Panel 2

Challenges Ahead: Integrating Europe's New Members

Jack Boorman
Special Advisor to the Managing Director,
International Monetary Fund

Mr Chairman, Ladies and Gentlemen, thank you for the opportunity to join you today and to make some introductory remarks at this important session.

Before providing a brief overview of some of the economic policy issues raised by accession, I want first to emphasize an important underlying theme: namely, that accession is part of the broader picture of economic evolution for the countries concerned. Accession involves candidate countries, as new members of an existing union, submitting themselves to an externally given set of rules, but rules which necessarily evolve over time and which the new entrant will have a chance to help shape in the future.

In this respect, accession can be viewed as a continental analogue of the broader process of globalization that is under way across the world. As countries integrate themselves into the world economy – removing barriers to flows of goods, services and capital – so they find themselves constrained by the norms and rules of the clubs they have chosen to join. In some cases, the rules are enforced by the international community itself through global institutions like the WTO and the IMF. In the case of the Fund, membership amounts to the acceptance of principles of good economic citizenship. And in return for embracing those principles, the Fund provides a forum for the discussion of the policies of all Fund members and of the international financial system itself and, in times of difficulty, it is prepared to extend financial assistance as well. Financial markets can also provide a separate and powerful mechanism that helps impose discipline on policymakers, although, as we have seen from time to time, market reactions can sometimes be larger and more volatile than changes in economic fundamentals may warrant.

So when we think about the requirements of accession, we should bear in mind that a good deal of what needs to be done – and much of what has already been done – would have been required in any event by integration into the global economy.

To point out the constraints imposed by global and regional integration is not to deny the enormous benefits that flow from them. Experience shows openness to trade, investment and other capital flows to be an effective way of helping to promote long-term economic success. I would recall that there has been no country that has made major strides in improving its economic situation over a sustained period of time other than by adopting open, market-oriented policies and integrating itself firmly into the international economy.

It is also important for current EU members, in deciding how rigidly to enforce the *acquis* on its new members, to think about how their own rules and norms are likely to have to adapt as globalization proceeds. The goal for existing and aspirant members alike should be an accession process that goes with the grain of globalization, and not against it. The Common Agricultural Policy is a case in point. Bringing the accession countries into an unreformed CAP may help limit the internal adjustment required in the short-term, but at the same time it will likely increase the adjustment required in the longer term to more powerful – and beneficial – external trends in the global economy.

Let me now briefly discuss the impressive economic performance of the accession economies to date, before addressing four of the key policy areas where accession will require further progress and adjustment in the future.

The transition from the various forms of central planning which characterized the countries now poised for accession to the EU to functioning market economies has not been easy. Nonetheless, most of these countries have generally fared better than others around the world that started the transition process at around the same time.

To varying degrees, in most transition economies output and employment dropped – sometimes sharply – and inflation surged in the first years of the transition process. Even now, output in most of these countries is only just regaining the levels seen immediately before transition began. But for the most part, stabilization was achieved relatively swiftly in the EU accession countries. Moreover, substantial underlying changes were taking place and, as a result, the structure of output is now much different than before transition and better aligned with countries' comparative advantage.

So why have the EU accession countries in the main performed so well relative to other transition economies, especially in the former Soviet Union? Good macroeconomic policies and ambitious structural reforms are important parts of the explanation. For example, many countries made a determined effort early in the process to impose hard budget constraints and stem quasi-fiscal losses. This was accomplished through a variety of routes, including fairly rapid privatization. Progress on structural reform is evident in a variety of comparative indicators:

- For example, the EBRD's transition indicators, which attempt to measure the extent of structural reform across a large number of policy areas, show that (with only a few exceptions) the EU accession countries are well ahead of the broader group of transition economies and on a par with non-transition economies at about the same income level.
- Another recent study, reported in the IMF's World Economic Outlook, examines institutional quality. This shows the EU accession countries well ahead of most other transition economies, particularly as regards democratization and the extent of public regulation and control. The quality of institutions actually appears to be higher on average in the advanced EU accession countries than in upper middle income developing countries as a whole.
- More specific measures show a similar movement towards the characteristics of a fully-developed market economy.
- The private sector share of GDP in most EU accession countries as a whole is now at least 70 percent.
- Around two-thirds or more of accession country exports are now directed to non-transition countries, mostly in western Europe. This is evidence of significant progress in reintegrating the accession countries into the broader European economy.
- In the majority of advanced EU accession countries, most large scale public enterprises have been privatized. Small scale privatization, of course, started early on and, in some cases, proceeded with dramatic speed.

