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BRIEFING NOTE

THE COPENHAGEN DEAL FOR ENLARGEMENT

By Heather Grabbe, Research Director

★ The outcome of Copenhagen should ensure approval from EU parliaments for enlargement to go ahead as planned on May 1st 2004. But the EU's lack of generosity will make the deal harder to sell in the 2003 referendum campaigns in Central and Eastern Europe.

★ The EU has effectively given Turkey a conditional date for opening accession negotiations in 2005.

The successful conclusion of accession negotiations at the Copenhagen summit on December 13th 2002 means that ten countries will join the European Union in its biggest-ever enlargement. The EU has never before taken in more than three countries at once. After eastward enlargement, the EU will cover another third of the European continent. It will contain 25 members and nearly half a billion people.

The accession treaty – which is the legal basis for enlargement – will be signed at a special EU summit in Athens on April 16th, 2003. After that, the member-states and the candidates will have about a year to ratify the treaty for the accessions to go ahead as planned on May 1st, 2004. Enlargement could still be delayed or derailed if one or more the current EU member-states failed to muster a parliamentary majority for ratifying the accession treaty. However, most member-states' concerns, such as labour mobility and nuclear safety, had already been addressed during the negotiations. And the accession deal struck at Copenhagen turned out to be such a bargain for the EU that parliamentarians in the member-states would be hard pressed to argue against enlargement because of the costs.

Did the candidates get a good deal?

The total package of financial aid under the current budget (which runs until the end of 2006) amounts to a maximum of €40.8 billion. This sum includes money for agriculture subsides, infrastructure spending, regional aid, and funds to help improve nuclear safety, public administration, and border protection. However, the new members will not only receive aid, they will also pay contributions to the EU budget, amounting to some €15bn during 2004-06. Moreover, they may not be able to use all the money that has been allocated to them in the budget by 2006. As a result, the net cost of enlargement will be just €10.3 billion for ten countries over three years, according to Commission figures. That is a miniscule amount of money, less than one-thousandth of EU GDP.

Even the gross amount is below the ceiling agreed for enlargement at the Berlin European Council in 1999 of just over €42 billion. Moreover, the money for the new members is ring-fenced from the rest of the budget, so enlargement cannot become an unlimited financial liability. The candidates, led by Poland and the Czech Republic, argued very strongly that the EU offer should at least be raised to the Berlin ceiling. They worried chiefly about two things: the unfair treatment of their farmers, who are set to obtain much less support than their richer western counterparts; and the possibility that they may end up paying more money into the EU budget in the early years after accession than they receive in return, simply because it takes time to get EU aid disbursed (referred to as the 'cashflow problem' during the negotiations).

The bargaining at Copenhagen was essentially about shifting money around from one part of the budget to another, as the EU offered little new money. On the last day of negotiations, German Chancellor Gerhard Schröder announced that he had put another €1 billion on the table to clinch a deal. But unlike in previous enlargements, when Germany facilitated a final deal by pledging additional money, Schröder did not offer a cent more from his own budget. Owing to the fiscal pressures that his government is under – Germany's 2002 budget deficit is already well above the ceilings allowed by the EU's Stability and Growth Pact – he preferred to make a gesture with EU budget money. But this gesture involved little extra money from the EU budget either, as the EU decided to re-classify €1 billion earmarked for regional aid as a straight cash transfer. For regional aid, the candidates would have to find suitable projects and money for co-financing – which makes it difficult for them to qualify for all the structural funds they have been allocated. Now the money will simply be loaded onto their treasuries' balance sheets.

On the political side, the candidates did obtain an important concession, although it was overlooked in the reporting about the summit. At Copenhagen, the European Council decided that the members-to-be will be fully represented in the next Inter-governmental Conference (IGC), which will decide the Union's future decision-making rules. Moreover, the new treaty for the European Union will be signed only after the accessions in 2004. Previously, the EU appeared reluctant to give the candidates a full say in institutional reform prior to enlargement, threatening the new members with a *fait accompli* on this important issue. Bulgaria and Romania will take part in the IGC as observers.

