



CENTRE FOR EUROPEAN REFORM

THE CONSTELLATIONS OF EUROPE

How enlargement will
transform the EU

Heather Grabbe



The Centre for European Reform is a think-tank devoted to improving the quality of the debate on the European Union. It is a forum for people with ideas from Britain and across the continent to discuss the many social, political and economic challenges facing Europe. It seeks to work with similar bodies in other European countries, North America and elsewhere in the world.

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ABOUT THE AUTHOR

Heather Grabbe is deputy director of the Centre for European Reform. She has worked on EU enlargement and its implications for eight years, at the Royal Institute for International Affairs, the European University Institute (Florence), the EU Institute for Security Studies (Paris), the Centre for International Relations (Warsaw), and the universities of Birmingham and Oxford. Her previous publications for the CER include ‘Profiting from EU enlargement’, June 2001; (as co-author) ‘Europe after September 11th’, December 2001; ‘Germany and Britain: an alliance of necessity’, with Wolfgang Münchau, February 2002; (as co-author) ‘New designs for Europe’, October 2002; and ‘Who’s ready for EU enlargement?’, with Katinka Barysch, November 2002.



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Foreword



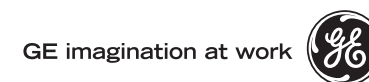
Agora SA is delighted to support this CER publication on the future of the European Union after enlargement. We see this pamphlet as an important and timely contribution to the debate about how the enlarged EU can best respond to the challenges facing it.

There has been much debate about the potential costs of enlargement – both in the old and new member-states – but very little discussion of how the new members could change the EU for the better. As the largest media group in Central and Eastern Europe, Agora SA is keen that the newest members should become constructive and positive partners in the EU. We therefore welcome Heather Grabbe's sharp analysis of the likely future behaviour of the new member-states, as well as her perceptive conclusions on how the EU will evolve after enlargement.

Wanda Rapaczyński

President of the Management Board

Foreword



GE was an early participant in the process of economic development in the countries of Central and Eastern Europe, and the company has invested well over 1 billion dollars and employed thousands of people in the region. In today's competitive environment, the enlarged EU offers a huge and attractive market and it is also a powerful advocate for business globally.

The process of enlargement has brought the new members' legal frameworks into line with the EU's *acquis*, making them more attractive to business. But these countries must work harder to comply with the EU's rules and regulations. In particular, they need to improve judicial processes, combat counterfeiting, increase labour mobility and invest in infrastructure. They should use access to the EU's structural and cohesion funds to increase their ability to absorb public and private investment.

This enlargement will have implications beyond the ten new members. The inclusion of two Mediterranean countries should bring greater development and wealth to a region that is rich in natural resources, but lacking in investment. Romania and Bulgaria still need our encouragement and support to prepare for membership.

GE is delighted to sponsor this Centre for European Reform pamphlet. Heather Grabbe does a service to the accession countries, as well as to readers at large, in her analysis of the future transformation of the EU and the influence of the new members.

Nani Beccalli

President and CEO, GE in Europe, Middle East and Africa

1 Introduction

The imminent enlargement of the EU will change Europe greatly, everybody agrees. But how? After May 1st 2004, when ten new members join, the EU will become larger and more diverse. It will be a bigger market and a more important economic actor on the world stage, especially once the new members have joined the single European currency. But beyond these basic facts, little is certain. The long-term political and economic impact of EU expansion is unknown. This pamphlet considers one crucial aspect: how the new members will affect the way the EU works, its policies and its ambitions.

So far, people in the existing 15 EU countries have worried primarily about the costs of enlargement, and whether the Union's institutions can cope with 25 and more members. The applicant countries, meanwhile, are concerned about the impact that membership of a rich country club will have on their national identities, as well as on their economies, especially prices. But EU enlargement will have a much more profound impact on Europe than most politicians and commentators realise. It will change the Union forever – mostly for the better, at least in the long term – and it will have far-reaching effects on economies, political systems and societies right across the European continent.

Many of the economic effects of enlargement are already evident, because the EU and the Central and East European applicants have dismantled most barriers to mutual trade and investment over the past decade. But the Union is only now starting to feel the political impact of enlargement.

This pamphlet is a work of political astronomy. It plots where the new stars will appear in the constellations of existing stars in the EU.

The current members form alliances on different issues, be they the EU budget, foreign policy, or economic reform. In some areas, there is stalemate, as opposing coalitions are evenly balanced. The new members will upset these patterns – and perhaps break the deadlock – by joining one constellation of member-states or another.

Three predictions guide this star-gazing. The first is that the constellations of stars will vary, according to the issue in question. There will be few permanent alliances or power-blocs in the enlarged EU. In particular, the new members will not form an ‘eastern bloc’ that usually votes together, for their views and interests are far from identical. Even though most of the new members are small, they could tip the balance in favour of one or other coalition of members on any given issue.

The second prediction is that the EU will change much more than either the old or new members expect, or have prepared for. For the past decade, the EU has been trying to prepare itself for expansion – with disappointing results. The EU has convened no fewer than three ‘inter-governmental conferences’ (IGCs) to prepare its institutions and decision-making procedures for enlargement. None has achieved a sustainable solution, hence the continuing work on a new constitutional treaty for the EU.

Even if the EU countries eventually agree on and ratify the new constitutional treaty, its provisions are unlikely to enable the Union to cope with expansion to 25 and more members. Enlargement will put further pressure on the EU’s institutional machinery, which is already rattling and wheezing with 15 countries. More radical reform is needed. The EU has thus entered a period of perpetual revolution that may well continue for the next decade.

The third prediction is that the European Union will not face a trade-off between widening and deepening, as many politicians, academics and journalists assume. Many people believe that the complexity of decision-making in a Union of 25 or more countries

will prevent any further moves towards integration. This pamphlet argues the contrary – that the new members will encourage further integration, both in new areas and on policies where the member-states already co-operate closely either inside or outside the framework of the EU’s treaties. The enlarged EU will face a new set of problems: greater social and economic disparities, administrative weaknesses in the new members, new borders with very poor countries to the East, and more political and ethnic diversity. The EU will have little choice but to develop new policies to deal with these challenges, because they have implications for the whole of Europe. In some cases, the result will be more integration. The new members will also add their own priorities to the EU’s agenda. For example, Poland will push for deeper relations with the EU’s new eastern neighbours, while Hungary will want additional measures to protect the rights of minority groups.

The following chapters set out how the new members are likely to behave in the years ahead, and what effect their behaviour will have on the EU. Chapter 2 looks at how Central and Eastern Europe’s historical legacies – and the attitudes of the region’s politicians and populations – will affect the EU. Chapter 3 gives snapshots of the new members, showing their key features and problems, and similarities with existing member-states. Chapter 4 sets out the stances that the new members will probably take in the EU’s internal debates, and how they will align themselves with existing coalitions of member-states. Chapter 5 discusses how enlargement is likely to affect the EU’s future development, and the views of the new members on reforming the Union. Chapter 6 deals with the EU’s role in the wider world. Chapter 7 seeks to draw all these arguments together by sketching out the new constellations of countries on the key issues facing the enlarged EU.

2 What the new members bring to the Union

Central and Eastern Europe has come a long way in the past 15 years. In 1989, the countries of the region were centrally planned economies, producing goods mainly for fellow members of the communist bloc. Some had massive external debts, and most had obsolescent industries. They were one-party states, some with only brief, pre-war experiences of democracy.

The fact that eight Central and East European countries are ready to join the EU in 2004 is a testament to the impressive efforts and dramatic changes they have made over the past decade and a half. Inevitably, problems persist. This chapter considers how the remaining difficulties and the legacies of the past will affect the behaviour of the new members and the EU as a whole.

People will also matter to what the new members bring into the EU. Enlargement will also bring a whole new set of personnel to Brussels. Thousands of hopeful Central and East Europeans have already taken part in the competition to become Brussels bureaucrats, and several thousand will start working in the EU's institutions after enlargement. Ten new commissioners have been sent to Brussels for an initial stint of six months. Many of them are exceptionally talented politicians, well above the average quality of commissioners whom the old member-states have sent to Brussels over the years. They could make a significant difference to the EU's future development.

Nearly 150 MEPs from Central and Eastern Europe will arrive in Strasbourg after the June 2004 elections to the European Parliament. Like the new commissioners, the candidates on party lists in the new

member-states are above average quality, as this first chance to move to the European stage has attracted many rising stars from national politics. But future elections will probably draw into the European Parliament the usual mixture of bright young politicians seeking to make their names; party loyalists gaining the reward of an MEP's perks in return for many years of behind-the-scenes work at home; and political mavericks.

Although they will all bring new talent into the EU, the new members will not behave uniformly. Commentators, officials and politicians commonly make three assumptions about the likely behaviour of the new members: that they will vote as a bloc; that they will be meek policy-takers, following the lead of Germany and other large member-states; and that – as small countries – they will join the federalist camp. The behaviour of the new members, especially Poland, at the Brussels European Council in December 2003 proved the first two assumptions wrong, and this pamphlet will argue that all three are false.

What kind of economies are joining?

¹ *Purchasing power standards (PPS) are a measure which corrects for exchange rate distortions.*

The existing EU members are most worried by the relative poverty of the newcomers. GDP per head in the new member-states is half that of the average in the current EU-15, in terms of purchasing power standards.¹ Many people in the old EU expect that the poor newcomers will strain the EU's budget to the limit. They also fear that the millions of poor Central and East Europeans will pack up and move to the West in search of higher wages and better living conditions – despite evidence that the likely movement of people will be small and mostly temporary. And they think that the income gap between new and old members will make it much more difficult for them to agree on a new EU budget. Two key questions for enlargement are thus to what extent economic problems will shape the new members' behaviour, and how quickly they can close the income gap with the EU-15 countries.

The EU has admitted poor countries before, and they have all become richer after joining. Ireland had only 60 per cent of the average GDP per head of the then six member-states when it joined in 1973, but now Irish GDP per capita is higher than the EU average. Portugal and Spain have also made good progress in catching up with the richer northern countries. Greece was slower to take advantage of membership, and some economists even argue that EU regional aid slowed Greece's progress by helping to prop up uncompetitive industries.² On the whole, the EU has acted as a 'convergence machine' for poorer members, as Greek economist Loukas Tsoukalis puts it.³ But this convergence has mainly occurred through trade opening, investment flows and market integration, rather than because of transfers from the EU budget.

² George Alogoskoufis, 'The two faces of Janus: institutions, policy regimes and macroeconomic performance in Greece', *Economic Policy* 20, Blackwell, 1995.

³ Loukas Tsoukalis, 'What kind of Europe?', Oxford University Press, 2003.

Will EU membership help convergence in Central and Eastern Europe? The good news is that accession preparations – from structural reforms to trade opening – have already fostered fast growth in the new member-states over the past decade. On average, the Central and East European countries have been growing at twice the rate of the old EU, and they look likely to continue outpacing the richer countries for years to come. The European Bank for Reconstruction and Development forecasts average annual growth rates in the region of 4-7 per cent in the long term – assuming continued steady growth in the eurozone, high levels of investment and rapid productivity growth.

But Central and East European hopes of rapid income catch-up are likely to be disappointed. The World Bank has estimated that it will take the Visegrad countries (the Czech Republic, Hungary, Poland and Slovakia) and Slovenia 20 years just to reach current EU average incomes. Since the old EU will also continue to grow, catching up will take much longer, possibly 40 years.⁴ Each country's prospects depend on how

⁴ World Bank, 'World Bank Development Report', Washington DC, 1997.

fast its economy grows relative to the rest of the EU. A long period of sclerotic growth in the richer EU economies, especially Germany, would give the newcomers a chance to catch up. But it would be bad for their international performance because slow growth in Western Europe would also reduce the demand for East European goods, and slow down the flow of foreign direct investment (FDI) into Europe's emerging economies.

The Economist Intelligence Unit estimates that the newcomers will continue lagging behind West European income levels for decades to come, as shown in Table 1. Cyprus and Malta will be the first to catch up, followed by Slovenia and Estonia if they achieve predicted fast growth rates. But Bulgaria and Romania, which hope to join the EU in 2007, could take until 2060-80 to reach the EU average.

Not only are the new member-states much poorer on average, they also suffer from considerable income differentials within their economies. Income levels in capital cities usually exceed the national average by a wide margin. Average GDP per head in Prague, Budapest and Bratislava is already above the EU average, making them ineligible for the biggest source of EU regional aid, known as 'Objective 1'. Meanwhile, incomes in eastern Poland and Latvia are stuck at less than one-third of the EU average.⁵ Regional unemployment rates also vary greatly, from 26 per cent in eastern Poland to below 4 per cent in Prague. Since regional cohesion is a long-standing EU policy goal, the Union's budget policies will have

⁵ European Commission, 'A partnership for cohesion: third report on economic and social cohesion', Brussels, February 2004.

to address regional inequalities, in addition to income differences between countries. But the EU has to consider carefully how best to help, because empirical evidence shows that it is normal for catch-up growth to be accompanied by widening regional disparities, since growth-poles – often the capital cities – pull ahead of the rest of the country.

Table 1: The outlook for convergence

	Baseline growth projection *	Years to catch up with the EU-15 average **
Bulgaria	2.8	63
Cyprus	3.1	21
Czech Republic	3.1	39
Estonia	4.5	31
Hungary	3.0	34
Latvia	3.0	58
Lithuania	2.9	53
Malta	3.4	29
Poland	2.9	59
Romania	2.6	80
Slovakia	3.2	38
Slovenia	3.1	31

Source: Economist Intelligence Unit, 'Europe enlarged: understanding the impact', EIU, 2003.

* Growth based on governments continuing their present policies.

** Years to reach the EU-15's average GDP per head under the EIU's 'benign scenario', which assumes the EU-15 will grow at 2 per cent per year.

How quickly the newcomers catch up will also depend on the underlying health of their economies. Most of them face major structural problems: their labour markets are not providing enough jobs, especially for young people; education systems do not give people the skills needed to succeed in a market economy; uncompetitive industries are still drawing on government resources; and current trends in public finances are not sustainable, especially given rapidly ageing populations.

