of agriculture to economy is 10% in the CEECs while in the EU is only 2%;

(c) accession of the ten CEECs will increase the agricultural area of the EU by 40% and the population by 30%;

(d) agricultural prices in the CEECs are 40-80% of EU levels.

If the common agricultural policy is not reformed, the entry of new members will lead to surpluses as consumers in the new members will only have a third of the purchasing power of the EU 15, so they will not be able to absorb the extra production. At the same time, there could be a politically and socially unacceptable large shift of income in favour of farmers.

The Commission, therefore, proposes:

(a) reduction of intervention prices by 10-30%;

(b) greater reliance on direct income support;

(c) non-production payments (e.g. payments on a per hectare or per cow basis);

(d) stricter protection of the environment and greater attention to food safety;

(e) support for the creation of alternative employment opportunities.

As a result of these measures, the Commission expects the CAP to absorb 45% of the EU budget with only ECU 11 billion/year needed in additional money. The new member states will benefit from ECU 7 billion in direct payments and ECU 1.5 billion in structural measures.

As in the case of the structural funds, the real question is not whether the price and productivity predictions of the Commission will prove to be correct but whether the existing beneficiaries from the CAP will accept reduction of spending in agriculture. *Agenda 2000* expresses no views as to how the beneficiaries could be compensated, especially given the fact that acreage-linked payments, for example, are likely to distribute CAP funds differently than at present. The *Agenda* is also silent on the kind of transitional arrangements that will have to be devised for the new member states.

Financial Perspective: 2000-2006

The entry of the CEECs into the EU will add 100 million consumers with relatively lower ability to contribute to the financing of the EU programmes and activities. They will aggravate the "imbalance" between payments and receipts that exists with the present member state.

Nonetheless, the Commission believes that the current "own resource" ceiling of 1.27% of GNP can be maintained even on the assumption that in the year 2002 five CEECs plus Cyprus will join the Union.

Here indeed one can see some rabbits coming out of the hat because the Commission presents figures which are not explained at all (e.g., how will the GNP-related contributions be determined-there is no precise formula).

In terms of the per-country break down of the budget, *Agenda 2000* shows only its financing side (revenue). It does not show the expenditure side. In this way it ignores the most difficult question with respect to the budget which is the balancing between payments and receipts demanded by countries like Germany, the Netherlands and the UK. So once more, the *Agenda* offers no guidance on the contentious issues.

Implications for Cyprus

At first glance, *Agenda 2000* makes only a cursory reference to Cyprus largely by re-stating the view of the Commission that accession negotiations should proceed even if no political solution is found in the meantime.

Nevertheless, Cyprus should not expect to be treated any differently from other candidate countries, even if the proposed enlargement strategy and accession partnership do not explicitly mention Cyprus. Therefore, it should be ready to submit timetables of harmonisation and comply with them during the period of accession negotiations. This means that the Cypriot side should not only prepare its negotiating positions in the next six months or so, but it should also begin identifying all the measures that will have to be put in place so that it can adopt a satisfactory proportion (or at least the most significant component) of the *acquis* by the time of the prospective entry into the EU. The fact that such timetables of commitments will have to be devised and adhered to by the candidate countries inevitably impinges on their negotiating strategy. So this strategy has to be thought out in conjunction with the progress in adopting the *acquis* that the Commission would want to see.

Conclusion

In view of the political sensitivity of the issue of enlargement, it is perhaps not surprising that *Agenda 2000* leaves certain difficult questions unanswered. Therefore,

not all enlargement-related issues have been analysed, let alone resolved, and the debate is only now beginning. In this respect, *Agenda 2000* shows above all, that solutions and compromises are possible. But the Commission could have chosen a more explicit approach in identifying those points of contention and in presenting not only an overall solution but also the range of possible solutions. In this way the extent of the required political compromises and the magnitude of the forecasting uncertainties would have been better understood.