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EASTERN ENLARGEMENT AND PORTUGAL

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Abstract: The paper is structured in two parts. The first one analyses the proposals of the European Commission concerning the reform of the European Union policies and the Eastern enlargement, set out in Agenda 2000. The second addresses the impacts of the Eastern enlargement to Portugal. The paper reviews the standard argument against the Eastern enlargement and presents evidence that an once and for all enlargement of all the ten Central and Eastern European Countries that applied for EU membership is unlikely to occur. The paper overlooks the competitive pressures the Eastern enlargement implies and provides indication that it is essentially a political process.

Keywords: Eastern enlargement, Agenda 2000, European Union, Central and Eastern European Countries (CEECs), Portugal

Tiivistelmä: Tutkimuksen ensimmäinen osa analysoi EU:n komission ehdotuksia yhteisön politiikan uudistamiseksi ja EU:n itälaajenemista, sellaisina kuin ne näkyvät Agenda 2000:ssa. Toinen osa käsittelee itälaajenemisen vaikutuksia Portugaliin. Tutkimus esittää tavanomaiset perustelut itälaajenemista vastaan. Tässä keskustelualoitteessa osoitetaan, että on epätodennäköistä, että kaikki kymmenen jäsenyyttä hakenutta Keski- ja Itä-Euroopan maata liittyisivät kerralla Euroopan unioniin. Tutkimus käsittelee laajenemisen aiheuttamia kilpailupaineita ja osoittaa, että EU:n laajeneminen itään on oleellisesti poliittinen prosessi.

Asiasanat: Itälaajeneminen, Agenda 2000, Euroopan unioni, Keski- ja Itä-Euroopan maat (KIE), Portugali

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Contents

1. Introduction

Since the middle of the 1990's the European Union (EU) has been receiving requests for membership from ten Central and Eastern European countries (CEECs). The Eastern enlargement of the EU will soon become reality and Portugal fears some of its impacts.

The present paper analyses the proposals of the European Commission with respect to the Eastern enlargement and assesses the impacts of the latter to Portugal.

Since the signing of The Treaties of Rome in 1957 the EU has experienced four enlargements. The **Southward enlargements** in the 1980s posed new challenges to the EU, similar to the ones it is facing right now. Like the Southern economies at the time of their EU membership application, the CEECs have economies that present a considerable gap both in development and democratisation.

The enlargement towards the CEECs will imply high demands both in Common Agricultural Policy (CAP) and Structural Operations expenditure headings. The overall per capita GDP of the CEECs is estimated at 40% of the Union average and agriculture represents a large share of GDP and employment. A once and for all enlargement of the EU is not possible because of the high flow of funds it would imply. Moreover, the CEECs are not a homogeneous group but present wider disparities concerning income, unemployment rates, growth potential and foreign direct investment. Accession negotiations and the question of transitional periods are some of the challenges the Union faces with the enlargement process together with the institutional arrangements and policy reform.

Together with the Commission's perspective on the Eastern enlargement this paper addresses the challenges presented by the policies reform. **Chapter 1** presents the proposals of the Commission set out in Agenda 2000 with respect to EU policies. **Chapter 2** analyses the Commission's considerations with respect to the Eastern enlargement.

When Portugal achieved EU membership, its per capita GDP was 55% of the EU average. Since accession the gap has been progressively narrowed. The country is currently under a phase of economic expansion and will be in the front run as a Member State (MS) who will join the European and Monetary Union (EMU) since the beginning. However, Portugal is a heavy user of these Funds and much of the convergence relied on those transfers.

The Eastern enlargement will imply increased competition over Structural Funds. Therefore, Portugal and the other Southern economies fear its impacts on their convergence process. These impacts will be addressed in the second part of the

paper. **Chapter 3** overlooks Portugal's economic situation in recent years and **Chapter 4** analyses its position in the use of Union's resources. **Chapter 5** presents Portugal's position with respect to the Eastern enlargement and discusses potential implications of the latter. **Chapter 6** concludes.

2. Agenda 2000: Changes in the EU policies

In Agenda 2000 the European Commission replies to the application for EU membership made by the ten CEECs. The document provides not only an assessment of each applicant and evaluation of the impact of enlargement but also presents the proposals on policy and financial reforms. The European Union faces a triple challenge with the issues discussed in Agenda 2000: strengthening and reforming the Union's policies, negotiating and financing the enlargement of the EU.

The policies of the Union comprise Internal Policies, Regional Policy, the Common Agricultural Policy (CAP) and External Action. Each of these will be analysed below. However, focus will be placed on the reform of Regional Policy, particularly, on the proposals concerning Structural and Cohesion Funds, due to the importance of these expenditure headings to Portugal.

2.1 Internal Policies

The priorities set out by the Commission are sustainable growth, full employment and improvements in the quality of life. The Commission aims to attain these goals by the Economic and Monetary Union, the Single Market and the competition rules, the improvement of small and medium sized enterprises, the development of an environmentally friendly production and consumption, and the transeuropean networks. In order to attain sustainable growth by improving the competitiveness of the European economy particular attention will be given to research, innovation, education, and training. To promote employment, a reform of the pensions and health care system is needed. To improve living conditions particular attention should be given to public health, environmental regulation, security and justice.

The growth rate Internal Policies register in the new Financial Framework attest the emphasis on growth and employment. The total allocation for internal policies will rise from EUR 6386 million in 1999 to EUR 7600 million in 2006, as presented in Table 1. Nevertheless, expenditure under Internal policies accounts only for 7% of total expenditure in the period 2000-2006.

Table 1 Internal Policies in the Financial Framework for 2000-2006

(million EUR - 1999 constant prices)

	2000	2001	2002	2003	2004	2005	2006
Internal Policies	6390	6710	6880	7050	7230	7410	7600

Source: Commission 1997.

2.2 Regional Policy

Since the Single European Act (1987) cohesion has been one of the main priorities of the EU. The Treaty on European Union (1993) stated Cohesion as one of the three pillars, along with Economic and Monetary Union and the Single Market. The Amsterdam Treaty (negotiated in 1997) added employment as another pillar.

The article 130a in the Treaty on European Union states that Community actions should lead to the strengthening of economic and social cohesion. The text also states that they shall aim at reducing disparities between levels of development of the various regions. The following box explores the concept of Economic and Social Cohesion.

Economic and social cohesion

The Maastricht Treaty establishing the European Union, which entered into force on 1 November 1993, makes economic and social cohesion one of the Union's primary objectives. Therefore, the Union as a whole must show solidarity towards its poorest countries, regions and population groups by:

- ensuring a fair distribution of the expected benefits of European unification;
- speeding up economic and social development in the less-prosperous countries so that they can play a full part in the economic and monetary union and accept the discipline involved;
- correcting present imbalances (e.g. wages, social security systems, infrastructure networks, quality or productivity) which can lead to distortions of competition, forced migration etc.;
- supporting the creation of a European employment market to assist the groups most at risk (e.g. young people, those excluded from the employment market, the long-term unemployed, workers affected by restructuring);
- actively promoting growth, competitiveness and employment through infrastructure projects and training;
- speeding up the structural reforms needed to prepare Europe for the new millennium.

Cohesion plays an increasingly important role in the enlargement towards the CEECs. The EU faces economies that present an enormous income gap compared to Member States. Overall per capita GDP for the ten CEECs is estimated at 40% of the EU average while for the four least developed economies among current MS (Greece, Spain, Ireland, and Portugal) the average income level is estimated to be 80% of the EU average. In addition, there are wider disparities between the CEECs itself concerning either income, unemployment rates, growth potential, and foreign direct investment.

In order to reduce the gaps between the more and the less developed regions, achieving economic and social cohesion, the Structural Funds and the Cohesion Fund were launched. Under the Structural Funds we can consider four channels of aid, as stated in the next box.

The Structural Funds

The European Regional Development Fund (ERDF)	Focuses on productive investment, infrastructure and SME development.
The European Social fund (ESF)	Implements vocational training and employment aids.
The European Agricultural Guidance and Guarantee Fund (EAGGF)	Promotes the adjustment of agriculture Structures and rural development measures.
The Financial Instrument for Fisheries Guidance (FIFG)	Creates structural measures in the fisheries' sector.

The resources provided by the Structural Funds target less favoured regions according to certain priority objectives. The box “The objectives of the Structural Funds and the regions concerned” presents the objectives under the Structural funds. The ERDF provides aid to four kinds of regions according to objectives 1, 2, 5b, and 6. The other Funds cover all the regions in the Union according to objectives 3, 4, and 5a. Figure 1 presents information on the disadvantaged regions that receive financial assistance through the Structural Funds according to the priority objectives.

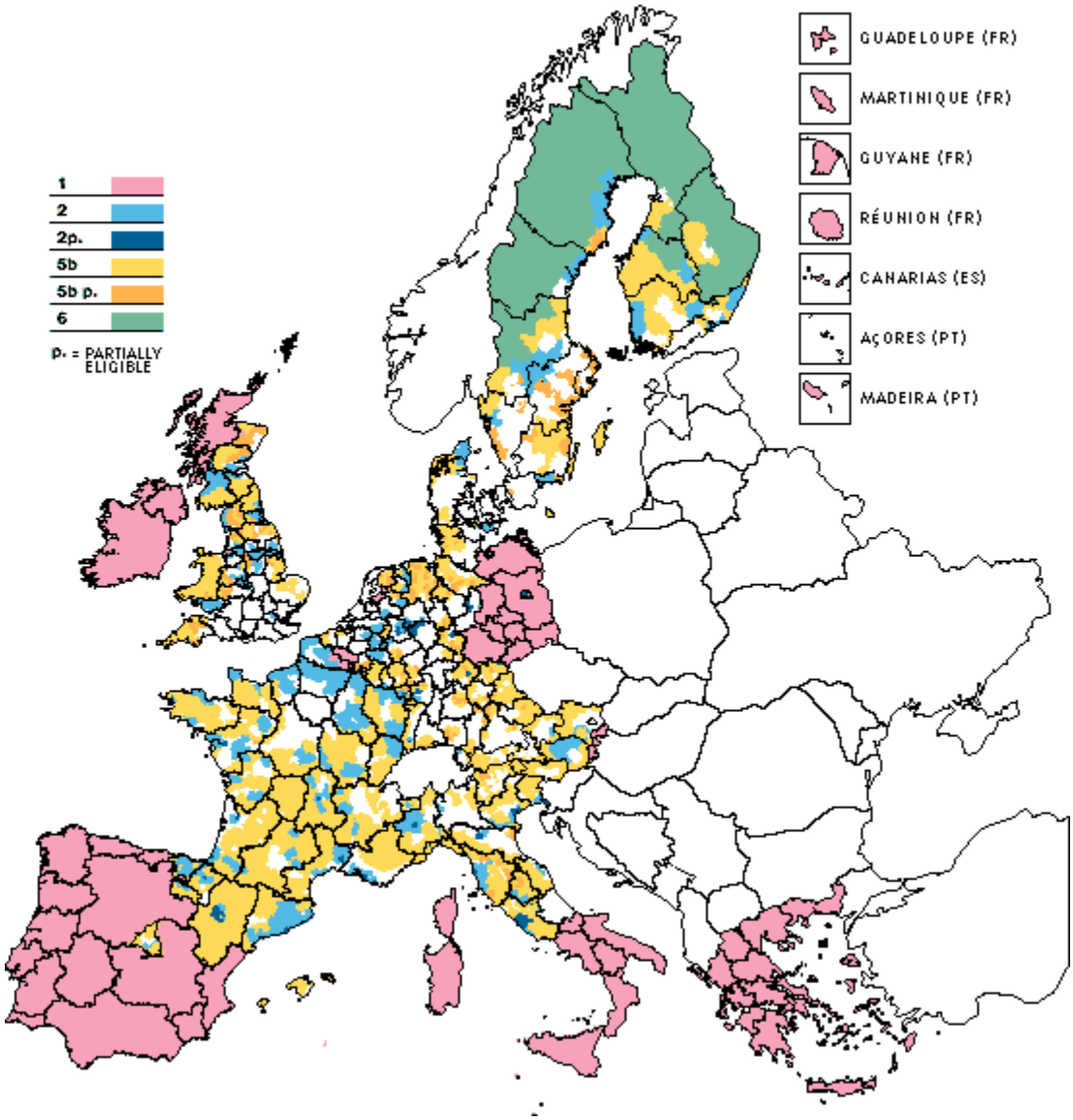
Three types of development programmes channel the financial assistance under Structural Funds. These are **National Programmes**, **Community Initiatives**, and **Innovative Measures**. **National Programmes** are designed by Member States.

The objectives of the Structural Funds and the regions concerned

Objective 1	Regions (NUTS II)[1] whose per capita GDP has amounted to less than 75% of the community average over the past three years, as well as other regions whose GDP is around that value but are included for special regions.
Objective 2	Regions (NUTS III) whose unemployment rate is above the Community average, and depend on a declining sector.
Objective 3	Focus on combating unemployment, facilitating the integration into working life, and promoting of equal employment opportunities.
Objective 4	Emphasis on facilitating the adaptation of workers to industrial and production systems changes.
Objective 5a	Focus on the adjustment of agriculture structures under the Common Agricultural Policy and in the modernisation and structural adjustment of the fisheries' sector.
Objective 5b	Regions with low level of socio-economic development, high share of agricultural employment, low level of agricultural income, low population density and/or significant depopulation trend.
Objective 6	Areas with a very low population density.

