

**Second International
Summer Seminar for Bulgarian and Romanian
Young Public Servants**

Preparation for EU Accession

Discussion Papers

17 - 20 September, 2001, Albena, Bulgaria,
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Economic Policy Institute

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**Message Of Greetings
To The Participants In The Second International Summer Seminar
For Bulgarian And Romanian Young Public Servants,
17 – 23 September 2001**

Dr. Solomon Passy
Minister of Foreign Affairs
Republic of Bulgaria

Dear participants and guests,

I bid you a heart-felt welcome to the official opening of the Second International Summer Seminar for Bulgarian and Romanian Young Public Servants.

The Ministry of Foreign Affairs of the Republic of Bulgaria supports the idea of holding this Seminar on a regular basis and subscribes to the admirable ambition of its organizers to turn it into a traditional forum for exchange of ideas and knowledge among Bulgarian and Romanian young public servants and, at a subsequent stage, among young public servants in South-Eastern Europe.

The main idea of the Seminar to hold joint discussions on the preparation for the EU accession is the thrust of your efforts not only here but also at your places of work in the public administration of Bulgaria and Romania. The joining of your common efforts and experience will be of substantial importance for you, young public servants, in your day-to-day expert work for the accession of our two countries to the big family of United Europe.

Undoubtedly, your joint work at this Seminar will be conducted in a climate of open dialogue, cooperation and friendship. It is only the spirit of clear commitment to the ideas of the European unification that can contribute to the prosperity of the region where we live.

I would like to congratulate the Economic Policy Institute, which is the host organization on the Bulgarian side for this Seminar within the framework of the joint project of the Bertelsmann Foundation and the World Bank *Towards European Integration – Network for Integration of Central and Eastern European Countries into the European Union*. I am proud to say that I have been involved in the activities of the Economic Policy Institute right from the outset and commend its energetic leader for her personal contribution to the non-governmental sector in this country.

I. Negotiations Between Bulgaria And The European Union

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EU membership is a priority goal for Bulgaria both in terms of domestic and foreign policy, and is widely supported by the political forces and the society. It is an opportunity to contribute to building a united Europe, based on the principles of freedom, democracy, rule of law and protection and respect for human rights.

Before opening the accession negotiations, Bulgaria made significant progress in meeting the membership criteria. It fulfilled the political criteria by achieving stability of institutions, guaranteeing democracy, rule of law, human rights, and respect for and protection of minorities.

In the economic area Bulgaria concentrated its efforts on the consolidation of the market reforms and policies, and the enhancement of institutions of a functioning market economy. Backed by the EU and the international financial institutions, we achieved considerable progress in restructuring our industrial, agricultural, and financial sectors. The Bulgarian economy sustained its stability and growth.

The process of transposition of Community legislation was accelerated and extended over all sectors. Bulgaria advanced in strengthening its administrative capacity, needed for the implementation of the *acquis*. The National Programme for the Adoption of the *Acquis* is a reflection of the legislative and administrative priorities for the pre-accession period.

Bulgaria achieved significant progress in transposing the Community legislation in the area of Justice and Home Affairs and in aligning with the best implementation practices of the Union. To successfully undertake its obligation as an external border of the Union, Bulgaria strengthened the capacity and improved the management of border controls.

Bulgaria has orientated its foreign and security policy towards EU and NATO. We actively participate in the multilateral dialogue within the framework of the Common Foreign and Security Policy. Bulgaria strives to contribute to regional stability through a policy of good-neighbourly relations and regional co-operation. Our efforts aimed at ensuring security and prosperity represent a strong contribution to maintaining stability in the region and in the continent as a whole.

The 1999 Regular Report from the European Commission acknowledged the significant progress, achieved by Bulgaria in meeting the criteria for membership in the European Union. The decision of the Helsinki European Council to open accession negotiations with Bulgaria was a further confirmation of the success of the reforms and Bulgaria's preparedness for EU membership. It was also a strong incentive for the country to pursue its goal of accession to the EU with even greater determination.

The negotiations were officially launched in the framework of the Intergovernmental Conference on the Accession of Bulgaria to the EU on 15th of February 2000.

By mid September 2001 Bulgaria has submitted to the Intergovernmental conference Position papers on 26 chapters. Negotiations have been open on 21 chapters, 11 out of

which have been provisionally closed. Until the end of September 2001 Bulgaria will submit position papers on the remaining three chapters: Energy, Regional policy and coordination of structural instruments, and Budget.

We expect that during the Belgium presidency Bulgaria will be able to take full advantage of the catch up, differentiation and assessment on own merits principles and will open all remaining chapters and close as many as possible of the already open chapters. This would provide for maintaining an accelerated rhythm of the negotiations and will be an opportunity for Bulgaria to join the group of candidate countries that are more advanced in the negotiations.

Bulgaria expects to complete the negotiations by the end of 2004 and to become a member of the EU on 01.01.2007, following the ratification of its Accession Treaty. As a candidate country Bulgaria attaches great importance to the debate on the future of Europe. The provisions of the Treaty of Nice prove that we are considered an equal partner. We are confident that an appropriate formula will be found to involve future members in the formal procedure for preparing modifications in the founding Treaties. We stand ready to take part in the discussion on the Future of the Union.

The coordination mechanism

The institutional mechanism coordinating Bulgaria's accession to the EU comprises of:

The Council of European Integration, chaired by the Prime Minister. Members are the Ministers and the Chief Negotiator, invitees are heads of governmental institutions, representatives of economic and social partners.

Delegation for negotiations, headed by the Minister of Foreign Affairs. Members of Core Team of the Delegation for negotiations are the Chief negotiator and the Head of Bulgarian Mission to the EU. Members are representatives of the following institutions: Ministry of Foreign Affairs, Ministry of Finance, Ministry of Justice, Ministry of Economy, Ministry of Interior, Ministry of Transport and Telecommunications, Ministry of Environment and waters.

Coordination Council for European Integration, chaired by the Chief Negotiator. Members are the heads of Working Groups.

Working Groups corresponding to the chapters of the future Treaty on Accession of Bulgaria to the EU. They prepare the Negotiating Positions of Bulgaria on the different chapters and work on the Bulgarian position in all other forms of dialogue between Bulgaria and the EU –approximation of legislation, fulfillment of the commitments undertaken under the Accession partnership, Europe agreement, preparation of the information on the progress of Bulgaria in fulfilling the criteria for membership, updating the National program for the adoption of the acquis.

The coordination mechanism incorporates representatives of NGOs promoting the interests of various society groups.

The Council of European integration held on 3 September its first meeting after the new Government took office. The Council agreed that the progress achieved so far provides a solid basis for advancing the accession negotiations in the fast track.

It reviewed the state of play and noted that Bulgaria has the capacity to deliver on commitments undertaken and to speed up the process of adopting and implementing the *acquis communautaire*. The findings and recommendations of the European Commission Regular Report for 2000 were discussed. The Council agreed on concrete measures to address these comprising *inter alia* a package of economic laws and regulations, an anti-corruption strategy, a strategy on the reform of the judiciary, and an outline of an updated energy strategy.