But the new members also have economic strengths that could benefit the whole EU. These countries may be poor, but they are growing fast, and their rapid productivity growth will help them to grow richer in real terms – which makes them exciting and dynamic markets in comparison with the mature West European economies. Some are already converging fast: the Czech Republic and Slovenia have already overtaken Greece (the poorest country in the EU-15) in GDP per head.

Since the new members are growing faster than the large core European countries, the EU's average growth rate will go up – if only marginally at first, since the new members' GDP is so small at present. More importantly, enlargement will help the European economy to stay competitive in a globalised economy where countries such as India and China are becoming economic superpowers in their own right.

One of the main reasons for slow growth in countries such as Germany and Italy is that their workers have become too expensive. To remain competitive on a global scale, these countries will have to upgrade to high-tech industries and services, and move the parts of production with the lowest added value to places where wages are much lower. Enlargement thus offers Europe the opportunity to move towards a more efficient division of labour. Over the last decade, EU companies have invested more than €100 billion in the accession countries. Most of this foreign direct investment has sought to tap into Central and Eastern Europe's

Table 2: Economic conditions in the new and would-be member-states

	Population (millions)	GDP per capita as a percentage of the EU-15 average, PPS	GDP growth rate, per cent, PPS	Employment rate, per cent
Bulgaria	7.9	26	4.8	51
Cyprus	0.7	77	2.0	69
Czech Republic	10.2	62	2.0	65
Estonia	1.3	40	6.0	62
Hungary	10.1	53	3.5	57
Latvia	2.3	35	6.1	60
Lithuania	3.4	39	6.8	60
Malta	0.4	69	1.7	55
Poland	38.2	41	1.4	52
Romania	21.8	27	4.9	58
Slovakia	5.4	47	4.4	57
Slovenia	2.0	69	2.9	63
EU-15	381	100	1.0	64
The ten new members	74	47	2.4	56
EU-25	455	91	1.1	63

All data are for 2002.

Sources: Eurostat and European Commission.

fast-growing markets. But investors are also increasingly taking advantage of the region's low labour costs – while at the same time enjoying the same regulatory and business environment as in the rest of the EU, as well as full access to the enlarged European market of 455 million consumers.

By quickening the pace of economic change, enlargement may also force the existing member-states to reinforce their economic reform efforts. In part, this impact will come through the EU's 'Lisbon agenda' for economic reform. The Commission's latest progress report on Lisbon concludes that the EU is at serious risk of missing its objective to become the most competitive, knowledge-based economy in the world by 2010. The new members will not make it any easier to achieve this goal. The Central and East European economies are unlikely to meet many of the Lisbon targets in time

⁶ See Alasdair Murray, *The Lisbon Scorecard IV*, CER, March 2004.

to meet the 2010 goal.⁶ They will find it especially hard to raise employment to the Lisbon goal of 70 per cent workforce participation, given that their current levels are mostly even lower than in the EU-15 countries, as shown in Table 2, page 11.

The EU is highly unlikely to develop ambitious new policies to help the new members to catch up. The older and richer EU members are now much less generous than in the 1980s, when Greece, Ireland, Portugal and Spain joined, especially since some of them are struggling to keep their national budget within the limits of the Stability and Growth Pact. As was the case in the first decade of post-communist transition, the new members will mostly have to sort out their economic problems by themselves.

What the EU should do is to focus its assistance to the new members on the Lisbon agenda for competitiveness, not social security payments to farmers through agricultural subsidies. The Central and East Europeans need help to improve their human capital and physical infrastructure, because these are the areas that are critical to their long-term development. The EU's regional and

other aid is unlikely to have a noticeable macro-economic impact on the new members. But EU funds should be used as an incentive for Central and East European governments to follow the best policies for their long-term economic development.

Historical legacies and expectations of the 'return to Europe'

Towards the end of the accession negotiations in 2002, graffiti appeared on a wall in Warsaw warning Poles "Don't replace Moscow with Brussels!". This slogan sums up the ambivalence that some Central Europeans feel about EU membership: to join the EU is to escape forever the hated Russian sphere of influence. Yet at the same time, some people fear that the EU could threaten their identity and freedoms just as Soviet domination did – despite the obvious differences.

The ten Central and East European countries that have applied to join the EU are extremely diverse in both their histories and current circumstances. The three Baltic states (Estonia, Latvia and Lithuania) only regained independence from the Soviet Union in 1991, while the Czech Republic and Slovakia (formerly Czechoslovakia), and Slovenia (formerly part of Yugoslavia) became sovereign countries for the first time in the 1990s. As a result, people in the region tend to dislike terms like 'federation' (as in the Yugoslav federation) and even 'union' (as in the Soviet Union, in some languages). What is appealing about the European Union is the voluntary nature of membership and the right of every member to have a say in its decision-making.

All of the Central European countries have been part of a wider empire at some point in their history – Habsburg, Ottoman, Prussian, Russian or Soviet. This makes them very keen to keep their hard-won independence. But the political elites in these countries think that the best way to protect this independence is for their country to become part of a wider regional grouping – hence the

enthusiasm with which they have already integrated politically and economically with the EU. They are acutely conscious of their own vulnerable geographical position close to Russia.

After 1989, all these countries tried to join every available international club as quickly as they could, from the OSCE, OECD and WTO, to NATO and the EU. After half a century of communism, political elites were very keen to make their countries 'normal' again. And being normal meant being part of the European mainstream. For the Central and East Europeans, accession to the EU and NATO was a fast-track into that mainstream.

⁷ See Heather Grabbe, 'The Beneš decrees: implications for EU enlargement', CER, June 2002.

⁸ Václav Havel, 'Czechs and Germans on the way to good neighbourship', *Perspectives 4*, Prague, Institute for International Relations, Winter 1994-95.

A key historical factor that could affect relations between member-states in the enlarged EU is the enormous sensitivity to minority issues and the legacy of World Wars I and II in Central Europe. Many minorities live side by side in the region, but at the same time nationalism remains an exploitable political force. For example, election campaigns in the Czech Republic, Hungary and Slovakia in 2002 featured the issue of the expulsion of ethnic Germans and Hungarians from Czechoslovakia after World War II. Despite formal reconciliation between governments and the official settlement of most compensation claims in the 1990s, politicians in Austria, the Czech Republic, Germany (particularly Bavaria), Hungary, Poland and Slovakia still argue about what happened during and after the war.⁷ Former Czech President Václav Havel wrote of the difficult relationship between the Czech Republic and its largest neighbour: "It has been a part of our destiny, even a part of our identity ... some regard Germany as our greatest hope, others as our greatest peril ... the attitude they take towards Germany and the Germans has been a factor through which the Czechs define themselves."⁸

The Cold War froze many of these issues but did not resolve them, and people in the region still feel very strongly about past traumas.

In Central Europe, "the past does not pass" into history, as French analyst Jacques Rupnik has put it.⁹ If Americans say "it's history", they mean that something is irrelevant now, whereas in Central Europe, "it's history" means that something is extremely important. ⁹ See Jacques Rupnik, 'L'Autre Europe', Paris, Point Seuil, 2002.

Size is one of the reasons behind these sensitivities about identity and power. Apart from Poland, the ten newcomers joining in 2004 are small countries, and they will seek to defend their positions *vis-à-vis* the larger member-states – just as the Benelux countries, Denmark, Ireland and Sweden have done before them. The nine small new members will want to ensure that the 'big boys' do not dominate the EU (see Chapter 5).

Some politicians in the new member-states, like former Estonian Prime Minister Mart Laar, see the Union as a great defender of the rights and cultures of small countries against big-country domination. But others claim the EU is a threat to national identity. Czech President Václav Klaus has repeatedly warned his countrymen not to allow their identity to dissolve in the EU "like a lump of sugar in a cup of coffee". These concerns about identity lie behind the wariness in some countries towards any EU policy that might undermine their nationhood or territorial integrity. For example, some politicians in Estonia and Romania fear that EU regional policy might lead to calls for greater autonomy among regions with sizeable minority populations, such as the Russian-speakers in Narva or the ethnic Hungarians in Transylvania.

But although they share important legacies of history, the new members will not necessarily take similar positions in EU debates. So far, they have not stood together for long on any issue. Partly that is because in the past decade they have competed strongly with each other – for foreign direct investment, for trade, and to move up in the queue for EU and NATO membership. This regional competition has spurred economic and political reforms which, in turn, have made their economies competitive in Europe

and globally. But it came at the cost of regional co-operation to promote the joint interests of neighbouring countries. Many regional and sub-regional initiatives were started, but bilateral relations with the EU always took precedence, because they were more exciting politically and more rewarding economically. Moreover, the EU refused to negotiate collectively with the four members of the Višegrad Group in the accession negotiations, preferring to play each off against the others. Although the EU actively encouraged initiatives to promote regional integration, it kept all its own negotiations with the applicants bilateral. But regional co-operation also failed because of problems between the candidates; for example, the members of the Central European Free Trade Agreement (CEFTA) for many years could not agree to reduce their tariff barriers with one another, even down to the levels of their bilateral tariffs with the EU.

This tendency to compete rather than co-operate is likely to continue once the new members join the Union. They have some points in common – such as their Atlanticist outlook on defence and their desire for substantial help from the EU's budget – but they are highly unlikely to forge a permanent alliance on all issues. Rather than forming an 'eastern bloc', each new member will form its own alliances with the other member-states – old and new – depending on its interests in different areas.

Changing public attitudes towards the EU

So far, the public debates about European integration in the candidate countries have focused on the question of joining the EU – when it might happen and whether other countries might join first. The press and politicians have only begun to discuss other aspects of European integration in the half-year before accession.

Many people in Central and Eastern Europe express growing disappointment and disillusionment with the EU. They consider

the conditions of membership to be onerous and the way the Union imposes its rules, regulations and policies on prospective members to be arrogant. They also see the EU as stingy. Even pro-European politicians were disappointed when the old member-states placed a tight limit on the funds the new members will receive from the EU budget in the first years after accession. Few people know the details of how much money the EU budget will provide, but many know that Central and East European farmers will obtain only a fraction of the money going to their counterparts in France and Germany (see Chapter 4).

The EU's newest citizens also feel that they are second-class because they will still have to show their passports at all borders with the old member-states. They are not allowed to join the Schengen area for at least several years after accession. Even more importantly, the EU's decision to suspend the right of Central and East Europeans to work in Western Europe has left many people in the region angry and resentful.

In 2001, fearing that a flood of cheap workers could exacerbate existing labour market problems, Germany, Austria and other countries asked the European Commission to negotiate a 'transition period' on the free movement of labour. As a result, most of the old member-states will not open their labour markets to Central and East European workers for between two and seven years after enlargement. This was a heavy blow for the would-be members, since the right to settle and seek work anywhere in the EU is one of the four fundamental freedoms of the single market – and it is the most visible benefit of membership for ordinary people.

The Central and East Europeans also point to numerous independent studies that show that any future influx of workers would be small, constituting a trickle rather than a flood. Moreover, these studies estimate that this migration would be beneficial to the receiving countries, many of which suffer from a shortage of skilled, young and motivated workers – exactly the

kind of people most likely to move West.¹⁰ Finally, these workers are mostly temporary, seeking to earn higher wages for a few

¹⁰ Tito Boeri et al., *'The impact of eastern enlargement on employment and labour markets in the EU member-states'*, Brussels, European Commission, DG Employment and Social Affairs, 2001; Christian Dustmann et al., *'The impact of EU enlargement on migration flows'*, London, Home Office Online Report, March 25th 2003, <http://www.homeoffice.gov.uk/rds/pdfs2/rdsolr2503.pdf>.

years and save, but then to return home, not to settle in Western Europe. But politicians in the countries bordering the new member-states claimed that they could not persuade their parliaments and electorates to accept enlargement without restriction on labour mobility.

Disillusionment in the accession countries grew further when the countries that had initially promised to open their labour markets from the first day of accession –

Denmark, Ireland, the Netherlands, Sweden and the UK – started having second thoughts. In what looked like a chain-reaction in early 2004, nearly all of these countries announced that they would apply some restrictions on the right of Central and East Europeans to seek work in their countries. As a result, the EU's new citizens will be able to seek employment without a work permit only in the UK and Ireland, at least until 2006.

Although its labour market remains open, the UK has restricted Central and East European workers' access to state benefits such as unemployment benefit and income support. Britain and Sweden are concerned not so much about job-seekers but about a potential influx of people who might seek access to their national welfare systems, without having the intention of earning a living. The media in many countries, especially in Britain, fuelled fears that large numbers of Roma – most of whom live in poverty and deprivation – would turn up in search of a better life and overwhelm social security systems and public services.

The last-minute U-turns in even the more liberally minded EU countries – and the racist tinge to many of the scare-stories in the tabloid media – attracted widespread press coverage in the new

member-states. It reinforced the suspicions of many Central and East Europeans that they will be second-class citizens of the enlarged EU. The transition periods on labour mobility, access to agricultural funds, the Schengen area and so on have made the new members feel unwelcome just a couple of months before accession, and that affects their view of the EU as a whole.

Many Central and East Europeans are therefore entering the EU in a mood of significant scepticism and resentment. Whether these feelings become deep-rooted or turn more positive will to a large degree depend on the newcomers' early experiences with EU membership. Unfortunately, these early experiences have been, and will continue to be, confrontational. Two highly contentious issues are at the top of the EU's agenda: the new constitutional treaty and the next budget framework (discussed in Chapters 5 and 4 respectively).

The role of 'Europe' in party politics

One of the key determinants of how a member-state behaves in the EU is the state of its domestic debate about Europe. Countries that have a strong consensus in favour of European integration tend to have a more consistent approach to the EU – and more influence over time – than countries where opinion is divided, like the UK and Denmark.

Until the final phase of the accession negotiations, discussion of European integration in the would-be members was confined to a small political elite. Only the negotiating team, the EU liaison departments and some of the government ministers were involved in European matters at a detailed level. Much of the political class knew very little about the EU's policies and institutions – while most members of the public had only a hazy notion of what EU membership involved. That situation began to change in 2003, once the negotiations were over and governments began campaigns to persuade their countrymen of the merits of joining the EU.

