

Opinion of the Economic and Social Committee on the 'White Paper on the preparation of the associated countries of Central and Eastern Europe for integration into the internal market of the Union' (97/C 30/20)

On 14 July 1995 the European Commission decided to consult the Economic and Social Committee, under Article 198c of the Treaty establishing the European Community, on the 'White Paper on the preparation of the associated countries of Central and Eastern Europe for integration into the internal market of the Union'.

The Section for External Relations, Trade and Development Policy, which was responsible for preparing the Committee's work on the subject, adopted its Opinion on 10 September 1996. The Rapporteur was Mr Masucci.

At its 338th Plenary Session (meeting of 25 September 1996) the Economic and Social Committee adopted the following Opinion by 101 votes to two, with two abstentions.

1. Introduction

1.1. Though the Copenhagen European Council gave the green light to those associated countries of Central and Eastern Europe (CEECs) that wished to join the European Union, it was the Essen Council which determined the strategy for preparation of accession, in the shape of a 'structured relationship' which is to set immediately in motion an effective integration process.

1.2. There has been a clear desire, from the outset, to steer the transition towards a market economy and democracy in the direction required by the integration process, drawing on what has been learned in the course of forging the European Union.

1.3. The historical significance of these decisions cannot be obscured by the difficulties, problems and imbalances which are bound to arise in the Member States as well as the CEECs.

1.3.1. The immense benefits for the new, rebuilt Europe will stem not just from its enlargement to form an area with high economic growth potential but also from our close cultural ties throughout the ages and the expansion of the EU security area. The Committee hopes that the benefits will be reciprocal, and that the peoples of the countries which join the EU will also draw advantage from them.

1.4. The problems and imbalances, which are already discernible, are in part to be expected. They can be tackled in time, and hence avoided or minimized.

1.4.1. For the EU's part, the main stumbling block is the impact on the CAP, regional policy and the resources needed, and funding of policies. More generally, it also needs to be remembered that decision making and management will become increasingly difficult in a Union of 25 or more members.

1.5. Integration of the CEECs into the European Union is an ambitious and complex venture which will inevitably involve confronting two major problems:

- assimilation of the 'acquis communautaire' by countries with differing institutions, administrative and market structures, social relations and citizens' rights;
- the economic and social downturn, following the radical political changes triggered in

1989, as reflected in economic recession, high inflation, falling purchasing power, lower pensions, a decline in social welfare cover and high unemployment (1).

1.6. In economic terms the integration of a large potential consumer market must be seen in relation to the difficulties of restructuring an inefficient and highly centralized production and trading system.

1.6.1. Despite an acute lack of domestic capital and the risk of heavily inflationary pressures, huge investments are needed in infrastructure and services.

Efforts to reform public administration have to contend with an entrenched bureaucracy.

1.7. Political instability, compounded by economic and legal uncertainty, has discouraged the inflow of foreign capital, which has focused largely on the Czech Republic, Hungary and Poland. In the other CEECs, very often investment has been concentrated on large cities, in particular the capitals; this has speeded up development and generated a large number of jobs, but has also increased regional socio-economic imbalances within the individual countries.

1.8. On the labour market, restructuring and unemployment have forced large numbers of workers to emigrate to the West - though over the past two years this exodus has slowed down considerably, partly as a result of more careful controls in the countries of destination. There are even signs of a flow in the other direction, either because conditions in the workers' country of origin have improved or because of failure to find a job and rejection by the host society.

1.9. All these factors have bred disillusion and resistance to change among broad sections of the population and, in some cases, increased backing for political forces led by moderate representatives of the previous regime who advocate a more gradual path towards a market economy so as to curb some, at any rate, of the high social costs currently being inflicted. Time will tell whether this strategy is viable.

1.10. Since 1993 the situation has improved in all CEECs, though to varying degrees. However, all the structural problems of a highly centralized economy persist. Radical changes are needed but a strong entrepreneurial class, modern management, effective technologies and substantial capital are conspicuous by their absence.

1.10.1. Over this period a key role has been played by the Community's Phare programme. The Committee has carried out a detailed study of this programme's viability and effectiveness (along with its problems) (2).

1.10.2. Despite great difficulties, privatization and restructuring of the CEEC economies have been surprisingly speedy and production and trade patterns have changed radically (sometimes initially for the worse).

In most CEECs the private-sector share of GDP is at least 50 % (see Appendix II).

1.11. The Commission's White Paper has to be seen against this political, economic and social background.

2. Aims and thrust of the White Paper

2.1. The White Paper is a further strand in the pre-accession strategy, which has involved, in turn:

- the conclusion of association agreements;
- the start of a 'structured dialogue' between the EU and the associated countries in sectors with a trans-European dimension (energy, transport, environment, science and technology), on external and security policy issues and on legal and internal affairs;
- the implementation of policies and technical assistance based on close cooperation which is primarily anchored in the Phare programme.

2.2. The IGC, which opened on 29 March 1996 in Turin, will focus, among other things, on preparing EU institutions and policies for enlargement.

Negotiations on accession, which includes acceptance of the entire body of Community legislation, will have to wait until the IGC has ended. However, the Commission has had the foresight to propose, in the pre-accession phase, a 'sequence in which the associated countries could take over the legislation for each major area (3).

