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Who's Afraid of Austria, Sweden and Finland?

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The magic year 1992', or rather the beginning of 1993, has brought to the European Community something quite different from what was expected. The changing of the years has not seen the complete implementation of the long-awaited single market nor the much desired ratification of the Maastricht Treaty. Instead, the new year will start with a fresh round of negotiations aimed at the enlargement of the European Community. These are enlargement negotiations which, for a long time, were made ultimately dependent on realizing the abovementioned projects that have now failed to meet their deadline. In more academic terms, it looks as if the debate on the widening' versus the deepening' of the European Community has been won by the wideners'. But has it really?

In times past the European Community seemed successful in delaying its enlargement process by offering would-be applicant countries something short of EC membership but, nonetheless, something to warm their hands on. A whole new dimension has been added to the existing arsenal of external policy instruments of the Community. New types of association, trade and cooperation agreements have been negotiated that were designed not so much to prepare aspirant countries for future EC membership, but to satisfy their basic needs with intermediary agreements. Such agreements would require ample time to be implemented, not least of all to be negotiated.

Examples of this approach to enlargement are numerous. It finds its expression in Jacques Delors' surprise bid to the EFTA countries in January 1989 to create a far-reaching European Economic Area (EEA) with common decision-making institutions. It also ies at the heart of Commissioner Andriessen's attempt to introduce a model of affiliated membership' or partner-members' as it has been called more recently.[1] The Europe Agreements' with countries in Central Europe containing the non-binding reference to future membership should also be mentioned in this context. For the CIS republics, the Commission is proposing new partnership and cooperation agreements' that are not as broad as the Europe Agreements, but more elaborate than the traditional trade and cooperation agreements.

At the same time, the prospect of enlargement has re-emphasized the European Community's focus on its own internal integration process. A wider Community, the Commission stated in its Lisbon Summit report on enlargement, must not be a dilution of the Community's achievements.[2] In particular, the EC remained visibly committed to the realization of the single market by making its completion by the end of 1992 a condition for future enlargement. An enlarged Community that would fail to implement an effective single market, would limit the profits that have aroused the interest of potential members in the first place. Moreover, the Commission acknowledged that widening must not be at the expense of deepening. Statements to this effect had already been made at the European Council in Maastricht where it was first pronounced that the accession negotiations could start on the basis of the Maastricht Treaty, but only after agreement had been reached on the future financing of the EC. Consequently, the Lisbon Summit in June 1992 agreed with the main thrust of the Commission's report and stated firmly that official negotiations would be opened immediately after the ratification of the Maastricht Treaty and once an agreement on its financing, the Delors II' package, had been assured.[3]

It remains to be seen whether the EC's endeavour to slow down the enlargement process has been effective by offering intermediary agreements to likely candidates and by giving precedence to its internal integration process. The fact is that the number of countries in the Community's waiting-room has increased rapidly over the past months. Let us first look at how this can be explained. What is the dynamic behind the current flow of applications?

One explanation is that through their various accords with the EC, the applicant countries expose themselves to the Community's commanding *acquis communautaire* without having a say in its formulation. The only way to take part in the shaping of this *acquis* is by becoming a full player in the game; something which the EFTA countries, in particular, have discovered throughout the negotiations on the EEA. Whilst it is the Community's *acquis* that draws countries closer to the EC, it is the Community's decision-making autonomy that makes these countries finally opt for EC membership. Furthermore, the European Community's strategy to enlarge with a group of countries in parallel creates fear among some countries of being left outside any particular group. It is not without reason that Cyprus and Malta, two comparably small economies in the Mediterranean, applied for EC membership at the same time. Nor is it surprising that Finland, Switzerland and Norway have rushed their applications in an effort to catch up with the earlier approaches of Austria and Sweden.

