

initiatives such as a positive industrial strategy, or a comprehensive social policy. The longer term political costs were to prove even greater, for the costs of the CAP, and its general budgetary consequences, were to shackle decision-making throughout the following years.

The First Enlargement: the Crowning Achievement of the First Period?

The first fifteen years of the Community's existence had been a difficult period. Many areas of decision-making had been contentious and had, as with the French 'empty-chair' strategy, stretched the credibility of the EC. However, this should not be allowed to detract from the achievements of these years. In 1957 the Treaty of Rome was signed as a general statement of intent rather than as a detailed and polished policy document. The Six had little more to draw on than political goodwill and their shared experience of the ECSC. They aimed to establish a customs union, a common external tariff, common markets for capital and labour and a corpus of common policies, within a relatively arbitrarily-defined economic zone. Yet, within fifteen years substantial progress had been made in all these areas and the Community of Six was to be enlarged to a Community of Nine. The accession of the UK, Eire and Denmark was to make the EC the central economic grouping in Western Europe. It encompassed virtually the whole of North-west Europe, and only the Mediterranean, Scandinavian and Alpine regions remained outside its boundaries.

The EC/EFTA split was always an artificial division within Western Europe, especially because of the pivotal-trade links of the UK and FR Germany. Consequently, there was strong pressure to restructure the relationships between the two groups from the very beginning. The success of the EC in establishing the bases for common policies, and the relative strengthening of the German and French economies compared to the UK, served to intensify these pressures. The continuing internationalization of capital accumu-

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1972	
1965	1972
41.0	6.4
19.8	
16.9	74.4
7.1	2.9
	2.3
9.1	12.7
6.2	1.3
100.00	100.0
107.2	3,330.9

onomy, Annual Economic

lation was also pointing to the need for further political reorganization of the European economic space. Constitutionally, any such enlargement would be quite simple, for Article 237 of the Treaty of Rome stated that 'Any European state may apply to become a member of the Community.'

While both Greece and Turkey sought and obtained special association arrangements with the EC, the critical relationship was with EFTA. The UK, which had been the driving force behind the creation of EFTA, soon sought to transfer its allegiance to the EC. Together with Denmark, Ireland and Norway, it applied for full membership of the EC but was promptly rejected in 1963, largely at the insistence of the French President, de Gaulle. While it was true that more time was needed for the evolution of the fledgling institutions and policies of the EC, there were other reasons for this rejection. Not least, UK membership might challenge the central role of France and Germany in shaping the Community in its critical early stages. In addition, the strong ties of the UK with the USA might compromise the attempt to establish the EC as an independent economic and political force.

In 1967 the four prospective applicants reapplied for membership. The UK was again the prime mover. Its economic motives were clear – GDP per capita growth rates in the EC in the period 1950–65 had been double those of the UK. In addition, the EC – especially FR Germany – was beginning to challenge the UK as the principal destination of European inward investment. The British market, on its own, and the larger EFTA market were too small to combine the scale requirements of R&D with the need for competition in sectors such as cars and consumer durables. The links between market size, technology and productivity were becoming increasingly transparent and there was a strong feeling that an independent UK – or EFTA – would not be able to compete at the appropriate level. The UK, belatedly, had come to similar conclusions as had the Six in the 1950s. There was also a strong element of wishful thinking that EC membership would provide a panacea for the increasingly obvious weaknesses of the UK economy.

Political considerations were also important in the UK's application. Decolonization was changing and weakening the role of the UK in the Commonwealth during the 1950s and 1960s. In addition, Suez was only one of several incidents which served to demonstrate that the UK could no longer aspire to the status of an independent super-power. It had little more than the role of an extra on the world stage in the global contest between the USSR and the USA. Therefore, in terms of its three historic circles of influence (see pp. 27–8), the only realistic alternative was the European option. It was equally clear that the EC might be able to provide this but that EFTA could not.

After lengthy negotiations the first enlargement was agreed in June 1971. The UK, Denmark, Ireland and Norway were to become members of the EC on 1 January 1973. After a referendum, Norway decided not to take up membership: there was too much unease about the potential damage to its traditional relationships within Scandinavia, while the recently finalized Common Fisheries Policy demanded too many concessions on issues of national interests.

Quite apart from the demise of de Gaulle's influence, there were a number of reasons why the EC eventually welcomed the first enlargement. It was, above all, a logical extension of the economic principles which had led to the establishment of the customs union and the common external tariff. A Community of Nine would be more powerful and more competitive than a Community of Six. In addition, while Ireland was relatively underdeveloped, the economic structures of Denmark and the UK were broadly in harmony with those of the existing members, so that integration should have been relatively painless for the Community. The enlargement was also politically important and was seen as a necessary condition if the EC was to become a global superpower.

The UK, and its Commonwealth food suppliers, had to pay a price for its EC membership: acceptance of the CAP, a large budgetary contribution, and a worsening of the balance of payments, at least in the short term (Haack 1973). The static effects of membership were anticipated to be negative, amounting to a reduction of 0.75 per cent to 3 per cent in GDP. In compensation,

there were expectations of positive dynamic effects, but these would not follow automatically. The new members did not have to accept the *acquis communautaire* immediately but were given transition periods. The UK had a five-year transition for the CAP so as to offer temporary protection to its traditional Commonwealth suppliers.

In practice, the first enlargement was to prove troublesome, but in January 1973 it appeared to be the successful culmination of the first stage in the construction and evolution of the EC. This was enhanced by the formalization and strengthening of ties with the rump of EFTA. As of 1974, a free trade agreement came into force between the EC and EFTA, thereby ending the arbitrary division of Western Europe into two different trade regions, leastways for industrial goods. This confirmed institutionally that the area was 'a single economic space' (Wijkman 1989, 12). Western Europe had recovered from the effects of the Second World War and from the disruption of ties with Eastern Europe. The EC, as the core of Western Europe, seemed poised in the early 1970s to develop into a major economic and political force in its own right.