All of the new members except Cyprus held a referendum on EU membership in the course of 2003.¹¹ The national referenda

¹¹ *Cyprus intends to put UN Secretary-General Kofi Annan's plan for reconciliation of the Greek and Turkish communities to a vote on April 24th 2004, which will implicitly include the question of EU accession for the whole island.*

showed higher levels of support for accession than opinion polls – and many politicians – had predicted. A positive result was most uncertain in Malta, where public opinion was almost evenly divided, and the main opposition Labour Party campaigned strongly against membership. Poland's referendum was also a nail-biter, because the turnout had to reach 50 per cent for the result to be valid. In the event, both the turnout and the 'yes' vote were strong. Table 3 shows the outcomes of all the referenda.

Table 3: Referendum results (per cent)

	Yes	No	Turnout
Cyprus	No referendum on membership		
Czech Republic	77	23	55
Estonia	67	33	64
Hungary	84	16	46
Latvia	67	33	73
Lithuania	91	9	63
Malta	54	46	91
Poland	77	23	59
Slovakia	92	6	52
Slovenia	90	10	60

Strong euroscepticism is for the moment confined to fringe parties in most of the new members, but it will grow after accession. Only in Malta and the Czech Republic has one of the main parties

expressed strong doubts about the principle of European integration. Czech President Václav Klaus is the only major political figure in Central Europe to attack the EU consistently – and even he did not explicitly tell Czechs to vote 'no' in the referendum. But populist parties are gaining ground in several new member-states, and many of them are winning support by campaigning against elements of EU membership. For example, Andrzej Lepper's anti-EU 'Self-defence' party moved from the fringes of party politics to become the third largest party, with 10 per cent of the vote, in the 2001 Polish election. Overall, eurosceptical parties now hold a fifth of the seats in Poland's lower house of parliament and Lepper's support is climbing.

The fringe parties which attacked the EU in the 2003 referendum campaigns have had considerable success in frightening the most vulnerable sections of the population – the poor, the elderly and rural voters. The EU will be an obvious target after accession too, as few of the benefits of membership will be immediately obvious to the public. The new members have already experienced most of the economic gains thanks to opening their economies to trade and investment in the run-up to accession, while the political advantages will emerge only over the longer term.

At the same time, the costs of membership will become more visible soon after accession. The Commission is still working hard to ensure the implementation and enforcement of EU rules and regulations, and even threatening to use the 'safeguard clauses' negotiated at the Copenhagen summit. For example, the Commission has the power to suspend trade in agricultural products if hygiene standards do not improve in Central and East European abattoirs and meat-packaging plants. At the same time, the costs of accession and co-financing of EU-funded investment projects could result in a fiscal squeeze on national budgets (discussed in Chapter 4). These costs will provide a ready target for opportunist politicians who want to blame the EU for their countries' economic woes.

Major right-wing parties in the new member-states may jump onto the eurosceptic bandwagon too. Many of them have been seeking a new way of defining themselves *vis-à-vis* the left in the past few years, as opposition to communism has waned as an electoral issue. Left-wing governments negotiated the accession deals for several of the new members, namely the Czech Republic, Hungary, Lithuania and Poland. It would be easy for the right to criticise the terms of accession as being unfair. Already, Polish Prime Minister Leszek Miller has decided to step down after accession on May 1st, and others may follow him.

The trend towards nationalism in some countries could coincide with a turn against the EU. This will be particularly tempting for those politicians who are already expressing anti-German sentiments, for example in Poland and the Czech Republic. Nationalist rhetoric could also return to Slovak politics if Vladimír Mečiar is elected as president. He became increasingly authoritarian when he was prime minister from 1994-98, causing his country to be excluded from the first group of countries starting EU accession negotiations. In the 2004 presidential election campaign, Mečiar gained many protest votes from Slovaks who lost out as a result of recent economic reforms such as cuts in social security payments, and he may well criticise the EU for encouraging this reform programme.

Several of the new members' governments are considering holding referenda on the EU's new constitutional treaty. These referenda could be a replay of the ones on membership in some countries, but in others they could turn into a poll on the performance of unpopular governments. The constitutional treaty could also raise fears about the EU if eurosceptical politicians and the press portray it as a document that infringes national sovereignty.

How influential will the new members be?

Until the latest IGC began in 2003, many politicians in the old EU

thought that the new members would be pushovers. Poland's intransigent behaviour in defence of its voting weight has changed those views. "The Poles are behaving like the Spaniards at their worst, even before they actually join," grumbled one Europe minister from the existing EU during the 2003 IGC. "Poland will soon find it has no friends if it carries on like this."

The EU's history suggests several determinants of a country's role in the Union. Size is one of them, but it is far from the only factor. France, Italy and Britain have populations of a similar size, but they have played very different roles in the EU. Another widely cited factor is the date of accession. Many people assume that the founding countries had, and continue to have, a disproportionate influence in the EU. The Dutch and Luxemburgers, for example, were able to shape the EU from its inception, while the UK, which joined much later, has had to cope with already established EU policies that it intensely dislikes, such as the Common Agricultural Policy (CAP). Still, latecomers can be influential. Finland joined only in 1995, but it set the pace for developing justice and home affairs co-operation under its presidency in 1999. The Finns also prompted the Union to start thinking seriously about Russia by promoting the 'northern dimension' in EU foreign policy.

As small countries, except for Poland, most of the new members cannot emulate big players like France and Germany in trying to shape the Union in their own image. And unlike Germany, the Netherlands and other 'paymasters', they will not be able to exert influence through their contributions to the EU budget.

There are three less commonly cited but very important determinants of a country's role: the quality of its public administration; the ability of its politicians to build alliances with other member-states; and the degree of consensus about European issues prevailing among its political parties. Italy's history in the EU shows how these factors matter. Italy is one of the biggest members and it has been at the heart of the Union

since the very beginning of European integration in the 1950s. Yet it has often punched below its weight in the EU, instead usually following the leadership of France and Germany. Italy struggled to gain the respect of other member-states because of the weakness of its public administration and the corruption of its political class. For decades, these problems diminished Italy's ability to influence its partners – although Italians remain among the most enthusiastic supporters of European integration, as the EU has been an important external anchor of stability during periods of political turbulence.

Poland could face similar problems of chaotic public administration and volatile politics. Other new members could also suffer if nationalist politicians gain ground in the next few elections – particularly if voters are disappointed that EU membership does not bring immediate benefits. And the new members will find it hard to cope with the demands of EU membership if their public administrations keep losing their best people to the private sector.

Well-run small countries can have as much clout in the EU as bigger but more chaotic ones. The Netherlands has shaped the EU's development at least as effectively as Italy, for example. Some of the new members have already learned this lesson: tiny but efficient Estonia rapidly pulled ahead of larger fellow-candidates in the 1990s, despite struggling with the heavy legacy of Soviet central planning and the task of integrating a large, Russian-speaking minority. Estonia's competitive advantages were a rapidly reformed and rejuvenated civil service, and a broad political consensus in the 1990s in favour of economic liberalisation and rapid EU accession. "These Estonians are astonishing. The ministers I deal with are all about 25 years old, half of them speak with an American accent, and they are more dynamic than anyone in the EU," commented one of the Commission negotiators in the mid-1990s. As a member-state, Estonia looks set to continue its reputation as a well-organised Nordic country like Finland, not a problematic post-Soviet republic.

Some of the new members will also seek to make their mark in new and emerging areas of EU policy. Poland is keen to persuade the EU to develop an 'eastern dimension', including more substantive links with Ukraine. Hungary would like the EU to formulate a policy for protecting minorities living outside its borders – not least the nearly 3 million or so ethnic Hungarians who live in neighbouring countries, including non-EU states such as Romania, Serbia and Ukraine. In the 2003 IGC, Hungary pushed hard for a provision in the new constitutional treaty on protection of the collective rights of national and ethnic minorities.

Another source of influence in the EU is economic success. Ireland is a small country that has never sought to steer the whole Union. But its unparalleled economic success has made the country a well respected member of the EU. Ireland's experience carries several lessons for the newcomers. Ireland used EU funds effectively, in tandem with sound macro-economic policies and investment in education, to attract foreign investment and modernise its economy. Ireland's leaders have generally swum with mainstream opinion among the member-states – unlike their counterparts in neighbouring Britain – and had a happier experience of membership as a result. And Ireland gained self-confidence from EU membership, enabling it to escape from the shadow of domination by the UK. This is an important precedent for the new members which still have troubled relations with their larger neighbours.

Finally, EU membership can be an important means of exorcising the ghosts of history. France and the Benelux countries used European integration to achieve reconciliation with Germany in the 1950s and 1960s. Greece, Portugal and Spain found EU membership helpful in putting dictatorship behind them in the 1980s, and used it as a route to modernisation of their economies. Britain, however, still tends to see the bogies of Europe's past in the EU's present. Eurosceptical newspapers in the UK often refer to World War II when criticising Germany's behaviour in the EU, for example. The new members would do well to follow the route of finding

reconciliation through integration, rather than letting historical resentments damage their relationships with other EU members.

3 Snapshots of the new members

Cyprus

Even if the Greek and Turkish Cypriots manage to reach a settlement on the division of their island in 2004, Cyprus could become one of the biggest headaches for the enlarged EU. The two communities are a long way from reconciliation.

Cyprus will be an uncertain player in the EU's relationship with Turkey. If there is no settlement, the Greek Cypriot government will probably argue against the EU deciding in favour of starting accession negotiations with Turkey in December 2004. But if there is a settlement, how will the leaders of the two communities establish a common position on Turkey?

Whom will Cyprus resemble? Many Germans see parallels with their own country when it was divided into two parts. Cyprus will face many similar economic and political problems to Germany's when the island is finally reunited, because the northern part of the island is much poorer than the south, and dependent on economic help from Turkey. Even if the re-unification is amicable, Cyprus will have to deal with long-term tensions resulting from the ethnic and religious differences between its Greek and Turkish communities.

Biggest question: What attitude will Cyprus take towards Turkey's bid for membership?



Czech Republic

The Czechs are the most enigmatic of the new members. Europe has been a divisive issue in Czech politics for much longer than in the other new members. The Czech referendum was the only one where a major political party expressed significant doubts about joining the EU – and that party includes the country's president, Václav Klaus. However, the past decade has shown that Czech politics is volatile, and party positions often depend on events rather than long-held beliefs. The choice is still open for the Czechs to become like most of the other small member-states, or to become an outlier like the UK and Denmark.

The Czechs have the most difficult relations with Germany of any incoming member-state. Despite formal reconciliation between the Berlin and Prague governments, resentments resulting from World War II and its aftermath still play an important part in Czech politics. The future role of the Czech Republic in the EU will depend heavily on whether its relationship with Germany improves.

Whom will the Czech Republic resemble? The Czech political debate sounds like the British one at times, primarily because Klaus has been so dominant in discussion of European integration. The Czech public is generally rather apathetic about the EU, also like the British.

Biggest question: Will prominent Czech politicians become openly hostile to the EU after accession?



Estonia

Estonia is one of the most liberal economies in Europe. The country rapidly abolished state subsidies and external tariffs after winning independence from the Soviet Union in 1991. Its reward for opening up to international competition was high levels of foreign investment, especially in high-tech industries. Estonia's political class generally remains neo-liberal in its views on economic policy, although in recent years populist politicians have gained ground among voters who have lost out in the post-communist transition.

Like neighbouring Latvia, Estonia has a troubled relationship with Russia, which still refuses to ratify agreements on both countries' external borders. Estonia could urge the EU to take a firm line in its relations with Russia. But Tallinn could also encourage the Union to develop a more substantive relationship with Russia because the EU will provide a better framework for a country of just 1.4 million people to deal with such a huge neighbour. EU membership offers tiny Estonia a new role in the world. As the Estonian ambassador in London, Kaja Tael, puts it, "The EU is the best thing that has happened to us since the Hanseatic League in the Middle Ages, and we certainly intend to make the most of it."

Whom will Estonia resemble? Estonia has a close cultural and economic relationship with Finland, and shares some of that country's views on relations with Russia. However, Estonia is more likely to ally itself with Britain and the Netherlands on economic policies.

Biggest question: Will Estonia be able to build a more comfortable relationship with Russia?



Hungary

Hungary's tactic in the negotiations was to be the best pupil in the class. The country's negotiators did their homework with meticulous care, and Brussels officials consider the ministries in Budapest to be the best prepared for membership. The Hungarian economy is also holding up well to EU competition, although labour costs are rising fast.

However, even if good bureaucrats and lots of investment have smoothed the path to integration, Hungarian domestic politics could cause problems. One of the country's biggest concerns is the welfare of several million ethnic Hungarians living in surrounding countries like Romania, Serbia, Slovakia and Ukraine. Right-wing nationalists like to stress Hungary's responsibility to look after its ethnic kin. If they tried to pursue this goal through the EU, relations between the Union's members and with neighbouring countries could deteriorate. But Hungary's concern with its own minorities might also push the protection of minorities more generally up the EU's political agenda, encouraging the Union to develop more detailed common standards for their treatment.

Whom will Hungary resemble? Like Ireland, Hungary has managed to benefit greatly from swiftly integrating with the EU market and attracting large amounts of foreign investment. Budapest is also likely to follow Dublin's example in swimming with the European

mainstream on most issues, rather than opposing the tide of opinion in the Union as Poland might do.

Biggest question: Will Hungary succeed in persuading the EU to develop a substantive policy on protecting minorities?



Latvia

As one of the poorest new members, Latvia will struggle to meet all the obligations of membership. It will benefit from EU funds for infrastructure and regional development, but it has a long way to go to meet the Lisbon targets for economic competitiveness. The country still suffers from corruption and the influence of the Russian mafia on national and regional politics. Latvia's economy is heavily concentrated in a few sectors, such as transport and timber, but its beautiful coastline and primeval forests offer the country a major opportunity to develop high-quality tourism.

Russian-speakers and other minorities make up 45 per cent of Latvia's population. Along with Estonia, Latvia has slowly been integrating them through extending citizenship, improving education and allowing them access to many professions, including public-sector jobs. The Moscow government loses no opportunity to complain about the treatment of the Baltic minorities, despite these efforts. Although memories of the Soviet Union are still raw, the Russian-speaking population could be a boon in the future, for example in re-opening economic ties with Russia and the rest of the former Soviet Union.

Whom will Latvia resemble? Latvia will join the other Baltic states and Finland in encouraging the EU to deepen its relationship with Russia – but cautiously, to avoid giving Russia further leverage. Latvia could be like Greece in the old days, in having a small, poor unstable economy, heavily dependent on tourism.