To the extent that one can speak of a Community policy on enlargement as outlined above, this policy has been largely overtaken by events. The growing queue of countries wishing to join the EC is testimony of the Community's inability to freeze the number of applications. Moreover, the twelve EC governments decided at the European Council in Edinburgh last December to revoke one of their most quoted statements on enlargement. Contrary to what had been agreed in Lisbon, the conclusions of the UK Presidency read that enlargement negotiations will be opened with Austria, Sweden and Finland at the beginning of 1993; in other words *before* the full ratification of the Maastricht Treaty.[4] It is no longer the start of the accesion negotiations but the conclusion of those negotiations which has been made dependent upon the ratification of the Treaty. The bottom-line argument remains unchanged; no Maastricht Treaty, no enlargement. But things are not always what they seem. By opening up the official negotiations earlier than anticipated in Lisbon, this new Community approach could pave the way to a win-win situation.

First of all, the accession negotiations may push the British government and the people of Denmark to ratify the Treaty of Maastricht. Both the United Kingdom and Denmark were once full members of EFTA and now take a special interest in welcoming their former associates to the EC. By maintaining the entry into force of the Maastricht Treaty as a condition for future enlargement, the ratification process in these two countries is given an extra incentive. In the possible case of non-ratification of the Maastricht Treaty as well, the ongoing negotiations with the three EFTA countries will serve a useful purpose. The negotiations might be called to the rescue of the Maastricht Treaty by generating pressure on the EC countries to find ways out of the impasse. If a settlement is not reached on the Maastricht Treaty itself, then the negotiations are likely to spur the search for other means of deepening the Community in order to accommodate its future enlargement.

It is difficult to assess the extent to which this envisioned win-win situation is behind the Community's change in position. What is more certain to have been of decisive influence in today's EC package-dealing', is the division of national interests. Without disregarding the interests of the United Kingdom and Denmark during whose terms of Presidency enlargement reached the top of the EC agenda, enlargement has been pushed, notably by the Germans. The German interest in a broadened Community stems partly from its troublesome unification process. Economically, the German republic would be more than pleased to share its heavy financial burden with the richest of applicant countries, viz. the EFTA countries. From a geopolitical perspective, broadening of the Community's horizons with countries to the north and east would relieve Germany from some of the political over-attention it has been receiving as an enlarged major European country.

Other than for reasons of national self-interest, the decision taken at Edinburgh for an early opening of the enlargement negotiations was made possible by the solution - at least at EC level - of the Danish problem'. In addition, an agreement was reached on the Delors II'

package which had been made a condition for further enlargement at the Lisbon Summit along with the ratification of the Maastricht Treaty.

Immediately after the opening of the entry negotiations with Austria, Sweden and Finland, the newly expressed concern of the European Community has become how to prevent *l'Europe à la carte*. This concern has grown particularly strong in the aftermath of the concessions made to the United Kingdom and Denmark in various policy areas of the European Union. A multi-speed enlargement process is considered imperative, but the idea of different speeds within the European Community is unpopular. The basic conditions of EC membership that have been singled out by the Commission are merely the tip of the iceberg of what is needed to offset the diversity and heterogeneity of a broadened Community.[5] Therefore, the European Community is now in the business of drawing one line for all applicant countries. No opt-out clauses, no safeguard measures, no permanent derogations, will be tolerated. The experience of the EEA negotiations has taught us that the EC is very likely to succeed in this respect. With the conclusion of the EEA agreement, the EFTA countries have agreed to create new institutions whose powers take after their EC equivalents. Back in 1960, when EFTA was established as a loose intergovernmental organization, this would never have been thought possible.

In conclusion, it appears that with the European Council Summit in Edinburgh, the first battle over the future desig of the European Community has been won by the wideners'. It is most unlikely, however, that Edinburgh has brought to an end the debate on deepening versus widening. Once the first EFTA countries, including possibly Norway, have entered the European Community, new applications from other parts of Europe may well have been added to the waiting list. Along with the ongoing accession negotiations they would continue to feed the debate. Moreover, it is a clear sign of times to come that the composition of the new Commission has seen the EC's external relations portfolio divide to include a Commissioner responsible for its future enlargement. The wideners' may have won the first battle, but one battle does not win a war.