Member States then seek for approval and adoption by the European Commission in order to get financial assistance. **Community Initiatives** are special programmes proposed by the Commission to the Member States. Financial assistance does not cover the total costs of the project. The **additionality** principle states that Community assistance complements the contributions of the Member States, which can be either public or private. Besides **additionality**, three other principles rule the implementation of the Funds. These are **concentration**, **programming**, and **partnership**. **Concentration** implies that structural operations focus on the seven objectives mentioned before. **Programming** means that structural measures are set on a multiannual basis for periods of three or six years. **Partnership** means that programmes are submitted to the Commission by the MS concerned in association with regional and local authorities, economic organisations and representatives of industry. MS do not have direct access to the funds but apply to the relevant regional and national authorities.

Figure 1 Structural Funds Financial Assistance in the European Union



Source: ERDF (1998).

Besides **National Programmes** and **Community Initiatives** there can also be **Innovative Measures** that are an exception to the partnership principle since the Commission has the power to initiate and develop them.

The Cohesion Fund provides financial support to projects that contribute to the improvement of the environment and to the development of transport infrastructure. The fund aims to target the least developed Member States. The

[1] Nomenclature of Territorial Units for Statistics, see Glossary.

eligibility criteria are: a GNP below 90% of the Community average and following an economic convergence programme. Portugal, Spain, Greece and Ireland are the only MS that qualify.

The main objective of structural and cohesion funds is to narrow economic disparities in the EU. A reform of these funds is essential in order to consider enlargement towards the CEECs. The extension of Regional Policy to the CEECs without reform would pose serious problems. The flow of funds would be unacceptably high either for the CEECs and for present EU Member States. High level of funds would be unacceptable by the CEECs for two main reasons. First, most funds are based on **cofinancing principles** that they could not satisfy. Second, they are transition economies with limited capacities of absorption. From the perspective of current MS, the high level of funds is not acceptable because the CEECs accession would lower the EU's average GDP per head and consequently exclude some of the current recipients of funds.

The solution proposed by the Commission must be accepted by the cohesion countries, who expect to be entitled to the same treatment after accession. It must also be accepted by the Eastern accession countries, who want to be treated as current Member States. Likewise, it must be accepted by the northern countries, who expect not to increase their contributions to the European budget. The Commission proposes major changes in this policy area. The rules of change are: simplification, integration, decentralisation, and concentration. The goal is to increase the effectiveness of funds by reducing the administrative burden, intensifying the integrated approach to development and building on the political dialogue. To achieve efficiency gains a reduction both in the number of objectives and in the number of Community Initiatives is proposed. The Commission also proposes the implementation of a single multiannual programme for each region concerning regional objectives and a national programme or a set of regional programmes for the horizontal objective.

The Commission proposes a reduction in the number of objectives from seven to three, two regional objectives and one horizontal objective. As before, the regions qualified for Objective 1 face the most serious problems concerning income, employment, production systems and infrastructure. Their average level of unemployment is 60 per cent higher than the EU average and GDP per head is below 75 per cent of the EU average. The new Objective 2 applies to other regions suffering from structural problems such as economic restructuring problems, dependency on a single declining economic sector, high rates of unemployment or depopulation. The new Objective 2 aim is to foster diversification, restore economic dynamism and promote an active business culture. The new Objective 3 applies to regions not covered by the previous Objectives and relates to human resources, particularly the modernisation of educational systems, training and development.

The Commission sets a geographical concentration of assistance by reducing the population eligible for Objective 1 from 25% to 20% of the current EU population, and targeting 18% of the EU population with the new Objective 2. Transitional schemes will be considered for regions that no longer meet the eligibility criteria for Objectives 1 and 2.

The Commission also proposes a reduction in the number of Community Initiatives. The 13 Community Initiatives that exist now resulted in the excessive number of 400 programmes. The reform restricts **Community Initiatives** to three fields: first, cross-border, trans-national and inter-regional co-operation, second, rural development, third, human resources. This enables a 5% reduction in the share of resources the **Structural Funds** allocates to **Community Initiatives**.

The Cohesion Fund, according to Article 130b of the Treaty of Maastricht, aims "to provide a financial contribution to projects in the fields of environment and trans-European networks in the area of transport infrastructure". The Commission proposes no changes, it is applied to Member States whose per capita GNP is less than 90 per cent of the Community average, irrespective of whether or not they join the third stage of economic and monetary union.

According to the Commission's communication concerning the new financial perspective for the period 2000-2006, the allocation for structural operations would be EUR 247 billion, a growth of 15% compared to the previous financial period 1993-99. Of this amount, EUR 239 billion would be for operations in the existing Member States, including EUR 21 billion for the Cohesion Fund, and EUR 7 billion for the applicant countries as pre-accession aid. Table 2 presents the allocation of Structural Operations for the period 2000-2006. Expenditure under Structural Operations accounts for 34% of total expenditure in the next Financial Perspective.

Table 2 Structural Operations in the Financial Framework for 2000-2006

(million EUR - 1999 constant prices)

	2000	2001	2002	2003	2004	2005	2006	Total	Share
Structural Operations	36640	37470	36640	35600	34450	33410	32470	246680	100 %
Structural Funds	32600	33430	32600	31560	30410	29370	28430	218400	88.54 %
Cohesion Funds	3000	3000	3000	3000	3000	3000	3000	21000	8.51 %
Pre-accession Aid	1040	1040	1040	1040	1040	1040	1040	7280	2.95 %

Source: Commission 1997.

2.3 Common Agricultural Policy

The need for a CAP reform is a result of several factors. These comprehend the anticipation of a strong growth in demand, the next round of multilateral trade talks, the prospect of enlargement, the appearance of food mountains, the unequal distribution of support between both regions and producers, the need of a sustainable rural development that respects environment, guarantees food safety and food quality.

The main goals of the Commission, with respect to the agriculture, are improving its competitiveness in world markets, and making it more consumer and environmentally friendly. Reforms proposed comprise of lowering prices, improving food safety and quality, assuring environmental friendliness of production methods and assuring respect for animal welfare.

The approach in Agenda 2000 for the reform of CAP follows the same rules as the reform of Regional Policy: simplification, integration, decentralisation, and concentration. The European Commission proposes a cut in price support up to 30% for the most important products (cereals, beef, and dairy products), a removement of production limits for cereals, and an increase in direct payments to compensate for the losses in income. These measures would prevent an increase in product surpluses, improve competitiveness of European products in world markets, provide consumers with lower prices, and allow for a more offensive position at the World Trade Organisation (WTO).

The new rural development policy is one of the principal aspects of Agenda 2000's CAP reforms. It points out the diversification of farmers' activities towards recreational activities, village renovation, and tourism. It also stresses the importance of the environment and favours agri-environmental instruments that support a sustainable development of rural areas.

With respect to the financial perspective, reforms will raise the cost of CAP by EUR 6.4 billion EUR. CAP remains the most costly policy of the Union, accounting for 47% of the expenditure for the next Financial Perspective. However, the Commission concludes that CAP spending can be covered within the annual limit on expenditure growth of 74% of GNP growth, see Table 3.

Table 3 Common Agricultural Policy in the Financial Framework for 2000-2006

	(million EUR - 1999 constant prices)						
	2000	2001	2002	2003	2004	2005	2006
Agricultural	46050	46920	47820	48730	49670	50630	51610
of which Pre-accession aid	520	520	520	520	520	520	520

Source: Commission 1997.

2.4 External Action

External action heading comprehends expenditure due to co-operation with non-member countries (the CEECs, the independent states of the former Soviet Union, Mediterranean countries and countries in Asia and Latin America), humanitarian aid, food aid, and general co-operation measures, such as international fisheries agreements, human rights and democracy.

One current issue is co-operation with African, Caribbean and Pacific States (ACP countries) since the Lomé conventions will end in one year. Development co-operation with ACP countries is mainly financed by Member States contributions to the European Development Fund. The fund was set out under the Lomé Conventions. Debates have started to consider the future of development co-operation with ACP since the agreements under the current Lomé Convention will end in the year 2000. For the discussions with the 71 ACP countries, the European Union has set the goal of fighting poverty. The European Commissioner João de Deus Pinheiro has also announced that development aid will cease in countries that are facing “unjustified wars”.

The main point set out in the Agenda 2000 is that for political, peace and stability reasons enlargement can not interfere with Community obligations towards the rest of the world. According to the Commission’s communication on Agenda 2000, the Union is the most important provider of international aid. The Community and Member States are responsible for financing half of the global international development assistance effort, well over half of the world humanitarian aid, and one third of total aid to the Middle East. Commitments have to be instituted so that mutual confidence is not affected.

Enlargement must be a powerful instrument for peace, stability and security. However, in order to achieve these, coherence between internal and external relations must be achieved and an integrated approach to external relations must be built. According to the Commission’s proposals, security, stability, democracy and development co-operation would be efficiently achieved if supported with a Common Foreign and Security Policy. The treaty of Amsterdam opened the door, but the Member States will dictate the direction.

The distribution of the external action expenses in the financial perspective for 2000-2006 is presented in Table 4. External action expenditure accounts for 7% of total expenditure in the period 2000-2006.

Table 4 External Action in the Financial Framework for 2000-2006

	(million EUR - 1999 constant prices)						
	2000	2001	2002	2003	2004	2005	2006
External Action	6870	7070	7250	7430	7610	7790	7900
of which Pre-accession aid	1560	1560	1560	1560	1560	1560	1560

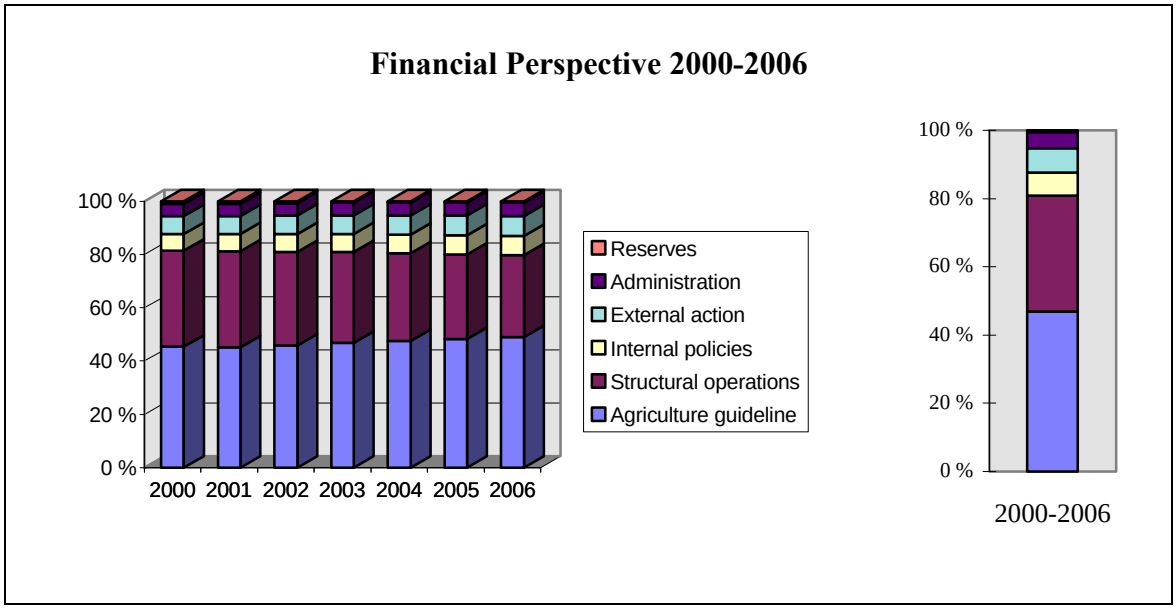
Source: Commission 1997.

2.5 Maintaining the ceiling

With the reforms proposed in Agenda 2000 the Commission of the European Union expects to face the challenge of the enlargement. As mentioned before, the proposals have to balance not only the expectations of the applicant countries, the demands of the northern countries, but also the needs of the cohesion countries. The priority of the Commission for the next Financial Perspective appears to be the maintaining the own resources ceiling of 1,27% of Member States' GNP. Figure 2 and Table 5 present the Financial Framework for 2000-2006.

The Commission's conclusion is that under certain assumptions there will be no need to raise the current own resources ceiling. The assumptions comprehend: GNP economic growth rate of 2.5% a year for the EU countries; GNP deflator of 2% a year; medium term economic growth rate of 4% a year beyond 1999 for the applicant countries, and the accession of five CEECs and Cyprus in 2002.

Figure 2 Financial Framework for 2000-2006, distribution of expenditure



Source: Commission 1997.