Biggest question: Will Latvia put pressure on the EU to take a tough stance on Russia?



Lithuania

Like Latvia, Lithuania is one of the poorest new members. Its economy will benefit from EU funds to improve transport links with neighbouring countries and to help its farmers.

Lithuania has had fewer problems in integrating its Russian-speakers than the other Baltic states, partly because they comprise a much smaller part of its population. This made it easier for the government to extend citizenship to all the country's residents rapidly after independence in 1991.

However, another Soviet legacy still troubles Lithuania: it shares a border with the Russian exclave of Kaliningrad, which suffers from economic decline and environmental threats; is rife with smuggling; and has a population with a high level of HIV infection. Lithuania continues to be the primary transit route between Kaliningrad and the rest of Russia. That will make it harder for the country to join Schengen, because the old members worry about the security of Lithuania's borders with Russia – despite Lithuania's major efforts to improve controls.

Whom will Lithuania resemble? Lithuania is likely to join the small members of the Union in preferring to work through EU institutions, rather than inter-governmental co-operation. It will be more constructive in its approach to Russia than the other Baltic states.



Biggest question: Will problems in neighbouring Kaliningrad hold back Lithuania's integration into Schengen?

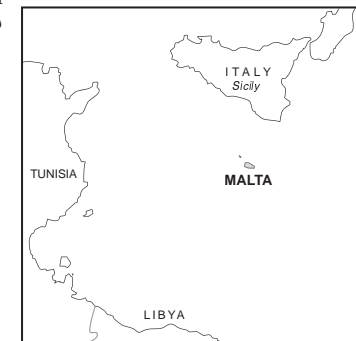
Malta

Malta is tiny and its population of 390,000 is still very divided about EU membership. Malta was the only candidate country where the main opposition party, Labour, campaigned strongly against EU membership. Yet Malta gained a very good deal in its accession negotiations, primarily because big concessions to the tiny island cost the Union so little in comparison with the other applicants.

Malta has a tradition of maintaining good relations with its Mediterranean neighbours. Even during Libya's long period of international isolation, Malta maintained a special relationship with its largest North African neighbour. The island will strongly support the EU's policies to increase Mediterranean co-operation. However, it will probably fight to keep its labour markets closed to nearby Sicily – it already has a transition period that prevents other EU citizens from working in Malta for up to seven years – and to protect its farmers from competition.

Whom will Malta resemble? The closest country in size is Luxembourg, but Malta is unlikely to share the Luxemburgers' desire for federalism. Instead, its attitude towards European integration is likely to be similar to that of its former colonial ruler, Britain, in the 1970s: the left opposing EU-driven liberalisation of its markets and the right trying to use EU membership to modernise the economy.

Biggest question: Will EU accession eventually liberalise the Maltese economy?



Poland

With nearly 40 million people, Poland is bigger than all the other newcomers put together, and it will be the sixth largest member-state. The country is likely to develop ambitions to match its size. Poland could well become an awkward partner in the EU, however, because public support is growing for populist politicians who claim the EU is treating Poland unfairly. The last few years have seen a major re-alignment of the main political parties. Some prominent politicians could turn anti-EU after accession, following populists like Andrzej Lepper.

Poland will be a feisty member-state. Over the course of the accession talks, Poland fought hardest to gain better deals from the EU. Its negotiators held out for months after other candidates had thrown in the towel. Warsaw will continue to fight its corner after accession, to defend what it defines as its national interests. Already, the ministries in Warsaw are gearing up to do battle in the negotiations over the next EU budget. The focus on money is unsurprising because the Polish economy needs all the help it can get, with the unemployment rate stuck at one-fifth of the labour force.

Whom will Poland resemble? Poland could behave like Spain on the EU budget, fighting bitterly for every euro. But Poland could be like Britain in its pro-Americanism, Denmark in its euroscepticism, and Italy in terms of its inefficient public administration.



Biggest question: Will Poland join France in opposing CAP reform, or seek to change agricultural policy to suit the needs of its rural population better?

Slovakia

Slovakia became an independent country for the first time after the 'velvet divorce' from the Czech Republic in 1993. It is still struggling to build up its self-confidence, especially *vis-à-vis* its much larger Czech neighbour. Following four years of semi-authoritarian rule under Vladimír Mečiar in the 1990s, Slovakia has managed to catch up with its Central European neighbours at remarkable speed. Today, Slovakia has a rather liberal economy, central location and low taxes, making it the darling of foreign investors. However, Slovakia's innovative system of flat taxes could cause resentment in the EU's high-tax economies, which fear an eastward exodus of their companies.

Slovakia faces a major challenge in integrating and improving the condition of its Roma minority – which is the largest in the region as a proportion of the population. Within the last few years, old member-states like Britain, Finland and Belgium imposed visa controls on Slovakia because groups of Slovak Roma claimed asylum in their countries. Such controls are not allowed within the enlarged EU. Other member-states will therefore instead put pressure on the Slovak government to improve living conditions in Roma communities so that they stay put.

Whom will Slovakia resemble? Slovakia could follow the example of Ireland, using EU membership to build up its self-confidence as an independent country, reinforce its national identity and increase its prosperity.

Biggest question: Will Slovakia successfully integrate its large Roma minority?



Slovenia

Slovenia is the richest of the new members, and one of the smallest with a population of two million people. The country took a relatively peaceful route to independence from the former Yugoslavia in 1991, and managed to insulate itself from the conflicts in the Balkans. Slovenia's communist legacy was relatively benign, in both economic and political terms. It suffered less of an economic dip in the 1990s, and rapidly began exporting to EU markets. But the country did not open up its markets rapidly to foreign investment, and its small political and business elite has not welcomed the involvement of outsiders. Like the Lithuanians, Slovenes can be very sensitive to outside criticism of their country. That could make them awkward partners in the EU's Lisbon reform process, which relies on cross-country benchmarking and peer pressure.

Since the end of the wars in the former Yugoslavia, Slovenia has improved relations with its Balkan neighbours. However, it is not clear how actively the country will seek to get the rest of South-Eastern Europe into the EU rapidly.

Whom will Slovenia resemble? Slovenia could be rather like Austria, in maintaining a relatively closed, corporatist economy even after membership. Equally, Slovenia might adopt a similar view on the budget to Austria's. As a likely net contributor in future years, Slovenia will not want a large budget, but it would like the funds to

be used to protect the Alpine environment and to support a small number of farmers using traditional mountain farming techniques.

Biggest question: Will Slovenia work hard to help its Balkan neighbours to enter the EU?



4 The newcomers' positions in EU policy debates

After some warm words of welcome in May, the new member-states will find themselves in the midst of a fierce battle over power and money – namely negotiations on the final details of the new constitutional treaty and the next EU budget framework. The new members will have little time to learn the basics before they have to start fighting their corner.

The first few years after enlargement will be a turbulent period for European politics. The ten newcomers will upset the balance of power between the existing 15 members. New coalitions of interests will emerge, while some of the long-standing partnerships could wither away. This section will consider what alliances the new members are likely to form, and how they could affect key policy decisions.

Budget battle ahead

The EU's current medium-term financial framework, or 'financial perspective', expires in December 2006, and negotiations on the EU's next budget have started already. When the EU-15 negotiated the last budget in 1999, the applicants had little clout, and they received an ungenerous deal as a result. The total EU funds allocated to them for 2004-06 under the current budget amount to €40.8 billion. This sum includes money for agricultural subsidies, infrastructure spending, regional aid, nuclear safety, public administration and border protection.

The new members will not only receive funds from the EU budget, but also pay contributions, amounting to some €15 billion during

2004-06. Moreover, they may not be able to use all the money allocated to them in the budget. All previous newcomers have had trouble absorbing EU funds in the first few years after joining, not least because the EU's rules on applying for, and administering, agricultural and regional aid are complicated and cumbersome. In addition, the failure of several of the Central and East European countries to prepare their computer systems and local government structures in time will make it even harder for them to absorb inflows of EU money.

¹² See Heather Grabbe, 'The Copenhagen deal for enlargement', CER Briefing Note, December 2002.

¹³ *International Herald Tribune*, December 17th 2002.

The Commission estimates the net cost of enlargement under the current budget to be just €10.3 billion over three years. That is a miniscule amount of money for re-uniting Europe. Even the gross amount is well below the ceiling of €42 billion for total enlargement spending agreed at the Berlin European Council in 1999.¹² The new members will receive much less per head of population than the old member-states. According to the budget commissioner, Michael Schreyer, Poland will receive €67 per capita annually, Hungary €49, Slovenia €41 and the Czech Republic €29. By contrast, Greece received €437, Ireland €418, Spain €216 and Portugal €211 in 2000.¹³ For this reason, the new members will fight hard for more money once they can bargain on a par with the old members.

The net contributors (particularly Germany, the Netherlands and the UK) want to cap overall expenditure at 1.0 per cent of EU gross national income (GNI), below the Commission's proposal of 1.24 per cent. The new members will not generally favour an increase in the overall size of the budget either, because they cannot afford to increase their contributions to a larger budget. So they have a different position from Spain, which can afford such contributions. At the same time, the new members' potential receipts from the 2007-13 budget are already limited by the cap on their regional aid of 4 per cent of GDP, and an annual limit on the proportion of

subsidies that their farmers can receive. As a result, a larger overall budget would probably cost the new members more in net terms. Their main aim in the negotiations will therefore be to ensure that funds are allocated to the poorest parts of the Union.

France will be pitted against the new members. France agreed with Germany in 2002 that farm spending should rise in cash terms by no more than 1 per cent a year after 2006. This implies that there will be less money available for infrastructure and regional development in Central and Eastern Europe, because a lower ceiling on the overall budget will squeeze the regional funds, not the Common Agricultural Policy. So the funds which benefit France are more secure than the ones that will help the new members.

Agriculture and regional policy reforms

Although the new members are all relatively poor countries, they have different views on how to divide up the budgetary funds. Latvia, Lithuania and Poland's position is distinct from the others because nearly one-fifth of their populations gets at least some income from farming. A much smaller proportion of the workforce is involved in agriculture in the other countries – although Romania, which will join in a few years' time, also has a large agricultural sector (as shown in Table 4, page 40).

The new members' interests will also vary according to how rich or poor they become. In the longer term, the better-off new members will want more money from the EU budget to help them meet the Lisbon goals, such as investment in telecoms and training. But the poorer ones will be more concerned with funding traditional infrastructure projects like building motorways.

The new members' positions in the budget debate will change over time as well. During the accession negotiations, Polish farmers were pitted against the groups that benefit most from the current budget, such as poor Spanish regions and French farmers. But soon Poland

Table 4: Agriculture in the new member-states

	Agriculture as a percentage of GDP	Percentage of the workforce employed in agriculture
Bulgaria	12.5	10.7
Cyprus	4.3	5.3
Czech Republic	3.7	4.9
Estonia	5.4	6.5
Hungary	4.3	6.0
Latvia	4.7	15.3
Lithuania	7.1	18.6
Malta	2.8	2.2
Poland	3.1	19.6
Romania	13	37.7
Slovakia	4.5	6.6
Slovenia	3.3	9.7

All data are for 2002.

Sources: Eurostat and European Commission.

will be France's friend on agriculture, since both countries want a large proportion of the budget to continue to go to farming.

Attitudes towards the policies that the budget pays for are changing in Central and Eastern Europe. Before the final stage of accession negotiations, many policy-makers in the region favoured reform of the EU's budget, and particularly of agriculture. "The CAP looks to us just like the kind of central planning we have spent the past decade getting rid of," commented a senior Hungarian official. The Central and East European countries reduced or eliminated farming subsidies in the 1990s as part of their general transition to market economics. Hungary even joined the Cairns Group of countries that favour liberalising trade in agriculture worldwide – but Budapest was forced to withdraw from the group before joining the EU.

But soon Central and East European farmers will start demanding more agricultural subsidies so that they can compete fairly with their highly subsidised West European counterparts. Initially, farmers in the new member-states will get only 25 per cent of the 'direct payments' (the largest funds from the CAP) received by their counterparts in the EU-15. This proportion will rise by 5 per cent a year, reaching 100 per cent in 2013.

By giving income support to farmers, the EU has started a drip-feed addiction to subsidies in the new member-states. The EU's creation of new interest groups receiving funds will make it even harder for the enlarged Union to eliminate agricultural subsidies and to divert funds from direct payments to farmers into rural development policies. The new members could end up arguing for a shorter transition period to full subsidies, instead of favouring the elimination of such payments for all farmers.

Yet such reforms would benefit Central European agriculture – which suffers from under-development and a need for modernisation. Unless it is changed, the CAP could hinder rather than aid rural development. The CAP favours intensive, high-

yield farming, whereas Central and East European agriculture is largely based on small farms using lots of labour. The average Polish farm has two cows and 16 pigs, for example. Over a third of Polish farms cover less than a hectare of land, and 70 per cent less than five hectares.

¹⁴ HM Treasury et al., 'A modern regional policy for the United Kingdom', London, HMSO, 2003; André Sapir et al., 'An agenda for a growing Europe, making the EU economic system deliver', Brussels, European Commission, July 2003.

Even if the new members initially focus on EU agricultural spending, they are likely to benefit most in the longer term from the EU's 'structural funds' and the 'Cohesion Fund', which are supposed to encourage economic convergence across the EU. The EU's regional aid policies will have to take account of the additional economic and social disparities that the new members will bring into the Union. A major question is whether regional aid should be focused primarily

on the new members, with little or no money going to the poorer regions in the richer member-states – as proposed by both the UK Treasury and the Sapir report prepared for Commission President Romano Prodi.¹⁴

At first sight, this proposal would suit the new members. But they fear that the richer member-states – especially Germany, which makes the largest net contribution to the EU budget – would then lose their incentive to allocate large sums to this part of the budget. Thus some of the new members may decide to team up with the poorer regions in the richer countries – such as the eastern *Länder* of Germany – to argue that aid should go to the poorest parts of every member-state, and to oppose any renationalisation of regional policy.