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1 *Europe and the Challenge of Enlargement', Agence Europe, Europe Documents, No. 1790, 3 July 1992, p.7.*

2 *Ibid., p.2.*

3 *European Council in Lisbon 26/27 June 1992; Conclusions of the Presidency', Agence Europe, 28 June 1992, p.5.*

4 *European Council in Edinburgh 11/12 December 1992; Conclusions of the Presidency', Agence Europe, 13 December 1992, p.5.*

5 *These conditions include a European identity, democratic status, respect of human rights and acceptance of the Community's acquis.*

National Budgeting for European Convergence

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Introduction

Current financial turbulence and uncertainty in Europe reinforce arguments in favour of encouraging economic and monetary cooperation but, at the same time, make such cooperation more difficult. Since the rejection by Denmark of the Maastricht Treaty, five Community currencies (those of Ireland, Italy, Portugal, Spain and United Kingdom) have devalued, two of them have left the system (United Kingdom and Italy) and others have come under serious pressure (Denmark and France). The difficulties cannot be ignored. An important component of the problem is the management and control of public expenditure. Adjustments to monetary parameters are necessary to solve urgent problems, but they are not sufficient to build a solid EMU. Excessive use of monetary instruments, with persistent budgetary deficits, is one of the main reasons for the current crisis. Long-lasting financial-market stability requires budgetary discipline. Serious movement towards EMU cannot take place successfully until the budgetary performance of Member States has converged.

The European Monetary Union will function properly when Member States accept and work under nominal convergence requirements, among other things, conditions on inflation, interest rates, etc., which means having similar levels of budget deficits. Externalities and interdependence form the basis of the following important arguments identified in support of fiscal cohesion in the European Community: the need for a global European fiscal policy beyond the aggregation of 12 individually decided budgetary positions; the need to avoid the disproportionate use of Community savings by one Member State; a possible bias towards lack of fiscal restraint'; and the need for convergence in budgetary positions during the transition period (A. Lamfalussy, 1989, p. 91). Although the need for fiscal coordination and for controlling national spending in particular have been widely justified, relatively little attention has been paid to identifying and analyzing concrete measures to make this feasible. Most studies on these aspects of the Economic Monetary Union have been concerned with questions as to why the need exist for fiscal convergence and to what degree is it desirable. Attention has only recently been focused on examining what budgetary measures (rules, procedures, structures) can be taken by the Commission or finance ministries for European convergence.

This last question was EIPA's main global concern when organizing the workshop Can Norms and Rules enable EC Member States to Secure Budgetary Convergence?' in December 1992. In this workshop, a mixed group of academics and experienced practitioners from the 12 Member States and the Commission met to analyze and discuss the above question and also the general consequences on national budgeting as a result of the conditions put forward by a future European Monetary Union. Presentations and discussions were multidisciplinary. Most of the relevant scientific approaches were represented: public economics, political science, public management and law. A special participant in this workshop was Professor Wildavsky, a visiting professor at EIPA at that time. The objective of the workshop was to analyze, discuss and suggest alternative policy-option initiatives at EC and national levels encouraging convergent financial management behaviour. Discussions were based on the following important questions: What is the current capacity of EC and national governments to manage public spending?'; What budgetary strategies are available to reduce deficits?'; How do social values and political culture affect spending patterns?'; What should the role of the Commission be under these circumstances?'; What is the Member States' responsibility for managing national budgets?'; What budgetary norms and rules should be proposed and negotiated to guarantee convergence of integration?'; What other orders of control should be applied and by whom?' and What strategic and structural arrangements could facilitate integration?'.

A Legally Binding Treaty: Enough for Convergence?