The IMF and other international institutions monitor structural and other policy performance in all member countries on an ongoing basis. In the banking and financial sector this is done through the Financial Sector Assessment Program. In these and other areas, the progress of countries in adopting and implementing a variety of internationally agreed norms and best practices is assessed in what we call ROSCs or Reports on the Observance of Standards and Codes. The policy areas covered include statistical dissemination, monetary and fiscal transparency, corporate governance, and accounting and auditing.

Participation in these various policy health checks is voluntary and it is notable that, in many cases, accession countries have been more willing to subject themselves to scrutiny in this way than the current members of the EU, let alone other transition and developing countries. For example, the 13 EU candidates account for a quarter of all ROSC modules completed to date, compared to less than a tenth for the current EU-15. Candidate countries also participate in the Financial Sector Assessment Program at a higher rate than their future EU brethren.

In addition to policy reform, the advanced accession economies also owe their success in part to their physical proximity to the West. Relative to other transition economies, they also have more recent memory – and even some limited experience – of life as market economies. Both factors have facilitated a more rapid reorientation of trade than has been possible in countries further from western Europe and with a longer tradition of central planning.

The reorientation of production and trade towards Western Europe positions the accession economies well for further integration and also makes them generally less vulnerable to external shocks. Most observers agree that the more ambitious structural and institutional reforms pursued in these countries have been spurred on to no small extent by the external anchor that potential accession to the EU provides. As we see in the globalization process more generally, as countries attempt to integrate themselves into global financial, trade and economic networks, it helps to have relevant models for the institutional, legal and other reforms that are required. The EU has provided clear and well tested models in many areas for the accession countries.

By establishing a substantial number of policy goals and conditions on which consensus might be difficult to reach, an external anchor helps to focus policy, thereby functioning as an arbitration mechanism in case of differing internal political opinions. The European Union (EU) has played this role for the countries of central and eastern Europe and the Baltics, with EU accession providing an objective that continues to promote rapid structural and institutional reforms. Indeed, the lure of closer political and economic ties with western Europe was sufficiently powerful that it had an influence on policies in the EU accession group from the beginning of the transition process, well before they became formal candidates for membership in the Union.

An additional factor explaining the relatively good performance of the accession countries has been the spur provided both to privatization, and subsequently to investment, by foreign strategic investors. Their involvement is generally seen to have deepened the restructuring that took place, evident in the development of new products, markets, management techniques and business strategies-elements that were often missing in the privatization process in other transition economies. This, in turn, had a positive impact in increasing labor productivity, which has been particularly strong in Poland, Hungary, and Slovenia.

Despite this relatively positive picture, there are areas where progress is lagging. There are also uncertainties regarding the impact of accession on certain sectors. These uncertainties, in particular, pose questions for the accession countries, as well as for the current members of the EU. Let me touch briefly on four areas: the financial sector; the fiscal implications of integration; labor markets; and agriculture.

First, the financial sector. This stands at the cross roads of the macroeconomy – a strong financial sector can support sustainable economic growth; a weak financial sector can derail it. We have seen this repeatedly in an unfortunately large number of countries over the last decade. This latter risk is especially important in the run up to EU accession, and, later, to monetary union- because these are periods that could invite sizable and potentially volatile capital flows. If we have learned anything from the crises of the last 20 years, and especially from the Asian Crisis, it is that integration with regional and global markets – doubtless beneficial in the long term – puts substantial demands on the domestic financial system.

Managing increasing capital flows while liberalizing the capital account is always a challenge. Capital controls have been progressively eased in most accession economies. Those that remain will have to be removed on accession, in the absence of derogations. All accession countries have accepted the obligations of Article VIII of the IMF's Articles of Agreement and have removed most restrictions on transactions related to foreign direct investment.

Most accession countries still face large current account deficits. While foreign direct investment has to date accounted for a large share of the capital flows needed to cover these deficits, further liberalization of capital transactions will be necessary and desirable. However, this presents challenges to associated macroeconomic policies and the development of supporting institutions, including in regulation, supervision, and risk management-all areas where many recent crisis countries were found wanting. The lessons from these crises suggest that it is desirable to liberalize long term flows first, and most short term flows only later. The crises also underlined the importance of adopting full transparency in policies, data and accession prospects to avoid springing surprises on financial markets.

Within the financial sector, the picture presented by the banking sectors of the EU accession countries is a mixed one:

- While credit to the private sector has been increasing as a share of bank assets, it remains

below the benchmark for most advanced economies. In some of the accession countries, state enterprises still enjoy financing at more favorable terms due to implicit or explicit government guarantees. We have seen in all too many countries that state direction of credit can be a recipe for trouble;
- Interest margins higher than the EU average suggests that there is room for further improvement in the efficiency of financial intermediation;
- At the same time, competition appears to have strengthened. The role of foreign strategic investors has increased to the point where they control the majority of banking sector assets. And the restructuring demanded by the large share of nonperforming loans and persistent negative returns is well under way in many of the accession countries.