FOUR

Global Crisis, Political Paralysis and New Challenges: 1973–85

Bright Openings and Bitter Endings

The early 1970s were years of considerable optimism in the EC. The Community had prospered economically, it had become increasingly integrated in terms of trade and investment, and a number of common policies were in operation. The first enlargement had been agreed and the inclusion of the UK would make the EC the undisputedly dominant economic group in Western Europe. Furthermore, there was a rising tide of opinion in favour of advancing economic and political integration. The 1969 Hague Summit had expressed a general commitment to this goal, while the influential 1970 Werner Report had advocated a three-stage transition to political and economic union. The culmination of this wave of optimism was probably in 1972 at the first summit of the heads of governments of the Community of Six plus the Three-in-waiting. The communiqué of this meeting committed the future EC9 to a much fuller degree of economic integration by the end of the decade: the completion of the internal market, common tariffs, a common currency and a central bank were on the agenda.

However, the optimism of this summit was soon dispelled as the global economy slid into crisis and recession, and political harmony was replaced by political discord. One of the critical factors was the first oil crisis in 1973–4. Edward Heath (1988, 200), the British Prime Minister who had taken the UK into the EC, was later to comment that 'After the oil crisis of 1973–4 the Community lost its momentum and, what was worse, lost the philosophy of Jean

The Second Enlargement: the Mediterranean and the European Community

Although the EC was beset with many problems, its size, relative dynamism and increasing dominance of European trade meant that there were pressures from potential applicants for a second enlargement. The most likely candidates were three Southern European states – Greece, Spain and Portugal. Greece had held associate membership since 1962, while Portugal and Spain had signed special trade agreements in 1972 and 1970 respectively. These involved limited trade liberalization and the transfer of some development funds to Europe's relatively poor southern periphery. However, all three were barred from full membership by virtue of their non-democratic governments. This constraint was to disappear in dramatic fashion in the mid-1970s. In 1974 and 1975 dictatorial governments were overthrown in all three countries and, by 1977, had been replaced by elected parliaments and democratic constitutions (see Williams 1984). Enlargement of what can be called the European 'democratic space' was a precondition for the enlargement of the economic and political space occupied by the European Community.

When the Southern enlargement first appeared on the agenda in the mid-1970s, this did not seem to pose any great difficulties for the Community (Seers 1982). The EC was recovering from the immediate impact of the 1973–4 oil crisis, and the creation of a larger market was seen as a logical economic goal. Greece applied for membership in 1975, almost immediately after the overthrow of the colonels' regime. The negotiations were relatively painless. Greece has a small economy and, while it would increase competition for existing Mediterranean farm producers (wine, olive oil, citrus fruits and so on) within the EC, it also offered important new markets for industrial goods. There were also political reasons for the EC's rapid acceptance of Greek membership. Osborn (1988, 14) writes that 'There is a widely held belief in Brussels that Greece was technically and administratively unprepared for EEC membership in 1981,

when the date of accession was set, in order to secure entry before the then anti-EEC socialists could come to power.' It is true that, in many ways, Greece was unprepared for EC accession. Even a six-year transitional period for industrial goods did not offer sufficient protection to Greek manufacturers. Their lack of competitiveness was exposed and Greek industry was given a two-year extension to the transitional arrangements, so as to soften the impact of accession.

Greek membership of the Community has been a difficult experience for both the Community and for Greece itself. In part, this is because 'in the process of integration, political parties are key actors in so far as they transmit opinions, shape policy choices and participate in decision-making' (Featherstone 1989, 248). The key element, in this context, was the 1981 electoral victory of PASOK (the Greek socialist party) with its populist and strongly anti-capitalist and anti-USA programme (Lyrintzis 1989). The EC was seen as representing an extension of American hegemony into the European space. In addition, PASOK was strongly nationalistic, and one of its electoral slogans was 'Greece for the Greeks' (Featherstone 1989); consequently, it opposed the loss of sovereignty implied by Community membership. In government, PASOK modified its stance considerably and its rhetoric did not often match its policies. It secured a number of concessions from Brussels in 1983, which led Papandreou to declare:

From the moment it became evident that Greece's insistence on the necessity for solidarity towards the countries of the European South had been accepted by the wealthier northern partners, we judged the country's interests to be better served inside rather than outside the European Community. (Quoted in Osborn 1988, 14–15)

Solidarity in this instance meant increased assistance to Greece from the Community's structural funds (£7.5 billion in total by 1991) and a 50 per cent allocation from the specially created Integrated Mediterranean Programme (equivalent to £1.4 billion by 1991). Yet, in reality, EC membership has been a very mixed

economic experience for Greece. Its trade balance has deteriorated, inflation has risen particularly as a consequence of the introduction of CAP prices, and manufacturing output fell 6 per cent during the first three years. The CAP support system has also been less favourable to Greece than to other member states: only 75 per cent of Greek farm production compared to 95 per cent of average EC farm production is actually covered by the CAP. However, Greece has been a net recipient of EC budgetary transfers; even in 1984 this amounted to 995 million ECU, equivalent to 2.5 per cent of GDP (Georgakopoulos 1986).

The political value of membership has also been questionable. While membership of the EC has given Greece part of a larger European political voice, it has often been at odds with this. For example, Greece did not support the dispatch of European forces to Sinai in October 1981, and did not condone the imposition of commercial sanctions against Poland following the introduction of martial law. Yet both of these issues had been discussed in the forum of European Political Co-operation, the EC's mechanism for common foreign policy (Ioakimidis 1984). Greece has also frequently been isolated at meetings of the Council of Ministers. However, membership has offered political advantages. Much of the increased structural financial assistance negotiated by PASOK was channelled to Greek rural areas. Not surprisingly, PASOK continued to draw strong electoral support from these areas in the 1989 and 1990 Greek elections, at a time when national opinion had turned against the party. It would be no exaggeration to state that PASOK was saved from humiliating electoral defeat by the way it had been able to influence policy-making in Brussels. Greek membership of the Community also had longer-term political implications; it meant that Greece was in a position to influence any future Southern enlargements of the Community. This would be critical in negotiations with Turkey in the late 1980s but, more immediately, it would influence the Iberian enlargement.

