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BRIEFING NOTE

The timetable for enlargement

by Heather Grabbe

★ Ireland has finally agreed to ratify the Treaty of Nice, following a 'yes' vote in the referendum. This result opens the way for the EU to conclude accession negotiations in December 2002.

★ The first accessions are likely to take place in 2004, but they may not happen on January 1st.

★ The final deal on the financing of enlargement is likely to be confined to the remainder of this budgetary period, until the end of 2006.

The Irish referendum result has removed a major uncertainty in the enlargement process. The Nice treaty agreed in 2000 contains the key institutional principles for decision-making in a Union of up to 27 member-states: the number of votes that each country has in the Council of Ministers, and how many representatives each country can send to the European Parliament. Without those provisions, the EU's institutions could only accommodate 20 member-states, not all ten of the candidates that will be ready to join in 2004. Even more importantly, opponents of enlargement could have used a 'no' to Nice as an excuse to delay beyond 2004.

The Danish presidency of the EU aims to bring the eastward enlargement full-circle this year, by concluding negotiations in the city where the membership conditions were first set at the Copenhagen European Council in 1993. In June, the EU's leaders met in Seville and reaffirmed their commitment to the following timetable for enlargement: conclusion of negotiations with ten of the twelve candidates for membership by the end of 2002, provided those countries are ready, with a view to their accession in 2004. Currently, the Commission considers only Bulgaria and Romania to be insufficiently prepared. The Treaty of Accession should be signed in spring 2003, so that it can be ratified that year. The EU's stated objective is that the ten countries should participate in the elections for the European Parliament that will take place in June 2004 "as full members" – but this is an aspiration rather than a promise.

This timetable is achievable, but there are several points at which it could slip. The principal issues outstanding in negotiations are the budget and the Common Agricultural Policy (CAP) that accounts for nearly half of the EU's spending. There are still many technical issues to be sorted out in the negotiations as well, and both Hungary and the Czech Republic are seeking more seats in the European Parliament to reflect their population sizes. The non-budgetary issues look largely resolvable, although the last few weeks could see frantic negotiations to tie up the deal. The history of previous enlargements of the EU also suggests that unexpected issues can snarl up negotiations in the final phase. For example, the Dutch parliament has been demanding additional monitoring during the ratification period, and more opportunities for national parliaments to express their views on the readiness of the candidates before they can enter into the Union. Other member-states could raise similar objections.

The main deals in negotiations now have to be struck between the member-states, and the candidates will have to accept whatever the EU-15 can agree among themselves. The key issue is the budget, and whether the net contributor and net recipient states can find a compromise on the principles under which the new members will get transfers from the agriculture and regional funds.

Agriculture angst

The EU's member-states have to agree on the most sensitive parts of the negotiations about farm subsidies at the Brussels European Council on October 24-25th. The outcome is still uncertain because the member-states remain deeply divided about how much they should reform the CAP prior to enlargement.

France's position has become more firmly opposed to change since the re-election of President Jacques Chirac. At the same time, the CAP Reform Initiative (CAPRI) group of reform-minded member-states is demanding "no phase-in without phase-out", arguing that the new member-states should not gain full access to the 'direct payments' to farmers unless the transfers are also diminished for current recipients. Most member-states reacted to the Commission's 'mid-term review' of the CAP published in July by hardening their positions.

The timetable for enlargement could be jeopardised if long-term reform of the CAP becomes entwined with the accession negotiations. It should be possible for the EU to find a deal on this question for the period 2004-06, the first two years after enlargement and the last two years of the current budgetary framework. The question is whether the most hardline member-states (the Dutch, British, Swedes and Germans on the contributor side, and France on the recipient side) will insist on principles for the next financial framework that will run from 2007 onwards. To settle such questions in detail now would threaten to drag out the negotiations considerably. However, it looks likely that a compromise can be found at Brussels that will allow enlargement to go ahead, even if the question of CAP reform remains open.

For the candidate countries, the main issue is not the size of the subsidies, but the principle of fair treatment. They are less concerned about the precise amount of money they will receive after accession – as it will be considerably more than current aid flows from the EU – than they are that their farmers should get the same deal as those in the old member-states. For the Poles, the domestic politics of the negotiations are becoming increasingly difficult as Andrzej Lepper (populist leader of the 'Self-defence' party) has resorted to high-profile stunts to oppose the EU deal. His tactics are similar to those of the French farmers over the past decades, when they have objected to government policies by blocking roads and destroying foreign food imports.