In summary, the financial sectors of the accession economies are in much better shape than they were, but further strengthening is needed. Given the experience of other economies integrating into global financial networks, this would be true even if they were not embarked on possible EU entry.

Now let me turn briefly to the fiscal implications of integration. Necessary institution building, including in the financial sector and legal adjustments, will continue to impose a large fiscal burden. Beyond this, modernizing agriculture and mining, providing for massive infrastructure needs, and dealing effectively with the legacy of the poor environmental policies of the past will all be very costly. Indeed, environmental upgrading may well turn out to be the most costly area of compliance with EU standards.

These costs are not unique to the accession countries. They are faced by many other economies integrating into the global system and should be regarded not so much as a cost of accession per se but rather as fees that all countries have to pay as part of good citizenship in the modern world economy. Environmental upgrading to meet EU standards may be one example where the demands of accession per se are greater than that of globalization alone. The fees will therefore be higher in this case for the accession economies, but with a corresponding payoff in terms of higher quality of life and more sustainable development.

Offsetting these costs, accession countries will likely derive some fiscal savings, for example from reduced debt servicing costs, especially as they move closer to membership of the euro area. This was certainly the case for some current EU members after their accession. Other necessary changes will have uncertain fiscal impacts, including reforms to pensions and social benefit arrangements. Thus, it is impossible to predict precisely the net fiscal burden from accession.

Any calculation is further complicated by uncertainty regarding the contribution to these costs that can be expected – both pre and post accession – from the EU itself. It is also possible that some of these costs, for example for environmental improvements, will be borne by the private sector, such as the polluting companies themselves. Some loan support for such efforts is also available from the EIB and the EBRD.

Whatever the predicted bottom line, the fiscal risks and uncertainties facing the accession countries argue strongly for reaching and maintaining conservative fiscal positions. Almost all the accession countries have high public expenditure ratios. For some, fiscal weakness and heavy debt burdens imply that the candidate countries generally have little scope to fully accommodate accession-related spending or other fiscal risks. Reductions in other areas of spending could therefore be needed. Moreover, the accession countries need to retain substantial fiscal flexibility to help them manage the shocks to which they are likely to be subject as small open economies, notably large and potentially volatile capital flows. The prospect of EMU membership in the longer term makes the need for such flexibility all the greater.

I don't want to focus on EMU entry, as that is the subject of another session. But let me just observe in passing that there are a number of factors that should be taken into account in deciding how quickly to sign up to the single currency. First, there are the differences in the pace of structural reform from country to country. Second, there is the question of how quickly it is sensible to try to reduce inflation given the scale of relative price changes. And, third, there are differences in the maturity of financial sectors. It is important to remember that EMU entry will not in itself resolve the dilemma of volatile capital flows. The precise timing of entry should depend on the individual circumstances of the countries concerned and on progress in the factors I have just mentioned.

Now let me turn to the labor market and migration. With barriers to trade, foreign direct investment and other capital flows already largely removed within the EU, the guarantee that workers and their families can move across national borders to find work within an expanded EU could turn out to be the greatest additional contributor to economic integration arising from accession per se. Geographical proximity and substantial income differentials would together seem to create powerful incentives for people to move from accession countries to the rest of the EU.

It comes as no surprise then that the economic and social consequences of possible post-accession migration have caused heated debates in several countries. But tackling people's fears is made more difficult by the uncertainties that surround any projection of migration flows.

Experience from the southern enlargement of the EU to Greece, Portugal and Spain in the 1980s provides some clues. Around 3 percent of the citizens of these three countries now live elsewhere in the EU. However, the present stock of Med-3 citizens resident in other EU countries does not reflect the result of a quick build-up following accession and the introduction of the free movement of labor; in fact aggregate net migration flows for the Med-3 have been practically nil over the past decade, according to the Commission. Having said this, the aggregate data mask different patterns in national migration flows.

Analysis sponsored by the Commission, and based on survey estimates, econometric evidence, and historical experience, suggests tentatively that 3 per cent of the CEEC-10 population might migrate over the course of a 15 year period. In absolute numbers, this implies a peak outward flow of around 200,000 people after three to four years, gradually abating thereafter. These numbers are too small to imply much impact on jobs and wages across the EU as a whole. But – as with the southern enlargement (and perhaps even more so) – the pressures would be distributed unevenly. Migrants are likely to flow mainly to Germany and Austria, by virtue of their proximity. This suggests that the impact may be significant in some communities and also in particular trades there, perhaps construction and parts of the service sector.

In discussing the likely impact of accession on migration, it is important to distinguish between permanent migration and short-term "commuting". Long common borders and hefty income differentials across them suggest that the latter may be more important, although historical experience provides little guidance. Once again, this suggests that pressures would be concentrated in particular communities and particular trades, rather than widely spread.