Table 5 Financial Framework for 2000-2006

	(million EUR - 1999 constant prices)						
	2000	2001	2002	2003	2004	2005	2006
Internal Policies	6390	6710	6880	7050	7230	7410	7600
Structural Operations	36640	37470	36640	35600	34450	33410	32470
Structural Funds	32600	33430	32600	31560	30410	29370	28430
Cohesion Funds	3000	3000	3000	3000	3000	3000	3000
Pre-accession Structural Aid	1040	1040	1040	1040	1040	1040	1040
Agricultural	46050	46920	47820	48730	49670	50630	51610
of which Pre-accession aid	520	520	520	520	520	520	520
External Action	6870	7070	7250	7430	7610	7790	7900
of which Pre-accession aid	1560	1560	1560	1560	1560	1560	1560
Administration	4730	4820	4910	5010	5100	5200	5300
Reserves	850	850	600	350	350	350	350
Appropriations for commitments-ceiling	101530	103840	104100	104170	104410	104790	105230
Appropriations for payments-ceiling	98800	101650	102930	103520	103810	104170	104560
Appropriations for payments-ceiling (% of GNP)	1.24	1.24	1.22	1.20	1.18	1.15	1.13
Margin (%)	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Reserve for accession (%)			0.02	0.04	0.06	0.09	0.11
Own resources ceiling (%)	1.27	1.27	1.27	1.27	1.27	1.27	1.27

Source: Commission 1997.

3. Agenda 2000 and the Eastern Enlargement

3.1 The fifth enlargement: criteria and candidate countries

The territorial enlargement of the EU has been a feature of the Union since the signature of the Treaties of Rome in 1957. The Union has seen its boundaries enlarging to encompass Denmark, Ireland and the UK in 1973, Greece in 1981, Spain and Portugal in 1986, and Austria, Finland and Sweden, more recently, in 1995. The Union is now preparing its fifth enlargement towards the CEECs. Hungary and Poland applied for the EU membership in 1994, Romania, Slovakia, Latvia, Estonia, Lithuania and Bulgaria applied in 1995, and The Czech Republic applied in 1996. At the European Council in Copenhagen in 1993, Member States agreed that "the associated States of Central and Eastern Europe can become members of the European Union if they so desire and as soon as they are able to fulfil the necessary conditions." The criteria set out in the Copenhagen European Council comprise the following:

- "stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities;
- the existence of a functioning market economy as well as the capacity to cope with competitive pressures and market forces within the union; and
- the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union."

Also, with respect to the existing Member States, enlargement should not interfere with integration in the Union and should respect Union's ability to absorb new members.

The information provided by the European Commission in Agenda 2000 is rather general when assessing the accession criteria and one can question its usefulness to each of the candidate countries in particular.

The fifth enlargement would imply dramatic changes in the present EU. The applicant countries have a total population of 100 million (around 25% of the EU population) but per capita income is 40% of the average. In addition, agriculture represents a larger share of GDP and employment in the candidate countries. Enlargement will therefore imply high demands in Common Agricultural Policy and in Regional Policy. Tables 6 and 7 provide some indicators of the Candidate Countries.

The characteristics of the CEECs will lead to long and hard negotiations. For example, negotiations between Portugal and the EU have lasted for eight years and the differential in GDP was narrower. In 1986, Portugal's per capita GDP was around 55% of the EU average.

Table 6 Key Indicators of Candidate Countries 1996

	Bulgaria	Czech Rep	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovenia	Slovakia	EU15
Basic data											
Total area (in 1,000 km	111	79	45	93	65	65	313	238	20	49	3236
Total population (in 1,000s)	8.340	10.309	1.476 [a]	10.174	2.480	3.707	38.639	22.608	1.987	5.379	372.654
Labour market											
Economic activity rate (%)	51.8	61.3	70.4 [b]	56.1	59.8	62.3	58.8	67.2 [a]	58.7	61.6	55.2 [a]
Unemployment rate (%)	13.7	3.8	7.6 [b]	9.2	18.3	6.2	12.4	8.0 [a]	7.3	10.9	10.7 [a]
Agriculture: % total employees	23.2 [b]	6.3 [a]	13.1 [a]	8.0 [a]	18.5 [a]	23.8 [a]	26.9 [a]	34.4 [a]	7.1 [a]	9.7 [a]	5.3 [b]
Economy											
GDP at current prices in bn ECU '95	9.9	37.8	2.8	33.8	3.4	3.5	91.0	27.3	14.3	13.3	6.441.5
GDP per person in PPS '95	4.210	9.857	3.876	6.390	3.144	4.129	5.318	4.159	10.199	7.036	17.264
Gross added value by branch (%):											
- agriculture (1995)	13.9	5.2	8.1	6.2	9.9	9.3	7.6	20.5	5	6.3	2.4
Annual inflation – average rate (%)	123.0	8.8	23.1	23.6	17.6	24.6	19.9	38.8	5.8	9.7	2.5
External trade											
Balance of trade in m ECU	-232 [a]	-4.640	-888	-2.414	-691	-886	-10.005	-1.929	-860	-1.665	-
EU share of total imports (%)	39	58	64	60	49	43	64	52	37	68	-
EU share of total exports (%)	40	58	50	63	44	34	66	56	41	65	-

a, 1995
b, 1994
- data not comparable

Source: Eurostat 1997.

Table 7 CEECs GDP per person in current prices (US $) and PPP, 1997

	Amount	% of the EU average
Bulgaria	4.400	23
Czech Republic	12.000	63
Estonia	7.000	37
Hungary	8.900	47
Latvia	5.100	27
Lithuania	5.800	30
Poland	7.500	40
Romania	5.800	31
Slovakia	8.900	47
Slovenia	13.000	68
TOTAL CEECs	*7.500*	*40*
Portugal	*13.400*	*71*
EU	*19.000*	*100*

Source: Eurostat 1998.

3.2 The fifth enlargement: impact

A fifth enlargement that encompasses the ten CEECs and Cyprus, implies an unprecedented reduction in the average per capita GDP for the community as a whole, see Table 8. An enlargement of this extent is not likely to occur. Under the current eligibility criteria, the whole territory in all candidate countries would be eligible for assistance under Objective 1 of the **Structural Funds**. As mentioned before the flow of funds would be unacceptably high both for the CEECs and for the present EU Member States. Furthermore, the reduction in the average per capita GDP would exclude some of the current recipients of funds.

When establishing the next Financial Perspective the European Commission considers with respect to the fifth enlargement the accession of the five CEECs and Cyprus in 2002. In its evaluation of the candidate countries, the European Commission recommended that negotiations should be initiated with Estonia, Poland, Slovenia, the Czech Republic and Hungary, and with Cyprus that applied for membership in 1990. According to the Commission none of the applicant countries meets the membership criteria. However, these are foreseen to fulfil the criteria relatively soon.

Consider now the assumption adopted by the Commission, i.e. the accession of the five CEECs (Estonia, Poland, Slovenia, the Czech Republic and Hungary) and Cyprus. The impacts of that smaller enlargement still present a considerable reduction in the average per capita GDP for the community as a whole. However, that reduction is not very different from the ones occurred in previous

enlargements, for instance when Portugal and Spain became members of the Union.

Table 8 The impact of successive enlargements of the EU

	Increase in area	Increase in population	Increase in total GDP PPS	Change in per capita GDP	Average per capita GDP (EU 6=100)
EU 9/ EU 6	31 %	32 %	29 %	-3 %	97
EU 12/ EU 9	48 %	22 %	15 %	-6 %	91
EU 15/ EU 12	43 %	11 %	8 %	-3 %	89
EU 26/ EU 15	34 %	29 %	9 %	-16 %	75
EU 21/ EU 15*	17 %	17 %	6 %	-9 %	81

based on 1995 data.

* accession of five CEECs (Estonia, Poland, Slovenia, the Czech Republic and Hungary) and Cyprus.

Source: Commission 1998a, and own calculations based on Eurostat 1997 for EU 21/EU 15.

3.3 The fifth enlargement: accession expenditure

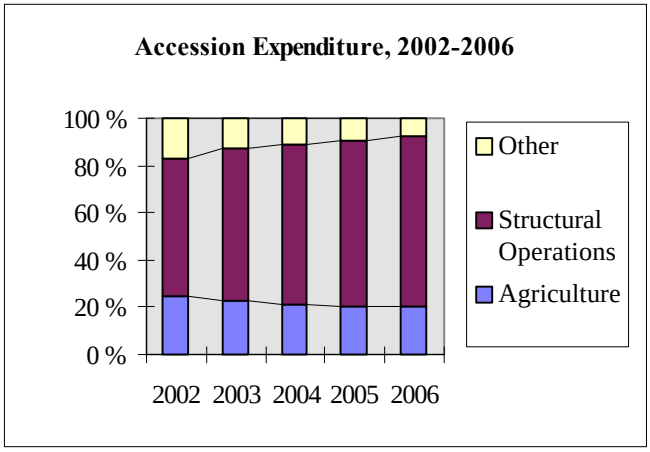
The conclusion that comes out of Agenda 2000 with respect to the financing of the enlargement, is that it is possible to carry out that process without rising the own resources ceiling of 1,27% of the Member States' GNP. Pre-accession aid in the financial framework for 2000-2006 consists of an agricultural instrument with a budget of 500 MECU a year, a structural instrument with a budget of 1040 MECU, and the Phare Programme that comes under external action with a budget of 1560 MECU per year. Once the accession of the five CEECs and Cyprus takes place in 2002, the level of pre-accession aid will not be changed and it will be concentrated on the other candidate countries. Accession expenditure is not considered in the Community's Financial Perspective. The estimates of the Commission are presented in Table 9 and represent the common negotiating position of the fifteen Member States.

From Table 16 and Figure 3 we can conclude that Structural Operations account for the bulk of accession expenditure. The share of Structural Operations expenditure for the new MS will tend to rise in the first four years of membership, whereas the share of Agriculture expenditure will slightly diminish. Overall, after accession, Structural Operations expenditure will account for 68% of total expenditure, whereas Agriculture expenditure will account for 20%.

The accession expenditure will not imply a rise in the own resources ceiling of 1,27% of the Member States' GNP. The sources available for financing comprehend the present margin available beneath the guideline for the fifteen

Member States, the amounts entered in the financial perspective for that purpose, and the additional own resources generated by the increase in the Union's GNP following accession.

Figure 3 Distribution of expenditure resulting from accession, 2002-2006



Source: Commission 1998a.

Table 9 Expenditure resulting from accession 2002-2006

(million EUR - 1999 constant prices)

	2002	2003	2004	2005	2006	Total	Distribution
Agriculture	1600	2030	2450	2930	3400	12410	21 %
Structural Operations	3750	5830	7920	10000	12080	39580	68 %
Internal Policies	730	760	790	820	850	3950	7 %
External Action	370	410	450	450	450	2130	4 %
Total Commitments	6450	9030	11610	14200	16780	58070	100 %

Source: Commission 1998a.

The bargaining position of the applicant countries is rather weak before the enlargement takes place However, after accession, the power politics of the enlarged Union will change and so might change the spending rules. According to Baldwin, Francois and Portes (1997), pre-enlargement spending rules, cannot be taken as indicative of future spending. For example, after the Iberian enlargement, in 1986, major changes in spending levels and rules occurred, mainly as a result of a major shift in the distribution of voting power, favouring the poor countries. They find a remarkable correlation between the spending on poor regions and the share of poor countries votes in the Council. Due to changes in power politics structural spending doubled when the Single European Act was ratified in 1987; the EU MS agreed on the growth limit of CAP spending and set

an upper bound on the EU budget as a percentage of GDP. Moreover, at the Edinburgh European Council, in 1992, the EU MS created the Cohesion Fund, a new channel for international income redistribution, favouring the least developed countries in the Union.

The enlargement will imply institutional changes in the composition and functioning of the institutions. At least one year before the enlargement, an Intergovernmental Conference will carry out a review of the provisions of the Treaties on these issues. Why shouldn't we think, bearing in mind the examples of previous enlargements, that new entrants will use their power to change future spending levels and rules?

4. Portugal at a glance

4.1 Portugal and EC membership

Accession negotiations between Portugal and the European Union were arduous and lasted almost a decade. Until the mid 70s, Portugal was under a dictatorship that arbitrarily ruled the economy. After the revolution of April, 1974, the state aimed to transform Portugal into a 'classless society'. The public sector was enlarged through the nationalisation of the private sector which were constitutionally set as irreversible. After the constitutional reforms in the beginning of the 1990s, the privatisation effort paved the way for free competition and economic growth.

Portugal's policy response to the EU integration has not been clear since their application for the EU membership in 1977. Fifty years of isolation and 'national integration' with the colonies enhanced the peripheral perspective of the country. Nowadays, according to public opinion, Portugal is, respectively, ranked in the 5th and 2nd positions as supporting the EU membership and feeling that the country has benefited from the EU membership. Nevertheless, over the years, opinions diverged considerably. In the beginning of the 1980s, 30% of the population considered the EU membership a "Good Thing". By the 1990s 80% felt this way, but the percentage fell to 61% last spring. In addition, in Portugal 62% of the population is still most likely to see themselves as Portuguese only in the near future. The sense of sharing a common European identity does not appear to have become more widespread over the years (Commission, 1998).