As is well known, if the Treaty of Maastricht or a similar agreement is finally approved by the Member States, the Economic and Monetary Union will be one of the main courses to be taken for the future development of the EC. The EMU aims to create and implement a single currency area in which a central institution will manage monetary policy in order to achieve common macroeconomic objectives. Successful steps towards the EMU require convergence of the economic performances of Member States. One of the key criteria for convergence is the reduction in fiscal deficits and public debt. The Treaty specifies two conditions: government deficit should not exceed 3% of GDP and public-debt stock should not exceed 60% of GDP. Most Member States have to make great efforts to keep their fiscal position in alignment and adjustments will require tight fiscal policy. In a transitional period a specific multilateral surveillance procedure will focus on budgetary performance. Avoiding excessive deficits will become a binding obligation and a criterion for deciding whether a country may be allowed to pass to the final stage.

Although legally binding, the Treaty of Maastricht has its limitations. The procedure is not automatic (Alexander Italianer, 1993, p 1). The final decision is reserved for judgment by the Council of Ministers. This means that the Maastricht norm alone is not sufficient to guarantee convergence. There is a need for further accompanying' rules and other positive measures, not only to monitor convergent budgetary behaviour in Member States but also to encourage voluntary strategic budgetary adaptations.

It is expected that the EMU will make the European economy more efficient and subject to less variability of prices and production. However, important benefits from the EMU will depend on how national budgeting adapts to a more demanding situation: solving domestic problems (budgetary autonomy), avoiding excessive deficit (budgetary discipline) and responding to overall EC macroeconomic policy (coordination). Budgetary discipline and policy coordination are vital for the EMU. Although the framework for both of these can be agred and set at EC level, the Community is still faced with the problem as to how appropriate budgetary behaviour for convergence can be encouraged at national level, assuming that this field should not be under specific European central control, according to the principle of subsidiarity. Budgetary autonomy is especially necessary, given the postulated loss of monetary and exchange-rate policy, as key policy instruments at national level.

Concerned countries have recently presented to the Commission convergence programmes with drastic reductions in public expenditures for the next few years. However, it is not enough merely to formulate tight budgets if there is insufficient capacity in the budgetary system to meet objectives. Encouraging Member States to fulfil conditions of convergence requires actions from the Commission establishing a general framework of budgetary discipline. Ensuring that norms and rules are properly negotiated and accepted at all levels of government is a first order of control for convergence. These parameters for budgetary discipline represent a preventive framework within which national governments can manage their own expenditure. National discretion for short-term budgetary adjustment to domestic needs also requires capacity from the Commission and Member States for the *ex-post* monitoring of budgetary performance (second order of control). Furthermore, the Community and each Member State can promote positive strategic action to encourage voluntary convergence and design appropriate inter-organizational mechanisms for cooperation (third order of control).

Options for Convergent Budgeting in Member States

The Maastricht Treaty proposes norms to control fiscal performance of EC Member States. These norms are either criteria of substantive discipline (such as overall limits for government

deficit and debt), procedural (i.e. EC multilateral surveillance) or institutional (decision-making and monitoring bodies). The focus here is on complementary budgetary norms (specific rules, national procedures and roles of institutions) at all stages of the budgetary cycle and from the perspective of the role to be played both at EC and national levels.

Governmental commitment and capacity for fiscal discipline is important at all phases of the budgetary process: budget negotiations to allocate resources, parliamentary approval of the budget law and budget execution. As von Hagen's study suggests, a budgetary process under a dominant position of the Prime Minister or Finance Minister, with subordinated spending ministers, limited parliamentary amendment power and limiting changes during budget execution, contributes significantly to fiscal discipline. The results of his study propose a possible need for institutional adaptation in the budgetary process of some Member States to guarantee long-lasting fiscal discipline (von Hagen, 1992, pp. 37 et seq.). Strong budgetary leadership is a necessary complement to fiscal norms and rules for convergence.

Pointing in the same direction, Aaron Wildavsky suggests a set of norms and procedures (in the general sense of both words) that would facilitate strong leadership for long-lasting convergence within the EC (A. Wildavsky, 1992, pp. 3 et seq.). They were presented as being complementary to the Maastricht Treaty:

1) outlays not to grow faster than GDP;

2) overall ceiling determined by previous year's spending multiplied by the percentage increases (or decrease in GDP);

3) subceilings on the above principle established on major traditional spending accounts;

4) PAYASUGO: no increase in subceilings unless accompanied by agreed cuts in outlays in other accounts or revenue increase;

5) no inflation premium; subceilings for coming year established by prior year's outlays;

6) quasi-entitlements; governments given authority to vary entitlement spending from 95% to 100%;

7) governmental responsibility; (budget voted up or down as a whole).