In thinking about the labor market challenges that confront the EU as a result of accession, it is worth reflecting on the capacity that the US has demonstrated to absorb relatively large numbers of immigrants. By 2000, some 10 percent of the US population were immigrants, up from 5 percent in 1970. As the US experience shows, absorbing immigrants is much easier and causes fewer social problems when you have a flexible and strongly growing economy. Consequently, the main lesson for the EU and the candidate countries is that accession further underlines what should already be obvious: that there is a need for further structural reforms to make labor and product markets more flexible. This will allow macroeconomic policy to accommodate stronger growth rates without running into unsustainable inflationary pressures. Safety nets and help with retraining and education will be important too in the areas most affected.

In the US, immigrants have tended to be younger than the native population. If this were to be true as well of migration from the accession countries to the rest of the EU, it would be a boon to the recipient countries in light of the strain that aging populations and the consequent rise in the dependency ratio will put on social welfare systems in those countries.

Finally, let me say a brief word about agriculture, which offers an important challenge in the accession context for a number of reasons. First, it is the sector where remaining trade barriers between the accession countries and the rest of the EU are highest. Second, the number of farm workers in Poland and Romania alone is larger than in the whole of the current EU. Third, the agriculture sector in these countries is characterized by low productivity and substantial hidden unemployment, implying a rich source of potential migrants. And fourth, agriculture is encompassed by a complex policy framework at both the EU and global levels, through the CAP and WTO rules.

Accession will remove remaining agricultural trade barriers between the EU and its new entrants, as well extending to those entrants the protections and subsidies available under the CAP. Following the completion of the Uruguay Round, subsidies to agricultural production and exports are constrained. Yet the CAP remains an important factor. Current EU members are concerned both by the prospect of fiercer competition from farm sectors with much lower labor costs, and by the implications for the EU budget of extending subsidies to new entrants, notwithstanding recent reductions in CAP subsidy rates for some protected commodities.

Over the longer term, we would clearly expect agricultural sectors to become smaller and more efficient in the accession countries as membership of the EU accelerates economic convergence and development. However, the CAP will slow rather than accelerate this process. This might have advantages in restraining migration pressures, but in the longer term it is in everyone's interest that market forces play a less impeded role in the agricultural sector. As with migration generally, the keys to smoothing the adjustment process are structural and macroeconomic policies geared to greater flexibility and stronger growth throughout the EU.

It is also the case, of course, that agricultural subsidies – in the US and other industrial countries, not just the EU – inflict real damage on agricultural producers in many of the world's poorest countries, and these producers are among the most vulnerable people in those societies. Reducing these subsidies would be an effective way to help tackle global poverty. The evidence is overwhelming that reduction of the trade barriers in this and other sectors, especially in the EU, would be the best way in which the developed world could help improve the prospects for the poorest countries to emerge out of their dire poverty. Such action would also help at home, benefiting consumers and strengthening public finances. Having said this, I appreciate the difficulties and tensions that change in this sector involves in all countries.

To conclude, let me observe once again that the spur of accession has already delivered important policy reforms and consequent improvements in economic performance. The completion of the process will doubtless deliver more of the same. But we should remember that accession is part of a bigger picture: globalization, which also acts as a spur to better policies and stronger performance. Europe's citizens, as well as those of the rest of the world, can potentially benefit enormously from these forces if they are properly managed and if they are made to operate in a complementary way.

Thank you.

H.E. Mr. Valdas Adamkus,
President of the Republic of Lithuania

Mr. Chairman,
Ladies and gentlemen,

It is a great pleasure for me to speak before you today. I thank the organizers for giving me the floor in a session, which I consider extremely important. I wish this conference to gain solid ground among the political and intellectual circles of our continent and to develop a viable and interactive network of communication between the leaders of an enlarging Europe.

No doubt, it is a real challenge to address the issues that Europe will have to solve after the coming round of enlargement. These issues are more or less well known. Agriculture, energy and free movement of people, as well as cohesion policies, are among the "hottest potatoes" in the enlargement debate. I truly appreciate that this conference has taken the courage to address them in such a straightforward and provocative manner.

After enlargement, we will continue to search for answers to these and other questions. The accession negotiations will not solve all problems. In fact, our current negotiations are largely about building consensus on the rules and principles that will structure our relations in the post-enlargement period. And the success of integration – and thereby enlargement – will depend first and foremost on how well this consensus will work.

Today, I would like to draw your attention to several issues that, I believe, are of great importance. First, solidarity and mutual trust. In the course of negotiations, various speculations are raised. On the one hand, it is claimed that the European Union raises demands for the candidates which they are not able to meet. On the other, it is said that the new members will be no good for the Union, as they are backward, self-centered, and idealistic. Certainly, such speculations give people a feeling of unfair competition.