With respect to the Eastern enlargement public opinion sees the CEECs as distant and hold very similar attitudes towards all the applicant countries. In Portugal, 46 % of the population supports the enlargement, and the amount of spread between the lowest level of support and the highest level of support concerning the different applicant countries is the smallest for all the 15 Member States. Moreover, 35% of the population have no opinion with respect to enlargement, (Commission, 1998).

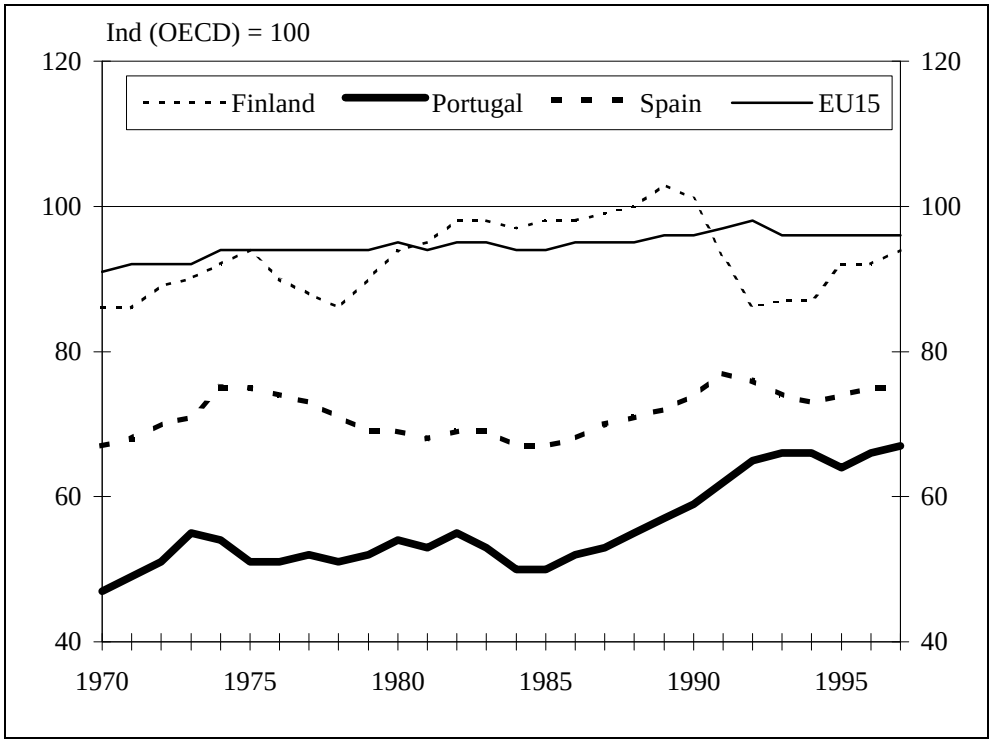
4.2 Economic Overview

Since the beginning of the 80s, Portugal has faced three main phases of economic expansion. The cycles can be seen in Figure 4. The first one started in 1986 with the EU accession, the consequent rise in foreign direct investment, and opening of the economy. The second in 1992, with the Maastricht Treaty, and the setting of price stability as the main economic priority paving the way to the Single

European Currency. Presently with the set of infra-structures (e.g. Expo-98 and the bridge over the Tagus river) made possible with the EU funds.

Portugal has been in a growth path for the last four years and it is expected to continue growing during the next year. The Socialist government's primary goal was to place Portugal as a founding member of EMU. The goal was achieved. The convergence criteria were met: inflation and long term interest rates fell close to the levels of the best performing EU countries, and the budget deficit is expected to be 2% of GDP in 1998. Table 10 presents information on main economic indicators for the Portuguese economy, for the period 1992-1999.

Figure 4 Gross Domestic product per capita (PPP)

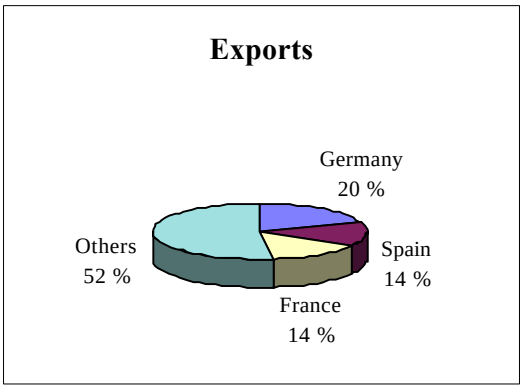


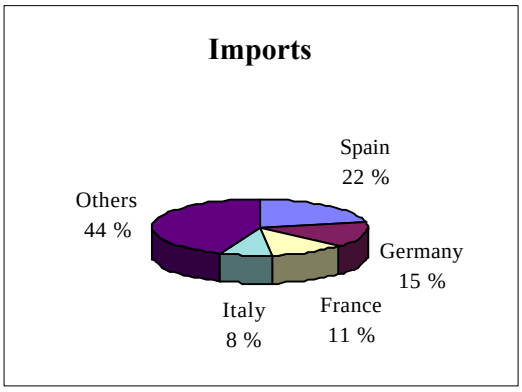
Source: OECD 1997.

Economic growth accelerated after 1996 due to stronger domestic demand. The successive falls in interest rates allowed private consumption and investment to rise. The output gap towards the EU countries has narrowed, and per capita income is about 71% of the EU 15 average. The privatisation of approximately 40 state owned enterprises over the seven years before 1996 created conditions for free and effective product market competition, strengthening the basis for growth.

Foreign trade plays an important role in economic growth, although the imports of capital goods lead to negative net exports. Trade is mostly oriented to the EU markets. Exports to the EU 15 account for 80% of Portugal's exports and imports from the EU 15 account for 75% of Portugal's imports (Eurostat 1998). The high level of dependence on the EC markets both as a supplier and a destination has been a feature of the Portuguese economy. In 1997, Portugal's most important clients were: Germany (20%), Spain (14%), France (14%) and the UK (12%), Figure 5. Its main suppliers were: Spain (23%), Germany (15%), France (11%) and Italy (8%), Figure 5. In the last 30 years, the industrial structure has remained the same. The main industries belonged to the traditional sectors, i.e. textiles, footwear and beverages (Mendes, 1993). Nowadays, the strong traditional exports are increasingly complemented by leading high tech products like plastic moulds, cork-based derivatives and prestige-ware. However, Portugal highly depends on external machinery and electrical equipment.

Figure 5 Geographical breakdown by country of Portugal s foreign trade





Source: Eurostat 1998.

After 1997, facilitated by increasing levels of investment, unemployment seems to have entered a downward path. However, some problems might be identified in Portugal's labour market. Those include high levels of long duration unemployment (12 months or more) and low level of educational and skill attainment.

Fiscal consolidation was possible due to lower interest rate payments and higher revenues from direct taxation and social security contributions. The latter reflects an increase in the efficiency of the tax system, for instance in revenue collection.

Table 10 Main Economic Indicators (percentage changes)

	1992	1993	1994	1995	1996	1997	1998(F)	1999(F)
Gross Domestic Product	1.8	0.3	0.7	1.9	3.0	3.5	3.8	3.2
–EU 15	1.0	-0.5	2.9	2.5	1.7	2.6	2.7	2.8
Private Consumption	5.6	0.5	1.0	1.0	2.2	2.6	2.8	2.8
–EU 15	1.6	-0.2	1.7	1.8	2.0	2.1	2.4	2.6
Public Consumption	0.4	0.9	1.3	2.4	1.8	1.9	1.8	1.5
–EU 15	2.1	1.0	1.1	0.9	1.4	0.3	1.1	1.3
Gross Fixed Capital Formation	4.6	-6.2	4.5	3.6	5.2	13.5	8.0	6.8
–EU 15	-1.0	-6.4	2.4	3.9	1.0	2.4	4.4	4.9
Exports of Goods and Services	4.1	-0.1	11.5	12.1	10.9	8.3	10.3	8.0
–EU 15	3.8	2.0	9.2	8.1	4.9	9.4	8.3	6.5
Imports of Goods and Services	10.5	-3.0	10.9	8.8	7.4	11.0	9.5	8.0
–EU 15	3.8	-3.5	7.9	7.3	3.6	8.5	8.5	6.8
Current Account (% of GDP)	-0.2	0.4	-2,2	-0.7	-1.5	-2.2	-1.7	-1.9
–EU 15	-1.1	0.1	0.3	0.6	1.1	1.6	1.5	1.6
Government Deficit (% of GDP)	-3.6	-6.1	-6.0	-5.8	-3.3	-2.5	-2.3	-2.0
–EU 15	-5.2	-6.4	-5.8	-5.3	-4.3	-2.4	-2.0	-1.8
Unemployment Rate	4.2	5.5	6.9	7.2	7.3	6.7	6.3	6.0
–EU 15	9.6	11.1	11.5	11.2	11.4	11.2	10.9	10.5
Consumer prices	8.9	6.5	5.2	4.1	3.1	2.2	2.1	2.0
–EU 15	4.4	3.5	3.0	3.0	2.4	1.9	1.9	1.9

Source: OECD 1998a.

Price stability has been achieved. Consumer price inflation is close to the level of the EU 15. Although interest rates have been falling, short term interest rates continue to be very high when compared to Germany. Therefore, further falls are expected to occur. Portugal's growth will depend mostly on the demand side of the economy.

5. EU resource use, the case of Portugal

5.1 The EU budget

The resources of the EU budget comprehend Traditional Own Resources (TOR), VAT and GNP own resources. TOR payments consist of agricultural levies and customs duties. The VAT resource is a result of a harmonised rate to each Member State's VAT base. Until 1994, the maximum VAT uniform rate was 1,40 per cent, but it has been decreasing since 1995 and is expected to fall to 1,00 per cent in 1999. Accordingly, the capping threshold applied to some MS was 55 per cent of GNP until 1994 and it is expected to be 50 per cent in 1999. The GNP own resource also known as the additional or fourth resource works as a "budget-balancing resource" provides the required revenue to cover the difference between planned expenditure and the amount yielded by traditional resources and VAT receipts. It takes the form of a contribution proportional to the country GNP and its uniform rate is variable. Total own resources are bounded by an overall ceiling fixed as a percentage of total Community GNP. This expenditure ceiling is expected to remain 1.27% during the next Financial Perspective.

By analysing the composition of the EU own resources in the last decade, one can conclude that TOR relative contribution has been decreasing, as well as VAT. The balance has been attained by a progressive increase in the relative share of the GNP own resource, Table 11 and Figure 6.

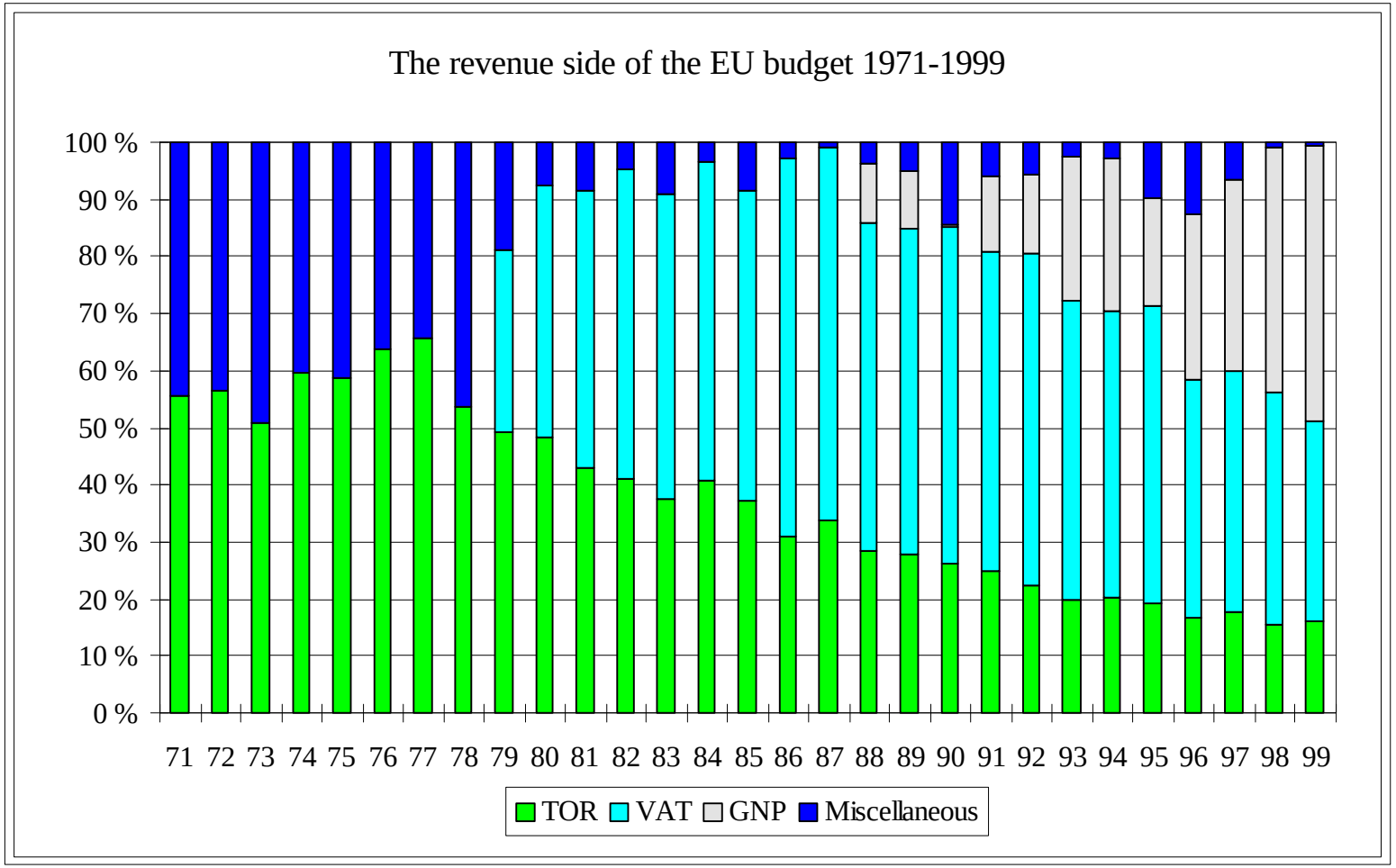
The resources mentioned above finance the expenditure side of the EU budget. The EU expenditure covers a wide range of headings but it is concentrated in two of them, Common Agricultural Policy and Regional Policy. European Agricultural Guidance and Guarantee Fund (EAGGF) and **Structural Funds** account for 80% of the EU expenditure. In the last decade, the share of EAGGF expenditure has been slightly decreasing while the share of **Structural Funds** expenditure has been slightly increasing, see Table 12 and Figure 7.