At Copenhagen, the EU also reconfirmed its commitment to the accession of those countries left out of the first round of eastward enlargement. Bulgaria and Romania are still in the midst of membership negotiations but aim to join the Union in 2007. Significantly, EU leaders at Copenhagen said that they supported this tentative accession date. However, Romania will face an uphill struggle to reform its economy quickly enough to meet that deadline. Bulgaria, meanwhile, is making much quicker progress. But the EU is unlikely to get its whole accession machinery going for just one country. The picture will get even more complicated if, as widely expected, Croatia applies for EU membership in 2003. Having left the political problems of the Tudjman era behind, Croatia is now a stable democratic country with a relatively well developed economy. It could complete accession talks shortly after Romania does, in which case the EU would try to take in all three countries together. Bulgaria will most probably have to wait for Croatia and Romania.

Poland's deal: good for farmers, bad for taxpayers

Negotiations with Poland were critical for the entire accession deal since Poland alone will get about half of the total money allocated to the new members. As the largest candidate country by far, Poland was in a much better position to take a tough stance than the smaller applicants. Several attempts among the candidates, especially among the 'Visegrád four' (Czech Republic, Hungary, Poland and Slovakia) to co-ordinate their positions failed. So each country had to fight for itself in the end.

Poland's success in having the EU transfer money from region aid to cash will certainly help its budget. Even existing member-states often have problem finding enough viable projects to use all the regional funds they have been allocated. The new members may face an even greater challenge since they are still getting used to the complex requirements for qualifying for funds. That was why Poland worked hard at getting money transferred from the structural funds to a 'cashflow facility', which is essentially a lump-sum paid into national finances with few strings attached. This move of €1 billion has greatly improved Poland's chances of getting all the money made available to it by the Union. In addition, Poland can spend some 20 per cent of the money allocated for rural development – which is also more difficult to qualify for – on direct payments instead.

However, this success in getting the most money possible came at the price of giving a large proportion of the funds to farmers. Money that had been earmarked for long-term development will now be converted into direct payments, which are essentially social security cheques to farmers. The Union refused to improve on its offer to the candidates on the level of direct payments. The EU's initial offer stands: 25 per cent of the direct payments going to EU farmers in 2004, then 30 per cent in 2005 and 35 per cent in 2006, with a slow increase to 100 per cent in 2013.

In order to improve the offer to their farmers – and to counter rising opposition to the deal at home – Poland's team negotiated the right for new members to increase this level to 55 per cent in 2004, rising to 60 per cent in 2005 and 65 per cent in 2006. But the additional money to pay these levels of direct payments has to come from Polish national finances, and it amounts to an extra €1 billion. Money that could otherwise have been spent on other policies – like promoting economic growth and long-term competitiveness – will thus be diverted to the farmers.

The concentration of funds on agriculture will help to increase support for EU membership in rural areas, where a quarter of Poles live. Gaining the support of the farming population for EU membership has to be the government's priority for the referendum in 2003. But for the Polish taxpayer, this is not such a good deal, when their money could have been spent on other priorities.

Poland gained several smaller concessions at the last minute, when the Danish presidency was pressing for a deal: for example, other EU countries will recognise the qualifications of Polish nurses from the first day of accession. The EU also offered extra money to help Poland upgrade its eastern border controls.

Poland's two most important non-financial gains in the final stage of negotiations were:

★ Larger milk quota. The milk quota is as much a social as an economic issue, because so many rural Poles survive through owning just a few cows. For many, sales of milk provide them with their only source of cash.

★ Safeguard clause for Polish agriculture markets. The EU has imposed a general economic safeguard clause on the new members that allows the Commission to take protectionist measures if a member-state's markets are disrupted by the enlargement. At Copenhagen, the Poles managed to get a declaration that under this safeguard the Commission can monitor the inflow of food products into Poland and take action if agriculture markets are disrupted. This clause could be important if the discrepancy in the levels of subsidy given to EU and candidate country farmers distorts markets to the extent that subsidised EU products displace domestic produce very quickly.