The aim of the pre-accession strategy is specifically to frame a blueprint for the gradual assimilation of the 'acquis communautaire' by the CEECs. On accession, the countries concerned will form part of the internal market; hence the Essen European Council decided that preparation for this move must be a key component of pre-accession strategy and asked the Commission to present a White Paper on the internal market with a view to drawing up a programme 'for meeting the obligations of the internal market which could be followed by each associated country and monitored by the Union.

2.3. The White Paper is aimed at the six countries which have already concluded association agreements with the EU (Poland, Hungary, the Czech Republic, Slovakia, Bulgaria and Romania); it also extends to the Baltic Republics and Slovenia, which are in the process of seeking association. Consequently, it is important to apply the pre-accession strategy to these countries already at this stage.

It is generally applicable in the sense that it does not set out a course of action for any particular country but addresses all countries jointly.

2.4. The White Paper consists of two parts. The first, which is shorter and more political in emphasis, analyzes the purpose, context and nature of the internal market. The second (an Annex) is far more extensive and technical since it details Community legislation on all aspects of the internal market.

2.4.1. More specifically, the first part is structured as follows:

- chapter 1 describes the White Paper's approach;
- chapter 2 gives a picture of the internal market, identifies the barriers to free trade and how these have been overcome by Community legislation; the role of competition is therefore analyzed;
- chapter 3 sets out the criteria for the selection of Community legislation contained in the Annex, the sector by sector analyses and their purpose;
- chapter 4 describes the situation observed in the CEECs as regards the internal market and lists some particular difficulties they face in achieving alignment with Community rules;
- chapter 5 sets out the strategies and specific programmes for Community assistance to the

CEECs;

- chapter 6 concludes with a description of the benefits which implementing the White Paper can bring and the action to be taken both by the Commission and by the CEECs and the Member States.

2.4.2. The Annex, in contrast, looks at the individual sectors, ranging from freedom of movement to social policy, veterinary matters to the environment, transport to audiovisual media. It sets out the Community's basic options, legislation and the structures required to ensure implementation.

2.5. The most important feature of the White Paper is that it identifies the key measures in each sector of the internal market and suggests a sequence in which the approximation of legislation should be tackled (4).

As pointed out in the Conclusions of the Cannes European Council, the White Paper does not establish any hierarchy between sectors or lay down priorities or a timetable. The countries concerned are left to draw up their own programme on the basis of their national circumstances and priorities, within the general framework determined by the association agreements.

2.6. In the present Opinion the ESC expresses its views on how the White Paper lives up to the aims assigned by the Commission and on the aims themselves; it sets out a global approach to the requirements of political, economic and social development in the CEECs and the EU, identifies possible inadequacies and suggests appropriate additions and changes.

3. A key instrument

3.1. This Opinion is intended to have a broad political thrust. The following appraisals relate to the White Paper's overall approach since it would seem preferable to leave specific sectors (freedom of movement, social policy, transport, energy, telecommunications, competition, environment, consumer protection, etc.) for Opinions by the appropriate ESC Sections. They could then be appraised in greater depth and detail so as to provide the Commission with a fuller set of proposals for additions and changes.

Nonetheless, some brief, general comments can usefully be made on certain of the main cross-sectoral issues (see Appendix I).

3.1.1. The Commission itself seems to be moving in this direction in this documents on specific matters affecting accession of the CEECs from the angle of both the impact on EU policy and the effects within these countries. An initial document concerning trade policy and aid to the CEECs (and the NIS (5)) provides statistics showing that the EU has become these countries' main trade partner. A further study, concerning agriculture (6), pinpoints the need for modernization and technical assistance as the top priorities and analyzes the implications of enlargement for the CAP.

3.2. First and foremost, the Commission document must be recognized as being of key importance in that it amounts to a genuine 'European compendium', which analyzes all the intricacies of the internal market, both from the more specifically legal angle and from the angle of the institutional and administrative structure built up in recent decades.

The representatives of CEEC civil society, both in their answers to the questionnaires and at the Warsaw hearing, also viewed the White Paper as a most worthwhile contribution.

3.2.1. A study of the general chapters, and of the detailed information in the Annex, gives an immediate impression of the long, often laborious, progress. The many major hurdles have been overcome thanks to the wisdom and willingness of the Member States and Governments to widen and deepen European integration.

3.2.2. Consequently the CEEC Governments, as well as the socio-economic interest groups of their countries, will clearly find the White Paper a crucial instrument for tackling the various problems connected with membership of the European Union.

3.2.3. In particular the description (in chapters 2 and 3) of the principles underpinning the internal market and competition policy, and of the legislation on dismantling trade barriers and guaranteeing free movement of goods, persons, services and capital, serves as guide to the CEEC Governments for a programme to push through the legislative and administrative reforms needed to prepare their countries for Community harmonization and the completion of the internal market.

3.2.4. Bearing in mind the deep-seated differences which still characterize CEEC economic and administrative structures, despite the changes of recent years, the White Paper proposes, during the pre-accession phase, a 'sequence' for the assimilation of legislation involving more radical changes. A distinction is therefore made between 'key measures' (ranked in order of priority) and other applicable measures.

3.2.5. Another, equally important, feature is the stress laid on the prerequisites for implementation and application of legislation, viz.:

- reform of administrative machinery and society as a whole;
- the existence of bodies and machinery capable of implementing and enforcing legislation.

3.3. The real difficulty is not so much to achieve identical, aligned legal texts as to adjust administrative structures and create the social, political, economic and technical prerequisites for application of this legislation.