Portugal and Spain applied for membership of the EC in 1977, almost immediately after the completion of the formal transition to parliamentary democracy. By the time that negotiations began in

earnest, in the late 1970s and early 1980s, conditions within and outside the EC had become more difficult. The 1979–80 oil crisis had severely depressed the European economy and Greek membership was proving difficult to digest. It was also becoming apparent that there were major differences in the economic and social structures of the EC9 and of the three Southern applicants. Not least, they were likely to make considerable demands on the Social and Regional Funds which, realistically, could not be met within existing budgetary constraints. Spain was also a major economy and its absorption was likely to have considerable economic implications for both industrial and agricultural producers within the Community. Faced with these difficulties, and increasingly preoccupied with the need for fundamental reform of its own institutions and policies, the Community had great difficulties with the Iberian applications.

There were two compelling reasons for the Iberian countries to apply for EC membership. Firstly, it was presented in domestic politics as a way of stabilizing the new democratic institutions. Once they were members of the Community, their economic structures would be reshaped by relationships with the other member states. As non-democratic governments could not remain members of the EC, there would be intense economic pressures to prevent any reversion to dictatorial governments. Secondly, it was argued that Spain and Portugal were already effectively members of the EC by virtue of their strong trade, investment and labour migration ties with the Community. This was felt most acutely in Portugal as the UK, traditionally, had been its principal trading partner and source of inward investment. Membership would allow them to participate in EC decision-making which impacted on their economies.

There were strong trade links between Spain and Portugal and the EC. These had been recognized in the special trade agreements signed in the early 1970s. However, contrary to expectations, the trade agreements had not led to a significant increase in trade integration between the EC9 and the two applicants (Guerrero et al. 1989). There had been an increase in the shares of the exports of Spain and Portugal which were destined for the Community (table 4.6). By 1983 these were 57.7 per cent and 47.5 per cent, hence

Table 4.6 Trade between the EC9 and Spain and Portugal, 1970 and 1983

		Share of EC9 in trade of Iberian countries	
		Exports	Imports
Portugal	1970	41.9	48.3
	1983	57.7	39.7
Spain	1970	46.3	40.3
	1983	47.5	32.3
		Share of Iberian countries in trade of EC9	
Portugal	1970	0.9	1.4
	1983	0.8	1.4
Spain	1970	2.1	4.1
	1983	3.5	5.0

Source: Donges and Schatz (1989, 279)

underlining the advantages of membership as a way of guaranteeing access to such important export markets. However, the proportion of Spain's and Portugal's imports originating from the EC actually fell during the 1970s and was less than 40 per cent in both cases by 1983. This was partly due to growing food imports from the Americas and to manufacturing imports from Japan and the NICs. In this case enlargement had a compelling logic for the Community as a way of bringing Spain and Portugal within the protectionism of the common external tariff.

The negotiations were long and difficult, and were complicated both by domestic politics as well as by the Community's need to implement internal institutional reforms. Greece used the negotiations as an opportunity to gain further structural assistance for its own economy, especially from the Integrated Mediterranean Programme. France and Italy were concerned to protect their farmers from the strong competition offered by Spain's agricultural exports. It took eight years of painful negotiations before a treaty of accession was signed in 1985. Spain and Portugal were incorporated

into the EC space in January 1986. The main elements of the treaty were as follows:

Agriculture. Transition periods of up to ten years to protect EC farmers from Iberian (mainly Spanish) competition, especially in the markets for olive oil, vegetables, wine and citrus fruits. At the same time the transition periods gave protection to Iberian farmers from full EC (especially French) competition in the markets for cereals, meat and dairy products.

Fishing. Spanish and Portuguese membership would increase the size of the EC fishing fleet by 80 per cent. They were, therefore, granted only limited access to other member states' fishing grounds during a ten-year transitional period.

Manufacturing. There was a seven-year transitional period for the progressive adoption of the common external tariff and the customs union.

Budget. Transitional arrangements were offered until 1992 but, thereafter, the new members would have to meet their budgetary contributions in full.

In practice, the economic implications of accession for Spain and Portugal largely mirrored the Greek experience. For example, in Portugal between 1985 and 1988 there was a negative trade effect: imports increased 120 per cent while exports increased only 88 per cent. However, this was partly counterbalanced by net EC budgetary transfers to Portugal, equivalent to 1.6 per cent of national GDP. Yet the Iberian enlargement was to prove easier than the Greek for the Community. In part this was because global economic conditions improved in the late 1980s, hence cushioning the impact of the transition. Domestic politics were also more helpful as there had been broad inter-party consensus in Spain and Portugal about the value of Community membership. Additionally, the enlargement coincided with renewed optimism about the future of the Community as the 1992 programme reinvigorated a static decision-making process.

In retrospect, it seems clear that the major difficulties of the second enlargement stemmed more from the internal problems of the EC, and from unfavourable global economic conditions, than from any inherent characteristics of the new members. The very fact that the enlargement was accomplished during this difficult period in the Community's history bears witness to the enduring strength and appeal of the logic of economic and political integration which had inspired the signing of the Treaty of Rome in 1957: trade links, economies of scale, efficiency, and the creation of a strong and independent, collective Western European voice in world affairs. This was recognized by the Commission of the European Community at the time:

The pattern of expansion of the European Community over the years has been from the centre outwards, first towards the North, and now to the South. The absence of Spain and Portugal, both major trading partners with the EC, for so many years, was an obvious gap in the trading bloc of Western Europe. The addition of two countries with such rich trading links with Africa, the Middle East and Latin America is a major advantage for the existing Community. Finally, there is a political interest in supporting and encouraging the common values of democracy and freedom in Spain and Portugal. For those two countries, the economic and political necessities of today's world made an overwhelming case for Community membership. (1986a, 1)

While the question of the Iberian accession was eventually resolved, this created new difficulties for the EC. By the 1970s the Community had signed trade agreements with all the Mediterranean countries except Albania and Libya; these offered limited agricultural concessions, tariff-free access for most industrial goods and assistance from the European Investment Bank. The accession of Spain and Portugal provided real threats to those Mediterranean countries which were still outside the EC. Not least, industrial and agricultural exports from Spain to the EC exceeded those of all the other Mediterranean countries taken together – and, as of 1986,

Spain would have privileged 'insider' access to this important market. To alleviate these concerns, new trading agreements were signed with countries such as Algeria and Egypt. However, relationships between the EC and the Mediterranean countries remain open to further revisions, including the possibilities of further accessions (see pp. 219–20). Turkey, in particular, has felt disadvantaged by the Mediterranean enlargements of the Community, its sense of exclusion being heightened as it had enjoyed a relatively favoured position (along with Greece) in the 1960s because of its early Association agreement with the Community (Balkir and Williams 1993).