Post-Nice Process and Agenda 2004 - Distribution of Competencies and Simplification of Treaties; Institutional Reforms, and the Role of National Parliaments¹

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Introduction

The debate on the future of the European Union (EU) has intensified and is likely to gain even more momentum in the months and years to come. The outcome of the last intergovernmental Conference concluded at the Nice European Summit in December 2000 has officially put the EU in a position to enlarge. Yet, the results have by no means answered the entirety of questions on the practice, direction and progress of integration in an enlarged EU. On the contrary, the so-called post-Nice reform process initiated only three months after the conclusion of the last Intergovernmental Conference reflects the need to further improve the architecture of Europe's political system. Although a next round of enlargement in the foreseeable future seems very realistic, upcoming fundamental reforms might be decided upon without the accession countries having joined the Union.

This must not mean, however, that the applicant countries are excluded from an active participation in the current debate on the future of the Union. Western European participants in the discourse tend to assume that what they are debating and deciding may well affect the status of new members in the EU after enlargement, but ultimately, being members now, it is their right and task to set the future terms of EU integration. While this assumption can claim some legitimacy as long as EU reform is about enlargement preparation, it becomes increasingly problematic, the more EU reform turns into a future-driven debate that adds question-marks to the constitution-like nature of the current EU framework.

On the other hand, political and public representatives of the twelve countries currently negotiating their accession to the Union have been framing the EU-future debate as an issue of interest mainly for the current 15 member states. The EU debate within the accession countries and between the applicants and the Union has mostly been concerned with the when and how of enlargement. This focus on the modalities of accession results from a prevailing technical-legal approach that considers the adoption of the complete EU legislation and the chapter-by-chapter negotiation of eventual derogation requests as the core problems to be solved.

This way of considering enlargement as a complex and bilateral negotiation between the applicants and current member states has two detrimental effects on the domestic perception of the EU in the accession countries. First, the EU ceases to be an external

¹ This paper is based on the Report "Thinking Enlarged. The Accession Countries and the Future of the European Union. A Strategy for Reform" which was prepared by the Villa Faber Group on the Future of the EU and edited by the Bertelsmann Foundation and the Center for Applied Policy Research.

point of reference symbolising the practice of Western democracy and orienting the politico-cultural consolidation of democracy in Central and Eastern Europe. The Union appears to be merely an intricate and intransparent conglomerate of legal regulations that has little to do with democracy. Second, the negotiation setting and the publicly staged negotiation conflicts reinforce the intergovernmentalist perception of relations between the EU and the nation state: Negotiations are about defending 'our' national interests against the national interests of the EU member states organised through the Union, state interests which can be reconciled only if one party succumbs to the pressure of the other. Apparently, this type of enlargement discourse in the accession countries contributes to the decline of public support for EU membership.

It is for that reason, too, that there is increasing pressure to initiate a broad domestic debate on the future shape of the EU within the applicant countries and on their governments to join it more actively. The applicants will have to formulate more openly and offensively their viewpoints concerning EU reform and the *finalité* of the integration process. At the moment, political representatives and intellectuals from the candidate countries still tend to frame the EU reform debate as an issue of interest mainly for the current member states and, for that reason, have refrained from a public engagement. The lack of knowledge about Europe's future constitutional shape in the accession countries is not only the source but also the consequence of this neglect.

As a result, applicant countries are hardly capable yet to take the part they are expected to play in the proceedings of the convention which will prepare the next intergovernmental conference in 2004. According to the conclusions of the informal Ghent summit in October 2001, the candidate countries will only have an advisory role and will not be entitled to vote. Nevertheless, the participation in this Convention is the last opportunity for many of them to exert influence on the future shape of a supranational political system to which they will confer considerable parts of their national sovereignty. For that reason, the future member states cannot afford any longer to abstain from a more active involvement in the European constitutional debate. As a starting point, they should improve public awareness with regard to the issues and the scope of reform the heads of states and chiefs of government agreed on in Nice for 2004.

Modernising the Community Method - A Framework for Democratic Governance in Europe

To put the matter in a nutshell: the Nice Treaty was about efficient institutions for an enlarged Union of 27 member states, Post-Nice is about democratic institutions, respectively, democratic governance in Europe. Neither being an international organisation nor a state-like entity, the European Union still appears as a hybrid. Nevertheless, from the very beginning of European integration, the constitutional debate an Europe has fluctuated between these two poles. Those who want to shape the Union along the lines of a democratic system as we know it from existing nation states are opposed to those who would prefer to construct the EU as an agency with powers delegated by the nation states, but remaining under their control. Whereas the former see political legitimacy as the result of involving European citizens in a way comparable to participation in national decision-making procedures, the latter see

legitimacy primarily as the result of good performance and output efficiency of European institutions. Analogously, the democratic deficit of the current EU is either conceived as a lack of citizen participation and representation in a system dominated by executives or as the Union's failure to perform the public functions assigned to it by the EU member states.

Taking into account the reality of the process of unification, however, this dichotomy appears quite artificial. Indeed, it is precisely the dynamic synthesis of both models that has hitherto ensured the success of European integration and that could also underpin democratic governance in a future EU. This position should not be taken as an argument in favour of the institutional status quo. Obviously, there is a need as well as considerable scope to overcome the democratic deficit, to improve democratic decision-making, and to further develop the balance between elements of representation and delegation in the process of policy formulation on the European level.

Within this framework of reference it will be hardly possible to create a political system for the Union in 2004 which is based on the institutional checks and balances as we find them in established federal states. The next treaty revision will not be about completing a federal Union but about modernising the community method. Starting from this observation it is possible to identify those elements which are of major importance for the future model of democratic governance in the EU:

1. *Politicising European decision-making:* Legislation, decision-making and policy implementation should be more open to a process of political arguing and reasoning that encompasses the nascent European and the national public spheres. This deliberation process should be understood as a procedure of political dialogue that ensures the access of all persons affected by or interested in an EU action, fair and public exchange of all opinions and arguments raised by the participants, and rules of decision-making that can be assumed to be acceptable to all participants. The normative-political meaning of 'Europe' as well as the salience of parliamentarism and citizen participation in the accession countries suggest politicising the policy process in the EU in a way that increases public and societal attention, control and accountability. The technocratic, elitist and legalist policy process prevailing in today's Union contributes to the intransparency of the EU and harms the role of the Union as an anchor of democracy in the accession countries. Moreover, open discussion of political arguments is blurred and the policy process can be more easily captured by sectoral and national self-interests or by single-issue movements. Citizens of the accession countries, with their high expectations concerning democracy in Europe, may be repudiated and disappointed by these features of policy-making. Enhanced political deliberation will increase the political accountability of the EU institutions and the member states, contribute to clarifying their roles and competencies, and favour a constitutionalisation of the Treaties.
2. *Improving citizens' participation:* The EU should be brought closer to its citizens by facilitating direct participation and strengthening the powers of institutions representing the citizens. There is no trade-off between increasing the powers of the European Parliament and the powers of national parliaments. Both levels of parliamentary deliberation and control are necessary and should receive more

powers and functions in the future EU. In addition, institutions representing organised civil society should be strengthened. While there is no European demos today, the EU polity should be built as an institutional arrangement that facilitates the emergence of such a demos. This implies that conditions should be created that support, or at least do not hinder, the development of a common European political identity, political culture, and public sphere.