Poland has had the most acrimonious domestic debate about EU money. The Polish negotiating team went to Copenhagen knowing that they had to structure the deal to maximise financial transfers from Brussels in order to avoid criticism at home. They were successful in doing so, and the press coverage following Copenhagen was very favourable to the government, hailing the historic nature of the moment. The date that the deal was concluded – December 13th – carries great symbolic weight, because it was on that day in 1981 that martial law was imposed in Poland. However, in 2003, the eurosceptics in Poland will start to examine the deal in more detail, and they will try to make political capital out of the EU's lack of generosity.

How the politics of enlargement will change in 2003

Now that the deal for accession is done, the political dynamics of enlargement on the EU side will change. The EU-15 countries will start to build bridges towards their new partners, with each current member-state hoping to engage some of the new ones as allies in the EU's internal political battles. Germany has already built up a very active engagement with the candidate countries, both through its official governmental channels and the plethora of links between party foundations, business associations and civil society – as well as its huge economic presence in the region. The UK does not have Germany's strong trade and investment flows or civil society links, but British diplomats have been active in the region. Moreover, Prime Minister Tony Blair and his government have pursued bilateral initiatives with the candidates, like a joint letter with Polish Prime Minister Leszek Miller on institutions earlier this year. The Scandinavian and Nordic member-states have close ties to the Baltic applicants.

However, other member-states have been slow to act. The new French government has recently launched a charm offensive in central and eastern Europe. This diplomatic effort is much needed to redress the resentment in the candidate countries about France's handling of the institutional negotiations at Nice, when President Chirac tried to offer the candidates fewer Council votes and MEPs than their population size warranted. The Netherlands will also have to repair the damage caused by its hostile positions in the accession negotiations under the unstable governing coalition that collapsed in November 2002.

This change of mood will be important in preventing individual member-states from attempting to impose protectionist measures on the candidates' exports by using the 'safeguard clauses' intended to prevent disruption to the Single Market. One of these clauses gives the Commission considerable latitude to protect markets if a candidate country does not fulfil the obligations it took on in negotiations. The candidate countries fear that they could face protectionist measures like the ones imposed by the EU in the early 1990s, under the Europe Agreements. In the negotiations, the Commission has already imposed measures on the candidates that run against the principles of the Single Market – most notably a transitional period before there is free movement of labour between old and new member-states.

However, now that the accession negotiations are over, the Commission will return to its role as guardian of the treaties and policeman of the Single Market. Moreover, the pro-market, liberal member-states will oppose any measures that threaten the level playing-field for competition in the enlarged European economy. The political balance between member-states, and the Commission's role, should thus prevent a re-emergence of protectionism.

Ratification outlook: fair to moderate

Even if EU governments become more welcoming to the candidates in 2003, some of their parliaments may question the outcome of the negotiations during the ratification process in 2003. The accession treaty has to be ratified by every member-state's parliament, as well as the European Parliament – effectively providing a total of 16 potential vetoes on the process – and by the candidates' parliaments following a national referendum. A 'no' from one of the candidate countries would not be fatal to the enlargement process, because that country's name could simply be deleted from the accession treaty – as happened when the Norwegian public rejected accession in 1994. But if one of the member-states or the European Parliament were unable to ratify the accession treaty, that would stop the whole process.

None of the member-states is planning to hold a referendum, but all of the candidate countries will do so. The latest cross-country poll – conducted by Eurobarometer for the European Commission and published in October 2002 – suggest that levels of support for membership has risen in several candidate countries. In a referendum, nearly three-quarters of Hungarians would vote in favour, and 69 per cent of Slovaks would as well. A majority intends to vote in favour in Cyprus, Slovenia, Poland, the Czech Republic and Lithuania. However, support is lower in the other two Baltic states – Estonia (44 per cent) and Latvia (42 per cent) – and Malta (42 per cent). Most significantly, in these last three countries, a third of the population would vote against. In most of the other countries, the number who intend to vote 'no' is smaller.