The second enlargement was agreed in 1985 while the Community was still struggling to agree essential internal political and economic reforms. There were also continuing difficulties over the budget and in advancing the corpus of common policies; this is the subject of the final section of this chapter.

Common Policies and Common Failings

The capacity of the Community to function as more than a customs union and a series of common markets depended on the development of common policies which were applied throughout the EC space. In this respect the 1970s and early 1980s were a disappointing period in the Community's history. As Wallace stated:

the rumbling and linked disputes over the distributional consequences of the Community budget, the reform of the CAP, and the application for membership by Spain, have demonstrated a worrying rigidity in structure; the Community's capacity to adapt its policies and institutions to changing circumstances appears to be low. (1982, 63)

As ever, the most successful but the most problematic area of common policy was the Common Agricultural Policy. The

develop their competition policies in line with EU practice. Discussion of the EAs may be found in Winters (1992), and in much more detail in Mayhew (1996: chapter 3).

For all the essentially positive nature of the EAs, much of the literature has focused on their limitations, particularly in excluding agricultural products, in tying liberalisation in textiles and clothing to progress in the Uruguay Round, and in retaining 'contingent' protection: the possibility of imposing anti-dumping or countervailing duties in the face of 'unfair' trading practices, or of imposing emergency protection in the face of 'unexpected' surges of imports. Rolló and Smith (1993) and Faini and Portes (1995) are among the studies which have discussed these limitations.

Integrating the CEECs into the economy of the EU

The Copenhagen and Essen Councils

Again Mayhew (1996: chapter 5) provides an excellent discussion of how the EU-CEEC trade regime developed after the conclusion of the EAs. Little concrete progress has been made in further liberalisation, but a major symbolic step was taken at the Copenhagen European Council of June 1993, when the EU agreed to some speeding up of trade liberalisation, and for the first time accepted the ultimate objective of accession to the EU by the CEECs.

The next major effort to develop the relationship between the EU and the CEECs, and indeed to begin to make preparations for an eventual enlargement, was in the run-up to the Essen European Council of December 1995. Under the banner of 'pre-accession strategy', steps were taken to encourage both political and economic co-operation. For more details, see Mayhew (1996: chapter 9).

The rest of this chapter considers in some detail the economics of the pre-accession strategy, with a particular focus on the integration of the CEECs into the Single European Market (SEM).

The internal market *acquis* – the 1995 White Paper

Regulatory alignment had already been placed on the agenda in the European Agreements (EAs) of 1992, which committed the CEECs to the adoption of competition policies compatible with those of the EU; but the biggest set of issues arises from the prospective alignment of the CEECs to the EU's internal market, as defined by the White Paper on 'Preparation of the Associated Countries of Central and Eastern Europe for Integration into the Internal Market of the Union' produced in May 1995 by the Commission (European Commission 1995). The White Paper reflects the Commission's recognition that a free trade area would be insufficient for the CEECs, and that there is a need for more scope and stronger incentives for pre-alignment by the CEECs. (In the next subsection of this chapter, we discuss the principles that might guide a programme of regulatory harmonisation between partners at different levels of political and economic development.)

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The White Paper makes it clear that the Commission's pre-accession strategy is not based on the creation of an institutional arrangement like the European Economic Area (EEA) – the date of accession to the Single Market and to the common commercial policy is unambiguously stated to be the date of accession to the Union. Rather the White Paper strategy is to set out lists of matters which have to be dealt with by the CEECs as they prepare for accession, with the decisions about priorities and speed explicitly left to the CEECs to make. The Cannes European Council conclusions (European Council 1995) explicitly state that the White Paper does not anticipate or prejudge the accession negotiations and does not lay down further conditions for the negotiations, since adoption of the whole *acquis* (possibly subject to transitional periods) is required only on accession. While at first sight this may seem attractively permissive, in reality the CEECs' progress in implementing the programme of the White Paper will surely affect the timing and progress of accession negotiations.

There are two key questions about the political economy of the process which has been set in train:

- Will interest group pressures within the EU and the unequal relationship between the EU and the CEECs lead the process in directions that respond more to the needs of EU producers than the priorities of political and economic development in the CEECs?
- Will actions taken by the CEECs induce a matching response from the EU? Will the implementation of single market measures actually give the CEECs better market access within the EU? The White Paper seems to identify the list of policies and rules which need to be in place for accession to be negotiable; so the CEECs are implicitly being required to take on obligations while the EU side is absolved from matching commitments. If implementation of the Single Market measures is to be used as one of the criteria for judging who is ready for accession and when, the White Paper could come to be seen as setting obstacles rather than signposts to accession. A reluctance by the EU to accept symmetry of obligations has been a feature of the EAs and the EEA, and this comes out particularly clearly in connection with the crucial link between contingent protection and CEEC adoption of EU competition policies discussed below.

Sequencing and timing of policy convergence

The process of aligning economic policy in the CEECs with EU policies serves several functions. It creates rules within the CEECs where none existed before; it goes beyond the Europe Agreements (EAs) in improving market access through regulatory harmonisation, in the same way that the '1992' process was designed to facilitate intra-EC trade by taking the system beyond the tariff liberalisation of 1956–60; and it prepares the CEECs for membership of the EU.

A phased approach is needed for the adoption by the CEECs of EU policies in the pre-accession stage: there is limited administrative expertise in the CEECs to introduce and to administer economic policy changes; there is a strong argument for not imposing too many simultaneous adjustment shocks on the CEECs,

the economies of which are already going through unprecedented changes; and some elements of the *acquis* make sense only if others are already in place.