3.4. The Warsaw hearing showed that the White Paper can act as a powerful catalyst within the CEECs. This is an additional reason for paying careful attention to the social implications, and to the opinions of interest groups such as consumers.

4. General comments

4.1. The Committee backs the Commission's approach that negotiations should start after the end of the IGC. Accession presupposes acceptance of the Community 'acquis' and the timescale for the individual countries' accession will also depend on progress in adjustment to the entire body of Community legislation. The Committee hopes that the requisite conditions will be met in good time so that accession negotiations can begin simultaneously for all states which have association agreements or are moving towards association. This should encourage the countries which have the most ground to cover in complying with EU requirements to renew their efforts.

4.1.1. The transposition and implementation of the Community 'acquis', are clearly difficult undertakings for the CEECs, but they are a sine qua non for full integration into the EU.

This 'acquis' determines the shape of the Union they will join and cannot be called into question.

4.1.2. The integration process under way in the CEECs is also a comprehensive one, encompassing as it does all sectors of legislation. Any differences which may persist for compelling economic, social or cultural reasons can be overcome through framework directives,

a technical procedure whereby individual situations can be respected while preserving a uniform approach.

4.1.3. Meanwhile it would be helpful if the CEECs could step up cooperation with each other to at least the same degree as with the EU.

Cooperation between CEECs is sometimes hesitant because of their respective histories. EU programmes and activity should strive to encourage such cooperation.

4.2. The Committee sees the White Paper as a major blueprint for speeding up integration of the CEECs into the EU and facilitating their internal cooperation. In the long term integration will benefit both the Eastern and Western European countries and it remains the ultimate aim of EU-CEEC relations.

Special attention should be devoted to the construction of integrated transport energy and telecommunication networks between CEECs on the one hand and the EU on the other. The development of independent interest groups representing an active civil society is also important for both economic and democratic improvement.

To promote economic growth and convergence in the CEECs, efforts must be made to encourage the restructuring and modernization of their economies (especially in industry and the public administration) and to stimulate domestic and foreign investment.

These changes must improve living and working conditions as quickly as is feasible, this being the fundamental aim of European integration.

4.3. One prerequisite for a boost in investment and development is a secure legal framework, with stable rules and established practices.

However, the main problem is that alignment of legislation is not sufficient per se; the requisite structures, and hence resources, are also necessary. The technical and financial assistance that the EU can provide under Phare and other aid programmes will therefore be of key importance in facilitating standardized implementation of internal market legislation.

For maximum efficiency, this implementation drive should concentrate on economic, legislative and regulatory 'bottlenecks' which can be identified with the help of, among others, national and foreign economic operators active in the individual CEECs (7).

Careful monitoring, with the involvement of civil society, can help to ensure that Community funds are used effectively.

4.3.1. There is also the need for 'legal certainty', i.e. to guarantee access to justice for the individual citizen, in particular with regard to decisions of the public authorities (8). Such access must be reasonably speedy.

4.4. Another internal EU problem with major implications for all stages of the enlargement process is the completion of the single market, since the process is already under way and the CEECs will not join the market as it exists today but as it will be at the time of their accession.

As the Committee pointed out in its Opinion (9) on progress towards completion of the internal market, the approaching deadlines for the EU, together with what is at stake in other areas - such as the pressures exerted by international competition, the forthcoming schedule for monetary union or the impending accession of new Member States - clearly call for the political impetus to be found to enable a genuine single market to be completed soon.

4.4.1. Consequently the EU must adopt without delay the measures still to be taken to complete the single market of the Fifteen before expanding its membership. Along with legislation on the dismantling of remaining non-tariff barriers, such measures primarily relate to free movement of persons, a complete, finalized tax system for transactions within the Community and closer customs cooperation vis-à-vis non-EU countries. The case for this was also advanced in the latest ESC Opinion on the internal market (10).

4.5. Full application by the CEECs of the Community 'acquis' will have to encompass measures which have still to take effect in the existing Member States. Moreover, accession will presumably come after EMU, and will thus take place in a radically different economic and political situation. Hence suitable adjustment and transition periods will be needed for clearly defined issues on which each country faces serious adjustment problems.

5. Impact of enlargement

5.1. For a clearer appraisal of the White Paper, the impact on Community policies of enlargement to the CEECs should be borne in mind. In December 1995 the Commission presented an Interim Report (11) on this matter, as requested by the Essen European Council.

5.2. This Report first confirmed that the enlargement timetable would essentially depend on the progress made by the applicant countries in conducting the political and economic reforms necessary

to prepare for membership. It therefore seems premature to fix a calendar for accession, partly because each application must be considered on its merits and partly because delays in one country must not be allowed to hold up the applications of the others.

5.3. Since the process of CEEC integration, and hence of EU enlargement, is already under way, the Commission feels that the Union's decisions on the future shape of its policies must bear in mind the prospect of enlargement.

5.4. Here the Commission predicts that, should the IGC fail to produce reforms in the functioning and decision-making of the institutions, enlargement could lead to paralysis and even disintegration. (12)

Reform is therefore considered to be a 'prerequisite not only for opening accession negotiations but for the successful realization of enlargement.'

5.5. On the impact of enlargement, the Commission takes a particularly favourable view of the potential political effects since the accession of the CEECs will make a major contribution to peace, security and stability in Europe and enhance the EU's international standing. In particular the Commission anticipates that there will be greater scope for cooperation in the international drive to curb crime and drugs.

5.5.1. The Commission points out that protection of minorities remains a sensitive issue in some cases and advocates more effective checks and balances at constitutional level. The Committee endorses this.