Referendum dates

8 March	Malta
23 March	Slovenia
12 April	Hungary
11 May	Lithuania
16-17 May	Slovakia
8 June	Poland
15-16 June	Czech Republic
14 September	Estonia
20 September	Latvia
No referendum	Cyprus

The only country that faces a serious prospect of losing the referendum is Malta, where the opposition Labour Party is still against joining the EU, and the population has long been evenly divided on whether to join the EU. Latvia also has a low level of support and over a third of the population is opposed to membership. However, questions of security and identity are likely to predominate in the referendum campaign, as Latvia was formerly a Soviet republic, making a ‘no’ vote much less likely than in Malta.

The polling for the Eurobarometer survey was done in March-April 2002, when the terms of the outcome of negotiations were still far off. After Copenhagen, press attention in the region has turned from the nitty-gritty of the negotiations to the opportunities that accession will bring, and celebration of these countries’ acceptance into the heart of Europe. The government campaigns for the referenda will start in earnest in 2003, and they can now spell out how much money they will receive, which will help to galvanise support. In absolute terms, the financial transfers from the EU budget will be large, and in the next budget period, from 2007 onwards, the candidates will get a lot more money than they did as applicants.

But the candidate country governments face a problem in trying to present the Copenhagen deal as fair in relative terms. They will get much less in the first three years of accession than existing member states per head of population. According to figures released by Michaele Schreyer, the budget commissioner, just after the Copenhagen summit, Poland will receive €67 per capita, Hungary €49, Slovenia €41 and the Czech Republic €29. By contrast, in 2000, Greece received €437 per capita, while Ireland got €418, Spain €216 and Portugal €211.[1] These figures may change slightly when the European Council issues its final numbers – there were some discrepancies in the totals announced at Copenhagen – but the gap will still be enormous.

In defence of these disparities, EU member-states point out that transfers have been phased in for new members in previous enlargements. In addition, there are major differences in wage rates and purchasing power, even between the richer candidates and the poorer existing member-states. But it will be hard for the candidate countries to explain why the EU has offered so much less to much poorer countries. It will also affect the behaviour of the new members when they join the EU, because they could be forced to spend most of their time and energy on gaining more money from the budget.

Voting intentions for the candidate countries’ referenda on EU membership

	For (per cent)	Against (per cent)
Hungary	74	6
Slovakia	69	10
Cyprus	65	17
Slovenia	56	28
Poland	53	24
Czech Republic	51	18
Lithuania	50	17
Estonia	44	28
Latvia	42	37
Malta	42	34

Source: European Commission, *Candidate Countries Eurobarometer* 2002.1, October 2002

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

Budget troubles ahead

Several of the candidates will face considerable problems with public finances in the first years of EU membership. Their finance ministers will take a 'triple whammy' when they join the EU:

★ EU-related spending will increase as they implement the more expensive parts of the EU's rules and regulations, in order to meet the promises they have made in negotiations. This could add between five and 15 per cent to EU-related expenditure in Poland, for example.

★ The new members' finance ministries will have to find more money to co-finance infrastructure projects, in order to qualify for EU budgetary transfers. Several candidates will also have to find a lot of money to top up the level of direct payments to their farmers, as they have promised to give extra money on top of the 25 per cent from the EU. In Poland's case, this could be €1 billion, amounting to some 3 per cent of the total national budget.

★ At the same time, the new members will be trying to qualify for monetary union, so they have to trim their budget deficits down to 3 per cent of GDP. That will be very hard, given all the additional expenditure, if growth rates do not increase dramatically.

The EU has tried to ease the burden by providing the new members with a cashflow facility – which for Poland will amount to nearly €1 billion for 2004, plus €650 million in 2005 and €550 million in 2006. In addition, they will all get temporary budgetary compensation to ensure that no new member becomes a net contributor. The EU's decision to set May 1st as the date of accession, rather than January 1st, also helps greatly because the new members will get a full year's worth of receipts from the budget, but they will only start making monthly contributions to it five months into the year.