This feeling is absolutely wrong. Integration is a project of opening the family to new members, who share common values and pursue similar goals. Therefore, to emphasize solidarity as a family pillar is and will be important.

Let me give you the well-known example of the closure of the second unit in the Ignalina Nuclear Power Plant. As I have said in Barcelona, what Lithuania has promised to do, it will do. But let's face the facts: alone, Lithuania is not and will not be able to bear the costs of the shutdown.

A clear and long-standing EU involvement will help us cope with the challenges of the Ignalina closure. The Commission's current position, as well as the ongoing discussion among the Member States, inspire the belief that solidarity will remain the guiding principle in solving the Ignalina issue. The point is – and this applies not only to Lithuania – that our commitments must be fulfilled if we want to be treated as reliable partners.

Another subject, which often evades our focus in the enlargement debate, is heavy concentration on political, technical and economic aspects of integration. This leaves an impression that enlargement is a technical process. But it is not. Enlargement is first of all about the integration of societies, and to make it successful, our countries have to develop a sufficient level of acceptance and cooperation at the grassroots.

Our awareness of European integration is still rather low. According to the recent Eurobarometer polls, the EU citizens have little idea about what will happen after enlargement. More than 80% don't even know that Lithuania is a candidate country! There is a certain gap between public hopes and sentiments in Europe's West and East, and this gap is not shrinking.

To overcome this challenge we should focus on direct human contacts and the ways to enhance them. We must discover the areas in which people-to-people contacts can be expanded. In the past decade, our countries were offered the possibility to participate in the Erasmus/Socrates programs, which have produced numerous personal contacts between our students and academia. This has been an extremely valuable contribution to developing the sense of community in Europe. Yet only a relatively small group have taken advantage of this possibility.

Therefore, we should expand the scope of co-sponsored activities. With integration the need for learning in the new members will only grow. We have to find instruments for meeting these demands. It is not a mission impossible, especially in view of the great human resources in the candidate countries. Our people have proved over the past decade that they are can work hard and have talent and motivation for learning. They will certainly make no trouble in an enlarged Union.

For example, let me mention the achievements of Lithuanian scientists in laser, bio- and information technologies, which are successfully applied on our continent. I am convinced that in an enlarged Union, the vast potential of the candidate countries in science and culture will further develop and generate benefits for all.

The economic aspect is also relevant to people. Today social and economic disparities still exist between the present Fifteen and the candidates. Their elimination is one of the primary tasks for the future of the European Union.

However, different levels of economic development do not mean that our countries cannot cooperate successfully. On the contrary, our countries benefited substantially from the removal of barriers in Europe. For example, Lithuania's market is only 3.5 million, but its trade with the European Union last year amounted to nearly € 6 billion. This figure almost doubled in just five years! In the same period, EU investment in Lithuania reached € 3 billion, with Denmark, Sweden, and Germany being among the top investors.

Now consider that population in the twelve candidate countries totals 100 million. There is no doubt that after enlargement the focus on Central and Eastern European markets will only increase, and new business opportunities will open up for all EU citizens.

However, to guarantee smooth operation of this huge market, it is essential to ensure free movement between all parts of the Community. In the context of an enlarged EU, free and fast movement of people is far from being a closed issue. For example, it takes more than 7 hours by train to cover 300 kilometers between Vilnius and Riga. And it takes 10 hours to travel 400 kilometers from Vilnius to Warsaw. Can you believe this is still possible in the 21st century?

The infrastructure in our countries must be upgraded and connected to the European Union networks. This applies both to highways, railways, and the energy networks. Our region cannot remain a broken chain in the European infrastructure system.

Indeed, these projects are included in the European Union's TINA program. However, at the time of their drafting, nobody could expect that the enlargement processes would proceed so rapidly. Today, my question is: can we afford to wait until 2015 before these projects are completed?

The North-South connection in the Baltic Sea region is one of the most urgent tasks of the near future. Lithuania and Poland have already started the discussion about a possibility to link their capital cities by a modern highway and a railway line. The other Baltic states are also increasingly focusing on this issue. I am convinced that a closer political and financial involvement of the European Union countries and institutions is indispensable rather than desirable at this moment. Above all, the interests of all EU citizens are at stake!

Finally, the new members will bring along their knowledge and expertise of dealing with states on EU borders. The Union has already taken advantage of these assets. For example, Lithuania's involvement was very important in activating the EU-Russia dialogue on the development of the Kaliningrad region. In doing so we firmly believed that enlargement would bring benefits to this region as well. Now we follow keenly the development of the EU-Russia dialogue and are interested in having a solution to the issues concerning Kaliningrad before Lithuania and Poland join the Union.