A connected issue addressed at the workshop was the assessment of the capacity to reduce budgetary deficit. Is there budget flexibility in the Member States? If so, where and how? What is the room for manoeuvre for the finance ministries? What budgetary policy alternatives are available which comply with the Maastricht criteria? Two different approaches were chosen to discuss the answers to these questions. The first one analyzed the potential contribution of increasing main revenue sources and/or reducing spending categories (J. de Haan and C. de Kam, 1992, pp. 4 et seq). Taking into account political factors, institutional arrangements, budgetary procedures, etc., De Haan and De Kam suggest that there are tax and spending options available to each of the five countries studied. According to their research, some countries (The Netherlands and Denmark) have hardly any options to increase tax revenues. Broadening the base and eliminating reduced rates of corporate tax are open options for Belgium, Italy and Ireland. On the expenditure side, their research identified transfers to family and industry as the main target for further reductions in public outlays. For most of the countries studied, social security and welfare outlays showed some flexibility for reduction. Reducing volume or benefit rates is an important opportunity for reducing spending, although demographic trends, economic growth and general wage trends may influence the effectiveness of this policy.

The second approach focused on suggesting changes in budget behaviour and restructuring the relations between the finance ministry and other budgetary actors (E. Zapico, 1992, pp. 25 et seq.). The Maastricht Treaty mainly focuses on correcting divergent budgetary behaviour by enforcing fiscal rules and norms. Main budgetary centres at national and Community levels do not provide positive strategic guidance for convergence except for the projection of budget figures and fiscal scenarios. As in other European initiatives, part of the problem of budgetary convergence is the lack of leadership for innovation. Strong central institutions are expected to play a traditional role of guardianship and arbitration.

Rejecting Non-Discipline but also Guiding Convergence

The Maastricht Treaty proposes strong legal commitment for convergence, but the credibility of future compliance is still low. The enforcement procedure is based on surveillance of multilateral peer groups. Most programmes of convergence are based on spending cuts in budget preparation. However, the capacity to adapt budget behaviour to the convergence context remains low. Although the general framework and procedure set out in the Maastricht Treaty for budgetary convergence are useful to avoid voluntary budgetary non-discipline, the hidden face of budgeting as a strategic tool should at least be considered as a complementary approach. Merely tightening constraints does not guarantee progress towards budgetary convergence. Central budget institutions have to provide guidance to adapt financial management behaviour to the budget context.

The Commission and national governments need to take into account the budgetary context within which they work in order to facilitate the appropriate adjustments. Budgetary deficits are not isolated from the economic, political and cultural context. Budgeting and auditing systems in the Member States reflect national values and preferences. Patterns of relationships between political values/culture and budgeting are highly useful for explaining public deficits. If there is no capacity for managing public spending, it will be impossible to establish the self-control of national and Community budgetary deficits.

Declining resources and uncertainty have provoked what Professor Wildavsky has identified as repetitive budgeting. Frequent and erratic adjustments of budgetary figures, interdepartmental struggles, interdependence and difficult communication necessitate theactive intervention of central budget units at all levels of government. The finance ministry has to take responsibility for budget flexibility (Les Metcalfe, Sue Richards, pp. 177 et seq.). This means the adaptation of the whole budgetary system. It implies not only applying budget rules, norms and hierarchy but also leading the inter-organizational development of budget networks. Under these circumstances, the main budget centres have to play a new role, which is quite different to the traditional one. Some important components of this new role have been identified as (1) encouraging the coherence of budgeting with strategic management, (2) building trust through multilateral integrative bargaining in the budget procedure, (3) redesigning accountability systems for organizational learning and (4) redefining budget effectiveness as a capacity for adapting financial management behaviour to the budget context. All these components of this new role apply to EC, national and subnational budgeting for European convergence. These and other policy options mentioned before are further elaborated in the papers presented at the workshop mentioned above. They, along with the discussions held during the colloquium, will be published by EIPA in the next few months.