Fiscal pressures and party politics

The new member-states' negotiating positions will also depend on how much they have to contribute to the EU budget. Finance ministers care much more about how much they contribute in gross terms to the EU's budget than about their country's net position as

a recipient of EU funds. They have to find the money for the contributions from their national budgets, but the money their country receives back from Brussels goes directly to regional administrations and farmers.

In 2004, the new members will not receive substantially more money from Brussels than they did as candidates in 2003 – although the Union has earmarked funds to prevent any of the new members paying more into the EU budget than it gets out before 2007. However, the new members' national budgets will take a 'triple whammy' when they join the EU because:

- ★ The new members have to implement the more expensive parts of the EU's rules and regulations, for example to improve environmental standards.
- ★ In addition to their contributions to the EU budget, the new members' finance ministries will have to find extra money to co-finance investment and aid projects under the structural and cohesion funds. Farm subsidies under the CAP have to be pre-paid from the national budget and Brussels can take six months to reimburse the money. And several governments have promised to top up the direct payments to farmers with funds from their national budgets. The total cost of EU-related expenditure could be 3-4 per cent of these countries' GDP – which amounts to €6-8 billion in the case of Poland.
- ★ At the same time, the new members will be trying to qualify for monetary union. They will have to trim their budget deficits down to the 3 per cent of GDP required for euro entry from their current levels of 5-7 per cent. The new members will not join the eurozone for at least two years after EU accession (see below). But their finance ministers will find it extremely difficult to reconcile the additional expenditure pressures from accession with the need to consolidate public finances to prepare for the euro.

Fiscal pressures in Central and Eastern Europe are not primarily the result of EU accession. Governments will have to reform their relatively generous and badly targeted welfare systems to put their public finances on a sustainable footing in the medium to long term. But the new member-states will also have to spend more on the things the EU wants, like environmental standards and infrastructure, making less money available for popular items like education, healthcare and pensions. The fact that the fiscal crunch will coincide with accession could cause voters to blame the EU for spending cuts, even if much of the trouble is home-grown.

A major political risk is that the new members will focus most of their time and energy on fighting for additional euro from the budget, rather than devising better EU policies. Like Britain, Spain and Portugal before them, the Central and East European countries might spend their first years of membership obsessed with trying to re-negotiate what they see as unfair accession terms.

¹⁵ Leszek Jesień, 'Before and beyond the European Convention, the future of Europe from a Polish perspective', *Studies & Analyses I (4)*, Warsaw, Polska w Europie Foundation, 2002.

Such an approach would not only make EU politics very acrimonious, it could also be counter-productive for the new members. The negotiating style of some of the new members might be set during the budget negotiations. Already, some Poles are worried that too much political attention to the budget could diminish their country's influence in other areas. Leszek Jesień, who was an advisor to the Polish prime minister during the accession negotiations, observes: "If confined to defending ferociously only our own interests (understood narrowly as a 'consumption of money' from the EU), we will lose allies in other fields of integration: foreign and defence policy, infrastructure development ... Poland would in the long run probably achieve more by systematically building up its influence throughout the EU."¹⁵

Instead of becoming obsessed with the budget, the newcomers would serve their interests better by taking a long-term view of the

EU's development. Over the next two decades, the benefits of the additional investment and trade that will flow from their economies' full integration into the European single market will far outweigh the impact of any funds from the EU's budget. If Central and East European politicians concentrated their attention on improving the EU's functioning and shaping new policy areas, their countries would gain more from membership, and so would the rest of the Union.

Liberal views on economic and regulatory policies

Although the new members are still struggling to define their interests in many EU policy areas, it is already clear that they will take a more liberal stance on economic and regulatory policies than many of the old member-states.

Businesses operating in Central and Eastern Europe already have to comply with the EU's demanding product standards if they want to sell in the single market. But they fear that the EU's richer member-states could try to impose exacting environmental and social standards on the poor newcomers. The new members fear that higher standards would whittle away their comparative advantage by driving up production costs and deterring foreign investment. If the EU introduced new standards regardless of their objections, the new members would demand financial assistance to help them meet any new and expensive regulations.

In trade policy, the new members will probably take a liberal stance. They all opened up their economies fairly quickly in the 1990s, to gain foreign trade and investment. For most countries, adopting the EU's common external tariffs meant only marginal further liberalisation, although some – Estonia and to a lesser degree the Czech Republic – had to return to a more protectionist trade policy. However, in future, some of the new members could try to use EU anti-dumping policies to keep out unwelcome cheaper goods such as Russian steel and Chinese manufactured goods.

Generally, the new members tend to be more pro-reform than many of the older member-states. In terms of structural reforms, privatisation and liberalisation, they are often more advanced than the EU's more sclerotic economies, such as Germany and Italy. The new members are likely to use the EU's Lisbon reform agenda to remind their larger neighbours of the need to overhaul their economies. Since Germany and Italy are the new members' most important export markets, they have a strong interest in seeing them grow faster. Nevertheless, this does not mean that the Central and East Europeans are natural proponents of Anglo-Saxon cut-throat capitalism. East European voters generally have a strong preference for maintaining extensive social welfare systems, especially since healthcare, education systems and social protection have deteriorated since 1989. In this respect they are more like Germany than the US.

The Central and East Europeans will probably oppose any EU-wide harmonisation of taxes, supporting the UK, Ireland, Luxembourg and the Netherlands on this issue. Tax rates on corporate profits tend to be lower in the new member-states than in the old ones. Several of the new members have either introduced or are considering low unitary tax rates on corporate profits, and Slovakia has a flat tax of 19 per cent on personal income. Estonia does not levy corporate profit tax at all, provided the profits are reinvested. Most of the new members have raised excise duties on fuel, alcohol and tobacco to levels that are closer to those in the EU, but they will oppose any further tax harmonisation that is not strictly needed for the smooth functioning of the single market.

A key motivation behind the introduction of flat taxes is the new members' desire to keep attracting foreign direct investment, which has contributed substantially to their economic success. But some of the old member-states will not welcome an increase in tax competition in the enlarged EU. Some are already complaining that the newcomers are engaging in 'tax dumping' to lure West European

companies into their economies. "They are just like the Irish," says one high-ranking German official. "They are using EU funds – our money – to finance their tax cuts. And by doing so, they are taking away our jobs." Such views are widespread but misguided, because investor surveys show that tax rates are not the key factor affecting companies' decisions on where to build a new plant, and most FDI comes in addition to, not instead of, domestic investment. Moreover, the room for further tax cuts in the new member-states is severely limited. Tax rates may even have to rise for the new members to cope with the additional costs of accession. Since Central and East European taxes on labour (payroll taxes) are already at stifling levels, VAT and taxes on profits, capital and other assets are the only viable source of future budget revenue.

Full membership or partial membership? Views on flexible integration

Fears about 'second class membership' are widespread in Central and Eastern Europe. The new members will oppose any move that could bar their participation in a particular policy or project. The new members negotiated numerous transition periods before joining, to gain time to comply with exacting and expensive EU requirements, for example for waste water treatment and air quality standards. Some of the new members also negotiated exemptions of 7-12 years before West Europeans can buy land in their countries, fearing that rich Germans and Austrians might buy up cheap agricultural land or build holiday houses.

But the Central and East Europeans have shown little interest in obtaining the kind of indefinite opt-outs that the UK and Denmark negotiated from EU policies like the euro, Schengen and defence. Rather, they have been keen to join all areas of EU integration as soon as possible. However, the old EU countries are reluctant to let the newcomers in quickly. In the case of the euro, the new members will be held strictly to the Maastricht convergence criteria on fiscal deficits, public debt, inflation and

exchange rate stability. The European Central Bank and the Commission are keen to ensure that monetary union is not disrupted by the entry of economies that may not be able to cope with the rigours of euro membership.

The new members may well complain that the EU is holding them to higher standards than the countries that joined the club at an earlier stage of its development. "The EU expects us to be holier than the Pope" is a frequent complaint across the region. But a careful euro accession strategy is in the new members' own best interest. To rush into the euro before budgets, banks and asset markets are ready would be very detrimental to the new members' economies. The euro entry criteria are onerous for fast-growing economies, which generally find it difficult to hold nominal exchange rates stable while also bringing down inflation.

In contrast to their EU accession, the Central and East Europeans will not join the euro in a 'big bang'; rather, each country will join when it is ready. For example, it would be relatively easy for Estonia to enter soon after spending the two-year qualifying period in the Exchange Rate Mechanism (ERM) II. The Estonian kroon has been tied directly to the deutschmark and then the euro through a currency board for over a decade, so exchange rate volatility will not be a problem. At the other extreme, Poland might not join monetary union until after 2010, because it will have more trouble meeting the convergence criteria, particularly on fiscal deficits. Several of the other new members are likely to share Poland's growing caution about joining the euro precipitously, especially if there is a danger of joining at an unsustainable exchange rate.

Similarly, the old member-states are unwilling to admit the new members to the Schengen zone of passport-free travel any time soon. The Central and East European countries have already introduced expensive and politically controversial border controls with their non-EU neighbours. They have imposed visa restrictions on

neighbouring countries that have disrupted cross-border trade, travel and political relations. The new members have thus already shouldered most of the costs – both financial and political – of joining the Schengen system.

But the benefits will be much slower to materialise. The new members cannot become full members of Schengen for a minimum of two years after accession – and probably a lot longer. Their borders with the existing EU member-states will still be subject to passport checks. The reason is partly technical: it will take the EU until at least 2006 to upgrade and extend its database for recording travellers, called the Schengen Information System. But the old member-states also have political motivations to make the newcomers wait: they want to see extremely tight controls on the movement of persons and goods over the EU's external frontiers into the new members before removing passport checks within the enlarged Union. Customs controls on the movement of goods within the enlarged EU will be largely removed from May 1st, but not those on people. The terrorist attacks in Madrid in March 2004 have made member-states even less willing to relax border checks anywhere in Europe.

Although Schengen has caused the new members problems, they will be in favour of the EU taking on a stronger role in justice and home affairs more generally. Most Central and East European countries have experienced a dramatic rise in applications from asylum-seekers, so they will probably support more co-ordination of migration and asylum policies in the EU. In 2003, asylum claims in Slovenia more than doubled, while those in Poland increased by a third, according to the UN High Commissioner for Refugees. Because of these growing challenges, the new members will probably try to join new asylum and migration initiatives that the EU develops, even if some of the old members decide to stay outside.

On the whole, the newcomers are not keen on 'enhanced co-operation' or other forms of flexible integration. As discussed in

Chapter 5, they are particularly suspicious about the formation of a 'core Europe' that might exclude them from projects in which they want to take part. Some officials and politicians in the new member-states are even cautious about the provisions for 'structured co-operation' for defence contained in the EU's new constitutional treaty. These provisions would allow some countries to work together more closely to increase their capabilities, even if other member-states do not want to join in.

5 What future for European integration?

Enlargement will raise new challenges that invite EU countries to work together more closely – on issues ranging from economic policy co-ordination to internal security to environmental degradation. However, although the scope of European integration is likely to stretch over more policy fields, it may develop in non-traditional ways, for example through the 'open method of co-ordination' – involving benchmarking and peer pressure – that is already used for economic reform. At 25-plus members, the Union will have to return to the question of flexible integration, as some member-states will become frustrated with the slow progress of the Union as a whole, for example on defence policy.

The new members will bring in further problems, but enlargement will also provide new opportunities for co-operation to improve the lives of Europeans. The new members will add their own ambitions to the EU's agenda. For example, several of them want the EU to strengthen its 'neighbourhood policy' for the countries lying to its east and south. If the EU can respond adequately to these challenges, eastward enlargement could take European integration into new fields.

How will the enlarged EU function?

When European integration began in the 1950s, the politicians and officials of the original six members knew each other well. The meetings of their prime ministers were the size of a small dinner party. Even at nine, after the UK, Ireland and Denmark joined, cabinet ministers knew their counterparts in all of the other countries personally. Once the membership reached 12, more

formality was needed at meetings to ensure that every country had its fair say. The shift to 15 meant that the member-states know each other less well, and their concerns are more geographically spread out, from the Arctic to the Mediterranean. But the country representatives can still fit comfortably around a table, and look each other in the eye when they speak at meetings.

At 25, meetings in the Council will have a new dynamic. The system of *tours de table* – whereby each member-state's representative states his or her country's position – could take a whole day, so the EU is introducing new limits on how long each person can speak for. For efficiency's sake, silence will be taken as acquiescence, which could encourage noisier and possibly more confrontational meetings. The relationships between the member-states will change too, because their politicians and diplomats cannot possibly build up close personal friendships with their counterparts from all other 24 countries. EU meetings will resemble international conferences rather than the cosy club of the 1960s.

The new table for European Council meetings in Brussels seats 52 people. It is so big that not everyone at the table will be able to see the person who is talking. And the complexities of two-way interpretation between all the new languages of the Union will make debates more formal and rather humourless. With 20 official languages, many translated via English rather than directly from the speaker's native tongue, discussion will inevitably slow down and lose colour and vibrancy. Bonhomie and personal relationships – the grease that often keeps negotiations going – will suffer as a result.

But, for all these difficulties, the Union is unlikely to grind to a halt. The institutions will be put under strain, but they will probably cope. The EU's political system is not very good at anticipating problems, but it has often shown itself to be adept at muddling through and eventually implementing the reforms that are needed to keep the Union going.

Views on European integration

The new members took a crash course in European integration through their participation in the 'Convention on the Future of Europe' that discussed institutional reforms between February 2002 and July 2003. For the first time, the members-to-be were invited to take part fully in an EU forum. They sent government representatives and parliamentarians to the Convention, while their NGOs and policy institutes were actively involved in the surrounding debates. The Convention inspired journalists, think-tanks and parliamentarians in the region to examine their countries' interests in more detail. The IGC which followed the Convention mobilised political opposition to several aspects of EU integration.

The inclusion of the new members in the Convention was welcome, but it was also rather strange as a first experience of EU policy-making. Since Central and East European politicians and officials had not gained any first-hand experience of EU decision-making from the inside, their positions on institutional reform were by necessity abstract and uncertain. Moreover, the Convention mostly took place at a time when the accession negotiations were still in full swing, making the candidate countries unwilling to take firm positions that could alienate one or other of their EU partners.