After accession, EU membership itself has to be a phased process, with freedom of movement of non-agricultural goods, freedom of movement of services and of capital, and full integration into the customs union in the earlier stages; integration of the CEECs into the common agricultural policy and freedom of movement of labour some way behind; and economic and monetary union an even more distant prospect.

Against this general background, the adoption of EU competition policy, controlling state aids as well as market power, should have a high priority; as indeed is recognised by the fact that this stage in the adoption of the *acquis* was set out in the EAs of 1992 for implementation in the three years up to 1996. Competition policy rules are particularly important in CEECs: because the legacy of central planning is concentrated market structures; because there are strong pressures for state assistance to enterprises in difficulty, pressures which need to be disciplined (though not wholly resisted, of course) if restructuring is to be encouraged; and because the adoption of EU competition policy by the CEECs is a necessary (though, as we discuss below, not sufficient) condition for the EU to abandon contingent protection and give the CEECs unconditional market access. Winters (1992) gives more detail on the Europe Agreements; and Fingleton et al. (1996: chapter 1) offer a more extended discussion of the role of competition policy in the transition.

Then comes the 1992 Single Market Programme: rules on standards, on public procurement, on non-tariff border barriers, on services regulation – the core of the 1995 White Paper. Of course, the CEECs are not ready to take on every single aspect of the Single Market or of EU competition rules, but different problems may call for different perspectives. Where Single Market rules cannot be applied because the CEECs do not have the appropriate testing and certification procedures in place, free circulation of goods, a fundamental requirement of the Single Market, may be unattainable. In other cases, however, it may be the economic circumstances of the CEECs which make it *desirable* to modify the application of the Single Market rules – because financial deregulation needs to come late in the sequencing of economic reform, or because EU rules on vertical restraints are inappropriately demanding for economies that need to foster the development of distribution networks, or because EU rules on state aids need to be modified in the light of privatisation and restructuring needs. Such derogations are not incompatible with the free circulation of goods in an enlarged single market, and a timetable for the elimination of the underlying problems and for the full harmonisation of rules could form part of the *post-accession* transition.

The conclusions of the White Paper and the Cannes European Council of June 1995 (European Council 1995) clearly imply that it is for the CEECs themselves to make their decisions about the timetable and the sequence for adoption of the Single European Market (SEM) rules. Such a stance may be perfectly reasonable, but it should not be read as implying that the EU side can be wholly passive even in respect of strict SEM pre-accession matters. Decisions about what is an acceptable level of compliance with SEM standards will in some sectors,

such as agricultural and fisheries, be made for the EU, especially those which have been hijacked by the lobbies of the member states.

At what stage in the free trade area with the CEECs would the EU policies be aligned with those of the CEECs? The EU itself created the '1992' regulatory harmonisation process. The harmonised external trade policy, was a significant part of the package, characterised by regulatory harmonisation and therefore with border measures.

One set of reasons for this is from the fact that most of the CEECs (the Czech Republic) have levels of development lower than that of the EU, and indeed in some cases is a good public policy to protect the CEECs, but import products to reach that target, because in reality the EU has a political influence rather than a market influence preserving failing enterprises (Drábek and Smith 1995). Another set of reasons is producer pressures for special arrangements for foreign investment. It is necessary to help strengthen government and with foreign investment in the CEECs through the EAs, the tariffs with non-EU trading partners and trading patterns. Reducing tariffs with non-EU trading partners.

A second set of reasons is to police a free trade area imported into or produced in the CEECs. In the area have to be inspected ever rules of origin quality control. Import duties if they are not reduced. FTA partners have different regulatory protection, will be implemented in the CEECs. More rules of origin and other measures. (Note that this is a different 'spoke' free-trade arrangement.)

This is not to say that the EU is not moving towards formal accession: the EU side can be wholly passive even in respect of strict SEM pre-accession matters.

Decisions about what is an acceptable level of compliance with SEM standards will in some sectors,

The difficult policy areas are environmental policy. The

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 different. Decisions about what
 standards will in some sectors,

such as agricultural and food products, be intensely political decisions, and it is
 for the EU, especially the Commission, to ensure that decision-making is not
 hijacked by the lobbies of EU producer interests.

At what stage in the integration process should the CEECs move from a
 free trade area with the EU into a customs union in which their external trade
 policies would be aligned with that of the EU? There are two conflicting pre-
 cedents. The EU itself created its customs union long before it undertook the
 '1992' regulatory harmonisation, and the removal of residual features of non-
 harmonised external trade policy, notably the elimination of Article 115³ protec-
 tion, was a significant part of the '1992' programme. The EEA, by contrast, was
 characterised by regulatory harmonisation without a common external policy,
 and therefore with border controls and rules of origin.

One set of reasons for the CEECs to join the EU customs union early arises
 from the fact that most of the CEECs (with the notable exception of the Czech
 Republic) have levels of import protection that are significantly higher than
 that of the EU, and indeed in most cases higher than they were in 1990. There
 is a good public policy case for helping the adjustment of declining sectors in
 the CEECs, but import protection is likely to be a poor instrument for meeting
 that target, because in reality the pattern of protection is determined by politi-
 cal influence rather than economic needs, and because it is oriented towards
 preserving failing enterprises rather than easing them gently into their graves
 (Drábek and Smith 1995). CEEC governments need help in resisting sectoral
 producer pressures for special treatment, particularly made-to-measure protection
 for foreign investment. Early locking in to the EU's external trade policy can
 help strengthen governments' hands in their dealings with domestic interest groups
 and with foreign investors. Further, with the establishment of free trade with the
 EU through the EAs, the difference between zero tariffs with the EU and high
 tariffs with non-EU trading partners will make for bigger distortions in the CEECs
 trading patterns. Reducing protection to EU levels will reduce these distortions.