We also construct a special relationship with Ukraine, a country which is and will be of great importance to Europe.

I believe that in an enlarged Union, the countries like Lithuania will have a specific role in shaping and implementing the Common Foreign and Security Policy, as well as in Justice and Home Affairs. Lithuania is fully aware of its responsibility and is ready to deepen cooperation in the fields of border protection and expanding the good-neighbor policies of the EU.

Ladies and gentlemen,

enlargement is not new to the European Union. The challenges that I have pointed out were addressed in the past, although their scope and historical context was different. However, their positive impact on the Union should reinforce our belief that the current accession of new members will also be a success. This is undoubtedly a "win-win" project.

It is symbolic that this discussion on the post-enlargement Europe is being arranged in Germany. In the past century, this country was divided and reunited and was one of the first to instantly face the challenges of political, economic, and last but not least, public integration. Therefore, I look forward to hearing the stories from Germany and other countries.

I also wish the conference an inspiring and fruitful discussion.

Thank you.

DR. GÜNTER VERHEUGEN,
Member of the European Commission

INTRODUCTION

It is a pleasure to be invited here today and to address the European Economic Summit. I have come to share with you my thoughts on the current state of play in the accession process and to discuss the challenges and consequences of enlargement for the future of the Europe.

It is good to remember European history, but equally important to prepare for the future. Enlargement is a moral duty and a political necessity. By their application for membership, all candidate countries have expressed their wish to belong to the family of European democracies, the Union, sharing common values. For the EU, the political and strategic interest is to bring lasting stability to the region stretching from the Baltic to the Mediterranean and Black Sea. The instability in any part of Europe affects the whole continent, as we clearly saw for instance during the Balkan wars.

Enlargement is also an economic process. Accession will provide today's candidate countries with unrestricted access to the biggest common market in the world.

The addition of more than 100 million people, in rapidly growing and reforming economies, to an EU of already 370 million, will boost economic growth and create jobs in both old and new Member States. At the same time, they will be included in the social and economic cohesion policy, which sets out to achieve broadly comparable living standards across the entire EU.

The enlarged Union will also be a more influential actor in world affairs. The EU's role in foreign and security policy as well as in international trade policy will be strengthened. Already now we are the world's largest donor of development aid. The new Member States will be sharing this role of the Union as a global player.

State of the Enlargement Process

As the phrase "from Copenhagen to Copenhagen" indicates, we expect, after nine years now, to meet our objective of completing the accession negotiations with those candidates that are ready by the end of this year. This would allow them to join in 2004 so they can take part in European Parliament elections as members. I doubt that anyone who participated in the Copenhagen European Council in 1993 thought that we would now be so close to enlarging the Union.

The Nice, Gothenburg and Laeken European Councils have drawn up important guidelines for the final steps of the process. What we have to do now is to keep the political momentum that has been created in order to solve the most difficult issues in the enlargement negotiations.

Negotiations are currently tackling sensitive issues, notably agriculture, the structural funds and the budget. We will show the same determination to find constructive answers that we have shown in the past.

Our aim is to make a success of enlargement on terms that are acceptable to all sides. There cannot and will not be such a thing as second-class membership!

The rules of the game have been clear ever since the Agenda 2000 decision was taken in Berlin in 1999. It is our view that Member states should continue to respect their existing commitments regarding enlargement, in particular Agenda 2000 and the financial perspective up to 2006, as agreed in Berlin in 1999.

In principle, the new Member States should take part in all fields of common policy, however in some cases only after agreed transition periods. After accession, the new Member States should not be financially worse off than before.

And finally: our proposals should in no circumstances prejudge the future shape of Community policy. The Commission's proposals in no way pre-empt the next Financial Perspective for the period after 2006. Moreover, further reforms cannot be made a pre-condition for enlargement.

After accession, the new Member States will pay full contributions to the EU budget, while the budgetary impact of some structural and agricultural policy measures will only make itself felt in the fairly long run. The Commission has therefore proposed to make provisions for a lump-sum rebate. Obviously the specifics can only be decided in the final stage of the negotiations.

We believe this package is politically and substantively balanced and a good basis for negotiation.

For the candidate countries that are not among the first accession countries, the Commission will also review the road map in the context of its 2002 strategy paper and, if necessary, will develop the pre-accession strategy further.

Progress achieved, work still to be done

On the whole, the Commission considers that all the accession candidates have made substantial progress in meeting the Copenhagen criteria – both political and economic as well as in regard to the transposition of legislation and implementing the *acquis*.

The candidate countries have gone through a remarkable development, not only by aiming to fulfil the Copenhagen criteria, but also by changing their political and economic systems.