However, towards the end of the Convention, the representatives from the members-to-be became more vocal and the newcomers started to form alliances with the existing member-states. All the newcomers except Poland signed a letter organised by the small EU member-states which objected to the creation of a permanent president for the European Council. But the new members are unlikely to be as federalist as the Benelux countries and Germany traditionally have been. The political elites in Central Europe are not ideologically committed to the 'Community method' of decision-making – whereby the Commission initiates legislation, and the Council and European Parliament decide on it. Rather, Central and East European politicians tend to consider pragmatically what is the best way of developing a policy. For example, they are generally in

favour of the 'Lisbon process' for economic reform that does not work through the Community method – which is the reason why many federalists dislike it.

Many policy-makers in Central Europe started changing their views on the Commission during the course of the Convention. During the accession negotiations, the new members saw the Commission's hard face, when it was the body on the other side of the table making demands and telling them what to do. Now they have come to see the Commission's utility as the guardian of the treaties, particularly in creating a level playing-field in the single market, and as a defender of the interests of small countries. For example, the new members resented Commission criticism of their inward investment incentives and state aids, most of which they were obliged to abolish before joining the EU. But now many policy-makers in the region want the Commission to enforce competition rules strictly, because the richer old member-states can afford bigger hand-outs to companies.

The new member-states are generally opposed to moves that would allow the large countries – especially the UK and France – to dominate EU decision-making on foreign policy and defence. They are wary of inter-governmentalism – where the member-states agree among themselves rather than working with the EU's institutions – in areas where it might diminish the status of small countries. All of the new members want to have a commissioner with full voting rights. However, there is a contradiction between their wish to have a strong, effective Commission, and their desire for every member-state to have its own full commissioner, which will weaken the body by making it less cohesive.

By the time of the IGC in autumn 2003, Poland was showing clear differences from the views of the other newcomers. Poland is keen to pursue projects with other medium-sized and large states, whereas the smaller newcomers would prefer to enhance the role of the EU's institutions. And the Warsaw government

decided to hold out firmly against a proposed change in the voting system for the Council of Ministers. The existing system – established under the Nice treaty – gives Poland nearly as many votes as Germany, although it only has half as many people. By contrast, the 'double majority' system backed by the Berlin and Paris governments would more accurately reflect population size, and so Poland would lose voting power relative to the biggest countries. The issue has excited press comment and public discussion in Poland, and revived fears about Germany dominating Europe. To many Poles, the voting system has become a critical test of whether they will have equal status with Germany and other 'great powers' in Europe. Yet the smaller accession countries were reasonably happy to accept the double-majority system, despite the fact that it will reduce their relative weight in the Council of Ministers.

The December 2003 European Council confirmed that co-operation among the newcomers is unlikely to strengthen. They failed to present a common front, despite the new members' attempts to form a coalition. The Czech and Slovak governments decided not to stand behind Poland on voting weights, while Hungary's support depended on Poland agreeing to help Budapest put a clause in the constitution on the rights of minorities.

Will a 'core Europe' emerge to run the enlarged Union?

The collapse of the constitutional talks at the December 2003 summit gave renewed impetus to the idea of a two-tier Union. Many French and some German politicians are keen to create a 'hard core' of member-states which are committed to further integration. There are many obstacles to the creation of such a core, not least the problems that France and Germany have in agreeing policy stances between themselves. But talk of such a differentiated EU worries the new members because they would be greatly disadvantaged if they finally managed to join the EU only to find that they were excluded from a core decision-making group.

After the IGC collapsed in December 2003, French President Jacques Chirac called for a concrete plan to create a core group. He suggested that the other four founding members of the EU ally themselves with France and Germany and work on common projects. But fewer and fewer issues unite these six countries, and the leaders of Italy, Luxembourg and the Netherlands rapidly dissociated themselves from the idea of a hard core. Belgium seems to be the only enthusiast, which would hardly create a cohesive group that could lead the Union. The motivations of Chirac and German Chancellor Gerhard Schröder – and their

¹⁶ See Heather Grabbe and Ulrike Guérot, 'Could a hard core lead the enlarged EU?', CER, February 2004.

ability to succeed – are both questionable. The formation of a hard core would be dangerous for Europe and counter-productive for its members, particularly Germany. It would be dangerous because the current conception is essentially divisive: the aim is not so much to show the way for other member-states as to leave the laggards behind.¹⁶

The new members have greeted Franco-German plans for a 'core Europe' with great alarm and suspicion. The idea smacks of exclusion. The Central and East Europeans have worked very hard to meet all the conditions to join the EU as full members. They do not want to join and then discover that France and Germany have retreated to an inner sanctum from which they are barred. Yet this is exactly what many French advocates of 'core Europe' have in mind: to isolate the current EU from the impact of enlargement by creating a union within the Union.

The new members hate the idea that important decisions might be taken by a huddle of the big countries and imposed upon the rest. They dread a *directoire* emerging which could bully the others into submission. Many tragedies of Central and East European history have resulted from decisions made by great powers outside the region. Politicians in the region thus want to be fully involved in the EU's decision-making, on equal terms with the other countries.

France has wasted its stock of goodwill with the new members. Just after the 1989 revolutions, there was widespread Francophilia in Central Europe, thanks to the dissidents who had spent time in Paris, and to the French-speaking intellectuals in Warsaw, Prague, Bucharest and Sofia. That cultural admiration has been tainted by mistrust and anger at the arrogant behaviour of France's politicians, and the country's lukewarm attitude towards enlargement.

The reluctance of French leaders such as François Mitterrand and Edouard Balladur to agree to eastward enlargement in the early 1990s has not been forgotten.¹⁷ *The Economist*, December 14th 2000.

Then at the Nice summit in 2000 – which decided the numbers of votes in the Council and seats in the European Parliament to be allocated to the new members – Chirac said in a closed session that: "It is legitimate that old member-states, who have contributed so much, should have more votes than those who are new and will bring problems."¹⁷ In February 2003, President Chirac told the then candidate countries to shut up about Iraq. His insults worked in the short term because the Central and East European leaders were afraid of jeopardising their accession prospects. But that humiliation will cost France dearly in the longer term because it has alienated potential allies.

Even more shocking for the new members than France's behaviour is the change in Germany's approach in recent years. From the founding of the Union, Germany always sought to be the friend of the small countries, taking their interests into account and seeking a federal solution that would defend them against France's inter-governmentalist tendencies. With the Central and East Europeans too, Germany sought strong ties and good relations, based on a long tradition that started with Chancellor Willy Brandt's *Ostpolitik* in the early 1970s. After the fall of the Berlin Wall, Germany assiduously built up strong relationships with the would-be eastern members, championing enlargement and seeking strong government-to-government links. Germany has signed reconciliation agreements with its eastern neighbours, the Czech Republic and Poland, to try

to resolve post-war bilateral problems. And the German government has encouraged and financed initiatives to promote non-governmental links with schools, churches and charities in the eastern countries.

For Germany, the perils of forming a hard core that alienates the new members are greater than they are for France. Over the past year, Berlin has squandered much of the political capital it built up in Central and Eastern Europe over the past decade. Germany's pursuit of reconciliation and closer ties with its eastern neighbours has become subservient to the alliance with France. In the fight over voting weights that brought down the EU's proposed new constitution, Germany's relations with Poland – which were so good in the 1990s – reached a new low. Many Poles saw Germany as using its greater size to force its will upon them. This was an overreaction, but it is understandable after the insults and heavy-handed tactics of the past year from Paris and Berlin.

Many German officials privately admit to misgivings about the idea of core Europe. As Chancellor Schröder said at the December 2003 summit, the idea is a second-best solution, not Germany's first choice. But he saw it as a logical move if the draft constitution failed and enlargement paralysed the Union. German Foreign Minister Joschka Fischer advocated the formation of an 'avant-garde' to lead the Union in 2000. But he recently acknowledged that "... enhanced co-operation will hardly ever involve a core Europe

¹⁸ *'The reconstruction of the West', Frankfurter Allgemeine Zeitung, March 6th 2004.* anymore because most of the member-states will invariably want to participate. Not all of them will be able to, and a very few will not want to. But it will almost always be majorities that are involved, not small groups of states."¹⁸

The enlarged EU will have to find new methods of leadership. There are alternatives, however, to the formation of a core of self-appointed leader-countries. As discussed below, the Union can keep going through shifting coalitions that pursue particular initiatives.

There is nothing wrong with bilateral alliances and co-operation between groups of countries that want to pursue one project or another. Such enhanced co-operation – whether within or outside the framework of the treaties – will become increasingly common in the Union of 25. But these coalitions have to be based on policies, not on particular countries. What is dangerous is the idea of a permanent, exclusive hard core.

A Union of shifting coalitions

Until the early 1990s, the Franco-German relationship was both the necessary and sufficient condition for any EU initiative to move ahead. Other groupings were influential too, particularly the Benelux group of small countries and the southern states bordering the Mediterranean. But agreement between Germany and France was the essential glue, because these two countries represented the main divisions in the Union – between North and South, East and West, industrial and agricultural, federalist and inter-governmentalist. A deal between them often led to a compromise between the Union's other competing interests.

But French and German views no longer represent the main dividing-lines in the EU. The divisions between big and small countries are more important now, and after enlargement the EU will have 19 small countries and only six large ones. On many policy areas, there is a growing consensus among the 25 countries. Most member-states now have small agricultural sectors. Most support liberal economic and trade policies. An agreement between Berlin and Paris is no longer guaranteed to ensure that the rest of the EU will agree – as the December 2003 summit showed. After enlargement, a Franco-German compact may not even be necessary for an initiative to proceed, if it is led by a determined group of other countries.

The Franco-German partnership will still matter, but the member-states will co-operate in many other new alliances as well. Poland

will stand with Britain in opposing tax harmonisation, for example, but it will support Spain against London in demanding EU funds for poor regions. Estonia is strongly against subsidies of any kind and will favour reform of EU agricultural policy, along with the Czech Republic and possibly Hungary. But Estonia will have similar interests to the Danes and other small countries in wanting Europe to protect its minority language films and television.

Although leadership in the EU will have to come from coalitions of the willing, not a permanent, hard core, there are still some major questions about how the shifting alliances will work. For example, will they be only fair-weather alliances? If they are based on short-term interests, these coalitions may not survive when times are hard and tough decisions have to be taken.

Strong leadership will be especially important if the EU is to make further progress in the key areas of the Lisbon agenda, reform of the budget, completion of the single market, more effective economic management of the eurozone, border controls and external policy. But no prime minister likes to be the one to propose unpopular measures, so EU leaders could all duck the hard choices.

Although short-term alliances are probably the only way forward for European integration, they also carry dangers. In particular, coalitions of the willing will not necessarily help to reconcile major differences between the member-states. If the 25 members really cannot agree on an issue, there are few mechanisms left to force them to do so – and so they will remain divided.

Viscount Palmerston, a British prime minister of the mid-19th century, said that “We have no eternal allies and we have no perpetual enemies. Our interests are eternal and perpetual and those interests it is our duty to follow.” This attitude has cost Britain dear throughout its EU membership, while other countries were much better at dressing up their ambitions in the language of solidarity, even if their pursuit of interests was as assiduous. If everyone

behaves like Britain at its most awkward, the EU will become more of a negotiating forum and less of a union of states.

With more than two-dozen members, the EU will have less of a sense of direction and common purpose. In turn, its internal debates could see more bitter fights, as countries lose the last vestiges of the *esprit communautaire*. Feelings of solidarity tend to diminish as communities become larger and more diverse, and this happens in communities of states as well as of individuals.

6 The enlarged EU's role in the world

The newcomers' foreign policy priorities over the past 15 years have been accession to the EU and NATO, and improving relations with their immediate neighbours. Like the smaller existing member-states, they may choose to pursue just a few foreign policy concerns, rather than attempt to develop a global view. A top EU foreign policy official described the enlarged Union's predicament to the author thus: "Only some countries in Europe have a foreign policy. Many just have a regional or neighbourly policy, and the new ones will be like that too. My job is to forge a common foreign policy among the ones that have a policy, and persuade the ones that don't that this is their foreign policy too."

How active will the new members be in EU external policy-making? The new members generally have limited geographical horizons, and little interest in continents like Africa and Asia. The EU's members are already divided between big member-states like France and Britain, which want a more ambitious foreign policy for the EU in the world, and the smaller countries that just want the EU to be a regional power. The new members will join the latter group of regionalists. Poland is the one new member which could take a major role in foreign policy, because of its size and military tradition.

Poland has already taken responsibility for one of the sectors into which the US divided post-war Iraq; it has long had other significant deployments of peacekeepers overseas; and it is investing in improving its military capabilities. In particular, Poland is likely to be active in shaping the EU's policy towards its new neighbours to the east. Early in 2003, the Polish foreign ministry produced a

regional strategy for the EU to this effect, although the paper was more about the country's immediate neighbours than about Russia

¹⁹ Polish Ministry of Foreign Affairs, 'Non-paper with Polish proposals concerning policy towards the new Eastern neighbours after EU enlargement', Warsaw, February 2003.

or wider questions of how to deal with the EU's surrounding region.¹⁹ But will Poland be "a large country with a small-country mentality", as former Polish foreign minister Bronislaw Geremek has warned?

New versus old Europe? The impact of enlargement on transatlantic relations

The candidates' behaviour in the run-up to the Iraq conflict in 2003 confirmed widespread expectations in Western Europe that the new members will be pro-American. When the Central and East Europeans announced their support for US policy, they seemed to vindicate US Defence Secretary Donald Rumsfeld, who announced in January 2003 that the EU's new members agreed with Washington, unlike the 'old Europe' of Germany and France. Rumsfeld is right that the EU's new members are Atlanticists, preferring to work with rather than against the United States. But he would be wrong to assume that they will align themselves with Washington on every issue.

The test of loyalty over Iraq came at an awkward moment. The US Senate was considering ratification of a further round of NATO enlargement. All of the Central and East European countries chose to support the US in its attempt to gain UN approval for military action. The Czech Republic, Hungary and Poland – already NATO members – signed the 'Letter of the Eight' (along with Denmark, Italy, Portugal, Spain and the UK) which was solicited and published by the *Wall Street Journal* in February 2003. It called for European unity in the Security Council on enforcement of Resolution 1441. A week later, the ten candidates for NATO membership issued their own letter – one organised by Washington lobbyists who were helping to get them accepted by the Atlantic alliance. How could they say no?