5.6. As regards the economic impact, the Report highlights the huge potential of extending the single market to a further 100 million consumers though it stresses that the existing sharp differential between the CEEC and EU economies is a serious problem.

In particular, the Commission points out that, taking an average per capita GDP of about 30 % of the EU average (except in Slovenia, where it is equivalent to 50 %, and in the Czech Republic, where it is over 40 %) as a starting point, the most reliable regional and international growth forecasts indicate that the per capita GDP in most of these countries in the year 2005 will still not exceed 40 % of the then EU average.

5.6.1. However, in the Commission's view, 'the economic problems of adjustment for the Union should not be exaggerated.' (13)

5.7. On the specific measures to be adopted in various sectors, the Commission announced that potential problems in the spheres of free movement of workers and capital, financial services, energy, transport, the environment, social policy and consumer protection were currently being studied. A report on these studies' findings would be presented to the Council.

5.8. With particular reference to cohesion policy, the Commission states that 'it is difficult to predict the Union's future policy for cohesion or its financial implications, even for the existing Union; as regards the enlarged Union, theoretical estimates based on extrapolation of present arrangements cannot be a valid basis.' (14) However, in the Commission's view, reform will need to be progressive and will therefore take time.

5.8.1. Assuming full application of cohesion policy to new Member States, the Commission envisages transitional arrangements after accession and points out that 'experience suggests that volumes of assistance which are high in relation to the recipients' GDP are difficult to use effectively and can even distort their economic structure.' (15)

5.9. Looking at agricultural policy, the Report mentions the reforms already introduced to make the policy more market-oriented and the study referred to above. It anyway confirms the Commission's conviction that, independently of enlargement, it would be undesirable to maintain the status quo.

5.9.1. The Commission feels that 'it would be preferable to develop further the approach already inherent in the 1992 reforms. That implies reduced reliance on price support, more emphasis on environmental and social considerations, and the development of an integrated rural policy' (16).

This strategy would facilitate the integration of CEEC agriculture and allow greater emphasis to be placed on programmes for structural improvement and rural development essential for these countries' needs while avoiding the risk of price distortion.

The Committee is currently drawing up an Opinion on this subject.

6. Relation between the White Paper and the overall pre-accession strategy

6.1. While recognizing that the Commission has drawn up a blueprint of key importance for both the CEEC accession process and the framing of future Community policies, attention should be drawn to a number of shortcomings that could detract from the objective value of the White Paper.

6.2. First and foremost, the approach adopted to the linkage between a) alignment on internal market principles and assimilation of the 'acquis communautaire' as a whole and b) between 'key measures' and the entire body of Community legislation relating to the internal market does nothing to clarify the conditions required for accession. Indeed it will generate some confusion.

6.2.1. For instance, the White Paper claims (17) that '...accession to the Union (...) will involve

acceptance of the *acquis communautaire* as a whole.' Later on (point 3.4.) it is stated that 'no part of the "*acquis communautaire*" can be separated in practice from the rest` and that 'Eventual accession negotiations with the CEEC will cover the entire body of Community legislation.`

6.2.2. It is necessary to look at the Conclusions of the Cannes European Council to understand that the associated countries, on accession, 'will - subject, if need be, to transitional periods - adopt the whole "*acquis*" covered by Community legislation and policies.`

6.3. This approach raises even greater concern over the handling of the 'social dimension'.

Specific mention is made of this dimension in Chapter 3, points 3.8 and 3.9 and again in Chapter 4, point 25.

6.4. Point 3.8 reads: 'The social dimension is an essential element of internal market policy` while point 3.9 confirms that 'High levels of social protection are a fundamental aim of the Union. They are served by, among other things, the economic benefits arising from the internal market'. As correctly pointed out, these two aspects are interlinked.

6.5. Yet this seems mere lip service since the White Paper's main concern seems to be to ensure that the internal market is as 'operational` as possible rather than securing better living standards for Community citizens. The key reasons that prompted the Member States to highlight the social dimension in the Treaty are taken for granted but a point is made of emphasizing that 'An uneven approach in national legislation concerning workers' rights or health and safety in the work place could result in unequal costs for economic operators and threaten to distort competition' (point 3.8).

6.5.1. Here a reference to another White Paper on social policy aiming at a coherent social model could have justifiably been expected.

6.6. Instead point 3.9 states that 'the White Paper's presentation of internal market related legislation includes those parts of social legislation which affect the functioning of the internal market or which are a necessary complement to other measures identified as key instruments, in particular in the area of company law'.

6.7. The White Paper presents those CEECs which wish to join with a sort of EU 'visiting card`. Though its main focus is the internal market, the latter is part of a complex socio-economic system. The Commission itself acknowledges that the White Paper does not cover all EU activities and will need to be supplemented. We should ask whether the image projected by the White Paper tallies with the image the EU wishes to give of itself, and especially of what it would like to become.

6.8. The White Paper's 'interpretation' that the social dimension is simply a component of competition and the single market does not seem acceptable, particularly as this 'interpretation` risks robbing the social dimension of its status in its own right.

6.8.1. Though the internal market is the EU's 'added value', the ultimate aim of enlargement should be the promotion of security and stability as well as of the European socio-economic model.

The internal market must not be seen as an end in itself but as an instrument for improving the living and working conditions of its peoples and as a prerequisite for firms to operate freely.