A second set of reasons arises from the border controls that are necessary
 to police a free trade area (FTA) that is not a customs union. Once goods are
 imported into or produced within a customs union, they should have uncondi-
 tional access to markets throughout the union. Goods produced in a free trade
 area have to be inspected at the internal frontiers to ensure that they satisfy what-
 ever rules of origin qualify them as products of the FTA partner, and to impose
 import duties if they are adjudged to be not of intra-FTA origin and if the two
 FTA partners have different tariff rates. Rules of origin are a potent weapon of
 regulatory protection, which could serve in particular to deter foreign invest-
 ment in the CEECs. More generally, the regulatory uncertainty associated with
 rules of origin and other border barriers means that market access is conditional.
 (Note that this is a different issue from the role of rules of origin in 'hub-and-
 spoke' free-trade arrangements discussed by Baldwin (1994).)

This is not to say that a formal customs union should be an intermediate step
 towards formal accession: it is rather an argument for early accession if full mem-
 bership of the customs union is one of the defining components of accession.

The difficult policy areas are the process regulation issues of social policy and
 environmental policy. There may be elements of such policy areas which need

attention early, as part of the creation of the single market in goods and services. As the White Paper points out, some harmonisation of environmental rules may be needed to prevent different regulatory standards acting as barriers to trade. (There may also be genuine concerns about cross-border spillovers, such as Austria's worries about nuclear power plants in Slovakia, but these really have nothing to do with European integration and can be dealt with separately.)

Where the issues become problematic is when it is suggested that common social and environmental policies are a necessary and core part of the EU's arrangements. It is possible to argue that there is simply no economic case for harmonisation of environmental and social policy at any stage of European integration, and that opt-outs should be permanently permitted (see Begg et al. 1993). Within an integrated Europe, there is nothing unfair or unnatural about competition between the citizens of areas with differing climates, languages and educational systems. Where such differences confer competitive advantages on particular groups of workers, the advantaged workers can enjoy higher real wages than the less fortunate. Some groups of European citizens could choose to create competitive advantages for themselves by accepting lower environmental quality or poorer social protection. Forcing higher standards on them will force them to accept lower wages in order to compete. They should be free to choose the balance of cash and non-cash rewards they receive.

Against this, it is argued that harmonisation of social and environmental policy prevents excessive competition between governments or between workers. Potential investors for whom social or environmental controls could be particularly problematic (activities which pollute, or which are suited to part-time or child labour) could seek to set one government in competition with another, and the deregulatory competition could easily end up in a prisoners' dilemma equilibrium where all CEEC governments have less regulation than the wishes and needs of their citizens would call for. This is a serious point. But given the strength of the countervailing danger of harmonised EU regulation being inappropriate for CEEC conditions, it seems best to deal with the danger as part of a disarmament agreement on investment incentives, rather than through premature harmonisation of regulation.

What about the argument that workers chasing jobs can individually compete away protections that they would collectively prefer to keep? Here we would argue that the case for harmonisation at EU level exists only if there is labour mobility and/or monetary union. Given the wage differences between the CEECs and the EU, large flows of labour would likely result if mobility were permitted now. For that reason, labour mobility is going to come late in the formal accession process (as it did with Spain and Portugal), and is certainly not on the pre-accession agenda, except insofar as elements of labour mobility are bound up in some parts of service sector deregulation (transport and building services). Thus this 'workers dilemma' argument for process harmonisation carries no weight in the pre-accession stage.

Although it is possible to argue that the CEECs must eventually adopt such process regulations as part of the *acquis communautaire* once they have joined the EU (probably after a suitable adjustment period), it is unreasonable to require them to do so in advance, especially since some current member states have been

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tions, and the UK has opted out of the Social Chapter.

Standards harmonisation is not simply a question of economics. For the CEECs, the politics of moving quickly to EU social and environmental standards is already a problem, both because of the cost and because of the persistent uncertainty about the *quid pro quo* of accession. Given these political and economic costs, it may be much more important for the EU to concentrate on the key issue of severe ecological damage than on the harmonisation of process standards. Thus to argue that convergence in environmental standards is of low priority is not to argue that the environmental issue itself should have low priority in the CEECs. On the contrary, it is to say that environmental policy in the CEECs should be aimed at tackling CEEC needs, not shackled by the constraints of regulatory convergence.

Some see a degree of congruence in social conditions as an essential feature of social and political cohesion. Even if this argument is accepted, however, its implications are long term, so that it is perfectly compatible with the CEECs being granted long-term derogations (as opposed to permanent opt-outs). It would be strange, in the name of cohesion, to impose income-reducing policies on European citizens whose incomes are already far below the European average. We should surely wait for a considerable degree of convergence in money incomes before seeking to impose such policies.

Having argued in this section that there is no strong case in principle for regulatory convergence in respect of social and environmental regulation, we have to recognise that in practice the political process operates according to a range of different criteria. EU producer groups are naturally more concerned about the threat of competition from low-wage CEEC competitors than with the needs of the CEEC economies, and EU governments are influenced by the lobbying of producer groups.

Signs that regulatory harmonisation is overinfluenced by EU producer interests are evident in the White Paper, where each chapter of the Annex was evidently the responsibility of a different part of the Commission's services. The almost inevitable, and potentially damaging, consequence is that every one of those chapters (with one noble exception) offers its own list of 'stage 1' measures that the CEECs need to have under way as early as possible in the pre-accession process because they are essential to the functioning of the Single Market. Bureaucratic pride as well as concern for client groups makes it hard for a section of the Commission's services to say 'our area does not have priority'. Thus we end up with such confusions as safety at work being stated as 'obviously' a stage 1 matter because it is important, as if the authors of this part of the Annex were unable to distinguish between an issue that is important in itself, and an issue that is important in terms of CEECs' policies being co-ordinated with EU policy in advance of formal accession to the EU!

Since our discussion in the previous section lumps together social and environmental regulation as areas where the case for regulatory convergence is weak, it should perhaps be made clear that the White Paper does not lapse into over-prescriptiveness to the same extent in both areas. In the environmental area, the importance of the distinction between product and process regulation is made

clear, and the principle that harmonisation of process regulations is unnecessary to the Single Market is set out squarely enough, though there are some lapses from this principle in the detail of the Annex. By contrast, the discussion of social regulation, as we see from the above example of safety at work rules, does not even seem to recognise the basic principles that should apply.