Much of the debate in Poland has focused around the offer on direct payments – the lion's share of the subsidies. The Commission has proposed that the new members' farmers receive just 25 per cent of the subsidies paid to their richer EU neighbours in the first year of membership, with a slow phase-in to 100 per cent by 2013. Poland has by far the largest agricultural sector among the candidate countries, with a population of nearly 40 million, of whom at least a fifth live on the land. The major issue is whether EU farmers receiving four times the level of subsidies will be able to dump their agricultural products on Polish markets. This is a social as much as a political issue, as many of the poor in rural areas survive by semi-subsistence farming. The precarious social balance in a country with nearly 20 per cent unemployment could be severely disrupted by floods of cheap EU food products. For this reason, the Polish government has threatened to maintain tariff barriers on agricultural imports after accession if its farmers do not receive the same level of subsidies.

The other east European candidates likely to join in 2004 (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Slovakia and Slovenia) have populations of between 1.5 and 10 million people, and a much smaller proportion of the labour force engaged in agriculture. They dislike the phase-in starting at 25 per cent for direct payments, but the length of the transitional period is more important than the starting level. Most are arguing for parity with EU farmers starting from 2007, when the next EU budget begins.

In practice, the EU cannot settle the budget for 2007 onwards prior to enlargement, so the candidates will be full members by the time the EU starts negotiating the next financial perspective in earnest. Fundamental reform of the CAP would fit the candidates' interests, because the EU's current agricultural policy does not suit the needs of their farm sectors. However, a drip-feed introduction of the direct payments to farmers would create stakeholders in the new member-states who have an interest in seeing the current CAP continue, in the hope that they will get full access to all funds in future. By not agreeing to reform now, the EU will allow enlargement to go ahead on time, but potentially at the cost of creating more opponents to fundamental reform later.

Budget cashflow problems

In addition to the issues involved in agriculture, the budget package as a whole presents problems for the candidates, because several of them have calculated that they would be net contributors in the first year of membership under the framework proposed by the Commission. They are arguing in negotiations that it will be difficult to win the consent of their publics to membership if there is a price-tag attached in the first year. The new members will certainly get much more EU aid than their current receipts over the medium term, but several of them face short-term fiscal difficulties with membership.

Finance ministries across the region have been calculating their likely payments and receipts based on the Commission's proposals for the 2004-06 budget. The Czech Republic, Hungary and Poland fear that they will be net contributors in the first year of membership, and Slovenian negotiators predict that their country could be a net contributor for several years. This is principally a cashflow problem, because the EU's rules require governments to fund the payments to farmers and for infrastructure projects up-front from the national budget. Member-states have to make payments into the budget on a monthly basis from the first day of accession, but they receive compensation from the EU's budget only the year after. For Poland, the cashflow issue is especially tricky because external debt repayments will also be due in the first year of membership. Moreover, the national budget is already under considerable pressure as growth has slowed and unemployment is rising.

But the new members may also receive less money than their allocation in the budget because of the way that payments and commitments are calculated. They are likely to have problems in absorbing all of the available payments appropriations, just as the current member-states have had.

The challenge for the EU's negotiators is to find a budget solution that will even out the cash-flow and other problems for the candidates, while keeping a lid on the overall expenditure for enlargement. One possible way of sorting out the budget arithmetic would be to move the date of accession to July 1st 2004 and to ask the new members to pay in just six months of contributions, while they should get a whole year's worth of receipts. However, several member-states oppose this neat solution because the candidates are already receiving pre-accession aid without paying anything into the central pool. More likely is some kind of 'lump-sum compensation' from the Community budget to lessen the burden in the first year and ensure that they are net recipients – as the EU has promised. However, the new members are unlikely to get more money in 2004 than they received as candidates in 2003.

Will the candidates really be ready to join?

The Commission issued its last round of regular reports on October 9th. They confirmed the Commission's conclusion of last year that Cyprus, Malta and eight of the central and eastern European candidates are ready to join (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia). The Commission praised the progress that all the candidates have made in implementing the EU's norms and policies over the past year, and confirmed that they will meet all the political and economic criteria by 2004, as well as having taken on the EU's whole body of laws and regulations. The Commission also included in its 'Strategy Paper' a defence of its methodology in producing these assessments, in order to answer critics in the member-states – particularly France and the Netherlands – who questioned the basis for the Commission's judgments in its 2001 reports.