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Association, Partnership and Cooperation Agreements with East European Countries

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The countries of Central and Eastern Europe and the independent states of the former Soviet Union are becoming important partners in EIPA's cooperation, consulting and training projects with non-Community countries. This is indirectly and in some cases directly facilitated by the closer relations which have been built between the EC and these countries over the past five years or so. An account and some comments concerning the development and scope of the agreements between the Community and the countries in question can be found below.

Towards Trade and Cooperation Agreements

The state of cold war that existed between East and West meant that until 1988 the EC and Comecon had no formal relations. The absence of such relations constituted a serious impediment to trade liberalization between the EC and Central and Eastern Europe. Instead, there were numerous sectoral agreements and special trade measures governing trade with the East, which were generally restrictive.

The first of a series of steps paving the way for freer trade was the joint EC-Comecon declaration of July 1988. This was soon followed by the conclusion of the first-generation' agreements or Trade and Cooperation Agreements with Hungary and Poland in late 1988 and 1989 respectively, and with all other Central and Eastern European countries and the former Soviet Union in the period from 1990 to 1992.

These agreements formalized bilateral relations between these countries and the EC and extended MFN treatment to them. The Trade and Cooperation Agreements have the objective of promoting trade on the basis of non-discrimination and reciprocity. An important aim of these agreements was the elimination of specific quantitative restrictions applied by EC Member States to imports from centrally-planned economies. The provisions on trade liberalization cover all products except coal and steel, and textiles and clothing, for which sectoral arrangements have been negotiated. The agreements also provide for broad commercial and economic cooperation.

Following a request from the G24 gathered in Paris in July 1989, the Community undertook responsibility for coordinating Western aid to Poland and Hungary, intended to encourage their process of economic and political reform. The operation was called PHARE[1] and an action plan was adopted in October 1989 which was based on five priorities: improved access to markets, food aid, agricultural restructuring, promotion of investment, vocational training and cooperation on environmental protection. The PHARE programme accorded GSP treatment to Poland and Hungary (includig certain agricultural concessions of particular importance to them) and, ahead of the agreed timetable, it eliminated all quantitative restrictions applied to these countries and it suspended all non-specific quantitative restrictions by 1 January 1990. In the following years the other Central and Eastern European countries were included in the PHARE programme.

Association Agreements

The EC Summit in Strasbourg in December 1989 affirmed that the Community was ready to strengthen bilateral relations beyond existing trade agreements. In 1990, Association Agreements or Europe Agreements' were considered by the EC Council to be the most suitable instrument for the development of closer relations with Czechoslovakia, Hungary and Poland which were thought to be closer than others to the goal of democratic and market-oriented

economies. The objectives of the Agreements were:

- to increase stability in the three countries so as to encourage and consolidate the reform process;

- to provide a strong link between the EC and the associated countries;

- to raise certainty for the economic operators (domestic and foreign) in the three countries about the commitment to economic reforms and access to the EC market.

After a year of negotiations, the three Agreements were signed on 16 December 1991 and are now awaiting ratification (see below) by the Member States and assent by the European Parliament. Their structure is almost identical, with some minor differences in the details of certain provisions. Notably, in the preamble of each Agreement a reference is made to possible future membership of the EC.

The main provisions of the Agreements include the following:

a) establishment of a political dialogue;

b) establishment of a free trade area over a maximum period of 10 years: immediate elimination (for less sensitive products) and gradual elimination (for more sensitive products) of quotas and duties on both sides, with more rapid liberalization on the part of the EC (abolition of quantitative restrictions of EC on trade in textile products is dependent upon the Uruguay round);

c) granting of limited trade concessions for agriculture and fisheries;

d) non-discrimination of workers from the associated country (already) legally employed in the EC and vice versa, and the application of rules in force in the Member States in the area of mobility of workers;

e) national treatment of individuals and companies;

f) liberalization of services (with special arrangements for transport), and free movement of capital and payments related to free movement of goods and foreign direct investment;

g) application of competition rules (including anti-dumping) similar to those of the EC, with more liberal allowances for state aids in the associated countries during the transition period;

h) approximation of Czechoslovak, Hungarian and Polish legislation to EC legislation;

i) economic cooperation; and cultural cooperation;

j) joint institutions.