Governments of EU member states have the central role in ensuring that the relationship with the CEECs develops in politically productive directions and is not hijacked by sectoral interests, and the German government, in particular, has played an important, if not invariably effective, role in encouraging a more generous EU policy toward the CEECs. For further discussion of the political economy of regulatory convergence, see Smith et al. (1996) and Mayhew (1996: chapter 9).

Competition policy and state aids

Many hoped that, in the transition towards CEEC accession, competition policy instruments could wholly replace commercial policy. Indeed some economists argue for subjecting trade policy (anti-dumping action specifically) to the disciplines of multilateral competition rules in the multilateral system (see, for example, Messerlin 1994; Hoekman 1996). This point of view was definitively rejected in the extraordinarily asymmetrical statement that surfaced first in a Commission communication in July 1994 (European Commission 1994), was reproduced almost verbatim in Annex IV of the Essen conclusions (European Council, 1994), and is now quoted in paragraph 6.5 of the White Paper: 'once satisfactory implementation of competition and state aids policies (by the associated countries) has been achieved, together with the wider application of other parts of Community law linked to the wider market, the Union could decide to reduce progressively the application of commercial defence instruments for industrial products from the countries concerned' [emphases added].

This passage makes it clear that more than competition policy is needed – if the EU is not going to be ready even to consider doing away with commercial policy instruments until the internal market *acquis* is applied fairly comprehensively. There is no logic to the apparent requirement that the CEECs complete their side of the bargain before the EU starts to respond. But given the role which competition policy plays in the European political economy in reassuring producer groups that competition is 'fair', and takes place on a 'level playing field', there is logic to the inclusion of the internal market *acquis* in terms of more than just competition policy. There are many ways in which CEECs may be able to protect their markets and offer an 'uneven playing field' other than non-harmonised competition policy. The EU will allow wholly free trade only once these potential non-tariff barriers have gone.

The White Paper suggests that EU competition rules should be directly applied in the CEECs, which would actually be a more demanding regime than in the EU itself, where the fact that national competition laws are subject to the overriding authority of Community legislation means that Community rules do not have to be written in to national legislation. Yet there are good reasons to want less rather than more strict application of Community competition policy

in the CEECs: for example, networks might encourage competition such as resale price maintenance is unwise to demand. It is better to have some flexibility: 'some flexibility in the law might not be for membership' (1994).

Competition policy in the relationship between the EU and the CEECs is a case study of the process of integration. The White Paper rightly emphasises that the rules, not just written but also understood, and the political system available to help the implementation of Single Market rules in the area of competition policy are big a problem practice. The White Paper (1996) is therefore a good detail how competition policy works. While they see much more to be done thus far in attempting to implement competition policy.

The costs to the CEECs of the structural funds

The fact that the V. CEECs have been on the pre-accession sectoral interest negotiations with respect to the process forward into actions taken by the CEECs dominated regulations where politicians have to overcome the stubbornness of the CEECs.

There are, however, some costs to the existing funds to the CEECs. The White Paper (1994) is a good introduction to the up-to-date treatment of both facts and figures obtained from the 1996.)

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in the CEECs: for example, the need to foster the development of distribution networks might encourage a lenient attitude to vertical restraints on competition such as resale price maintenance. Fingleton et al. (1996) argue that the EU is unwise to demand further approximation of CEEC competition law to EU practice: 'some flexibility to adapt competition policy to the circumstances of transition may be highly desirable' (p. 57); 'further forced approximation of the detail of the law might not be beneficial . . . it might even reduce the overall readiness for membership' (p. 180).

Competition policy is thus a nice illustration of the asymmetries and inequalities in the relationship between the EU and the CEECs. It is also an important case study of the practical problems of implementation of EU rules in the CEECs. The White Paper rightly puts much emphasis on the need actually to implement rules, not just write them down, and effective implementation of rules needs knowledge, understanding and expertise at all levels in the commercial, legal and political system. The White Paper also indicates that EU funding will be available to help the CEECs with the formidable task of the practical implementation of Single Market rules. Since approximation of rules got under way in the area of competition law first, this area might provide indications of how big a problem practical implementation will be. The study by Fingleton et al. (1996) is therefore of great importance, in that it has investigated in some detail how competition law and policy has developed in the CEECs since 1990. While they see much still to be done, they 'note the remarkable progress made thus far in attempting to put in place efficient and credible institutions to enforce competition policy' (Fingleton et al. 1990: 171).

The costs to the EU of CEEC membership – agriculture and the structural funds

The fact that the White Paper embraces a number of issues that should not be on the pre-accession agenda, the vulnerability of the process to pressure from sectoral interest groups, the reluctance of the EU to admit to reciprocal obligations with respect to contingent protection, all point to the need to push the process forward in a way that generates a reciprocal response from the EU side to actions taken by the CEECs, moving on as soon as possible from sectorally dominated regulatory issues, where progress can be slow, to accession negotiations where political control is stronger, and where swift deals can be made to overcome the stumbling blocks.

There are, however, formidable economic obstacles to membership posed by the costs to the existing EU members of extending the CAP and the structural funds to the CEECs, and accession negotiations will have to find solutions to the CAP and structural funds problem that are not impossibly expensive. (Baldwin (1994) is a good introduction to the issues, while the more comprehensive and up-to-date treatment of Mayhew (1996: chapters 10–14) is an excellent source of both facts and analysis. Background information on the EU budget may be obtained from the Commission's summary document (European Commission 1996).)

As Mayhew (1996) shows, alternative calculations of the costs of incorporating the CEECs into the CAP have produced an extraordinarily wide range of estimates. The top of the range, at over 60 billion ECU, compares with a *total* Community budget of 77 billion ECU in 1995. However, estimates of the costs of the CAP are quite sensitive to assumptions about product mix and the level of support for different products. There are also big issues arising from the 'McSharry' reform of the CAP undertaken in the early 1990s. That reform shifted some of the costs of the CAP from support of prices of products to more direct support of the incomes of farmers, and an important element of the McSharry reform was the payment of compensation to farmers for price reductions. Though the letter of the rules makes no distinction between farmers who enjoyed high pre-McSharry prices and those who did not, the logic of compensation clearly implies that CEEC farmers who never received pre-McSharry CAP prices for their products should not receive compensation payments for the reduction in these prices.