3. *Reinforcing the Community method:* The Community method seems to be the best existing way to reconcile and balance nation-state-based and citizen-based democracy, while providing the framework for effective governance. Core elements of this method are: a strong Council which represents the European nations and national legitimacy, restricts the problems of majority rule in a European society with persisting national plurality but gives, through qualified majority voting, space and incentive for policy deliberation; the European Parliament which represents a European public and what may become a future European demos, which also organises political deliberation and scrutinises the work of the Council and the Commission; the Commission which is, through its particular role in the policy process between Parliament and Council, even more committed to performance, professionalism and objectivity than a national executive led by a political majority may be. Reinforcing the Community method allows to manage an enlarged EU. It is the preferable alternative to attempts aimed at building a federal EU or at shifting policies towards intergovernmental co-operation. The accession countries have benefited from the Community method because it has facilitated enlargement. Moreover, they can consider the Community method as the best model to respect their sovereignty and ensure their participation as small and unitary states and as newly established nation states.

Agenda 2004 - Reform issues in the Nice Declaration on the Future of the Union

An enhanced political process, citizen participation and the Community method represent not only the most important building blocks of democracy in the EU. They also provide general aims that could shape the position of the accession countries concerning the items agreed on by the heads of state and chiefs of government in the Nice Declaration on the Future of the European Union, i.e. the simplification of the Treaties, the status of the Charter of Fundamental Rights, the delimitation of competencies and the role of national parliaments.

Opting for a Basic Treaty

The Declaration on the Future of the Union adopted in Nice calls for a simplification of the Treaties with a view to making them clearer and better understood without changing their meaning. Indeed, a simplification seems overdue since the accumulation of long and complicated Treaties - as the product of successive Intergovernmental Conferences - has become difficult to use both by experts and the general public.

The current Treaties are characterised by their illegibility resulting from the vague extent, the intransparent structure of legislative norms, and the complex dispersal of norms in a variety of texts (four basic treaties, numerous protocols and agreements). In addition, the organisational separation of the European level into three Communities and the Union and the latter's division into three Treaty pillars create another obstacle to understand what the Union really is about.

Any simplification of the Treaties must counter these deficits and achieve a higher degree of clarity and comprehensibility. Simplification means achieving a more rational, readily-understandable, stringent and transparent basic document suitable to serve as 'constitutional basis' for the future EU. Although the post-Nice agenda merely calls for a modest simplification of the Treaties, the idea of a European constitutional process will be quite predominant during the next IGC. For that reason the elaboration of a simplified 'Basic Treaty' might - regardless of the positions taken on the final architecture of the Union - further pave the way for a real 'European Constitution'.

In 2004, current and future member states should confine themselves to elaborating a 'Basic Treaty' that contains the Union's 'constitutional provisions' while procedural and implementing provisions should become part of a separate second treaty text. The Basic Treaty should comprise a definition of the legal status of the EU with respect to national and international law, a definition of its main objectives, competencies and institutions, provisions regulating democratic decision-making procedures, and a list of fundamental rights constituting EU citizenship. It would be the result of an editorial simplification and the fusion of the current Treaties which merges the European Union and the three Communities into a single and coherent legal personality with clear policy-specific competencies and puts an end to the present three pillar structure.

The debate on and the adoption of this Basic Treaty must - contrary to the past practice of Intergovernmental Conferences - involve a wide range of social actors, thereby reaching out to Europe's citizens. A process of this kind, going far beyond a public relations exercise, can contribute to defining the meaning of European integration and to constructing a European identity through the medium of public discourse and through an identification with the constitutional order established by the Treaty. Although less than a constitution, such a Basic Treaty would have a positive effect on the formation of a European identity, since it would reinforce the legitimacy of the Union in the eyes of its citizens.

Clarifying the delimitation of European and national competencies

The elaboration of a Basic Treaty seems impossible without a more precise and systematic structure of competencies explaining to citizens the range and the limits of EU power. Enhanced political deliberation will require an increase in political accountability. It is in this sense, that a clear delimitation of powers is indispensable, even though it constitutes an extremely ambitious task. It is just for that reason that the objective of a clear delimitation of competencies in accordance with the principle of subsidiarity was explicitly included in the Nice Declaration on the Future of the Union.

The present delimitation of powers between the European Union and the member states, as the product of a step-by-step approach, is neither systematic, transparent nor coherent. It is almost impossible for the European public to identify which level of government - European, national, sub-national - is responsible for a certain decision or action. The present principle of case-by-case empowerment has contributed a great deal to the dynamism of joint policies. However, the existing inventory of competencies (Art. 3 TEC) seems rather arbitrary, does not concur with the overall system in the Treaty (Articles 23 - 188 TEC), and provides neither a list of priorities nor a qualitative distinction between individual policies. This obscures political accountability in the relationship between the EU and the member states and hinders citizens from holding the Union, the national government or, in the case of shared powers, both levels politically responsible.

A revised competency structure needs to equal a systematic and more precise definition of the division of competencies. The existing allocation of powers must be examined according to its appropriateness and if necessary be more concretely defined, supplemented and - most importantly - systematised. The central aim must be to work out a competency structure which makes the allocation and scope of responsibilities more transparent for politicians and citizens.

In this context, the model discussed most frequently is a systematisation of competencies along the lines of three different categories of legislation:

- policy areas where the Union is in fact responsible and empowered to make decisions (exclusive competencies);
- areas which belong to the Union only to an extent (shared competencies);
- policies which are in principle dealt with by individual states without the participation of supranational institutions (fields of mere co-ordination).

These three categories need to be determined and abstractly formulated and incorporated into the Basic Treaty. Each category should be introduced by some general provisions clearly defining the prerequisites and the procedures for a certain level to become active. Within this differentiation, a negative definition of competencies is crucial for the critical cases - thus providing an answer to what, at least for the time being, should explicitly not be a responsibility of the Union.

At once, however, a delimitation of powers aiming at a higher degree of transparency will necessitate the reduction of existing legislative procedures on EU level. In the present system, decisions in a specific policy field are taken on the grounds of a variety of legislative procedures rather than on the basis of one single formula. As a result, it is almost impossible to figure out who is politically responsible for a certain decision. A new competency structure aiming at a systematic, transparent and coherent structure thus requires a reform of individual policy-fields and a substantial reduction of the present procedural diversity. An important step in this respect would be the introduction of qualified majority voting in the Council coupled with the co-decision procedure involving the European Parliament as the general rule governing the Union's decision-making.