Table 11 The resource composition of the EU budget

	1992	1993	1994	1995	1996	1997	1998	1999
TOR	23.6	20.3	20.6	21.3	19.1	18.8	16.7	16.1
VAT	61.9	54.0	51.9	57.8	51.3	45.5	39.7	35.4
GNP	14.5	25.7	27.5	20.9	29.6	35.7	43.6	48.4

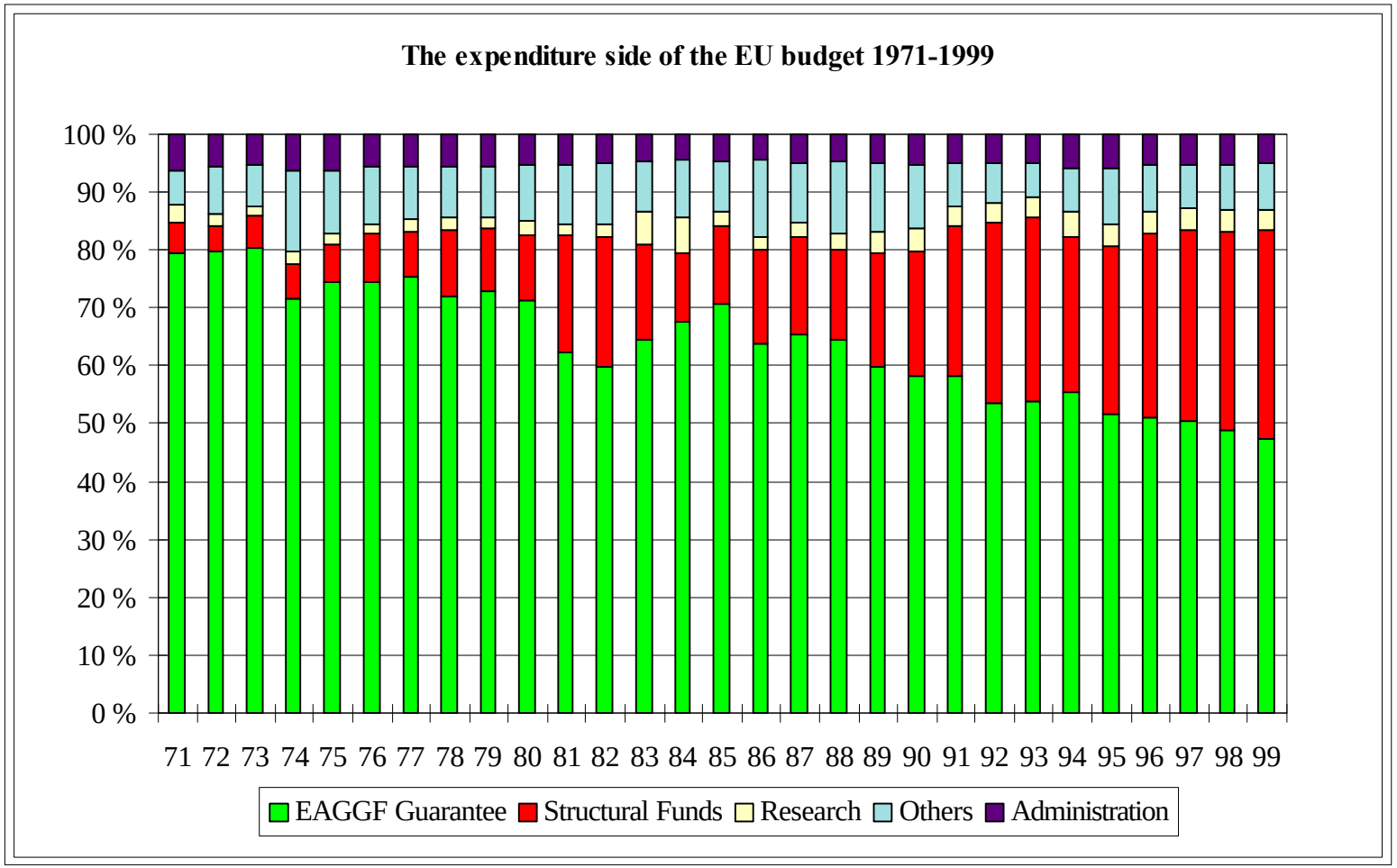
Source: Commission 1998d.

Figure 6 The revenue side of the EU budget 1971-1999



Source: Junka 1998.

Figure 7 The distribution of the expenditure side of the EU budget 1971-1999



Source: Junka 1998.

In 1998, under the Common Agricultural Policy the bulk of the spending is directed towards Plant products (65%), i.e. arable crops, sugar, olive oil, fruit and vegetables, wine, and tobacco, and Animal products (26%), i.e. milk and milk products, beef/veal, sheepmeat and goatmeat. Under Structural Operations around 50% of expenditure is directed to Objective 1 regions, i.e. regions whose development is lagging behind, and Objective 2 regions (9%), i.e. regions seriously affected by industrial decline, along with cohesion regions (9%), Figures 8 and 9.

Table 12 The distribution of the expenditure side of the EU budget

	1992	1993	1994	1995	1996	1997
EAGGF Guarantee	53.3	53.7	55.7	51.6	50.8	50.6
Structural Funds	30.3	31.3	26.2	28.8	31.8	32.5
Internal Policies	6.8	5.6	6.5	6.0	5.9	6.2
External Expenditure	3.2	4.2	5.7	5.5	5.3	5.3
Administrative Expenditure	5.0	5.2	5.9	5.8	5.3	5.1
Compensation to MS	1.5	0.0	0.0	2.3	0.9	0.3
Total	100	100	100	100	100	100

Source: Commission 1998d.

Figure 8 Distribution of expenditure under EAGGF Guarantee, whole EU, 1998

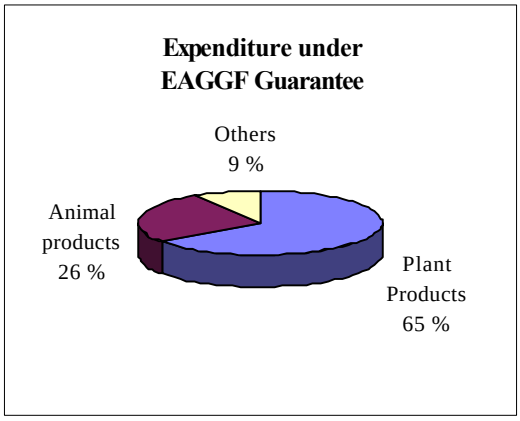
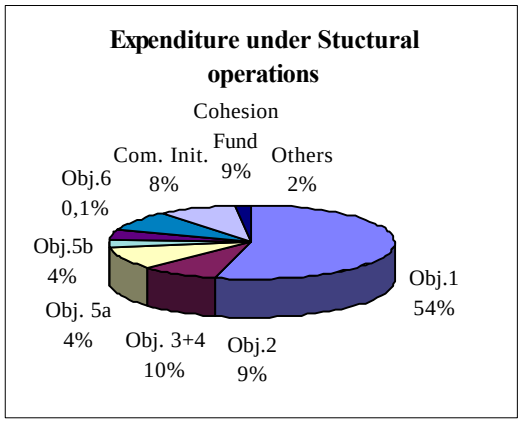


Figure 9 Distribution of expenditure under Structural Funds, whole EU, 1998



Source: Commission 1998b.

5.2 Portugal and the EU budget

Portuguese share in the EU financing has been around 1,5 per cent, since 1992 and it is expected to remain stable until 1999. The main contributors to the financing of the EU are Germany and France, accounting for about 30 per cent and 18 per cent of Union's resources, respectively, see Tables 13 and 14. In 1997 Portugal's share in the financing of the Union was 1,43%. Agricultural and custom duties transferred from Portugal to the EU accounted for 1,09% of Union's TOR. Portugal's VAT and GNP own resources accounted for 1,51% of Member States contributions to the EU budget, see Table 13. The latter correspond to 85% of Portugal's contributions to the EU budget.

Table 13 Portugal s share in the EU financing 1997

	(million ECU and %)			
	Portugal	Distribution	EUR15	Share
Traditional Own Resources	155.1	14.4 %	14172.3	1.1 %
VAT and GNP-based own resources	922.7	85.6 %	61120.7	1.5 %
VAT resources[1]	530.3	49.2 %	34351.5	1.5 %
GNP based own resources[2]	353.0	32.8 %	26890.6	1.3 %
Correction of budgetary imbalances[3]	39.4	3.7 %	-121.4	-
Total Own Resources	1077.8	100 %	75293	1.4 %

1) VAT own resources at the uniform rate (excluding the UK correction); balances of VAT own resources for previous years are included.
2) Including reserves and balances of GNP own resources for previous years.
3) For EUR 15 the value is not zero due to variations in exchange rates, reserves and balances of GNP own resources from previous years.

Source: Commission 1998d.

Table 14 Member States shares in the EU financing

	1992	1993	1994	1995	1996	1997	1998[1]	1999[1]
Belgium	4	3.7	4.4	4	3.9	3.9	3.8	3.9
Denmark	1.8	1.9	2	1.9	1.9	2	2	2
Germany	30.2	29.8	33.3	31.4	29.2	28.2	26.6	26.4
Greece	1.3	1.6	1.5	1.5	1.6	1.6	1.6	1.5
Spain	8.6	8.1	7.4	5.4	6.4	7.1	6.8	6.9
France	18.7	18	19.6	17.5	17.5	17.5	17.2	17.2
Ireland	0.8	0.9	1	1	1	0.9	1	1
Italy	14.7	16	12.1	9.5	12.6	11.5	12.7	13
Luxembourg	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Netherlands	6.3	6.3	6.6	6.4	6.2	6.4	6	6
Austria	-	-	-	2.6	2.6	2.8	2.6	2.7
Portugal	1.5	1.4	1.9	1.3	1.3	1.4	1.3	1.4
Finland	-	-	-	1.3	1.4	1.4	1.4	1.4
Sweden	-	-	-	2.4	2.8	3.1	2.8	2.9
UK	11.9	11.9	10	13.6	11.6	11.9	13.9	13.5

1) Figures entered into the draft SAB for 1998 and the draft budget for 1999.

Source: Commission 1998d.

Considering the payments made by the European Union to Portugal it is clear that the ones which are important are Structural and Cohesion Funds. They account for 77% of Portugal's receipts. This figure corresponds to 11% of Union's payments to Member States under Structural Operations, see Table 15.

Consider the Structural Fund. All the regions in Portugal are considered Objective 1 regions. Priorities for these regions cover, for example, direct investment in production, basic education, health infrastructure, vocational training, and rural development programmes.

Per capita GDP in 1986 was around 55% of the EU average. By the end of the **Structural Funds**' first programming period (1989-1993) it had risen to 67% and it is expected to be near 74% of the Community average by the end of the second programming period (1994-1999). According to the Commission, about 40% of the convergence between Portugal's GDP and the EU is due to the **Structural Funds** ERBD (1998).

Table 15 Portugal s share in the EU payments 1997

	(million ECU and %)			
	Portugal	Share	EUR 15	Share
FEOGA Guarantee	656.9	17.29 %	40623.2	1.62 %
Structural Operations	2941.5	77.42 %	26036.7	11.30 %
Internal policies	190.2	5.01 %	4674	4.07 %
Operational Expenditure	3788.6	99.71 %	71545.9	5.30 %
Administrative Expenditure	11	0.29 %	3669.1	0.30 %
Total	3799.6	100.00 %	75215	5.05 %
EU expenditure outside EU	-	-	5021.5	-
Total	3799.6	100.00 %	80236.5	4.74 %

Source: Commission 1998b.