However, several candidates whose budget deficits are already rising – most notably the Czech Republic, Hungary and Poland – could face a fiscal crunch that will make their governments unpopular, and possibly the EU as well, if it is blamed for their problems. In 2004, the new members will not get substantially more money from Brussels than they did as candidates in 2003. At the same time, they will have to spend more on the things that the EU wants – like environmental standards and infrastructure – so there will be less money available for popular items like education, healthcare and pensions. Moreover, the EU-related spending will cause level of fixed expenditure in the national budgets will rise, with less discretionary spending available if public finances run into trouble owing to other problems, like floods or higher unemployment.

Rising budget deficits in Central and Eastern Europe

	2001 (estimate)	2002 (projection)
Czech Republic	-5.2	-9.3
Estonia	0.4	-1.0
Hungary	-4.7	-6.0
Latvia	-1.9	-2.5
Lithuania	-1.9	-1.4
Poland	-6.0	-5.0
Slovakia	-3.9	-4.5
Slovenia	-1.2	-2.9

Source: EBRD, *Transition Report,* 2002.

Cyprus and Turkey: game not over

The EU failed to gain the agreement of the Turkish and Greek Cypriots to the reunification of the island prior to accession, after the Turkish Cypriots refused to sign the preamble to the UN plan. The EU is still aiming for comprehensive settlement based on the UN proposals by February 28th, 2003. If they fail to meet that deadline, the Union will continue to press both sides to settle right until the day of accession. If there is still no settlement, the Union will be forced to accept Cyprus for membership as a divided country, under its previous commitments. In the absence of a settlement, the EU's rules and regulations would not apply to the northern part of the island. The Turkish Cypriots would also forgo some €273 million of EU aid earmarked for them.

The admission of a divided Cyprus would have an impact on the EU's relationship with Turkey, which is the sole country to recognise the Turkish Cypriot government. The EU is impressing upon the Turks that if only the Greek Cypriot government is represented in the EU, Turkey's own ambition to start negotiations could be damaged.

Before Copenhagen, the Ankara government pushed very hard for a date to start accession negotiations with the EU. The new government's efforts to implement political reforms have been applauded by EU leaders, but several countries wanted stricter adherence to the political conditions for starting negotiations – which include human rights and minority protection. Turkey's lobbying efforts were strongly supported by the US – so strongly that their effort backfired in turning some wavering member-states against the idea of giving Ankara a firm date. Instead, the member-states decided to demand strict adherence the political conditions before Turkey can open negotiations. Turkey's progress will be reconsidered by the European Council in December 2004, on the basis of a report and recommendation from the Commission. If that report concludes that Turkey meets the criteria, the EU will open accession negotiations "without delay", according to the presidency's conclusions. This wording is a strong commitment from the EU, and it is effectively a conditional date for starting negotiations in 2005.

The EU also offered Turkey a revised Accession Partnership (the document in which the EU states what has to be done prior to membership), an extended and deepened Customs Union, plus a substantial increase in pre-accession financial assistance. Significantly, the summit conclusions restated that Turkey's candidacy depends on the same criteria as other countries. This was a clear rejection the claims of EU politicians like Convention President Valéry Giscard d'Estaing, who stated recently that Turkey should never join on the grounds that it is not a European country and would destroy the Union. Giscard's words probably helped the Turks, ironically, by forcing the EU to make a more explicit commitment to Turkey's candidacy at Copenhagen.

Conclusions

The outcome of Copenhagen was probably as good as the candidates could have hoped for. The EU member-states have become progressively less generous as growth in the eurozone economies has slowed and the Stability and Growth Pact is constraining national budgets. The member-states are feeling much less generous now than they would have been if enlargement had taken place during the economic upswing of the late 1990s.

The small cost to the EU will make it easier to achieve ratification by EU parliaments. But the sums look very unfair to the candidates in terms of receipts per head of population. Although only Malta faces a serious danger of the public rejecting accession, next year's referendum campaigns could see the emergence of openly anti-EU forces in Central and Eastern Europe.

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