Poland supported the US particularly strongly. As two scholars of Poland's strategic orientation put it: "It is clear that Poland belongs to Rumsfeld's 'new Europe', a fact confirmed by Warsaw's active support of US policy towards Iraq and its role in the post-war occupation."²⁰

²⁰ Marcin Zaborowski and Kerry Longhurst, 'America's protégé in the East? The emergence of Poland as a regional leader', *International Affairs* 79 (5), October 2003.

During the Iraq conflict, a senior British diplomat predicted that: "As the EU enlarges eastwards, its centre of gravity will move westwards." He hoped that it would bring Europe's heart closer to London than to Paris. But is this really true? The new member-states will certainly tip the balance towards support for NATO and away from France and other countries which want to create a European counterweight to American power. When faced with the choice of saying yes or no to the United States, they said yes. Central and Eastern Europeans are generally comfortable with US hegemony, which they generally see as benign, and many view as essential to preventing a resurgence of Russian power in Europe.

But the Iraq war was a special case, and Washington cannot count on East European support for further military adventures. The text of the two famous letters declared support for upholding UN Security Council resolutions and maintaining the credibility of international institutions. Neither letter advocated the use of force or offered the US a *carte blanche* to pursue its aims by any means it chose. The Central and East Europeans' position was more Blairite than pro-Bush, in trying to encourage the United States to work through international institutions. And public opinion in the new members was overwhelmingly against the war, just as it was in the rest of Europe.²¹

²¹ See John Springford, 'Old and new Europeans united: public attitudes towards the Iraq war and US foreign policy', CER background brief, December 2003.

The new members want a strong transatlantic alliance, but on most foreign policy issues they support a European approach.

They are strongly multilateralist, having suffered greatly from superpower domination. They want the EU to have an effective foreign policy, especially in the Balkans and the eastern fringe of the enlarged Union. They will pull the EU's centre of gravity westwards towards the Atlantic alliance, but they will also drag European foreign policy eastwards towards their troublesome neighbours.

In addition to Poland's proposals for developing the EU's eastern dimension, Hungary and Slovenia are keen to integrate the Balkans politically and economically into the European mainstream. The enlarged Union's unstable periphery – to the east and in the Balkans – is of diminishing importance to Washington, but it is of vital concern to the new members. They will push it up the political agenda in Brussels.

The new members also share the views of other Europeans on non-proliferation, the Kyoto protocol, the death penalty and the International Criminal Court – despite US pressure to take a stance in line with Washington's. For several years, the new members have usually voted with the EU bloc in the UN, and aligned themselves with the Union's common positions. Their voting patterns are motivated not by a wish to curry favour with the EU, but by their changing views on international affairs, which are becoming increasingly similar to those of the European club.

On defence, however, the new members are confirmed Atlanticists. They all joined NATO enthusiastically, and most strategists in the region see the United States as the only real guarantor of security in Europe. In fact, many of the new members of NATO would prefer to have the old Atlantic alliance back, before it started changing in the 1990s and after September 11th 2001. They want the mutual security guarantee that NATO's Article V offers, and strong US engagement in the defence of the European continent against external threats. That alliance is no longer on offer, however, and NATO membership now involves

international responsibilities like peacekeeping missions far outside Europe in places like Afghanistan. So the new members have all committed troops to such missions, as well as to Iraq. Even if their armed forces are small and in need of reform, the Central and East Europeans are trying to develop stronger niche capabilities – such as Estonia's de-mining experts, or the Czech Republic's chemical and biological weapons specialists. Most of these countries are now spending more money on their military capabilities as a proportion of GDP than the majority of old EU members are.

The new members are not necessarily opposed to greater EU co-operation on defence through the European Security and Defence Policy (ESDP). But they want to avoid any moves that might irritate Washington or undermine NATO's role in European security. These countries' defence establishments do want Europe to boost its military capabilities so that it can be a better partner for the United States. And they are very keen not to be left out of new initiatives, such as the EU military planning cell proposed by Britain, France and Germany in 2003. But most Central and East European politicians and officials are sceptical about whether Europe could ever develop serious military forces on a par with the US. They are only interested in ESDP to the extent that it will be able to deliver real capabilities – and they remain to be convinced that it will. As one of the Baltic defence ministers said to the author in early 2004, "It would be great if the EU became a serious military power. So we go along with these ESDP ideas. But it won't. So let's stop kidding ourselves."

Attitudes towards Russia

The one foreign policy issue where the new members clearly have different views from the old ones is attitudes towards Russia, not the US. After half a century of Soviet-dominated communism, they have little nostalgia for a closer relationship with Moscow. Many Central and East Europeans still have first-hand memories

of political and cultural oppression, economic dependence and the invasion of several countries by Soviet tanks. Stalin's attempts to wipe out Central and East European political elites after World War II have not been forgotten. Many Central and East Europeans reacted viscerally to the sight of France and Germany building a coalition with Russia against the US over its Iraq policy, because of the historical echoes of this alliance.

In particular, the three Baltic states, which were annexed by the Soviet Union, harbour instinctive suspicions about Russian motivations in forging a closer relationship with the EU. Baltic relations with Russia are further complicated by the existence of large Russian-speaking minorities, especially in Estonia and Latvia. The EU made improvements in minority rights a key part of the accession criteria for those countries. It also negotiated transit arrangements with Russia and a special visa regime for the people living in the Russian exclave of Kaliningrad, sandwiched between Poland, Lithuania and the Baltic Sea. But the government in Moscow continues to try to use these issues as leverage in its relations with the enlarged EU.

The new members hope it will become easier to deal with Russia – in economic as well as political terms – once they can do so through the EU rather than through bilateral talks with Moscow. Like the current smaller member-states, they gain standing in international negotiations by being part of the EU.

On the one hand, remaining suspicions and animosities among the new member-states may make the EU's relationship with Russia more complicated. The new members want the EU to take a tougher and more united line on Russia, making more demands rather than offering favours as Italy and France tend to do. The Central and East Europeans are very conscious of the fact that the EU's new neighbourhood now overlaps largely with what Moscow considers to be its 'near abroad' and a natural Russian sphere of influence. On the other hand, the new members have a clear

interest in the EU getting on well with its largest neighbours, and their familiarity with the Russians may help the EU in creating more effective external policies towards its east. Some politicians in the region are already urging the EU to develop a more substantive relationship with Russia, the Caucasus and other parts of the former Soviet Union.

Enlargement after enlargement: where will the EU's borders end?

Another four countries are already knocking on the EU's door, and more countries, particularly from South-Eastern Europe, will start demanding entry over the next few years. At the front of the queue are Bulgaria and Romania, which hope to finalise their accession negotiations in the course of 2004. However, they have so far mainly dealt with the easy parts of the EU's rulebook, and difficult negotiations still lie ahead. The EU has endorsed their accession target date of 2007. But it has warned Romania in particular that this goal could be in jeopardy unless the government reinforces its efforts to tackle corruption, reform its economy and improve its inefficient state bureaucracy.

The EU has officially offered the five Western Balkan countries and Turkey the prospect of eventual membership – but it has made no such promise to the other countries on its new, expanded borders. Belarus is too authoritarian, Moldova too poor, Ukraine too large and Russia too scary for the EU to contemplate offering membership anytime soon.

Croatia and Macedonia have lodged official applications for membership. Croatia's economy and public administration are in good shape, at least in comparison with Bulgaria and Romania. But the government in Zagreb will have other conditions to meet before it can start negotiations, the most important being the delivery of indicted war criminals to the International Criminal Tribunal in The Hague. Croatia has a good chance of catching up

with Bulgaria and Romania quickly, but it probably cannot finish the whole accession process before 2009 at the earliest.

Turkey – the EU's longest-standing applicant – is also hoping to inch closer to membership soon. The EU will reconsider Turkey's bid to join in December 2004. If Ankara continues to play a constructive role in Cyprus and shows consistent improvements in respecting human rights, improving its treatment of the Kurdish minority, and keeping the military out of politics, the EU will probably agree to start accession talks in 2005 or 2006. Those negotiations could last many years, however, and none of the 25 members is keen on Turkey joining rapidly. Even those member-states which support Turkey's eventual accession are concerned that the country would bring in problems that are on a completely different scale from the other would-be members. Turkey has a large and rapidly growing population that may well exceed Germany's at the time of its accession. Turkey also has a large farm sector that could overwhelm the Common Agricultural Policy in its current form. And although the EU is not a Christian club, many in the EU are uncomfortable with the thought that its most populous future member-state is predominantly Muslim.

Even if these applicants do their utmost to prepare for accession, there is no guarantee that the EU will enlarge again any time soon. The Union is getting more and more exacting in its requirements as it becomes more experienced with enlargement. Moreover, many of the current 15 members are wondering whether the EU has already bitten off more than it can chew. The EU will suffer from a lengthy digestion period after it absorbs the first round of Central and East European newcomers. Once the full impact of enlargement on the Union's institutions and policies becomes clear, the 25 members will have little appetite for another round. Their immediate priorities will be the new constitutional treaty and budget. Both of these debates will provoke soul-searching about the nature of the Union, and whether it should set geographical limits to its expansion.

The new members' attitude to further enlargements is uncertain. They support the integration of Bulgaria, Romania and the Western Balkans, which border Hungary and Slovenia. All of them are keen on the EU developing a more effective 'neighbourhood policy' for the countries lying to its east. But will they welcome Turkey? At the moment, they are as divided as the old member-states are. Outgoing Polish Prime Minister Leszek Miller and former Czech President Václav Havel have argued publicly in favour of eventual accession for Turkey. But many other politicians in the region express doubts privately that Turkey can or should ever join. The new members are unlikely to block a decision in December 2004 for the EU to open accession negotiations with Turkey, but neither will they push hard for it. The key issue for all the new members is whether the integration of further countries would divert EU funds away from them, and diminish their status.

7 The emerging constellations: a pictorial conclusion

This pamphlet has sketched out how the new members are likely to behave in the Union. On many issues, they have not yet taken a clear position. But they have shown themselves keen to contribute to the EU's debates, and willing and able to defend what they consider to be their vital interests. This chapter draws together the main conclusions of the preceding ones; it sets out key questions for the future; and it illustrates the constellations of member-states that are likely to emerge on the central issues facing the EU of 25-plus members.

Overall, this enlargement is likely to lead to new policies for the EU, causing a further deepening of European integration. Previous enlargements of the EU – in 1973, 1981, 1986 and 1995 – followed a pattern of 'enlarge and then reform'. Successive enlargement rounds have not prevented further integration: regional policy and the single market evolved after Greece, Portugal and Spain joined in the 1980s, while the Schengen area expanded and the euro was launched after Austria, Finland and Sweden entered in 1995. The challenges faced by the newcomers of 2004 will require the EU to increase co-operation between its members. In particular, the Central and East European members will bring in the following problems and priorities that the EU will have to address through new policies:

- ★ The EU will have to develop policies to deal with greater social and economic disparities, and economic divergence in the eurozone. But such policies are likely to take the form of target-setting and benchmarking rather than transfers from the EU budget. Public investment will be needed to encourage catch-up growth, to raise standards, and to build new infrastructure in

the new member-states. The EU will help to some extent, through its regional funds and loans from the European Investment Bank.

- ★ Management of external frontiers will become even more important and politically sensitive. Eastern policy more generally could become a significant part of the enlarged Union's foreign and security policy.
- ★ The new members need to improve the governance of their countries if they are to integrate successfully into the Union. Corruption affects the quality of democracy, the ability of economies to grow, and also the effective use of EU funds. The EU will have to develop new policies on 'good governance' to help its members tackle corruption, lest its single market and other policies be undermined.
- ★ Integration of minorities, particularly the Roma, could become more of an EU issue. Most European countries are facing this question, albeit to different extents. If Roma populations start to move around Europe more, member-states will have a strong incentive to co-ordinate their policies to help this group.

In developing policies to deal with each of these challenges, the EU will use different methods. In some areas, small groups of countries will co-operate ad hoc, without involving the EU's institutions at all. But in others, the Commission, European Parliament, European Court of Justice and Council of Ministers will have to participate. Any project that affects the single market would have to involve the EU's institutions, lest it distort the level playing-field for competition. In justice and home affairs, the Commission and Council are already involved in managing the external frontiers of the Union, and both will have to be included in the creation of new agencies such as a common EU border guard. In this policy area, as in others, the line between inter-governmental co-operation and the traditional Community method will become increasingly blurred. This will

require some non-traditional roles for the EU's institutions. The Council will often call upon the Commission to issue progress reports and compile studies on best practice, as the Commission already does for the Lisbon process of economic reform. The Commission is very likely to take on such a role in improving governance and the use of EU funds in the new member-states, for example. These activities will make the Commission more like the Organisation for Economic Co-operation and Development (OECD), which conducts such studies for its members. But the Commission will be an OECD with teeth, because it will still have law-making powers and the capacity to impose infringement proceedings and fines.

In policy areas where the 25 member-states simply cannot agree on common action, there will be more enhanced co-operation between sub-sets of countries. As discussed in Chapter 5, these groups are more likely to be formed around particular policies than around particular countries, but they will emerge quite quickly in the enlarged EU. Already, France, Germany and the UK have formed such an alliance on defence. The Paris and Berlin governments are now talking about the possibilities of introducing a European Public Prosecutor, whose remit would cover just their two countries, and the harmonisation of tax bases in a few member-states. Other members will also come up with their own projects: for example, the Nordic countries have long discussed agreeing on higher environmental taxes among themselves, while Britain and Denmark have talked of starting an initiative to set up reception centres outside the EU, where asylum-seekers would have to wait while their claims were processed.