Structural Funds have been critical in Portugal's convergence process in three areas: infrastructure, productive investment, and human resources. With respect to infrastructure, major advances were felt in transport, energy, and telecommunication networks. With respect to productive investment, support schemes focus mainly in co-operation between firms, innovation, globalisation, new qualifications and strategic programmes. With respect to human resources, development programmes have been of major importance in training schemes, creation of jobs and various forms of employment aid.

The Commission concluded in the evaluation reports concerning 1997 that "Portugal is one of the Member States which makes the best use of the Funds: 70% of assistance was committed and 56% paid by the end of 1997, well above the Community average." Moreover, the implementation was often ahead of the original estimates (Commission, 1998e).

Consider now the Cohesion Fund. This Fund co-finances projects in the environment and trans-European transport network areas. The environment-related programmes part-financed by the Cohesion Funds in Portugal have focused mainly on water supply, waste water and urban solid waste treatment, in order to facilitate the implementation of the European directives concerning the environment. The transport-related-programmes concern three strategic road routes, the bridge over the Tagus River in Lisbon, and two railway lines.

Despite the fact that Portugal's economy has been characterised by strong rates of economic growth in the last years, Portugal still has one of the least-developed economies in the EU. Main problems are an industrial base reliant on low technology and deficiencies in the educational and training system. Portugal still needs aid from the Structural and Cohesion Funds. Since accession in 1986, the high levels of transfers to Portugal under those headings of the EU expenditure

had lead to a positive budgetary position, see Table 16. The following box explains the concept of Budgetary Balance of the EU.

Budgetary Balance of the EU

Budgetary balances, the difference between payments made by a Member State to the EU budget and expenditure made by the EU in that Member State, can be measured in different ways. Further, there are several choices to be made when measuring Budgetary Balances. The latter involve, for instance, the items to be included either on the expenditure or on the revenue sides; the reference period, (i.e. cash or accrual data); and the possibility of zero sum up of the budgetary balance. **Operational Budgetary Balance,** although not formally recognised is one of the widely used definitions by the European Commission and is the definition used in this paper. The balance is calculated considering on the expenditure side the operational allocated expenditure. The latter includes expenditure under the EAGGF, the Structural Operations and Internal policies. This implies that some expenditure items, such as administrative expenditure are not considered when calculating the budgetary balance. The balance is therefore obtained as **the difference between operational allocated expenditure by the Union in the Member State and total own resources**.

Operational Budgetary Balance	=	Operational Expenditure	-	Total Own Resources

Operational Expenditure= EAGGF+Structural Operations+Internal Policies
Total Own Resources= Traditional Own Resources+National Contributions
Traditional Own Resources= Agricultural Duties+Customs Duties
National Contirbutions= VAT Own Resource+ GNP Own Resources

Table 16 Budgetary Balances, Portugal

	1992		1993		1994		1995		1996		1997	
	Mecus	%	Mecus	%	Mecus	%	Mecus	%	Mecus	%	Mecus	%
EU Expenditure in Portugal												
EAGGF	476	1.5	478.1	1.4	713.3	2.1	708.1	2.1	646	1.7	656.9	1.6
Structural Operations	2316	13.8	2711.4	14	2252.2	14.4	2485.4	13	2941.3	12	2941.5	11.3
Internal Policies	159	4.8	162.4	4.6	84.2	2.6	99.6	3.1	103	2.5	190.2	4.1
Operational Expenditure	2951	5.7	3351.9	5.8	3049.6	5.8	3293	5.6	3690.3	5.4	3788.6	5.3
Administrative Expenditure	12.8	0.5	15.2	0.5	10.9	0.3	13	0.4	11.2	0.3	11	0.3
Total	2964	5.1	3367.1	5.2	3060.5	5.1	3306	4.9	3701.5	4.8	3799.6	4.7
Payments to the EU budget, Portugal												
Traditional own resources	209.4	1.6	188.2	1.5	202.8	1.5	205.8	1.4	135.6	1	155.1	1.1
VAT own resource	487.5	1.4	477.1	1.4	689.5	2.1	488.2	1.3	465.7	1.3	530.3	1.5
GNP own resource	99.7	1.2	193.5	1.2	279.2	1.6	145.5	1	202.3	1	353	1.3
Correction of budgetary imbalances	41.5	1.6	50.6	1.6	44.1	1.9	25.4	1.7	48.2	1.6	39.4	1.6
Own resources: National Contr.	628.7	1.5	721.2	1.4	1012.8	2	659.1	1.2	716.2	1.2	922.7	1.5
Total	838.1	1.5	909.4	1.4	1215.6	1.9	864.9	1.3	851.8	1.2	1077.8	1.4
Accounting Balance	2125.7	2.93	2457.7	3.4	1844.9	2.5	2441.1	3.1	2849.7	3.4	2721.8	3.12
Operational Balance	2112.9	2.91	2442.5	3.4	1834	2.48	2428.1	3.1	2838.5	3.4	2710.8	3.11

Operational Expenditure: EAGGF+Structural Operations+Internal Policies
Total Expenditure: Operational Expenditure+Administrative Expenditure
%: Share of Portugal in EU

Traditional own resources: customs and agricultural duties
National Contributions: VAT own resource+GNP own resource+Correction of budgetary imbalances
Total own resources: Traditional own resources+National Contributions
1998: Figures entered into the draft SAB
1999: Figures entered into the draft budget

Accounting Budgetary balances: Total EU expenditure-Total Own Resources
Operational Budgetary balance: Operational expenditure-Total own resources
Source: Commission 1998d

6. Portugal and the Eastern Enlargement

6.1 Portugal s position

In average, smaller and peripheral countries have been more positive towards the Eastern enlargement than the community. This applies particularly to public opinion and the reasons behind it can be of various sorts, for instance, the strengthening of their positions in the Union as a whole, and the welfare gains as a result of the increase in the Union GDP.

Portugal supports the fifth enlargement of the European Union. Portugal's officials have been expressing their positive opinion towards the enlargement since the CEECs applied for EU membership. They consider the process of enlargement essential for strategic reasons. The process of enlarging the union is in essence political and it is an important step towards a stable, peaceful and democratic Europe. A positive answer should be given to the request of the countries in Eastern Europe that are striving to achieve political democracy and to reform their economies at the same time. Bilateral co-operation agreements have been established between Portugal and some candidate countries. These agreements aim to help candidate countries integration process by providing information about Portugal's integration experience. The agreements also provide for Portugal's economic agents a means of developing economic and social relations with those economies.

The Portuguese experience can be of interest since the EU membership intended not only a positive impact on economic and social development but also a stronger democratic regime. According to Ferreira (1993), Portugal's application for the EU membership was made for political reasons. An association agreement between the Union and Portugal has not been set previously because (1) Portugal did not have a democratic regime, and (2) the government wanted to maintain preferential economic relations with the colonies. The "European Option" was a political decision based on the following assumptions: that of an enlarged EU, that of Spain's future application and subsequent entry, that of Portuguese-speaking African countries participation in the Lomé Convention, that of careful and planned political, social, economic and administrative reforms, and that of a dynamic EU that would promote development and would respond strongly to international change. For the Union itself the accession of the Iberian countries and Greece represented a decisive step towards its political goals. The political motives drives the fifth enlargement of the Union once again.

6.2 The Policies of the Union

Portugal supports the enlargement of the European Union but it does not agree with the proposals set out by the European Commission in Agenda 2000. Francisco Seixas da Costa (1998), Portugal's State Secretary for European Issues, considers that the proposal lacks of ambition in the process of European integration by maintaining the own resources ceiling of 1,27% of the Member States' GNP. Moreover, he considers that the proposal is neither balanced nor fair with respect to the various expenditure headings.

The costs of the enlargement process of the European Union will be felt mainly by the least developed countries in the Union. By not considering an increase in the ceilings, and by not reducing the expenditure under CAP, the proposals of the Commission imply a reduction in the expenditure under **Structural Funds**. See Table 17 and Figure 10.

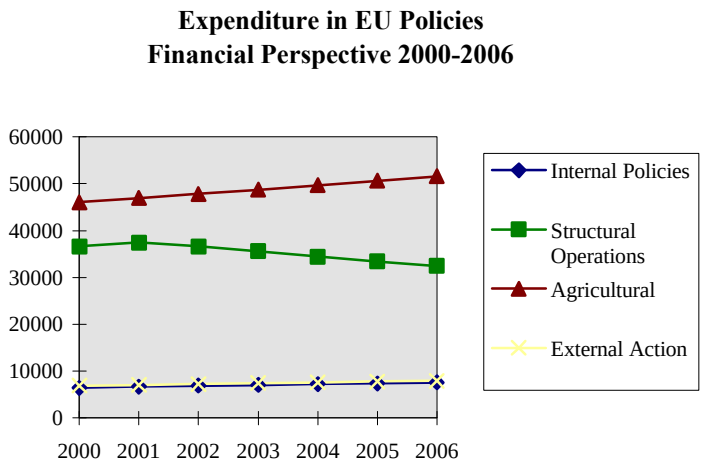
Table 17 *Expenditure on the EU Policies, EU 15, Financial Perspective 2000-2006*

(million EUR - 1999 constant prices)

	2000	2001	2002	2003	2004	2005	2006
Internal Policies	6390	6710	6880	7050	7230	7410	7600
Structural Operations	36640	37470	36640	35600	34450	33410	32470
Agricultural	46050	46920	47820	48730	49670	50630	51610
External Action	6870	7070	7250	7430	7610	7790	7900
Total	95950	98170	98590	98810	98960	99240	99580

Source: Commission 1997.

Figure 10 *Expenditure on the EU Policies, EU 15, Financial Perspective 2000-2006*



Source: Commission 1997.

Under the next Financial Perspective, Structural Operations for the 15 MS are the only heading for which the Commission proposes a reduction over the period 2000-2006. In a way this implies that the costs of the enlargement will be indirectly supported by the least developed countries in the Union. The main beneficiaries of the enlargement process are the rich countries in the Union due to geographical reasons and to the more intense current trade and foreign direct investment flows with the CEECs. Structural Operations are the main financial instrument to promote economic and social cohesion. The Commission proposal might consequently delay the catching-up process in the present MS's least developed regions. The step of enlarging the Union towards the CEECs must be taken but it should not be taken at the expense of the catching-up process of the least developed Member States.

CAP expenditure accounts for more than 50% of EU expenditure. Less than 5% of the EU active population is targeted with that expenditure and this policy only accounts for 3,5% of the Union GDP. Also, CAP policy is more orientated towards the north and central European agricultural productions. These figures must raise important questions. The reforms should give more emphasis to Mediterranean and southern production (tobacco, olive oil, fruit and vegetables, and wine). Although there is a reference to Mediterranean Products in Agenda 2000, it is rather general, there is no specification of the products and no direct measures are proposed.

Portugal's position in the Financial Perspective 2000-2006 is quite singular. Structural Operations accounted for 77% of the Portuguese receipts in 1997. CAP and Internal Policies are of little relevance for Portugal. The Commission proposal is of tremendous importance if one considers Portugal's dependence on Structural Operations transfers. As said before, about 40% of the convergence between Portugal's GDP and the EU is due to the **Structural Funds**. Although per capita GDP is expected to be near 74% of the Community average by 1999, transfers from the EU are decisive for narrowing the gap.

Related to this question is the eligibility of all of Portugal's regions. Enlargement will imply a reduction in average per capita GDP for the Community as a whole. Therefore, some of the current regions which are recipients of funds will no longer be eligible. That is, for instance, the case of "Lisboa e Vale do Tejo". A gradual reduction in the transfers from the EU is expected after 2003. This might have negative economic effects since "Lisboa e Vale do Tejo" functions like a leverage for the rest of the economy. It accounts for about half of Portugal's GDP, it is the most dynamic region, and the one with the highest absorption capacity. Moreover, it will not be because of mere statistics that economic and social cohesion will be achieved in Europe. Portugal's regions will not suddenly be closer to the development levels of the most developed economies in the

Union, and they will not suddenly be in better conditions to cope with an enlarged scenario.

6.3 Increased Competition

After the accession Portugal will face increased competition particularly in three areas: agricultural products, certain industrial goods, and foreign direct investment.

Agricultural Products

In 1996, Agriculture, Forestry and Fishing accounted for about 4% of Portugal's Gross Added Value, and they employed about 12% of active population. Nevertheless, 30 to 35% of Portugal's population lives in the rural areas. In this respect, the new orientations of CAP to rural development are of great interest.