6.8.2. The internal market's four guaranteed freedoms must be closely tailored to the social dimension. Hence social dialogue must be part of the process of creating a single market.

6.8.3. Social policy must be treated as a constituent part of all areas of integration - not merely as a sectoral issue. Accession strategy must focus on two main fronts: economic and social.

6.8.4. The inextricable ties between the internal market and the social dimension must be highlighted, among other things to ensure that enlargement does not focus solely on the creation of a CEEC-EU 'free trade area' but on the building of a Europe whose market economy has a social dimension. Social policy will therefore have to be at the heart of integration.

6.9. It clearly cannot be claimed that the White Paper confines itself to internal-market related measures, given the impact of social costs on terms of competition.

6.10. One very important facet of the problem is undeniably the risk of social dumping, which could encourage transfer of production, thereby jeopardizing entire EU sectors. The resulting public hostility in Member States to the integration process would clearly not be conducive to building an enlarged EU.

6.11. Obviously the limitations of the Commission White Paper's attitude to pre-accession strategy are due to the political slant of the document from which it derives its force, viz. Annex IV to the Conclusions of the Essen European Council, which is silent on the subject of social policy.

6.12. Here again the emphasis is on a philosophy which distances the public from the Community Institutions and caused such problems for the Maastricht Treaty ratification process.

6.13. Lastly, point 4.25 states baldly that 'in the area of social policy, the associated countries believe that much of their legislation is close to meeting EU standards'. The trade union representatives attending the Warsaw hearing disputed this claim. This should at least lead the Commission to review its portrayal of the matter.

6.14. With this White Paper the Commission thus steers clear of the real problems that are bound to arise in connection with the formal and effective alignment of CEEC conditions.

For instance, no account is taken of the changed income distribution patterns that have resulted from the dismantling (still to be completed in many cases) of the old regimes' centralized economic systems and entrenched bureaucracies and from the shift to a competitive free market, with the emergence of new social categories and heavy penalization of others which previously enjoyed protection, along with the resulting political and social repercussions.

7. Conclusions

7.1. The ESC calls for a strategy that encompasses both accession and the effective integration of the CEECs. This presupposes: firstly, that the EU states clearly the changes it will make to prepare for CEEC accession; secondly, that the CEEC accept the EU socio-economic model, which should focus on improving living and working conditions, and the prerequisites for the free economic activities of companies; and thirdly, a detailed scrutiny by the EU institutions of certain social achievements in the CEECs.

7.1.1. For purposes, among other things, of stimulating public awareness in the Member States and the CEECs the Committee would reiterate the need for the EU to propose, as its 'motto', a complete socio-economic model, in which social policy plays a crucial role.

7.2. The Committee asks the Commission to analyze the social impact of the measures envisaged in the White Paper and to propose flanking policies that extend beyond the technical assistance

provided under Phare.

The recent Madrid European Council instructed the Commission to draw up a report for each country on progress made in introducing the legislation and administrative provisions required for entry into the EU. These reports should also cover social legislation and procedures for protecting and assisting workers, women, youth, etc.

7.3. This aspect is important if we are to avoid the creation of an EU-CEEC 'free trade area' lacking any true Community cohesion, even if only for a transitional period of uncertain duration.

Such a 'free trade area' could be the end-product of the existing European agreements. The structured dialogue alone will not make it possible to move on from this stage of economic alliance. The determination to achieve true integration with the CEECs must therefore be reiterated.

7.3.1. The aim must not merely be enlargement of the consumer market, which is still dominated by Western producers, as borne out by the EU's trade surplus (in 1988 the import/export balance was virtually even) but first and foremost integration of ordinary individuals into a market-economy-oriented model of society in which the social partners play a fundamental role.

7.4. We must take care to avoid repeating the EU's error in recent decades of entrusting the task of shaping the Community, and subsequently the Union, solely to the elitist efforts of political, economic and legal experts without involving citizens, by informing or enlisting the active participation of the socio-economic organizations.

This involvement is even more important in countries which are in the throes of radical political and economic changes carrying high social costs and which could therefore be tempted to view integration into the EU solely in terms of possible additional social costs, without grasping the overall political, economic, social and cultural vision.

7.5. It should be noted that all CEEC social partners, as well as academic experts, point out that the integration process is not the exclusive preserve of governments; at the Warsaw hearing, they complained at not having been involved in talks between their governments and the EU authorities.

Such a restrictive approach will do nothing to ensure that the internal market operates effectively, or to further socio-economic association.

The Commission should insist officially that the socio-economic organizations must be involved and social dialogue fostered as a crucial component of the social model we are forging jointly. Civil society has a vital role to play in strengthening democracy.

7.5.1. The information procedures set in motion by the Commission in the CEECs will obviously not suffice to guarantee public awareness of the ongoing integration processes or their transparency. These procedures are no substitute for the work that must essentially be done by the CEEC national institutions and of which there currently seems to be little trace - even if some countries have made greater progress.

7.5.2. The current general consensus in favour of integration, among both the general public and the socio-economic organizations, suggests that wide-ranging information and consultation would facilitate and consolidate the process, rather than holding it back because of the lobbying inevitably to be expected. In addition, the involvement of interest groups, including those which may initially be adversely affected, will prevent factions which could attempt to block accession,

when the moment comes, exploiting ignorance for their own purposes.

7.6. For its part, the ESC should insist on the setting-up of joint EU-CEEC economic and social committees. Three years after the relevant decision was taken, the EU-Hungary committee is the only one soon to become operative, following the decision taken by the Association Council in July 1996.