Europe Agreements - Interim Agreements for Trade Concessions

The Europe Agreements are mixed agreements, i.e. three agreements between the EC and Member States, on the one hand, and Czechoslovakia, Hungary and Poland respectively, on the other. This has as a consequence that for the Agreements to become effective, assent by the European Parliament and ratification by the Member States and associated countries are required.

However, by singling out th parts of the Agreements dealing with trade, for which the Community has exclusive competence, in Interim Agreements the trade concessions could enter into force without waiting for ratification. Three Council Decisions were adopted by the Council of Ministers on 25 February 1992, approving the Interim Agreements signed by the Council and the three countries on 16 December 1991, the date on which the Europe Agreements were initialled. The Interim Agreements entered into force on 1 March 1992 and will be effective until the Europe Agreements enter into force. At the time of writing, the associated countries and only a few Member States have ratified the Europe Agreements.

The Interim Agreements replace the trade and trade-related provisions of the Trade and Cooperation Agreements mentioned above and their objectives go far beyond the first-generation' agreements. The EC has abolished quotas on all industrial products (except for textiles and coal) and customs duties on a substantial number of industrial products upon entry into force of the Agreements. For more sensitive industrial products, including coal and steel, customs duties will be gradually eliminated over a period of 5 years whereas the abolition of duties on textiles will be accomplished over a period of 6 years.

The associated countries for their part liberalize trade gradually over longer periods and according to differentiated calendars: 7 years for Poland, and 9 years for Czechoslovakia and Hungary. However, Poland and Czechoslovakia have abolished all quantitative restrictions (except for textiles) and customs duties on some products upon entry into force of the Agreements.

The economic significance of the trade liberalization for the associated countries is difficult to assess. On the one hand, the value of imports from the EC and exports to the EC has already increased considerably after the conclusion of the Trade and Cooperation Agreements. The Interim Agreements are likely to boost trade even further as a consequence of the sweeping nature of some of the measures. With respect to steel, for instance, for which all quantitative restrictions on exports to the EC were abolished upon entry into force on 1 March 1992, exports from Slovakia in particular have surged substantially. This kind of competition is considered by EC steel producers to be unfair as East European steel exports are distorting the market due to predatory, i.e. lower than cost, prices. This is a consequence of the fact that most East European steel works are not privatized yet and are often heavily subsidized. The effect of increased trade on growth in the associated countries must be positive but is difficult to determine at this stage. In fact, industrial output in those countries has continued to fall since the collapse of Comecon.

On the other hand, the trade concessions of the EC have in the past not always been exploited by the countries of Central and Eastern Europe. In such cases, it was not the formerly existing import restrictions that were impeding trade, but rather structural weaknesses in the economies of the countries, or simply the fact that the concessions were related to products which were not produced in Central and Eastern Europe.

Europe Agreements - Other Areas

The objective of establishing free trade between the EC and the three countries (although negotiations for a free trade area among the three associated countries are still ongoing) together with the non-trade-related provisions make the Europe Agreements very comprehensive. Some major elements of the non-trade part of the Agreements are discussed below.

In the field of the free movement of workers, the Agreements leave it up to the Member States to conclude bilateral agreements aiming to improve access of workers from the associated countries to the Member States' labour markets and the Member States shall consider

favourably the possibility of concluding similar agreements'. However, most Member States conduct a very restrictive immigration policy regarding the countries in question. This prt of the Agreement may be disappointing but it is the result of the fact that the Community does not have a common immigration policy. The Maastricht Treaty, once ratified, will only provide a basis for intergovernmental cooperation among the Twelve in this area.