In the past Portugal's agriculture was concentrated in cereal production. This was the case during the dictatorship, when Portugal was a relatively isolated country seeking for the self sufficiency of its economy. With the opening process of the economy, some agricultural sectors were abandoned. Since then Portugal's agriculture has been concentrating efforts in products with which it is relatively more competitive. These are the so called Mediterranean Products (olive oil, wine, vegetables and fruit), and dairy products. Nevertheless, Portugal depends

Table 18 Breakdown by main product of the EU trade with the CEECs and Portugal, 1997

	Distribution of EU Exports to CEECs	Distribution of EU Imports from CEECs	Distribution of Portugal's Dispatches to EU	Distribution of Portugal's Arrivals from EU
Food and Live animals	5 %	4 %	4 %	9 %
Beverages and tobacco	1 %	0 %	2 %	1 %
Crude materials, except fuels	2 %	6 %	5 %	2 %
Energy	3 %	4 %	1 %	3 %
Oils, fats and waxes	0 %	0 %	0 %	1 %
Chemical products	12 %	6 %	4 %	12 %
Manufactured goods	21 %	23 %	21 %	22 %
Machinery and transport equipment	42 %	30 %	33 %	39 %
Miscellaneous	15 %	25 %	30 %	12 %
Total	100 %	100 %	100 %	100 %

Source: Eurostat 1998b.

on imports, to a large extent, mainly from other EU countries. The share of Food and Live Animals imports on total imports from the EU is about 9%. Although the latter is not one of the highest shares, if one considers the intra-EU trade balance figure (-1381 MECU), one can denote a considerable dependence on agricultural imports, see Tables 18 and 19.

The trade balance concerning Food and Live Animals has been negative for Portugal with respect to every group of products. Considering the intra-EU trade, the share of Portugal's Food and Live Animals dispatches is less than 1% of the total intra-EU dispatches in that category. With the enlargement, Portugal will face competitive pressures particularly in the Vegetables and Fruit sector. As it can be seen in Table 19, Vegetables and Fruit account for 28% of Portugal's dispatches to EU in Food and Live Animals group, one of the highest shares, next to the Fish, Crustaceans and Molluscs group which accounts for the highest. At the same time, Vegetables and Fruits, the highest share, account for 36% of the EU imports from the CEECs. Portugal will face competitive pressures due to lower costs of production, high economies of scale, and lower labour costs of the Central and Eastern Economies.

Table 19 Food and live animals: EU trade with the CEECs and Portugal, 1997

	Portugal's Intra-EU trade balance (Dis-Arr) MECU	Distribution Portugal's Dispatches to EU	Distribution Portugal's Arrivals from EU s	EU's trade balance with CEECs (Ex-Im) MECU	Distribution EU Exports to CEECs	Distribution EU Imports from CEECs
Food and live animals	-1381	100 %	100 %	1763	100 %	100 %
Live animals	-65	2 %	4 %	-219	2 %	11 %
Meat and meat preparations	-310	1 %	16 %	-283	8 %	23 %
Dairy products and birds' eggs	-26	19 %	7 %	107	6 %	5 %
Fish, crustaceans, molluscs	-124	30 %	16 %	-15	4 %	7 %
Cereals and cereal preparations	-412	8 %	23 %	565	14 %	3 %
Vegetables and fruit	-153	28 %	16 %	38	23 %	36 %
Sugar, sugar preparations, honey	-29	2 %	2 %	121	5 %	4 %
Coffee, tea, cocoa, spices	-91	4 %	6 %	473	12 %	3 %
Feeding stuff for animals	-91	2 %	5 %	411	13 %	7 %

Source: Eurostat 1998b.

Considering the share by product groups, the Food, Beverages and Tobacco group account only for 4% of the total EU imports from the CEECs. Nevertheless, the share of imports from the CEECs in the total EU imports has been gaining significance. In 1997, the share of Food and Live Animals imports

from the CEECs was about 2% of the total EU Food and Live Animals imports (extra-EU plus intra-EU trade). If we consider only the extra-EU trade, the share of Food and Live Animals imports from the CEECs is about 6% of the total EU Food and Live Animals imports. The impacts of the Europe Agreements on trade are difficult to evaluate. For some product groups, like agricultural products, one can not conclude of a positive effect on trade flows (Bowers, 1998).

Industrial goods

A striking feature of Portugal's economy is that industrial structure has remained the same, in the past 30 years Mendes (1993). In 1996, Industry, Construction and Energy accounted for about 33% of the Portugal's Gross Added Value, and employed about 32% of the active population. The main industries coincide with the traditional sectors: textiles, footwear and beverages.

Machinery and transport equipment, and Manufactured goods accounted, respectively for 36% and for 19% of Portugal's dispatches to the EU in 1997, see Table 18. Electrical machinery, road vehicles, textile yarn, fabrics and related products, clothing and clothing accessories, and footwear are the main dispatched products.

The CEECs are important partners for the EU in all areas. In 1997, the CEECs accounted, respectively, for 12% of total extra-EU exports of goods and 9% of total extra-EU imports of goods. The EU exports to the CEECs rose by 23% in 1997 compared to 1996, and the EU imports from the CEECs rose by 20,5% in the same period. The rise for both total extra EU-15 exports and total extra EU-15 imports was only 14,8%.

Germany, Italy and Austria are the key players in the EU-CEECs trade. They are the main exporters accounting respectively for 41%, 15% and 9% of the EU total exports to the CEECs. They are also the main importers accounting for 46%, 14% and 9% of the EU total imports from the CEECs. These dynamic trade relations did not develop between Portugal and the CEECs. Portugal holds the lowest shares accounting for 0,18% of total EU exports and 0,24% of total EU imports. Although modest Portugal trade flows with the CEECs are favourable to Portugal. The trade balance was 18 MECU in 1997.

The share of the CEECs in the extra EU-15 manufactured goods trade flows was 16% for both imports and exports, in 1997. Manufactured goods accounted for around 21% of the total EU exports to the CEECs and Machinery and Transport Equipment formed 42%, see Table 18. In general terms, the CEECs export labour, energy, or raw material intensive products and they import technological or capital intensive products. In the CEECs, export side textiles and textile related products are of substantial relevance. In 1987, Clothing and Clothing Accessories accounted for 12% of the total EU imports from the CEECs, the

highest share of all. Clothing and Clothing Accessories imports from the CEECs represent 19% of the total extra EU-15 imports of clothing and clothing accessories, (Eurostat, 1998b).

The full liberalisation of trade initiated with the Europe Agreements did not reach the textile products. The latter belong to the so called category of "sensitive goods". Nevertheless, protection is only for a transitional period and textile products will have access to the EU markets free of tariff and non-tariff barriers in the near future. The Europe Agreements seem to have had a positive effect on textile products trade flows. The CEECs have seen their shares increasing. In fact, there has been a rise of 9 percentage points in the share of textile products imports from the CEECs in total EU imports of the same category, since 1991, (Bowers, 1998).

Portugal depends on the EC markets both as a supplier and a destination. The high share of EU in foreign trade has been a characteristic of Portugal's economy. The process of enlarging poses new challenges, particularly to the textile sector. In an enlarged scenario these sensitive industries must modernise in order to prove their competitiveness.

Foreign Direct Investment

According to Baldwin, Francois and Portes (1997), there are still considerable risks when investing in the CEECs. Uncertainty derives both from micro and macro sources. The former include bank failures, privatisation, bankruptcies, unpredictable changes in subsidy, trade and indirect tax policies, and sudden changes in the legal system, industrial standards and regulation, and administrative procedures. The macro sources of uncertainty comprehend unanticipated fluctuations in inflation rates, interest rates and exchange rates. Moreover, given the potential for political instability in Russia, some uncertainty about the territorial integrity of the CEECs remains. Nevertheless, the prospects of EU membership reduce the riskiness of those economies from the point of view of both domestic and foreign investors by giving an idea of the direction in which transition is to occur. Plus, historical evidence suggests a correlation between higher investment and membership, at least in poor entrants. This was the case for the Iberian countries.

Direct Foreign Investment in the CEECs is a recent phenomenon. Prior to 1989, the region was closed to foreign investors. Nevertheless, since then, and particularly since the course of transition of those economies turned towards the west, investment has increased substantially. Considering the net flows of investment adjusted to the size of the economies, some countries have shown a good performance in the last four years. This is the case of Latvia, Estonia and the Czech Republic, see Table 20.

Table 20 Foreign direct investment inflow in the CEECs, 1994-1997

CEECs	1994		1995		1996		1997	
	MECU	% GDP	MECU	% GDP	MECU	% GDP	MECU	% GDP
Bulgaria	88	1.1	63	0.6	79	1.0	439	4.8
Czech Republic	732	1.8	1959	5.0	1126	2.5	1147	2.5
Estonia	186	9.2	153	5.6	87	2.6	113	2.7
Latvia	180	6.5	137	4.0	301	4.1	459	6.3
Lithuania	26	1.4	55	0.9	120	1.0	313	3.4
Poland	456	0.6	867	1.1	2159	1.8	2682	2.2
Romania	288	1.1	321	1.0	207	1.5	1079	3.5
Slovakia	198	1.7	148	1.1	157	1.1	45	0.3
Slovenia	108	0.9	135	0.9	146	0.8	283	1.8

Source: Commission 1998a.

From 1992 to 1995 the EU Member States invested 13813 MECU in the CEECs, that is 13% of all direct investment to the rest of the world and 44% of the EU outward flows to emerging markets. The EU investors seem to give preference to investment in neighbouring areas. The CEECs benefited from the strong increase in the extra-EU FDI flows both between 1992 and 1993, and between 1994 and 1995. Nevertheless, the CEECs investment share remained stagnant in terms of total extra-EU FDI flows, see Table 21. Germany accounted for 42% of the total EU FDI flows into the CEECs between 1992 and 1994. Austria was the second biggest investor in the CEECs with an estimated 15%-20%, followed by the Netherlands and France, 13% and 7%, respectively, over the same period, (Eurostat, 1996).

Table 21 EU outward FDI flows to the CEECs, 1992-95

	Value (MECU)	Rate of Change	Share in total extra-EU FDI
1992	2117	-	12 %
1993	3238	53 %	13 %
1994	2868	-12 %	12 %
1995	5590	95 %	13 %

Source: Eurostat 1998c.

Several studies on the motivations of investment show that direct investors in the CEECs are mostly not motivated by lower labour costs. Rather, Western firms seek access to the market and expansion of their business. Factor-cost orientation comes exclusively in combination with market-oriented investment. This is the case because of the uncertainty concerning future labour costs, (Meyer, 1995)

Consequently, one remark is that not all of the investment directed to the CEECs can be considered as potential investment in another European or extra-European country. Most of the investment in the CEECs has been seeking to face local demand through the expansion of local supply capacity. The same applies to investments due to the relocation of production. These do not compete with potential investment in southern countries like Portugal. Competitive pressures arise from investments in sectors that are mainly export oriented.

Nevertheless, southern economies present several advantages over the CEECs in attracting foreign direct investment. Labour qualification in the CEECs is good for medium-level technical skills but lacks management and marketing skills. Moreover, the productivity is reduced by poor infrastructure and by lack of local supplier networks of quality intermediate goods. The local environment is also subject to some economic and political uncertainty.

Portugal offers a number of advantages to foreign investors: political and social stability, a business-friendly environment, a well-developed technological base, a productive, cost competitive labour force, and modern infra-structure. Portugal must base the attraction of foreign direct investment in determinant competitive factors. These comprise high level of human resources, management and marketing skills, and modern infra-structures. In order to obtain the maximum benefits, the attraction of foreign direct investment to Portugal must, on the one hand, be in accordance with Portugal's production structure and, on the other hand, provide scope for the development of a new competitive structure. Foreign direct investment must also provide technology transfer. In a global environment, international strategies are no longer confined to the export of goods. Nowadays, the services sector is a potential area for investment. Portugal must sustain direct investment in this sector by improving the competitive factors mentioned above.

7. Conclusion

The motivations for enlargement are primarily driven by political and security considerations. The Eastern enlargement is perceived as “a historic opportunity”, and there is, actually, a sense that Europe has a moral obligation to create a peaceful and democratic Europe.

The benefits of the enlargement are significant for both the CEECs and the current Member States. Benefits are of two types, political and economical. The political ones comprehend security, democratisation and peace. The economic ones include trading opportunities, access to new markets, economies of scale, better allocation of resources, elimination of distortions in production, efficiency in the use of resources, GDP growth, and consequently, increased competitiveness on an international scale.

Although those benefits are desired by both sides involved, the enlargement raises serious controversies on the cost side. The standard argument against the enlargement is that the CEECs are too poor, too agricultural, and they are not prepared for membership. The extension of CAP and Regional Policy to the CEECs in its current terms on the one hand, and the accession of all ten CEECs on the other hand, would imply unacceptable high budget costs.

The reform of the two main policies affected by enlargement, CAP and Regional Policy, is of great caution, given the range of views and interests in the existing Member States. The EU priority seems to be keeping the budget at its current percentage of the EU GDP. The own resources ceiling will not increase from the 1,27% level. Proposals intend a refocus of expenditure for the present fifteen Member States, aiming a reduction on Structural Operations expenditure over the next financial perspective, and a consistent growth of CAP expenditure. Reform of both policies follows the same principles: simplification, integration, decentralisation, and concentration. With respect to Structural Operations, the Commission proposes a reduction in the number of **Structural Funds**’ objectives, in the population eligible for Objective 1, and in the number of Community Initiatives. The main goals of the Commission concerning agriculture are improving its competitiveness in world markets, and making it friendlier to the consumer and to the environment. The proposals comprehend lowering prices, improving food safety and quality, assuring environmental friendliness of production methods and guarantee respect for animal welfare.