On Bulgaria and Romania, the Commission praised progress and endorsed these countries' self-imposed indicative date for accession of 2007. However, the reports on the individual countries demonstrated a widening gap between them, and Bulgaria has now closed 22 chapters in negotiations, whereas Romania is well behind with just 13 out of 3 in total. The Commission proposed a significant increase in the EU's financial assistance to these two countries, and promised detailed 'road-maps' for their progress towards membership, particularly in judicial and administrative reform. These countries will probably be joined by further candidates over the next few years – such as Croatia – so the next round of accessions could be larger than currently envisaged. However, Turkey has still not been put in the same category as Bulgaria and Romania, because the Commission did not suggest setting a date for Ankara to begin negotiations. The European Council will decide whether to give Turkey 'a date for a date' at Copenhagen in December.

Despite the Commission's repeated assertions that ten countries are ready to join, it has again raised concerns about administrative and judicial capacity in central and eastern Europe. The Commission proposes two methods of protecting the EU against any such problems from the new members:

★ **Monitoring report.** The Commission will continue monitoring the candidates' implementation and enforcement of EU rules and regulations right up until they join. It will produce also a 'comprehensive monitoring report' six months before the date of accession. This mechanism will allow the EU to continue checking on whether the candidates are meeting the promises they have made in negotiations, and sticking to the agreed timetables for implementation. In theory, this monitoring could be used to delay the entry of a candidate that seriously breached the commitments it made in negotiations. However, in practice it would be hard to single out a candidate because the member-states will be ratifying the single accession treaty in parallel with the Commission's monitoring.

This system would go a long way towards satisfying the demands of the Dutch parliament that the readiness of the candidates should be checked again prior to membership. Their particular concerns are corruption and the judicial systems in Latvia, Poland and Slovakia. The EU can probably agree to strengthen the monitoring to reassure the Dutch.

★ **Safeguard clauses.** The Commission plans to write a safeguard clause into the accession treaty to allow it to protect the single market in case enlargement causes significant disruption. One of the clauses is based on previous enlargements, and it could be used if any sector of the economy suffered difficulties or if a region saw a serious deterioration in its economic situations – but it cannot involve frontier controls. In addition, the Commission has proposed a specific internal-market safeguard which authorises it to take unspecified "appropriate measures" if there is a serious breach of the functioning of the internal market, especially in food safety. The mechanism would remain in place for two years, and it could be implemented by the Commission on its own initiative or the request of a member-state. The safeguard should be reciprocal, so it could be used if a candidate country's markets suffered disruption, as well as the EU-15 markets.

This clause would give the Commission considerable latitude to intervene in markets if a candidate country did not fulfil the obligations it took on in negotiations. Some candidate countries fear that they could face protectionist measures like the ones imposed by the EU in the early 1990s, under the Europe Agreements. However, the political dynamics will change after the conclusion of negotiations, because the EU-15 countries will start to build bridges with their new partners. In the past, the Commission has been willing to impose 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, once the negotiations are over, the imperative to get a deal will no longer be so strong, and the Commission will return to its role as guardian of the treaties and policeman of the Single Market. Moreover, the more liberal member-states – such as the UK and the Netherlands – would oppose protectionist measures.

Full membership of the EU?

When the candidates join, they will not automatically become members of the EU's Schengen area, or of its single currency. Both of those aspects of membership will be subject to further preparations and assessments of readiness:

★ **Schengen.** There will be a two-stage mechanism for joining the Schengen area of passport-free travel, as happened for Austria, Greece and Italy. The new members will have to apply the EU's procedures to their external borders with non-EU states like Ukraine immediately on accession, including EU visa policies. However, their frontiers with current member-states (e.g. Germany, Austria and Italy) will remain subject to passport and customs checks until an unspecified date when the EU decides that their external border controls are adequate. The Council will decide this for each country individually, so land barriers will fall across Europe only slowly and one at a time.

★ **Euro entry.** The Commission expects the new members to join the Exchange Rate Mechanism II "some time" after accession, but it has not set any timetable. The candidates would probably have to spend at least two years in the ERM II before proceeding to join the euro, in addition to meeting the other convergence criteria. The likely timing of euro accession is thus still vague. Most of the new members are aiming to join the euro as soon as possible, but the European Central Bank is cautious about early entry. Moreover, the Maastricht convergence criteria will impose fiscal constraints on the candidates at a time when membership is increasing their public investment needs.