So far, the member-states have formed such groupings outside the EU's treaty structure, rather than through the enhanced co-operation provisions allowed for within the treaties. A major open question is whether countries will ever use these provisions, and if so, for which policies. The new constitutional treaty would widen the scope of flexible integration by allowing 'structured co-operation' in defence,

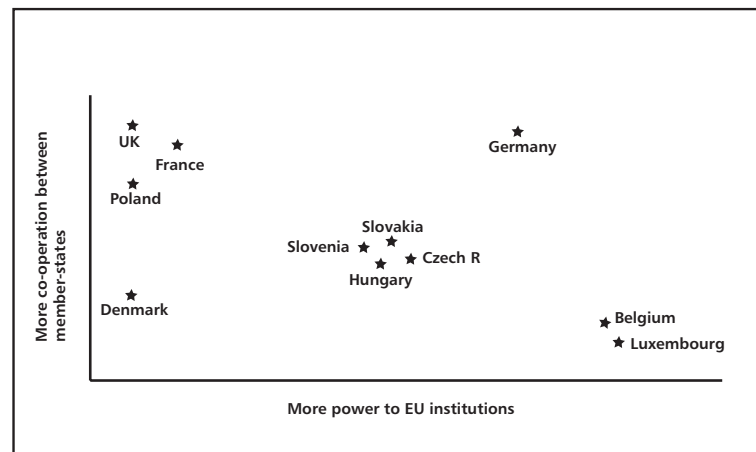
with slightly different rules from the standard enhanced co-operation provisions. This idea is still contested within the EU; for example, the new members are wary of structured co-operation, fearing that they might be excluded from defence initiatives that they want to join. But despite the controversy, the member-states will experiment with various new methods of integration in the years ahead, as they become frustrated with lack of progress in areas like justice and home affairs (including counter-terrorism and border controls), defence and foreign policy. Although the EU will not necessarily face a trade-off between deepening and widening, it will need to find new methods of allowing integration to continue as the Union grows increasingly diverse. This pamphlet has argued that the most likely outcome is for countries to form shifting coalitions of the willing which work together on particular issues.

The next section sets out a series of illustrations of where the new members will stand *vis-à-vis* their partners, and what alliances they are likely to form. Even though the new members still have fluid debates on many key issues, it is already possible to discern their instincts and likely positions. The axes of these scatter-graphs do not necessarily represent opposing positions; instead, they set two key questions in the policy area considered. Each axis shows the range of opinions among the member-states.

Not every member-state is included in every graph because the star-patterns are meant to be illustrative of the range of opinion, rather than comprehensive. They are the author's predictions about where the new members will stand. Moreover, the newcomers' positions in these constellations will change over time, as they develop firmer opinions on EU policies and their own interests. What is clear from these graphs is that leadership in the enlarged EU will be very difficult because the coalitions are highly complex. Few countries stick together consistently in the same constellations across different issues. Interestingly, Germany appears in the middle of several of these illustrations – on borders, defence and EU foreign policy. Estonia is frequently an outlier in the range of

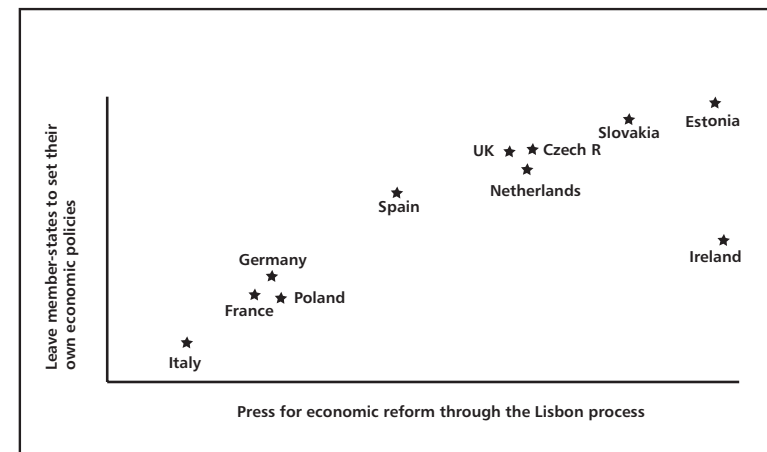
member-state positions. And Poland often aligns itself with the larger old members rather than with the other newcomers.

How integrationist?



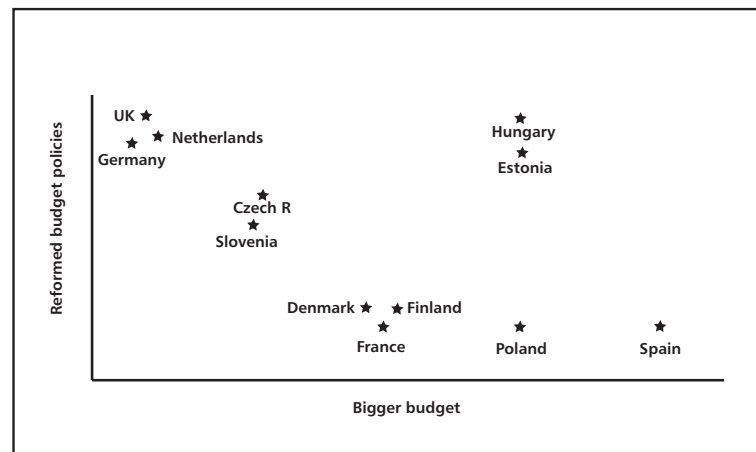
Among the old members, Belgium and Luxembourg are the most integrationist. They prefer strong EU institutions to inter-governmental co-operation, which they see as dominated by the large member-states. Germany's position is somewhere in the middle between the two extremes, seeking both stronger institutions and more co-operation between the 'Big Three' countries of France, Germany and the UK. France, the UK and Poland lie at the other end of the spectrum, preferring inter-governmentalism and opposing more power to the EU's institutions, while Denmark is wary of both. However, Poland will probably shift position unless it is included in the big-country club after accession. France also prefers negotiations between governments, unless the EU's institutions work to its advantage in a particular area. The smaller new members lie in the middle, generally wanting EU institutions such as the Commission to promote the equal treatment of member-states and enforce the rule of law. But they are not instinctive federalists, so their willingness to give more powers to the institutions will depend on the merits of each case. For example, the new members are generally not keen on a greater role for the Commission or qualified majority voting in tax policy or defence.

How liberal economically?



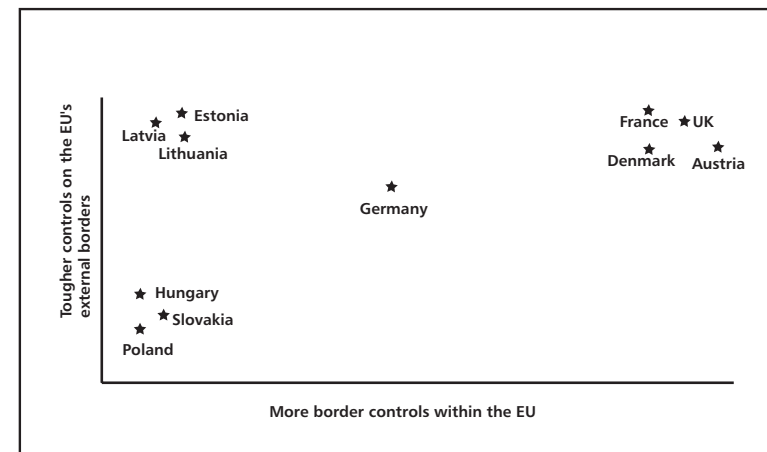
The two axes on this graph show member-states' views on two different but related issues: whether they should commit themselves to more rigorous economic reforms through the 'Lisbon process'; and how much power the EU's institutions should have over individual countries' economic policies. Most of the new members are keen on EU rules that apply to all countries equally, and on furthering economic reform. Estonia is the most extreme of the new members in supporting both economic reform and maximum autonomy in setting its own economic policies – especially tax rates. Ireland is with the new members in being a strong supporter of the Lisbon agenda, but Dublin is more in favour of the EU setting macro-economic policy targets than are most of the new members, the UK and the Netherlands. After Germany and France defied the rules of the Stability Pact in Autumn 2003, they are shifting upwards on the graph to favour greater freedom for individual countries' economic policies. Poland is likely to have a similar position, but the commitment of its largest parties to real economic reform is uncertain over the longer term. Italy is at the lowest point on both axes of the graph because it traditionally supported EU targets in economic policy, but its current government is not keen on the Lisbon process.

How reformist on the EU budget?



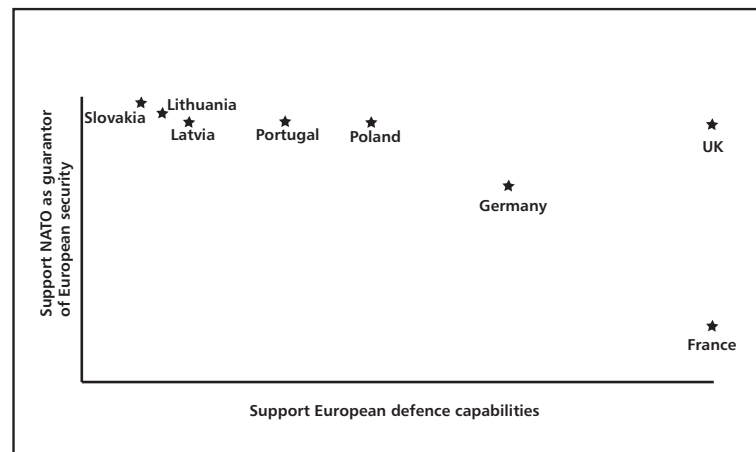
All the new members are currently in favour of maintaining the EU budget at its current size. However, when Slovenia and the Czech Republic become net contributors they will ally themselves with Germany, the Netherlands and the UK. In future, all the new members' finance ministers will be worried about whether they can afford their contributions, which fall heavily on national budgets before they come back to the country in the form of payments to farmers and regional governments. So they will not support Spain's demands for a larger overall budget. However, the new members differ in how much they wish to reform the EU budget. Estonia, Hungary and the Czech Republic want changes to the EU's agricultural policies, which do not suit their farmers. Slovakia, Latvia and Lithuania could well join them in future, demanding more funds for rural development and fewer subsidies for big farms. In the short term, Poland is likely to ally itself with Spain in demanding that budget policies support rural populations and poor regions. France is against reform, particularly of agricultural policy, but supports Germany's bid to lower the ceiling on the total budget. Finland and Denmark also do well out of the current agricultural policy, so they do not want much change.

How open should borders be?



Many of the old member-states are keen on tougher controls at the Union's external borders, especially as asylum and migration have become increasingly sensitive issues in domestic politics. Denmark, the UK, Ireland, France and Austria are also against relaxing border controls inside the Union any further. At the other end of the spectrum lie the new members, which want to join the Schengen area of passport-free travel as soon as possible. The Central Europeans, which have close relations with non-EU neighbours, are against more stringent controls on external borders. However, the Baltic states welcome EU help in tightening controls on their borders with Russia, although they also want to join the Schengen area. Germany lies towards the middle, wanting to prevent illegal migration, but also supporting a policy that makes it easier for countries such as Ukraine to maintain close ties with Poland and other new members. At the same time, German policy-makers – particularly in the interior ministry – are opposed to the new members joining the Schengen area rapidly.

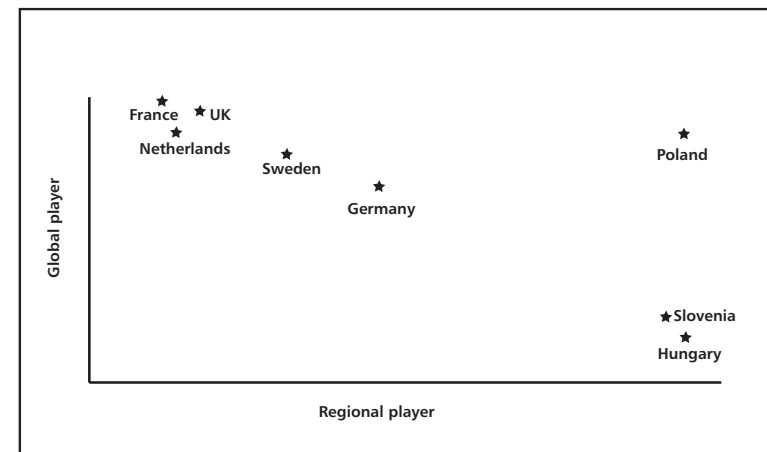
How Atlanticist on defence?



The extremes on this graph are the UK – which strongly supports both European defence and NATO – and France, which wants a purely European defence policy to take precedence over the Atlantic alliance. Germany's position on NATO lies somewhat closer to the UK's than France's, but the country is unwilling to spend as much money as either of these partners to build up European defence capabilities.

The new members are with the UK in supporting NATO, although the Baltic states, Poland and Slovakia are more strongly Atlanticist than the others. The Central and East Europeans are ambivalent about developing more integrated policies for European security and defence: they want the EU to have better military capabilities, but they are wary of any measure that might undermine NATO's role in guaranteeing Europe's security. They are also not keen on spending more on European defence structures that duplicate NATO; in this respect, the new members' position is like Portugal's. Poland could rapidly become more enthusiastic about ESDP, however, if it is invited to join 'Big Three' discussions on defence between Britain, France and Germany.

What ambitions for EU foreign policy?



The new members are generally more concerned about the EU's new neighbours to the east and south-east than are the old 15 countries, for understandable reasons. Poland, Hungary and Slovenia are particularly keen on the EU developing a closer relationship with its eastern and south-eastern peripheries, because they are next to these regions. But the small new members are much less ambitious for the EU's international role than large member-states like France and the UK or activist smaller countries like Sweden and the Netherlands. The newcomers' main concern is the 'wider Europe', rather than the greater Middle East, Asia or Africa.

Poland is the most ambitious of the new members for the common foreign and security policy, owing to its size and its strong desire to be a useful ally to the US. Germany once again lies in the middle, supporting the development of EU foreign policy, although it remains more status quo-oriented than the UK and France. But Germany is more concerned than the other big countries about the countries on the EU's periphery. The new members could forge a profitable alliance with Germany on European neighbourhood policy.

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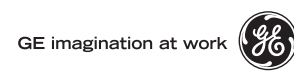
THE CONSTELLATIONS OF EUROPE

How enlargement will transform the EU

Heather Grabbe

Eastward enlargement will change the EU far more than its current members expect. Many people predict that the arrival of ten new countries will paralyse decision-making, but few have thought about how the newcomers will shape the various EU policies. Heather Grabbe plots the new members' positions in the emerging constellations of Europe – on the new constitution, the EU's budget, economic and regulatory policies, border controls, defence and the EU's role in the world. She argues that widening will ultimately lead to a deepening of European integration.

Heather Grabbe is deputy director of the Centre for European Reform.



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