Yet these committees could be highly useful in enabling all social partners and other interest groups to make their voices heard on subjects currently covered by the structured dialogue between the CEEC Governments and the European Council.

7.6.1. In line with the wish expressed by various CEEC representatives at the Warsaw hearing, the Committee has decided to launch and pursue dialogue with these representatives directly. This will mean the setting-up of an Observatory which will keep a close eye on progress towards integration.

7.7. In view of the above problems, the specific transition periods for each CEEC will have to take account of their differing starting-points and progress towards alignment.

That was the line taken at the recent Madrid Summit, which decided that accession negotiations should start simultaneously but be scheduled individually for each CEEC.

7.8. In addition, the political and social instability generated recently by the awkward side-effects of change is a strong argument against delaying the integration process.

The EU and the individual Member States must have a clear strategic vision and take a specific interest in integration as an objective with direct implications for their own future economic and social development. Integration can provide a decisive boost to Europe's role and competitive potential vis-à-vis the other major economic-trade areas.

The EU should not delay the necessary internal reforms to prepare for it.

7.9. In addition, it is important that the CEECs, while preparing for accession to the EU, seek to maximize integration within their own ranks and harmonize their accession programmes.

Such integration can also be furthered by stepping up regional cooperation despite political and economic resistance. This approach is reflected in a number of development aid programmes encouraging regional schemes.

7.10. The Committee urges the Commission to keep it constantly up to date with the progress of preparations for the integration process and the various measures to be taken so as to be in a position to state its own views at the right moment, either in the form of Own-initiative Opinions or at the request of the Commission.

7.11. A more in-depth appraisal of the various aspects of accession is left for any supplementary Opinions that the relevant ESC Sections may decide to draw up.

Brussels, 25 September 1996.

The President of the Economic and Social Committee

Carlos FERRER

- (1) European Commission, Europe 2000+, 1994, p. 232.
- (2) ESC Information Report on the Evaluation of the Phare programme
(Rapporteur: Mr Gafo-Fernandez) CES 1281/94.
- (3) Commission White Paper - Preparation of the Associated Countries of Central and Eastern Europe for integration into the internal market of the Union (COM(95) 163 final, point 3.16).
- (4) Commission White Paper, 1995, p. 2.
- (5) European Commission. Towards fuller economic integration, 1995.
- (6) European Commission. Study on alternative strategies for the development of agricultural relations between the EU and the CEECs looking ahead to future accession (document on agricultural strategy), IP/95/1314.
- (7) The costs of CEEC nationals participating in operations receiving financial support are covered under budget heading B3 sub-heading 4.004 introduced by the EP.
- (8) Commission White Paper, point 2.30.
- (9) ESC Opinion on the Report from the Commission to the Council and the European Parliament: Internal Market in 1994 (Rapporteur: Mr Vever), OJ No C 39, 12. 2. 1996.
- (10) ESC Opinion on the Report from the Commission to the Council and the European Parliament on the single market in Europe in 1995 (Rapporteur: Mr Vever), OJ No C 212, 22. 7. 1996.
- (11) Interim Report from the Commission to the European Council on the effects on the policies of the EU of enlargement to the CEECs (CSE(95) 605).
- (12) Idem, point 5.
- (13) Idem, point 24.
- (14) Idem, point 38.
- (15) Idem, point 42.
- (16) Idem, point 45.
- (17) White Paper, p. 1.

1 - The data given in this **Appendix** are taken from the following sources:

- Key Economic Indicators. 1992-second quarter 1995, Stockholm Institute of East European Economies;
- Eurostat, Statistics in focus - External trade. 1995-7;
- Business Central Europe, May 1996.

2 - The estimates for Hungary were compiled by Lazlo Csaba, senior economist at the Kopint-Datorg Research Institute; the data for Poland comes from a study by the Central Institute of Statistics (GUS) in conjunction with the Polish Academy of Sciences.

3 - The CEECs comprise: Estonia, Lithuania, Latvia, Poland, the Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Albania, Slovenia, Croatia, Bosnia-Herzegovina and the FYROM (Former Yugoslav Republic of Macedonia).

APPENDIX I

Comments on the Annex to the White Paper

1. In the field of free movement of capital it is hard to distinguish between key measures and other measures but the description of progress already made by the EU since 1960 can be very useful. Radical changes in financial markets compared with the 60s and 70s mean that a strict distinction between long and short-term capital movements has become less important. Hence the sequence of measures can vary and be tailored to the specific features of the individual country's economy.

1.1. In any event full liberalization would seem a sine qua non for attracting foreign investors and fostering a competitive financial sector.

The Annex to the White Paper (Annex) sets out - possibly too imprecisely - the required accompanying measures.

2. Free movement and safety of industrial products is vital for integration into the single market and development of trade. The Committee fully endorses the Annex's approach and agrees that harmonization in this field is a highly complex (and not merely technical) process designed to

transform a rigid, centralized system into one based on participation.

The Annex underlines two aspects with implications that go beyond the sector concerned.

2.1. Firstly, as regards the prevention of new trade barriers (Directive 83/139/EEC), the recommended establishment of a comparable system for the exchange of information between the CEECs to lead subsequently to the signing of an agreement between the EU and these countries, viz. between two comparable systems, is a move towards closer regional cooperation.