Obstacles in the Mediterranean

The two island candidates are facing political obstacles to accession, despite their technical readiness for accession:

★ **Cypriot division.** Cyprus has fulfilled nearly all of the technical requirements for membership. However, the negotiations between the leaders of the Greek and Turkish communities on the divided island have made little progress yet. The Greek government has threatened to veto the whole eastward enlargement of the Union if Cyprus is not included in the first group of accessions. The EU is unlikely to risk invoking that threat, as it committed itself in 1999 to admitting a divided Cyprus as a member, and has been negotiating just with the internationally recognised Greek Cypriot government. However, there is a risk that Turkey might try to annex the northern part of the island (whose government only Turkey recognises) if it is forced into a corner and offered no concessions by the EU. The results of the Turkish elections on November 3rd will be critical to determining the new government's stance on the Cyprus question.

★ **Maltese opposition.** The other Mediterranean candidate for accession is also nearly ready, but the Maltese have the smallest majority in favour of joining. The opposition Labour party would put Malta's accession on hold if it wins the next election – which could be held anytime in 2003.

Ratification prospects

There will be just one Treaty of Accession, rather than individual treaties for each candidate country. This treaty has to be ratified by every member-state's parliament plus the European Parliament, providing a total of 16 potential vetoes. However, having just one treaty lessens the chances of the accession of any particular candidate being blocked by a member-state's parliament. Moreover, no member-state is currently planning to hold a referendum on the accession treaty, although all of the candidates will probably do so. But if the accession treaty is signed in spring 2003, that does not leave many months for all the member-states to complete their parliamentary ratification procedures in time for the accession to take place on January 1st 2004.

The timetable's concluding date gives the EU some room for manoeuvre if it runs into difficulties with concluding negotiations and ratification. The Seville road-map gives no commitment to a particular day for accession in 2004. Traditionally, accessions have always occurred on January 1st, but a date later in the year is also possible, as the goal is accession in time for the European Parliament elections in June. Indeed, it is still possible that accession could occur after June, but with a protocol that allows the candidate countries to be included in the European Parliament elections, with the elected MEPs taking up their seats immediately after accession. There is a precedent for such an arrangement from the last enlargement with Austria, Finland and Sweden in 1995.

On the candidates' side, public support has been falling in several countries owing to perceptions that the EU is being unfair and ungenerous. However, arguments about security, historical destiny and the need to be part of the European mainstream are likely to predominate in most referendum campaigns. A greater risk is that acrimonious wrangling in the final phase of negotiations will sour the atmosphere when the candidates finally join in 2004, increasing public hostility to the EU and creating Euroscepticism in the longer term.

The sequencing of the different referenda will affect the political dynamics: if one candidate country rejected the accession treaty early on, or passed it by a tiny margin, that could influence the outcome in other countries. It is thus encouraging that Hungary – which has strong support for membership – looks likely to hold its referendum first. However, if one of the candidate countries rejected membership in a referendum, that would not stop the whole process. The EU can simply delete that country's name from the accession treaty and proceed with the other candidates, as it did when Norway said 'no' to membership in 1994 after the Norwegian government had already signed the accession treaty.

Conclusions

Enlargement to ten new member-states in 2004 is still the most likely outcome. However there are at least three points at which the timetable could slip: conclusion of negotiations, ratification by member-states, and the last progress report by the Commission prior to accession. A mid-year date for accession in 2004 is thus more likely than January 1^{st}.

A serious delay to enlargement beyond 2004 would have repercussions well beyond the ten front-runner candidates. There is much more at stake than how the EU organises itself internally, and who gets what from its central kitty. Enlargement is all about foreign policy – it is the one area where the EU can exercise real power and influence.

If it fails to enlarge on time, and is unable to offer a credible prospect of membership to key partners like Turkey and the Balkan countries, the EU will start to lose its leverage. If the Union cannot live up to its promises to let in countries that are as well-prepared as Hungary and Estonia, then it cannot use the carrot of accession to encourage democratisation, economic reform and good-neighbourly relations in Croatia, Serbia, Ukraine and a host of other countries that harbour membership aspirations. The EU's decisions on enlargement in the next two months will have major geo-political consequences.

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