In any case, the model finally chosen for a more systematic delimitation of competencies in the Basic Treaty should pay due regard to the following insights:

1. The call for a *definite catalogue of competencies* seems outdated. Whatever a new competency structure will look like, it should never be a final product. The fact that the EU's competency structure has been integration-oriented, thereby allowing the gradual transfer of powers to the Union, has provided the EU with a decisive element of openness and dynamism. A delimitation of competencies can never be absolute and final. The Union must be able to become active if this is required by changing political circumstances or external pressure.
2. The call for a clearer division of competencies is all too often simply linked to *popular demands for a re-nationalisation* of certain policies (e.g. the agricultural or cohesion policy). Politicians expressing their disapproval with the actual implementation of certain policies assigned to the Union, publicly demand that competencies should be transferred back to the member state or even regional level. However, a re-definition of the delimitation of powers should always include the possibility for both, a devolution of responsibilities to a lower level or a transfer of competencies to the EU level. In the end, it is not about calling into question whether a certain policy should or should no longer be in the responsibility of the EC/EU. It rather is a question of the extent and intensity of a policy formulation on the European level, which in the end should be determined according to the Union's ability or inability to perform the respective task.
3. The re-ordering of powers will be an *instructive exercise in defining the principle of subsidiarity* in more concrete terms. However, an attempt to re-order the Union's powers must not be interpreted as seeking to reduce European integration to its simplest form, or even as the 'window of opportunity' to empty European integration of its political and solidarity dimension and reduce it to nothing more than a free trade zone. In many cases, the transfer of competencies back to a lower level would merely lead to an apparent but not actual extension of the powers of the nation-state. At the same time there would be a double loss: member states would lose their influence on the formulation of policy in other member states and a policy transferred back to the national level would lose its quality as a common project with common responsibilities and goals.
4. Any new competency structure must not threaten the *future solidarity between current and future member states*.

Involving national parliaments

The final point in the Nice Declaration concerns the future role of national parliaments. The EU's democratic deficit is also caused by the fact that national executives gathered in the Council engage in legislation while national parliaments are only informed by their governments and lack the means to participate effectively in the preparation of legislation. The European Parliament cannot compensate for this weak role of national parliaments since it is not fully involved in all EU legislation and since its legitimacy is much weaker than that of national parliaments. There is no European demos it could claim to represent. And finally, the Conference of European

Affairs Committees of the national parliaments (CÖSAC) suffers from a low profile and weak formal participation rights, too.

One option to strengthen the role of national parliaments would be to complement the EP with a second chamber or third chamber (if one takes into account the Council as part of the EU legislature) of national deputies which would either participate in all legislative work - with the same rights as the current EP which would become the first chamber - or perform a more limited review function. However, the establishment of yet another parliamentary body would further increase institutional complexity.

An alternative option would be to enhance the mandating powers of national parliaments or to streamline the powers of the respective national committees (i.e. definition of basic common standards for European policy-making) and increase communication between them. It seems vital to ensure that national parliamentarians know and take into account the concerns of other member states. A significant additional task would be to put national deputies into a position to pressure national governments to fulfil their obligations concerning EU policies.

Involving national parliaments should become a key strategy to clarify and decide the allocation of competencies. Even if the EU proves successful in clarifying its competency structure, many policy areas will still be characterised by overlaps and sharing of powers, for reasons which often appear convincing and are basically accepted by all member states. Thus, there is a need to develop a mechanism of political consultation that enables the Commission and the member states to explore whether their envisaged legislative proposals would affect sensitive domains of national sovereignty and would be perceived as infringements on national competencies in (other) member states. The Commission already informs national parliaments about its communications, Green and White Papers, and the Council can unanimously decide to inform COSAC about a legislative proposal. These forms of consultation should be strengthened, e.g. by making a consultation mandatory if legislative proposals are based on the general task assignment of Art. 308 TEC, or by removing the unanimity requirement for consultation. A consultation with national parliaments at an early stage of policy formulation could support policy deliberation and a broader political consensus for assigning tasks to the EU level.

In the course of re-organising powers, the procedural and institutional structure for legal conflict settlement on the question which level of the Union enjoys a certain competency also needs to be clarified. At present, differences of opinion between the legislative institutions of the EU/EC (Council/European Parliament) and the legislatures on the member state level are resolved by a final decision of the European Court of Justice (ECJ). Indeed, there seems to be little need to change this. The ECJ should remain the court for settling conflicts of competency. Proposals to create an additional court of competency should be rejected. However, providing national parliaments with a right to appeal to the ECJ in cases in which these institutions question the legality of an action undertaken by the Union should be seriously taken into consideration, at least.

And finally, one could also imagine the creation of a Parliamentary *Subsidiarity Committee* consisting of representatives from the national parliaments and the EP in

order to monitor compliance with the subsidiarity principle. Every government and every parliament (including the EP) would have to appeal to such a committee asking it to express its opinion in those cases in which the Council, the EP or a national parliament question the competency of the Union. A decision by the Committee against the legal act concerned would oblige the Council or the European Parliament to either reject a Commission proposal or explicitly to explain the reasons why the Union has to act. Should the Council or the Parliament insist that there is need for European activities, it will be again up to the ECJ to decide whether such an action is in accordance with the principle of subsidiarity.

One Step Beyond the Nice Declaration – The Institutional Reform Agenda 2004

Notwithstanding the important objective of increasing the member states' parliaments involvement in EU decision-making, in the prospect of enlargement the need for institutional reforms is much more far-reaching. The last IGC has officially put the Union in a position to welcome new members. However, the Nice reforms are by no means sufficient to guarantee efficiency, legitimacy and public acceptability of an enlarged EU. For the next IGC, the reinforcement of the Community method seems to be the best way to achieve a more balanced, effective, and democratic institutional system. For that reason, the next institutional reform should go beyond the current post-Nice agenda.

Extending EP's co-decision to all issues decided by QMV

A key problem in the EU is that the introduction of qualified majority voting (QMV) in the Council has weakened democratic legitimacy via the participation of national governments in the Council. Their decreasing influence resulting from the loss of veto power in a growing number of policy fields has not been compensated by systematically strengthening the role of the European Parliament. The IGC 2000 extended the co-decision procedure to some provisions but missed the chance to improve the internal coherence of the legislative process by aligning co-decision and QMV as a matter of principle. The extension of the co-decision procedure would increase the powers of the Parliament and provide incentives for policy deliberation in the EP, thus countering the democratic deficit. Furthermore, it would link majority-based legitimacy in the Council to a majority in the Parliament and thus institutionalise a standard procedure of legislation that ties Council and Parliament together as two integral parts of the EU legislative branch.

Applying combined QMV and co-decision as general decision-making rule

The extension of the co-decision procedure to all areas covered by QMV should be the first step towards a further simplification and unification of decision-making that should replace the co-operation procedure with the co-decision procedure and unanimity voting in the Council with QMV in those areas where co-decision is already applied. This would result in two sets of legislative procedures: As a rule, the Council would decide with qualified (simple) majority and require the support of the

EP (co-decision or assent). Only in exceptional cases related to matters of particular importance for EU member states, the Council would decide unanimously with the assent or consultation of the EP. Issues area where unanimous Council decisions and EP Consultation apply should be scrutinised and transferred into the co-decision procedure if there is no longer serious reason for depriving the Parliament from an effective participation. Such a unified and simplified legislative procedure would considerably improve the transparency of EU decision-making and the political accountability of both the Council and the Parliament. Aspiring to further simplify the decision-making procedures, one should moreover consider the idea to eliminate the system of triple QMV (qualified majority of votes, majority of states, and a majority of EU population) that was recently introduced by the Nice Treaty.