More fundamentally, the McSharry reform, in shifting support from prices to income, makes it possible to contemplate a future in which there is no *common* agricultural policy, but a set of national agricultural policies. When agricultural prices are supported by EU policy, the operation of the Single Market requires that they be supported at the same level in all EU countries. When the incomes of agricultural producers are supported, the operation of the Single Market is quite compatible with a regime whereby French farmers receive a different level of income support from Polish farmers, and with responsibility for such support being passed back, on the principle of subsidiarity, to member states. The McSharry reforms are only a step in that direction, but they may point to a solution for the CAP problem for the CEECs.

The budgetary problems posed by the structural funds and cohesion funds are generally agreed to be more intractable than those posed by the CAP, for these funds are specifically targeted at objectives which would unambiguously encompass Eastern European members of the EU. Over half of the expenditure on structural funds goes to 'Objective 1' regions, that is to say, regions where development is lagging behind, a criterion which would be met by *all CEEC regions*. Much of the rest seeks to address problems of industrial decline, agricultural adjustment, and unemployment – again widespread problems throughout Eastern Europe. The cohesion funds exist to help countries with income levels well below the Community average, and once again all CEEC accedents would qualify.

As Baldwin (1994) and Mayhew (1996) show, estimates of the cost of applying to the CEECs something approximating to current rules for the allocation of the structural and cohesion funds produce estimates in the region of 30 billion ECU as the cost to the EU budget. This is a scale of expenditure that would be unacceptable to existing member states, particularly as many of them are struggling to meet the fiscal criteria for eligibility for monetary union. Furthermore, the existing beneficiaries of the structural and cohesion funds, notably the 'cohesion countries' of Ireland, Spain, Portugal and Greece, are not going to be enthusiastic about an eastern enlargement, the effect of which is to divert these funds from existing recipients to new members.

Baldwin discusses the conditions that simulate a transitional period for a transitional period. Would the new members themselves were it as the second-class part of EU decision-making. Or would the new members be part of EU decision-making? Smit deeply troubling? Smit conditional exclusion from the non-application of

Mayhew points out that share of the national income in their public administration. There the economic cost of a volume of public funding from the recipient could not sustain market. The applicability of the rules have to be scaled back to be sustainable for the Community for existing recipients.

A more flexible Union

It has been argued that for the CEECs, there are Single Market rules that have been argued that the Single Market in the CEECs accession transition period even in agricultural policies and more scope arrangements for this of differentiation in an 1995, Ehlermann 1990 in which all member

End of chapter notes

1. I am grateful to my colleagues on which two papers
2. To avoid awkwardness 'Czechoslovakia' is used in January 1993 and to in 1993. The term 'EU pre-Maastricht Comm

of the costs of incorporating an extraordinarily wide range of EU countries, compares with a total of 30 billion ECU. However, other estimates of the costs of a common product mix and the level of support issues arising from the 1990s. That reform shifted support from products to more direct support. An element of the McSharry price reductions. Though farmers who enjoyed high levels of compensation clearly benefit from higher CAP prices for their products or the reduction in these

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of structural and cohesion funds are posed by the CAP, for which they would unambiguously bear half of the expenditure. It is to say, regions where support is not met by all CEEC regions. The agricultural decline, agricultural problems throughout Eastern Europe with income levels well below CEEC accedents would

of the cost of applying the rules for the allocation of support in the region of 30 billion ECU of expenditure that would be borne equally as many of them are in a monetary union. Further, the cohesion funds, notably in Greece, are not going to have the effect of which is to divert

Baldwin discusses the possibility that the CEECs might agree to enter the EU on conditions that simply ruled out the receipt of structural and cohesion funds for a transitional period, though such a solution poses constitutional difficulties. Would the new members be allowed to vote on budgetary issues, even when they themselves were ineligible for funding (which Baldwin colourfully describes as the second-class passengers voting on the menu in the first-class saloon)? Or would the new members be excluded from participation in an important part of EU decision-making, a constitutional inequality which many would find deeply troubling? Smith et al. (1996) suggest that the CEECs be granted a transitional exclusion from the structural and cohesion funds as a *quid pro quo* for the non-application of social and environmental rules.

Mayhew points out that c. 30 billion ECU is in any case an impossibly large share of the national income of the CEECs. There is simply not the capacity in their public administrations to create and manage projects on this scale, nor is there the economic capacity to generate new activities that would soak up such a volume of public funds. Furthermore, much EU funding requires matching funding from the recipient state, and the public sector budgets of the CEECs could not sustain matching funding at this rate. In short, in one way or another, the applicability of the structural and cohesion funds to eastern accedents would have to be scaled back to an extent that is likely to make the budgetary total unsustainable for the Community budget and permit a phased reduction in funding for existing recipients.

A more flexible Union?

It has been argued that while the Single Market programme has much to offer the CEECs, there are good reasons for seeking a more flexible application of Single Market rules than that found in the existing member states. It has also been argued that the problems associated with the implementation of the Single Market in the CEECs push in the direction of early accession, with long post-accession transition periods. Indeed, in some areas of regulatory policy and maybe even in agricultural policy, there is a case for less emphasis on common policies and more scope for national differentiation. How to achieve the working arrangements for this depend on how the EU more broadly addresses the issue of differentiation in an enlarged EU. The weight of opinion (Wallace and Wallace 1995, Ehlermann 1996) is strongly in favour of devising inclusive arrangements in which all member states participate, even if policy is applied differentially.

End of chapter notes

1. I am grateful to my co-authors in Drábek and Smith (1995) and Smith et al. (1996) on which two papers I draw in this chapter.
2. To avoid awkwardness of terminology in describing statistics, the term 'Czechoslovakia' is used to refer both to the federal republic that existed before January 1993 and to a statistical aggregation of the Czech and Slovak Republics in 1993. The term 'EU' or 'European Union' is used even when referring to the pre-Maastricht Community.