Money transfers will be extended in the same terms as to the present fifteen Member States to countries that will achieve membership in the first wave of accession. Structural Operations account for the bulk of accession expenditure and their share in total accession expenditure will tend to rise in the first four years of membership as opposed to the share of agriculture expenditure which is

diminishing over the same period. This expresses the common negotiation position of the fifteen. However, the power politics of the enlarged Union will change and so might the spending rules.

The CEECs will compete strongly on EU transfers. Nevertheless, smaller and peripheral countries, which are the heavy users of funds, have been, on average, more positive towards the Eastern enlargement. Portugal supports the EU enlargement but does not agree with the proposals set out by the Commission in Agenda 2000. By not considering an increase in the ceilings, and by not reducing the expenditure under CAP, the proposals of the Commission imply a reduction in the expenditure under **Structural Funds**. Hence, Portugal argues that the costs of the enlargement process will be felt mainly by the least developed countries in the Union. This is of critical importance to Portugal because **Structural Funds** account for 77% of total funds transferred from the EU. According to the Commission, about 40% of the convergence between Portugal's GDP and the EU is due to the **Structural Funds**. Moreover, the exclusion of "Lisboa e Vale do Tejo" as an Objective 1 region might have strong negative economic effects to the whole economy since it accounts for about half of Portugal's GDP, is the most dynamic region, and the one with the highest absorption capacity.

The CEECs will also compete in other three areas: agricultural products, industrial goods and foreign direct investment. The critical areas for Portugal are vegetables and fruit in the agricultural sector, and textiles and footwear in the industrial sector. Portugal will face competitive pressures due to lower costs of production, high economies of scale, and lower labour costs of the Central and Eastern economies. Portugal's industries urge to modernise and focus on decisive competitive factors like high level of human resources, management and marketing skills, that the CEECs lack.

Addressing costs and benefits, opportunities and threats is a rather difficult task. The institutional arrangements, the evolution of the EU policies and the development process in the CEECs are still uncertain. The process will be arduous but irreversible costs might occur by postponing it. The enlargement should not be seen as a difficulty but as a challenge to be overcome both by the CEECs and the present Member States.

Glossary

Additionality: one of the **Structural Funds**' four principles which means that Community assistance complements the contributions of the Member States rather than reducing them. Except for special reasons, the Member States must maintain public spending on each Objective at no less than the level reached in the preceding period. See, **Structural Funds**, and **Structural Funds principles**.

Agenda 2000: communication of the European Commission presented in Strasbourg / Brussels, on the 16th of July of 1997. This publication constitutes the Commission's response to requests from the European Council meeting in Madrid in December 1995. In a single framework, the Commission outlines the broad outlook for the development of the European Union and its policies beyond the turn of the century, the impact of enlargement on the Union as a whole and the future financial framework beyond 2000.

Agricultural levies: a kind of duty charged on farm products imported into the EU from non-member countries to offset the difference between lower world market prices and price levels inside the Community. The levy rates vary in line with changes in world market prices. These import levies guarantee high prices for EU farmers and are a major source of income for the Union. The counterpart to agricultural levies are export refunds, which make up the price difference on trade in the other direction.

Cofinancing principles: see **Additionality**.

Cohesion Fund:, set up in 1993, under the terms of Article 130d of the EC Treaty, to provide financial help for projects in the fields of environment and transport infrastructure. Finance from the Fund goes only to the four poorer Community countries (Ireland, Greece, Spain and Portugal), the aim being to reduce the disparities between EU members' economies. In 1994, funding went to 51 projects. From 1993 to 1999 the amount of financing available through the Fund each year ranges between ECU 1.5 billion and 2.6 billion, adding up to a total of ECU 15.1 billion.

Community initiatives: aid or action programmes set up to complement Structural Fund operations in specific problem areas. Community initiatives are drawn up by the Commission and coordinated and implemented under national control. In 1994 the Commission proposed draft guidelines for 15 Community initiatives up to 1999, involving finance from the **Structural Funds** totalling ECU 13.45 million. The initiatives cover cross-border cooperation (Interreg, REGEN II), rural development (Leader II), the most remote regions (REGIS II), human resources (NOW, Horizon, Youthstart), industrial change/employment (ADAPT), industrial change (Rechar II, coal-mining areas; Resider II, steel areas;

Konver, defence industry conversion; RETEX, textile areas, Portuguese textile industry), encouraging small and medium-sized firms (SMEs), urban crisis areas (URBAN), and fisheries (PESCA).

Concentration: one of the **Structural Funds**' four principles which means that the measures under the **Structural Funds** should emphasise on the six priority Objectives for development. See, **Structural Funds**, and **Structural Funds principles**.

Convergence criteria: comprehend the conditions for entry into the planned European economic and monetary union and are laid down in the Maastricht Treaty. To qualify for EMU a country must (1) have achieved sustained price stability, (2) avoid excessive budget deficits, (3) have avoided severe exchange-rate tensions in the EMS for the previous two years, and (4) have kept its long-term interest rates down to no more than 2% higher than in the countries where prices are most stable. The criteria have deliberately been made strict in order to guarantee the stability of the planned single currency (Article 109j of the EC Treaty).

Europe Agreements: name given to the association agreements concluded since 1991 between the EU and the countries of Central and Eastern Europe. The aim is to enable them to participate fully in the process of European integration in political, economic and trading terms. The agreements include plans to set up a free trade area for industrial products within ten years and the EU is already moving more quickly than its partners to dismantle trade restrictions put in place to protect its own industry. The first Europe Agreements were signed with Poland, Hungary and Czechoslovakia in December 1991. The agreements with Poland and Hungary came into force on 1 February 1994, followed by agreements with Bulgaria, Romania, the Czech Republic and Slovakia a year later. Agreements were signed with Estonia, Latvia and Lithuania on 12 June 1995 and with Slovenia on 10 June 1996.

European Agricultural Guidance and Guarantee Fund (EAGGF): finances the EU's common agricultural policy. Its purpose is to provide market support and promote structural adjustments in agriculture. The EAGGF is divided into two sections: the Guarantee Section finances price support measures and export refunds to guarantee farmers stable prices, while the Guidance Section grants subsidies for rationalization schemes, modernization and structural improvements in farming .

European Regional Development Fund (ERDF): intends to help reducing imbalances between regions of the Community. The Fund was set up in 1975 and grants financial assistance for development projects in the poorer regions. In

terms of financial resources, the ERDF is by far the largest of the EU's **Structural Funds**.

European Social Fund: established in 1960 is the main instrument of Community social policy. It provides financial assistance for vocational training, retraining and job-creation schemes. Around 75% of the funding approved goes towards combating youth unemployment. With the increase in budget resources under the Delors II package, changes were made in the Social Fund and the focus moved to the new goals of improving the functioning of the labour markets and helping to reintegrate unemployed people into working life. Further action will tackle equal opportunities, helping workers adapt to industrial change and changes in production systems.

Innovative Measures: In addition to its substantial regional development programmes, the European Regional Development Fund (ERDF) also finances innovative actions (under Article 10), aimed at exploring new approaches to economic and social development that encourage cooperation and the exchange of experience between actors in local and regional development. For the period 1995-1999, the Article 10 budget amounts to around ECU 400 million. Eight areas of action and co-operation were adopted: new sources of jobs, culture and heritage, the promotion of technological innovation (RIS / RITTS), the information society (RISI 1 / RISI 2), regional or spatial planning (TERRA), urban development, internal interregional co-operation (RECITE II), external interregional co-operation (ECOS-Ouverture II).

Lomé Convention: multilateral trade and development agreements between the EU and the 70 ACP countries. They give the ACP countries associated status with the EU, offering them not only financial assistance but also substantial trading advantages on exports to the EU. The Conventions are the heart of the EU's development policy. Lomé I was concluded in 1975, running for five years; it was followed by Lomé II (1980), Lomé III (1985) and finally Lomé IV in 1990, which will run for 10 years, with a budget of ECU 13.2 billion over the first five years. The main focus of the Convention is the long-term development of the countries involved. Lomé IV also incorporates agreements for the protection of human rights and the development of democracy.

National Programmes: EU Member States design the programmes that they wish to support and seek to have them approved and adopted by the European Commission for co-financing from the **Structural Funds**. Agreements are reached between the competent Member State authorities and the Commission on the priority measures for action and the amount of financial assistance to be provided.

Net contributor/beneficiary: the difference between what a country pays into the EU budget and what it gets back. The EU is financed from its own resources to further broader European aims, however, the common agricultural policy still swallows up a large portion of the EU budget. The countries that are major farm producers benefit the most. As an industrial country, Germany is the largest net contributor - according to estimates it paid some ECU 25 billion more into the budget in 1994 than it received back; but as a major exporter it is also one of those that benefit most from the common market.

NUTS: Nomenclature of Territorial Units for Statistics, established by Eurostat, provides a single uniform breakdown of territorial units. NUTS subdivides each Member State into a hierarchy of increasingly smaller administrative areas.

Own resources: Until 1970 Community spending was financed entirely by contributions from the Member States, after which its financing was gradually shifted to own resources. The own resources system gives the EC a measure of financial independence from the Member States, making it easier for it to pursue wider European goals independently. On 1 January 1971 the Member States began paying over revenue from agricultural levies and customs duties to the EC budget (in full since 1975) and since 1979 a portion of the Member States' VAT revenue has also gone into the budget. In 1988 the crisis over the EC's finances was resolved by the European Council's adoption of the decisions proposed in the Delors I package. This introduced a fourth resource consisting of a percentage (calculated annually) of the EC countries' GDP. In December 1992 the Edinburgh European Council agreed a further increase in own resources, raising the GDP percentage from 1.2 to 1.27 until 1999 (Delors II package).

Partnership: one of the **Structural Funds**' four principles which implies the closest possible co-operation between the Commission and the appropriate authorities at national, regional or local level in each Member State from the preparatory stage to implementation of the measures. See, **Structural Funds**, and **Structural Funds principles.**

Phare programme: established as a grant programme in 1989 to support the process of economic and social reform in Poland and Hungary but gradually extended as the political situation in Central and Eastern Europe developed. There are currently 14 countries eligible for Phare assistance.

Programming: one of the **Structural Funds**' four principles which means that funding results in multi-annual development programmes, that are the result of a process leading to decision taken through partnership. The process has a number of stages culminating in the measures being taken over by public or private promoters. See, **Structural Funds**, and **Structural Funds principles**.

Single European Act: ratified in 1987, supplemented and amended the Treaties of Rome, extending the powers of the Community in several areas and refining decision-making procedures. The introduction of decision-making on the basis of qualified-majority voting under the cooperation procedure was one of the basic necessities for the completion of the single market. While the single market objective was very much the focus of political attention, the Single Act also provided a legal basis for European political cooperation, which had been developing since 1970. The Maastricht Treaty is a continuation of the deepening process embarked upon with the Single European Act.

Southward enlargement: the term used to describe the accession to the Community of Greece (1981), Portugal (1986), and Spain (1986). In the 1970s, Greece (1975), Portugal (1977) and Spain (1977) applied for membership of the EC following their return to democracy. The substantial differences in structure and wealth between old and new members posed new problems for the EC. Political considerations - the expectation that membership would bolster domestic stability - were the main factor behind approval of their membership applications, despite the concerns about the economic consequences.

Structural Funds: finance Community structural aid and are administered by the Commission. They comprise the Guidance Section of the EAGGF for agriculture, the Regional Fund for structural aid under the regional policy, the Social Fund for social policy measures, and the new Financial Instrument for Fisheries (FIFG). The Cohesion Fund created in 1993 also serves to further the Community's structural policy objectives. Financial support from the **Structural Funds** mainly goes to the poorer regions to strengthen the Union's economic and social cohesion so that the challenges of the single market can be met right across the EU. Action is focused on six main objectives. The lion's share goes towards Objective 1 (development and structural adjustment of regions lagging behind). Altogether the budget of the **Structural Funds** has quadrupled in the last few years, totalling more than ECU 161 billion for the period 1994-99.

Structural Fund principles: Since 1989 the work of the Structural Funds has been based on four principles, which were strengthened by the revised regulations adopted in July 1993: additionality, concentration, partnership, programming.

Trans-European networks: In order to exploit the full potential of the single market, the Community is contributing towards the development of trans-European networks (Articles 129b-129d of the EC Treaty), that is cross-frontier infrastructures in the field of transport, energy, telecommunications and the environment. Measures taken must promote the interoperability of national networks and access to them. In 1994 the European Council decided to provide support for 14 priority transport projects and 10 energy projects.

Treaties of Rome: the treaties establishing the European Economic Community (EEC) and the European Atomic Energy Community (EAEC/Euratom) plus additional protocols. They were signed on 25 March 1957 by Belgium, Germany, France, Italy, Luxembourg and the Netherlands. The EEC and Euratom, together with the European Coal and Steel Community (ECSC), which had been set up some years earlier, make up the European Communities. The most important of the treaties is the EEC Treaty (renamed EC Treaty in 1993), the preamble of which sets out the principal goals (these include an ever closer union among the peoples of Europe, economic and social progress of the member countries, constant improvement of living and working conditions, the preservation of peace and liberty). The Treaties of Rome entered into force on 1 January 1958.

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