Extending qualified majority voting to indirect taxation, social and cohesion policy

The Treaty of Nice has extended QMV to some provisions that were previously subject to unanimity, but it has (temporarily or conditionally) retained the unanimity rule in several important issue areas. The importance of solidarity in an enlarged EU, the reinforcement of the Community method, and the need for both political deliberation and effective governance suggest to apply QMV to the Treaty provisions regulating indirect taxation (turnover taxes, excise duties, and other indirect taxes (cf. Art. 93 TEC), social policy (Art. 137), and cohesion policy (Art. 161). In social policy, the Nice Treaty envisions the optional and unanimous introduction of QMV for some issues, though not for social protection issues, the core of national welfare states. Since structural and cohesion funds regulations shall be decided with QMV not before the (unanimous) adoption of the next financial framework and the related inter-institutional agreement, it is likely that the introduction of QMV might be postponed until after 2013.

In future, the application of the unanimity rule should generally be restricted to constitutional matters, such as amendments to provisions of the Basic treaty, the accession of new member states, or the system of own resources.

Extending EP's decision-making powers to all expenditure lines of the Budget

Currently the EP enjoys the right of proposal with respect to obligatory tasks of the EU which amount to more than half of the total Budget. Extending the powers of the EP to all expenditure lines of the Budget will increase the power of the Parliament and can be expected to promote the general debate on political priorities of the EU as expressed in budgetary allocations. In Order to Balance nation-state-based and citizen-based legitimacy, the member states should continue, however, to decide on the total size of the Budget.

Introducing an all-European list of candidates for EP elections

In order to enhance democratic legitimacy, a certain number of seats in the European Parliament (e.g. 10%) should be assigned to parliamentarians elected from an all-European list. The introduction of such a list would encourage true pan-European

election campaigns and support the emergence of a number of Europe-wide known politicians.

Electing the Commission and its President by the EP

The Nice Treaty envisages that the members and the President of the Commission are nominated and appointed by the Council with qualified majority, but it still confines the EP to approving the Council's candidates. Although QMV is a considerable progress in terms of effective governance compared to the current unanimity practice, political deliberation on the best Commission team and, consequently, the political legitimacy of the Commission would be substantially increased by a stronger involvement of the EP in its election. Moreover, a parliamentary election would further clarify and increase the political accountability of the Commission to the Parliament which can now dismiss the Commission by a vote of no confidence.

Strengthening the Commission

The Commission must regain weight in the inter-institutional triangle composed of itself, the Council/European Council, and the EP. The introduction of qualified majority voting for the designation and appointment of members of the Commission and the increased powers of the Commission President agreed on in Nice are positive steps in this direction. However, since decisions in the Council based on qualified majority voting will be more difficult to obtain after Nice, the overall position of the Commission has even been weakened. Moreover, the Commission's role in the particularly dynamic areas of Common Foreign and Security Policy (CFSP) and Justice and Home Affairs (JHA) is still much weaker than in the first pillar. Extending qualified majority voting, eliminating triple majority, endowing the EP with the right to elect the Commission and its President, and the further communitarisation of both CFSP and JHA are necessary reforms that will strengthen the Commission and re-establish its role as a driving force of integration.

Improving the Council's position

The European Council tends to disperse its energies on an agenda which has constantly increased. As a result the European Council is no longer in the position to give strategic guidance to the EU. The European Council should again confine itself to providing orientation for the Union instead of taking more and more detailed decisions, which should rather be taken by the different formations of the Council. For that reason, the General Affairs Council must regain its key co-ordinating role in the inter-institutional architecture of the Union and provide for the overall coherence of EU-policies. Such a reform will not be at the expense of neither the Commission nor the EP but rather strengthen the entire institutional setting. A number of concrete reforms seem necessary for the General Affairs Council to regain its traditional role:

- Conflicts of interest and competencies between the different formations of the Council must be decided on the national level;

- the frequency of General Affairs Council meetings should be increased to once a week;
- the Council's working methods need further improvement (number of people sitting around the Council's table; timing of press conferences; clearer division of the agenda of meetings, etc.).

On a more general level, one could take into consideration the idea of changing the composition of the General Affairs Council by replacing the foreign ministers with ministers responsible for European affairs, reporting directly to their respective head of state or chief of government. These ministers would be in charge of co-ordinating both the national and European level, thereby providing for more coherence of the EU's activities in both national capitals and Brussels. As a consequence, the Council consisting of foreign ministers could concentrate on issues related to the CFSP, which at any rate is requiring more and more of their attention. In general, current and future member states should attempt to streamline European policy-making at the national level.

Concluding Remarks

Decision-makers in the current and future member states should be aware that completing the unity of the continent and creating the grand European Union requires political leadership as well as a broad public debate on the future architecture of the political system of the Union.

Apparently, the outline in this paper on reform issues to be dealt with by the "constitutional" convention and the next Intergovernmental Conference until 2004 is far from covering all challenges which Europe has to cope with during the next five years. Apart from adapting the institutional architecture of the Union and from simplifying its legal basis enlargement, there is particularly urgent need for a far-reaching reform of European spending policies and the development of a more comprehensive understanding of security. Substantial progress in these two fields is of outstanding importance for the success of enlargement, the Union's future role as area of stability and peace in international affairs, and the establishment of a all-European community of values based on the principles of solidarity and social justice.

Nevertheless, improving the knowledge about the polity of the EU and activating the citizens in the applicant countries to join the debate on its future shape is a necessary precondition to secure public support for accession. The European Union must not present its future member states with a *fait accompli*. For that reason, too, it is important that accession negotiations with – at least – a first group of candidate countries can be concluded before 2004. In this way they would be entitled to claim seat and vote in the next IGC. On the other hand, however, none of the twelve applicants must wait until accession if they want to exert influence on Europe's future polity. It is now that they should encourage a public debate at home and demonstrate more self-confidence when presenting their "constitutional drafts" for the enlarged Union at Brussels.

The Future Democracy In The European Union After Nice

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The negotiations about a reform of the institutions of the European Union during the last year and the European Council of Nice have shown that the time has come for a through going debate on our common future in Europe and the future shape of the Union.