2.2. Secondly, for the 'new approach' directives on such general issues as safety, health and the environment, the desired involvement and participation of interested categories, consumers and the social partners, along with the replacement of state control by participatory and consensus-based standardization bodies, is clearly a transition of far-reaching political and social significance.

3. The restoration of free market conditions in the competition sector is one of the toughest tasks in the CEECs, which are predominantly state economies. In tandem with the difficult privatization process, one initial step is obviously to distinguish between the state per se and state-controlled undertakings in the shape of a separate legal status.

During the pre-accession phase, the CEECs will also have to set up a national authority with supervisory powers similar to those operating in the Community.

4. On social policy and action, the Committee would reiterate the principle that the social dimension must be considered in its own right and not just in relation to the internal market; the Charter of

Fundamental Social Rights and the Agreement on Social Policy annexed to the Maastricht Treaty can therefore serve as guide in the pre-accession phase. However, the Committee agrees on the importance of the priorities indicated and would add a number of preliminary general comments.

4.1. With particular reference to equal opportunities for women and men, it should be remembered that Community legislation is not designed to replace more progressive national rules. The participation and role of women workers are currently being undermined in the CEECs as a result of lower GDP and worsening living standards.

4.2. The reference to Art. 118a of the Treaty could generate suspicion that SMEs will be immune from administrative constraints under occupational health and safety legislation. Yet the Treaty provision reads '...constraints in a way which would hold back the creation and development of small and medium-sized undertakings.'

In the initial stage all directives of a general nature should be included.

4.3. On labour law and working conditions, it would seem advisable for Directive 94/95 on European works councils to be included in the initial phase, partly to consolidate the de facto situation that works councils already exist in the CEECs.

5. The environment should be among the policies covered by 'structured relationship' and - as stated in the association agreements - the relevant measures must be incorporated into development policies from the very start. Pollution is a particularly serious problem in virtually all CEECs and no exception can be tolerated.

Here again environment policies cannot be viewed solely in relation to the internal market but in their own right, hence requiring a specific convergence and harmonization programme, as advocated by the Environment Council on 5 October 1994.

5.1. Accompanying measures are particularly important in this sphere to boost the effect of legislation. Here the European Environment Agency could play a part.

6. Company law enshrining basic Community rules is vital for the operation of the internal market. The Committee agrees with the White Paper that priority should be given to legislation on the freedom to set up undertakings and subsidiaries and to hold shares, along with all rules designed to secure transparency and protection of creditors, together with the essential administrative and accompanying measures.

7. Protection of intellectual property is a sine qua non in an increasingly competitive and vital market in order to foster intellectual creativity and free movement of ideas.

The Committee agrees that the accession of the CEECs (with the exception of Bulgaria) to the Uruguay Round Agreements, and hence the trade-related aspects of intellectual property rights, is not sufficient to satisfy internal market requirements, and that a legally harmonized environment therefore needs to be created.

In the meantime, transitional agreements on the protection of goods and services should be adopted.

8. Lastly, the Committee endorses the approach on consumer protection, which must be recognized and consolidated as a subject in its own right, with a specific aim. This issue cannot be regarded as a by-product of internal market and competition policies. On the contrary, it is a major contribution to the development of a market economy.

A particularly full list is given of the conditions required for application of legislation, and in particular the recognition of basic consumer rights, consumer information and education, access to justice and the promotion of organized interests.

APPENDIX II

Economic development trends

1.1. Some key statistics are given below as a brief guide to development trends in the associated CEECs. It should be remembered, however, that considerable improvements still need to be made in data compilation and processing in these countries ().

GDP trends, calculated in US\$, over the period 1992-1995, were as follows:

- Bulgaria: increase from US\$ 8 600 million to US\$ 12 900 million;
- Czech Republic: US\$ 28 000 million to US\$ 45 000 million;
- Hungary: US\$ 36 500 million to US\$ 44 000 million;
- Poland: US\$ 84 300 million to US\$ 121 000 million;
- Romania: US\$ 22 100 million to US\$ 33 700 million;
- Slovakia: US\$ 10 900 million to US\$ 16 000 million.

1.2. Foreign debt came to US\$ 10 700 million in Bulgaria (1995), US\$ 13 000 million in the

Czech Republic (1995, second quarter), US\$ 33 000 million in Hungary (1995, second quarter), US\$ 44 300 million in Poland (1995, last quarter), US\$ 4 800 million in Romania (1995, second quarter) and US\$ 5 000 million in Slovakia (1995, second quarter).

1.3. Privatization has gained ground, albeit at differing speeds. In 1994 the private sector share of GDP was 27,2 % in Bulgaria, 56,3 % in the Czech Republic, 35 % in Romania and 58 % in Slovakia. In Hungary and Poland the figures for 1993 are 50 % and 55,3 % respectively.

1.4. Private consumption patterns varied widely. In some countries consumption fell (e.g. in Bulgaria by 13,2 % in 1992-93) while in the Czech Republic there was a 23,3 % increase between 1992 and 1994. In Hungary, after a slight fall-off in 1992 (P1,3 %), consumption rose by 1,3 % per annum over the period 1993-94. In Poland there was an 11,8 points increase in 1992-94. Only one set of statistics is available for Romania (P9,8 % in 1992). In Slovakia the trend was mixed, with consumption increasing by 1,2 % in 1993 and dropping by 3,4 % in 1994.