In general, the adoption of the *acquis* is advancing well and the countries are on course to meet the timetable. However, candidate countries have to continue progress regarding administrative and legal capacities in order to reach our common standards.

An efficient administration is not only necessary to transpose the Union's laws completely and in the necessary time frame. It also ensures that Community resources are used effectively, which is especially important where structural funds are concerned. Further improvements are necessary in nearly all the countries in regard to efficiency of administration, but I believe such improvements are feasible.

On Wednesday we reported on comprehensive Action Plans drawn up by the candidate countries and the Commission, which identify priority areas that need to be addressed and should help to accelerate progress in public administration.

Under the 2002 Phare programme, an additional institution building facility of € 250 million has been made available for this purpose, bringing assistance for institution building under Phare to a total of € 1 billion.

The implementation of the Action Plans will be addressed in this year's Regular Reports. The Regular Reports will assess whether the candidate countries are equipped with an adequate administrative capacity to transpose, implement and enforce the *acquis* by the time of accession.

The future of Europe

Let me finally make a few remarks on the wider debate which is beginning on the future of Europe. The smooth integration of the new Member States and the future functioning of the European Union depend on our success in strengthening the Union's institutions and policies. The successful introduction of the euro is a major step forward and we must build on this, through the Convention and the 2004 Inter-Governmental Conference, to reinforce the broader process of European integration.

The candidate countries are fully involved in the work of the Convention on the future of the European Union. The Convention has started work on proposals to make the EU more efficient, transparent and democratic. It will consider the future policies of the Union, and also how to involve Europe's citizens more closely in designing and implementing these policies. It is my deep conviction that the next Intergovernmental Conference should take up the proposals of the Convention that are most likely to lead to a more efficient and democratic EU.

Conclusion

The road ahead is clear and the negotiations are progressing well.

In late October, the Brussels European Council under a Danish presidency will turn its attention to the Regular Reports for 2002 and the Commission's specific recommendations as to the countries with which negotiations should be concluded.

This will clear the way for the final stage of negotiations to begin before the European Council meets again in Copenhagen in the middle of December this year.

There is a lot of work still to be done and I count on Europe's business leaders to "seize the moment". Every euro invested in the candidate countries today is an investment in Europe's future – our own future, and that of our children and grandchildren.

Thank you.

MRS. MÁRIA KADLECIKOVÁ,
Deputy Prime Minister for European Integration, the Slovak Republic

Distinguished guests,
Ladies and gentlemen,

I welcome this opportunity bringing together politicians and academics to discuss the issue of enlargement. It is a pleasure for me to make a contribution to today's forum by presenting you with some ideas on two core policies – agriculture and migration.

At the very start, we have to recognize that one of the Community's main achievements has been the "solidarity mechanism". Solidarity is even more likely when there is a policy based on facts and analysis, not just on sentiments. A policy which is sustainable in all the connotations of sustainability – social, economic and ecological.

After the Commission presented its position on how enlargement was to be funded, the candidate countries began to realize that the enlargement project as a whole could suffer as a result of squabbling over a million euros here and a million euros there. But the real issue is how to give citizens, especially farmers and rural communities in central and Eastern Europe hope for the future. It is quite clear that the mere transfer of the EU's existing agricultural policy onto candidate countries is not the answer. The present positions of candidates are much too varied for this to work. Instead, we need to examine the differences and ask ourselves what solutions are appropriate in order to bring the rural areas of the candidate countries up to a comparable standard.

I would like to remind you of Commissioner Fischler's speech delivered on the occasion of presenting the Commission's enlargement proposals in January of this year. He advocated the benefits of this proposal by giving six reasons why the Commission's strategy was good for enlargement. I will refer to some of the reasons. The package is balanced and ensures that EU's money will be well spent in boosting the necessary restructuring process in candidate countries. The package is also good for the environment. Agri-environment programmes will have a positive effect and the "simplified scheme" will reduce pressure for speculative investment in intensive production methods. The package fully respects the budgetary ceilings agreed in Berlin in 1999, in spite of being extended from six to ten countries. The amount of € 3.6 billion, which will be spent on rural development in the period of 2004-2006, clearly demonstrates its role as a second pillar of agricultural policy. Indeed, I have to agree with Commissioner Fischler that such a policy is much more effective than subsidies, which would cement the existing structure. However, I am less convinced that our farmers will be better off.

I have no intention to turn this debate on enlargement into a pure "piggy-bank operation". It is simply not good enough. But I have a duty to advocate for Slovak farmers here with an honest reasoning and the same vigour as Mr. Fischler. The Commission's proposal for a ten year transitional period is supported by an argument that farmers from candidate countries are paying much less than their colleagues from the EU Member States in terms of labour costs, acquisition of land and energy inputs. However, this current advantage will be eliminated in two or three years by the market development and hence, the economic conditions will be significantly different. Even today the inputs of our farmers are on the EU level as they are purchased at world prices.