As we remember, the Conference has succeeded in drafting several amendments to the Treaty constituting the European Union that affect the entire structure of the Union:

- From the year 2005 onwards, every member state shall be represented in the European Commission by one commissioner. After the signature of the Treaty by the 27th member state, the Union shall seek a new regime on the limitation of the number of commissioner and on their replacement by a mode of rotation.
- The number of votes in the Council per member state varies from 3 to 29. Bulgaria as well as Austria shall be entitled to 10 votes, Romania to 24. The percentage of votes required for a qualified majority shall be progressively raised to 73,4%, as compared to 71,26% at present. Any member state can demand that these votes equally represent 62% of the population of the EU. This system still favours the smaller states as compared with the big ones. While Austria has a share of 1,6% of the EU population, she has a share of 2,9 of the votes.
- The decision-making by qualified majority has been extended to a number of matters that had to be decided upon by unanimity so far. Austria has insisted on the requirement of unanimity for the quantitative use of the water resources, for land management and regional planning and for basic decisions on transport policy. All these matters concern immediately the use and status of the soil. Austria has advocated majority decisions on systems of social security and on tax policy, in order to achieve a unified market for labor and for investments, but without success.

By their declaration on the future of the Union in the Final Act of the Treaty of Nice, the Member States have made it clear that the reform of the Union shall continue even beyond the Treaty of Nice, and have initiated a basic discussion on the purposes and scope of action of the Union. This discussion should yield its results until the end of the year 2004.

For the first time, such a discussion is not to be carried on behind closed doors by technocrats and legal experts, but in the broad public. Representatives of the Civil Society and of NGOs as well as of economical, political and academic institutions are invited to participate. This open discussion is necessary because of a progressive estrangement of the citizens of Europe from the progress of European unification that can be observed since several years. The citizen cannot perceive the mechanisms that

make the Union work, he also is irritated by contradictory and superficial reports about what happens in Brussels, and he has little confidence in the repeatedly propagated motives and ideals of European unification.

It appears paradoxical that European integration is understood less and sell, the more it approaches the vision of the founding fathers. The European Union thus seems to be a victim of its own success. Therefore, it is high time to stop this process of erosion. Otherwise, it will be all the more impossible to prepare the public opinion for the tasks lying ahead of us: the enlargement of the union by 12 new members as well as the preparation for a common security and defense policy.

Certain topics of the public discussion have been mentioned at Nice:

- The streamlining of competencies between the Union and the Member States,
- The more transparent formulation of the Treaties constituting the Union,
- The status of the Charter of Basic Rights and its possible integration into these treaties, and
- The role of national parliaments within the structure of European institutions.

Further topics could be the legal status of the European Security and Defense Policy, the possibility of new institutions in the field of the Common Foreign and Security Policy and the accession of the European Union to the European Convention on Human Rights. Also, the role of the regions could be enhanced by a redefinition of the status of the Committee of the Regions.

Most probably, this discussion will boil down two basic questions:

- How can decisions be made on the European level?
- Which decisions can be made on the European level?

Small member states need strong European institutions. Leaving all decisions to the consent of the governments would lead to the rule of a club of strong leading states to which smaller client states would have to submit.

A further task lies in the strengthening of democratic decision-making. This can not only be achieved by strengthening the European Parliament, but also by assigning tasks to the national parliaments. The creation of a second chamber of the European Parliament to be formed by delegates from national parliaments might also be discussed. The role of the European Commission might be strengthened by the election of its President by the European Parliament. Europe-wide referenda might be held on important European issues.

Which decisions could be made on the European level? Most probably, matters of the Common Foreign and Security Policy will require European decision-making. In other fields, European competencies might have become obsolete.

The procedure of the discussion:

First, we have to come back to a language that the citizens can understand. We shall not be able to arouse anybody's interests with terms like "post-Nice process" etc. We also have to find a common language: the term of "federalism" e.g. has a different meaning in Anglo-Saxon countries from that which it has in other countries.

Secondly, the discussion must be conducted so that it reaches the entire population. A dialogue among converts would mean self-deception.

And thirdly, the candidates for accession must be implied in this discussion as early as possible. It would be nonsensical to discuss the future of the Union without the participation of the 100 million people that shall soon be part of it.

The procedure shall be regulated in detail by the European Council at Leaken. It shall be concluded in 2004 or earlier by a conference on government level. This conference might be prepared by a committee in which the governments and the parliaments of the Member States as well as the Commission might be represented. Two political requirements have to be pointed out in this context:

The legal as well as the political situation requires that any revision of the EU Treaty has to be formalized by a conference of the Member States on government level and approved by the national parliaments, in some Member States even by a referendum. It appears impossible to confront the Member States with a final text to take it or leave it.

Furthermore, many technicalities are unsuitable for a through discussion in the plenary session. Therefore, it might be useful setting up a sufficient number of open-ended working groups that would have to report periodically to a preparatory committee.

And how far may we stretch our expectations in this process? It can hardly be expected that until 2004 all the answers to all the possible questions regarding a Union with 20 or 30 member states can be given.

There has been no rigid model for European integration in the past, and there won't be any in the future. There must be a certain scope for flexibility, so that the Union can adapt it self to new realities. The so-called Monnet-method of developing the integration of Europe step by step wherever it appears desirable will most probably prove its value also in the future.

There is also a certain risk that the debate on the future of the European Union will be used by some to question everything that has been built up half a century.

Thus, the debate on the future of the European Union will offer chances and risks. Ultimately, it will lead to a compromise that will be unsatisfactory to many. But anyone who expects to be heard by the others must also be willing to listen to them.

South-East Europe In Transition: Problems And Prospects

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Abstract

The purpose of this paper is to analyze the current problems and to investigate the future prospects of transition in South-Eastern Europe. After ten years of transition to market economy, the Balkan region is still characterized by economic regression, social, economic and political distress and regional dis-integration. All these elements are inter-related and represent important impediments to the process of transition to market economy. The paper shows that there is a way to escape from this situation. It involves the implementation of wide scale structural reforms, the enhancement of regional integration among the Balkan countries and efforts for an effective use of foreign assistance.

1. Introduction

After the radical changes that occurred at the beginning of the 1990s, most countries in central and eastern Europe realized that the process of transition was a much more difficult task than what it was initially thought to be. This is more than anything else true in the case of the South-East European (Balkan) economies. The magnitude of ethnic, political and economic problems that these countries are facing today within both the domestic and the international context, are enormous. This is because the general situation in the Balkan peninsula was very different in 1989 than it is today. In 1989 Bosnia and Herzegovina, Croatia, FYR Macedonia, Slovenia and FR Yugoslavia were united. Bulgaria and Romania were members of the CMEA and Albania was the most close and isolated economy in Europe. Recent economic upheavals together with the opening of potential new markets have made it difficult for them to achieve a state of steady economic development. The majority of these countries are in a stage of transition towards the establishment of a market economy and the creation of a basis for self-sustained economic and social growth. They have to resolve a wide range of practical ethnic, economic, social and related issues. Their industries urgently need modern technologies, better management, higher efficiency, substantive reduction of production costs and more flexibility so that in the future their goods can successfully compete in international markets.

Despite the current "dark picture" of the Balkan region, we believe that there is still some hope. The implementation of wide scale structural/market reforms, the enhancement of intra-regional cooperation and the effective use of foreign assistance could offer some prospects in the region. The next section of the paper discusses some of the most important (economic) problems of the region, while section 3 focuses on regional integration. Section 4 investigates the future prospects of the region and finally the paper ends with some concluding remarks (section 5).