1.5. All countries, with variations, had high inflation rates: in Bulgaria inflation peaked to 122 % in 1994 but fell back to 28,6 % in 1995. Poland's inflation figure of 44,4 % in 1992 dropped to 20,7 % in 1995. In Romania inflation spiralled to 295 % in 1993, but fell dramatically to 27,4 % in 1995. In Slovakia, despite a leap from 9,1 % in 1992 to 25,1 % in 1993, it fell back to 11,7 % in 1994 dropping to 6,7 % in 1995. In the Czech Republic, after an increase to 18,2 % in 1993 (from 12,7 % in 1992), it fell back to 10,25 % in 1994 and 8,7 % in 1995.

1.6. Unemployment, at the end of 1995, was 11 % in Bulgaria, 10,4 % in Hungary, 14,9 % in Poland, 13,1 % in Slovakia. Romania had 8,7 % unemployment while the lowest figure was in the Czech Republic (3,1%).

Monthly earnings in 1995 were equivalent to US\$ 123 in Bulgaria, US\$ 380 in the Czech Republic, US\$ 346 in Hungary, US\$ 294 in Poland, US\$ 146 in Romania and US\$ 279 in Slovakia.

1.7. For 1996, EBRD, OECD and IMF forecasts are all agreed that the associated CEECs constitute the area with the greatest growth potential.

1.8. It must be remembered that, in describing these countries' growth between 1990 and the present day, the statistical data leave much to be desired. This is partly due to the explosion of the black economy, which is hard to document but whose scale is reflected, for instance, in the discrepancy between the rate at which the purchasing power of earnings has grown and the rise in consumption. To take the example of Poland the purchasing power of earnings fell by 30 % concurrently with a consumer boom which saved the country from recession. The black economy is estimated to account for 30 % of GDP in the case of Hungary, and at least 20 % in Poland ().

1.9. In recent years the associated CEECs have received large sums of Community financial aid: between 1990 and 1993 over ECU 2 200 million were allocated under the Phare programme, in addition to ECU 1308 million from the EIB and ECU 29 212 million from the EBRD.

1.10. In the '90s there has been a surge in trade between the EU and Eastern Europe. 1994 statistics for the CEECs as a group () showed a 21,7 % increase in EU exports to the CEECs and a 26,7 % increase in EU imports from the CEECs, for a value of approximately ECU 40 000 million and ECU 33 600 million respectively. A reminder that the value of trade (including both exports and imports) in 1988 was approximately ECU 20 000 million gives some idea of the scale of this increase.

Trade between the EU and the associated CEECs accounts for over three-quarters (approx. 77 %) of this total (1994).

The EU trade surplus is ECU 6 400 million.

Three Member States (Germany, Italy and France) account for over 76 % of this trade (over 50 % in the case of Germany alone).

1.10.1. EU imports: Poland is the largest exporter (27 % for a value of ECU 9 100 million), followed by the Czech Republic (19 %) and Hungary (15 %). Germany is the main market for CEEC exports (approx. 53 % of the total), followed by Italy (16 %) and France (8 %).

EU exports: here again Poland is in the forefront (approx. 27 % of imports, for a value of ECU 10 800 million), followed by the Czech Republic (20 %) and Hungary (15 %). Germany is the Member State which exports most to the CEECs (50 %), followed by Italy (18 %) and France (8 %).

1.11. The EU's trade surplus (ECU 6 400 million in 1994) is largely due to exports of engines, machinery, mechanical equipment, cars, plastics and plastic products. The EU imports more non-finished clothing, wood and wood products, iron and steel than it exports.

Over half of this surplus comes from trade with Poland (ECU 1 700 million), the Czech Republic (ECU 1 600 million) and Hungary (ECU 1200 million).

Italy is the Member State with the highest trade surplus (ECU 2 100 million); in 1993 Portugal and Ireland had the sharpest increase in exports in percentage terms compared to the previous year (+68 % and +53 % respectively) while the Benelux and Spanish markets for CEEC exports showed the largest increase (+60 % and +58,5 % respectively, again in 1994 compared to 1993).

APPENDIX III

Progress of the Transition

	Czech Republic	Slovakia	Poland	Hungary	Bulgaria	Romania
1. Importance of privatization						
a) Added value of the private sector as a % of GDP ⁽¹⁾						
1989	11	n.d.	29	15(29)	n.d.	13
1991	17	22(32) ⁽²⁾	45	33(41)	17	24
1994	56	44(58)	56	52(56) ⁽³⁾	40	35
1995 (e)	70	60	60	60	45	40
b) Percentage of the added value of the private sector according to category, 1994						

Agriculture	82	n.d.	n.d.	68	80	85
Industry	59	53	38	54	18	15
Services	50	n.d.	89	60	49	35
2. Classification of progress in the transition on a scale of 1 to 4 ⁽⁴⁾						
Privatization						
large scale	4	3	3	4	2	2
small scale	4*	4*	4*	4*	3	3
Business restructuring	3	3	3	3	2	2
Price liberalization	3	3	3	3	3	3
Currency exchange and foreign trade	4*	4*	4*	4*	4	4*
Competition policy	3	3	3	3	2	1
Banking reforms and liberalization of interest rates	3	3	3	3	2	3
Financial markets	3	3	3	3	2	2

Source: EBRD: Transition report 1995.

⁽¹⁾ Figures in brackets: including cooperatives.

⁽²⁾ 1992.

⁽³⁾ 1993.

⁽⁴⁾ Classed from 1 (little progress) to 4 (major progress). The sign 4* shows that the country has reached standards typical of industrial countries for the area concerned.