Obviously, it is correct to say that our farmers will be less competitive than the EU farmers with less money received under the presently discussed financial framework. Therefore, the Slovak Government would prefer to shorten the proposed transition period and guarantee equal treatment to our farmers starting from 2007 instead of 2013. Then, the Slovak farmers will be able to meet the expectations of the EU's citizens, clearly presented in many opinion pools. Our society will promote the respect of the environment. Our producers will adapt production to consumers' requirements. Our agriculture will be more competitive on international markets and we will enhance the diversification of agricultural products and favour organic production. Agriculture does not only produce food. It is multifunctional and it is up to us to support all these functions. Finally, we shall not create a climate of mistrust, so that a farmer from the border region of Slovakia would be treated worse than his neighbour who lives in Austria just across the border.

The Slovak Government would welcome the European Union to review the Common Agricultural Policy by the end of this year with a clear message to candidate countries concerning this issue. In the face of the mid-term development of CAP we expect a decrease in institutionalised prices and prices in general, whereas the quota system applied to milk and sugar will be maintained with a possible decrease in real prices and quotas. The criteria for the provision of direct payments will be changed and the rural development programmes will become more important than the commodity programmes. Indeed, the assistance from the structural funds will be strengthened. Such development would accelerate and facilitate the accession process of the candidate countries by relative equalisation of our price levels with that of the European Union and our consumers would not experience a price shock caused by increasing food prices.

Of course, it is one thing to make political declarations and another one to deliver them. We need to ensure that the mechanisms of funding are up to the job. This means, certainly, that the technical details and the practical questions, which definitely need to be clarified before political decisions are taken, must first be sorted out at a lower level, including a discussion of production quotas and many other aspects of the financial framework. And this is where we often run into difficulties. The process has tended to dominate substance, scoring political points has often outweighed a needed consensus.

Ladies and gentlemen,

Let me continue with the second topic – migration. We, the politicians, shall be prepared to cope with these phenomena and you, the academics, shall help the society to research and understand them. There is every indication that we are close to witness the beginning of a trend most likely accelerating during the 21st century – an increasing rate of growth of the world's migrant population, driven by rapid declines in fertility in the more advanced regions, urbanisation, technology development, economic integration and globalisation. The "Social Situation Report 2002" recently released by the Commission focuses on mobility trends within, into and out of the European Union and the implications thereof. It shows that "even doubling immigration rates and simultaneously doubling fertility rates will not, on their own, make a significant contribution to securing sustainable labour markets and pensions systems". Net migration into the European Union was just above 680,000 in 2000. Some other reliable sources on migration clearly show that a relatively small share of migrants, approximately 17%, came from the candidate states, but most of them younger than from other countries and also better educated. On the other hand, the majority of EU regions are likely to see their populations stagnate or decline before 2015.

These statistical figures could not reverse a decision of the European Union to successfully negotiate a transition period of up to seven years on the free movement of workers from some candidate countries including the Slovak Republic. But I believe that the post-accession reality will encourage most of present members of the European Union to fully liberalise their labour market.

Concerns expressed by a number of EU Member States referring to a massive influx of cheap labour from candidate countries are partly met by alarms which are sounded in my country over the potential damage that emigration of the highly-skilled can cause to our development aspirations. The high-skilled are more adaptable with better language skills and find it easier to establish a new social network in the place of their migration. There are members of the EU where shortage in skills to sustain the rapid growth of knowledge-based industries has given rise to a significant opening of doors to migrant workers. At present, migrant workers are mainly concentrated in the Czech Republic with approximately 30,000 Slovaks who last year moved to work there. With a total of 45,000 migrant workers, the Slovak Republic still receives more job seekers from abroad than the number of Slovak citizens who are employed abroad. However, we can understand that the transition period applied to the free movement of workers appears to provide a certain safeguard against wrong migration forecasts in view of low predictability of the migration potential and offers the opportunity to learn about the trends in the course of the further development.

Ladies and gentlemen,

a mature relationship requires a degree of courage and responsiveness by partners to each other's concerns. That does not mean that we have to agree on everything, but it does mean that we should expect to be able to talk frankly and openly about any aspect, affecting our policies. Perhaps, we still have to turn away from the unreasonable concerns and groundless fears when the enlargement preparations seem to be getting entangled in details. We should do all we can to make the enlarged European Union work and work well. There is no other sensible option. But a partnership involves communication in both directions, it involves the principle of give and take. Let me ensure you that the Slovak Government understands that and I hope that the politicians and citizens of the EU will understand it, too.

Thank you very much for your attention.