2. The South-East European Region: A Region with a Common Set of Problems

One particular aspect of the transition process in all central and eastern European economies was the initial output decline. Today, none of the economies in the Balkan region have managed to regain the loss in output which took place at the beginning of the transformation process (Table 1). In comparison with the more advanced transition economies of central Europe, growth performance in the Balkans has been much less satisfactory and the contrast between the two regions is striking. By 1999, most of the central European countries had more or less regained their 1989 output level. In contrast, the cumulative decline of GDP in the Balkan economies was much greater and in 1999 it was around 67 per cent (on average) of the 1989 level.

In addition to sharp output decline, we observe a striking decline in employment levels (Table 2). For the Balkan economies as a whole, total employment in 1998 was one quarter below their level in 1989. In contrast, the fall in total employment in the economies of central European countries was one sixth below its 1989 level. Unemployment rates in the Balkan region are much higher than anywhere else in Europe, for example 42% in FYR Macedonia, 38% in Bosnia-Herzegovina, close to 50% in FR Yugoslavia.²

As a result of these developments, the income gap between the Balkan economies and the rest of Europe has widened during the 1990s (Figure 1). So the Balkan region lags behind and has become poorer. This reflected in the current levels of GDP per capita. The disparities vis-a-vis the rest of Europe have not only failed to narrow in the 1990s but have increased substantially. This is true even if we compare the Balkan economies with the central European economies. So the distance between the Balkan region and the EU has now widened.

The macroeconomic situation in all these economies is relatively fragile (Table 3). The main success has been in reducing inflation, in several cases to very low levels. Current account deficits have been large and persistent, with a consequent build-up of foreign debt, domestic investment remains weak and foreign investment is not attracted to the region.

The implementation of structural reforms gives also a different picture when we compare the Balkan economies with the more advanced central European economies. Table 4 presents evidence as regards the private sector output as a share of GDP in Central and Eastern European countries. Although all transition countries have introduced privatization programs, there are differences in the form and timing of their schemes. The data, even though they refer to privatization of firms as well as entry of new firms, are representative to the consequences of the different privatization programs. We observe that in 1998 four-fifths of economic output in the Czech Republic and Hungary is now produced by the private sector, according to estimates by the European Bank for Reconstruction and Development (EBRD).³ In general, the private sector is larger in the

² It should be noted that the data are not always available or reliable.

³ The EBRD calculates the size of the private sector by including an estimate of informal economic activity as well as of the official output of private registered companies. This means that countries with a large informal sector, such as Albania, also score highly.

economies of central and eastern Europe than in those of southeastern Europe. In FYR Macedonia for instance, the private sector produces only about 55%.

Liberalization is also another important element in the transition process. It refers to the removal of the total state control on economic transactions and the shifting towards a market - based economic system. It involves the freeing of domestic price and trade, foreign trade and currency convertibility, the free entry of new business and the development of the necessary legal and institutional framework. The availability of domestic financing is for example, an important motivation for foreign business to establish new ventures. For trade, in particular, liberalization measures improve the market access both for imports and exports. Any firm without major restrictions then can carry out trade. For the Balkan countries in transition the challenge is to liberalize their export and import barriers (i.e. export ceilings and bans, export tariffs and duties, export licenses and taxes, export quotas, subsidies, minimum prices, import bans and quotas, tariffs, import licenses, import surcharges, duties and taxes), to liberalize their exchange rate system (i.e. convertibility of the currency for current and capital account transactions), to decrease the share of barter transactions and to de-monopolize their foreign trade activities. Table 5 contains information on the economic liberalization of the Central and Eastern European transition economies. The data comes from various sources such as World Bank, EBRD, EIU and Institutional Investor.⁴ The respective index is a weighted average of estimates of liberalization of domestic transactions, external transactions, and entry of new firms. It is evident that in 1998 liberalization stands quite lower for the Balkan countries, when compared to the more advanced Central European countries.

3. The South-East European Region: A Region without Regional Integration

Regional integration among the Balkan countries is limited. Thus in 1998, trade of Albania, Romania and Bulgaria with other Balkan countries was marginal (Table 6). For most countries of former Yugoslavia, on the contrary, trade with the other Balkan countries represents a rather significant portion of overall trade. This is mainly due to the intra-Yugoslav trade rather than trade with the other Balkan countries. Taking into account that in 1989 Yugoslavia was the most integrated part of the Balkan region we easily come to the conclusion that today the Balkan region is less economically integrated than a decade ago.

In addition to the above, the Balkan region is not regionally integrated with the EU. Take for example the amount of trade and FDI which flows between the two regions (Tables 7-11). Table 7 contains information regarding exports and imports of the 6 SEE countries in transition and of the five CECs to and from the EU for the period 1991-1998. Table 8 presents the shares of the two regions in the total amount of exports and imports to and from the EU of the 11 countries in transition taken together. It can be seen that the five CECs accounted for almost 86% of total exports to the EU and for 81.% of total imports from the EU in 1998. For the 6 Balkan countries the corresponding shares were 14.2% and 19.1%.

⁴ Combining these sources was necessary in order to come up with a most accurate index of liberalization.

Besides trade, FDI is also an important factor of economic integration with the EU on the one hand and of economic development and transformation on the other. As part of the transition process, all countries in transition have opened up their economies to Foreign Direct Investment (FDI), albeit in varying degrees. They saw FDI as a key factor in the restructuring and transformation process of the former centrally planned systems. Their policies towards FDI were triggered by their capital needs and, in particular, the expectations they had concerning the role that FDI - together with the technology, trade, management practices and training associated with it - can play in economic development. Foreign direct investment can be of particular importance to these countries since experience has shown that countries around the world in which FDI has concentrated have enjoyed accelerated economic growth, easier integration into world markets and less painful structural reform. Thus, by the same token, it is possible that the Balkan countries may also receive all these potential benefits provided that are successful in attracting sufficiently large volumes of FDI. Table 5 contains information regarding FDI inflows in the eleven countries in transition for the period 1991-98.⁵ Table 6 contains the same information, but on a per capita basis, while Table 7 presents the shares of each country in the total amount of FDI inflows of the eleven countries in transition. Based on these data we can make two categories of transition economies. The SEE-6 with an accumulated annual share of total FDI inflows of around 18% and the CEEC-5 with an accumulated annual share of total FDI inflows of around 81.7%.

All the previous data indicated that the degree of economic integration between the EU and the SEE countries is marginal. Based on the above observations one could think that so far there have not been serious efforts of regional integration. But this is false. In the 1990s there have been a number of initiatives aiming at the stimulation of trade and regional integration both within the SEE and with the EU. The first group of these initiatives were activated immediately after the dissolution of the socialist system and concerned not only the Balkans, but a larger number of Eastern European countries. Among the most important are the Europe Agreements, the Central European Initiative (CEI), the Central European Free Trade Area (CEFTA), the Black Sea Economic Cooperation (BSEC) and the Trade and Economic Cooperation Agreement (TECA).