Non-discrimination of workers with respect to working conditions, remuneration or dismissal only applies to workers who are legally employed in the territory of a Member State. The contracting parties have also agreed mutually to grant national treatment to companies and nationals. With respect to the latter, the provisions apply to workers already legally employed in one of the Member States and to self-employed persons.

Approximation of law is a provision which aims at preparing the associated countries for their economic integration into the Community by approximating their existing and future legislation to that of the EC in the field of customs law, company law, banking law, company accounts and taxes, intellectual property, protection of workers at the workplace, financial services, rules on competition, predication of health and life of humans, animals and plants, food legislation, consumer protection including product liability, indirect taxation, technical rules and standards, transport and the environment. Technical assistance for realizing this approximation can be provided in the framework of the PHARE programme to the countries by private and public organizations with the relevant expertise in the EC.

Finally, economic cooperation will be undertaken in a large number of areas ranging from, among other things, education, training and cooperation in science and technology, to industrial cooperation, industrial standards, conformity assessment, agro-industry, energy, nuclear safety, environment, SMEs, public administration, telecommunications, banking and regional development.

Poland and Hungary have adopted programmes in the framework of PHARE which allow for the provision of technical assistance from EC-based organizations to the public administrations in order to facilitate the implementation of the Europe Agreements. This assistance can consist of, for instance, training of officials or consultancy to departments dealing with approximation of laws.

The Europe Agreements with Bulgaria and Romania for which negotiations started in May 1992 have largely the same structure as the existing ones.[2] One important difference between them will be the reference to human rights and democracy in the former, in anticipation of requirements laid down by the Maastricht Treaty on European Union. The trade concessions to these two countries are similar to those that have been accorded to Czechoslovakia, Hungary and Poland, and the same formulation concerning future membership in the Preamble has been adopted. However, it is expected that their integration into the Community would be considerably slower and more difficult.

Partnership and Cooperation Agreements

The Commission obtained a negotiating mandate from the Council on 5 October 1992 to negotiate a new generation of bilateral agreements with Russia and the other independent states of the former Soviet Union. These new-style agreements called Partnership and Cooperation Agreements' are intended to be non-preferential agreements, but will be based on GATT principles (MFN treatment, in particular). This means that the countries concerned will not receive more favourable treatment from the Community than that given to other GATT countries. However, the Agreements may eventually provide for more extensive opening of the EC market by extending GSP treatment to these countries. Separate agreements will cover trade in textiles and nuclear materials. The Agreements will be tacitly renewable after a period of 10 years.

They will have a wider scope than the Trade and Cooperation Agreement concluded with the former Soviet Union in 1990, and will govern a broad range of political, economc and trade relations between the parties. They will include provisions on financial assistance, cooperation and aid. Economic cooperation will contribute to the reconstruction and sustainable development, restructuring, privatization, industry, training and investment. Special attention will be paid to support for regional cooperation among the independent States. Cooperation links with the Community will be pursued in various other sectors, such as agriculture, energy, transport, the environment, tourism and regional development. Economic cooperation and other forms of cooperation could be backed by technical assistance from the Community.

Like the Europe Agreements, the Partnership and Cooperation Agreements will be mixed and will include provisions formalizing political dialogue on issues of mutual interest and provisions for cultural cooperation. Respect for democratic principles and human rights will form an essential aspect of the partnership.

At the time of writing, negotiations have already started with the Russian Federation. Preparations for negotiations were also under way with Kazakstan, the Ukraine and Belarus.

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1 ***A**ssistance for **E**conomic **R**econstruction in **P**oland and **H**ungary, later extended to Czechoslovakia, Bulgaria, Romania, Albania, the Baltic States and Slovenia.*

2 *The Europe Agreements with Romania and Bulgaria were initialled on 17 November and 22 December 1992 respectively; the former was signed on 1 February 1993 and is now awaiting assent by the European Parliament and ratification by Romania and the Member States, the latter is likely to be signed in March 1993.*