A second group was initiated after the end of the war in Bosnia-Herzegovina and concerned mostly the SEE countries. Some of these initiative are the Conference of Good Neighborliness, Stability, Security and Cooperation in SEE (CSEE), the Royaumont process, the Regional Approach of the EU, the South East European Cooperation Initiative (SECI), the Autonomous Trade preferences taken over from the 1980 Trade and Cooperation Agreement with SFR Yugoslavia and the Stability Pact for SEE. Table 12 presents all these initiatives as well as the countries participating in these.

The first Europe Agreements were signed back in 1992. In the meantime such agreements have been signed with ten countries (Poland, Hungary, the Czech Republic, Slovenia and Estonia, Bulgaria, Latvia, Lithuania, Romania, and Slovakia). Bulgaria's and Romania's agreements with the European Union were signed in 1993

⁵ Bosnia & Herzegovina is not included due to data limitations.

and they entered into force in 1995. Both countries were invited to initiate negotiations for full EU membership. The most important contribution of the Europe Agreements in the trade field is the establishment of a free trade area among the participating countries. According to the provisions of the Europe Agreements access for EU goods to eastern markets was liberalized more slowly than that for CEEC goods to EU markets. The so called sensitive products (clothing, steel, agriculture) were excluded from the Europe Agreements. In addition to this a number of non-tariff barriers (e.g. public procurement, different product standards) impeded the access of eastern European products to the EU countries.

The Central European Initiative aims at European Integration and thus it supports the member countries that are not yet EU members. Its history goes back to 1989, when the representatives of Austria, Hungary, Italy and Yugoslavia established an initiative for cooperation called Quadrangone. It aimed at developing wide political, technical, economic, scientific and cultural collaboration between the four countries. In 1990 Czechoslovakia joined the Initiative and it was renamed Pentagonale. In 1991 Poland joined the group and it became known as hexagonale. Bosnia and Herzegovina, Croatia and Slovenia joined in 1992 and the initiative became known since then as Central European Initiative. In 1993 Czech and Slovak republics and FYR Macedonia were accepted as members. In the 1996 enlargement, Albania, Belarus, Bulgaria, Romania, Ukraine and Moldova joined the Initiative.

The Central European Free Trade Agreement aims at the elimination of tariffs and duties of the participating countries. It was first signed by Czechoslovakia, Hungary and Poland in 1992. Slovenia joined CEFTA in January 1996, Romania in July 1997 and Bulgaria's agreement entered into force in October 1999. Future members are required to be members of World Trade Organization and to have signed Association Agreement with the European Union.

The Black Sea Economic Cooperation was initiated by Turkey in 1990 and it included initially the four Black Sea countries Turkey, Soviet Union, Bulgaria and Romania. In June 1992 the cooperation got its final form. Members include Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine. Observer status is held by Austria, Egypt, Israel, Italy, Poland, Slovakia, Tunisia, Germany and France. The aim of the BSEC is to create an area of multilateral and bilateral cooperation in commerce, industry, environment, science and technology.

The trade and Economic cooperation Agreement with the EU apply in the case of Albania since 1992 and FYR Macedonia since 1998 giving them limited access (compared to Association Agreements) to the EU markets.

The Conference on Good Neighborliness, Stability, Security and Cooperation in the Balkans was initiated in Sofia in July 1996. The aim is to enhance good-neighborly relations including confidence and security building measure, development of economic cooperation through cross border cooperation. Members include Greece, Bulgaria, FYR Macedonia, Romania, Albania and Turkey. Observer status was held by Bosnia-Herzegovina.

The Royaumont process was initiated in 1995 and includes Greece, Albania, Bosnia-Herzegovina, Bulgaria, Croatia, FYROM, Romania and FR Yugoslavia as participating countries.

The Regional Approach was adopted by the European Union in 1996, as part of the Royaumont process that was initiated for the process of stability and good-neighborliness in South eastern Europe. It is meant for the countries of western Balkans that did not have cooperation agreements with the EU (Croatia, Bosnia-Herzegovina, FR Yugoslavia) or the existing agreements which will be later replaced with Stabilization and Association Agreements (Albania and FYR Macedonia).

The South East European Cooperation (SECI) was launched in December 1996. This US initiative includes all Balkan countries (except for FR Yugoslavia), Hungary and Moldova. Observer and support status have USA, Italy, Germany, Austria and Switzerland. In addition, international organizations like the European Commission, EBRD, World Bank, EIB, IMF, UN Economic Commission for Europe and International Telecommunication Union participate in the work. Its objective is to encourage economic cooperation among the participating countries.

The Stability pact for South Eastern Europe was adopted in July 1999 as a response to the Kosovo crisis designed to prevent another armed conflict in the region and to bring the region closer to the perspective of full integration into the European structures. The Stability Pact represented a new global approach for Southeastern Europe, away from the strict bilateralism and diversity. It also offered prospects for EU membership for all the countries in the region.

Finally the EU has approved autonomous trade preferences to Bosnia-Herzegovina (1996), Croatia (1996) and FR Yugoslavia (1997, withdrawn in 1998), based on some provisions of the 1980 Trade and Cooperation Agreement concluded in 1980 with former Yugoslavia.

So all these initiatives have not resulted in any substantial result. According to Uvalic (2000) this is due to political hostilities among the countries of the former Yugoslavia, to the exclusion of FR Yugoslavia from most of these initiatives, to the fact that except for the CSEE all initiatives were imposed from outside, that they were usually backed by limited financial assistance, and /or technical recourses, that they were not comprehensive enough, being limited to one or two specific areas.

4. Are There Any Prospects for South-East European Countries in Transition?

The previous section presented a rather dismal picture of the Balkan region: Mounted economic problems, lack of regional integration among themselves and with the EU, failed efforts of regional cooperation schemes. So is there any hope for the Balkans? The reversal of the above trends could offer such a hope. But how can this be achieved?

Proposition 1: The Balkan economies should implement wide scale market reforms.

A lot of previous studies have proved that market reforms, such as privatization and liberalization are significant factors for enforcing regional integration such as trade and FDI integration with the EU.⁶ To see if this is true in the Balkan case we run the following regressions:

$$x_{it}=a_0+ a_1y_{it} +a_2y_{t}^*+a_3D_i+a_4 LI_{it}+a_5PI_{it}+u_{it} \quad (1)$$

$$m_{it}=b_0+ b_1y_{it} + b_2y_{t}^* +b_3D_i+b_4LI_{it}+b_5PI_{it}+e_{it} \quad (2)$$

$$fdi_{it}=c_0+c_1y_{it}+c_2OPI_{it}+c_3LI_{it}+c_4PI_{it}+c_5WR_{it}+\varepsilon_{it} \quad (3)$$

where:

x_{it} = log of exports of country i to EU at period t

m_{it} = log of imports of country i to EU at period t

y_{it} =log of domestic product of the ith transition economy

y_{t}^* =log of domestic product of EU (average)

D_i =the distance of the examined transition economy (capital) from Brussels

LI_{it} =degree of economic liberalization of country i

PI_{it} =private sector output as share of GDP in country i

OPI_{it} = openness ratio (estimated as exports+imports/GDP)

WR_{it} =ratio of average monthly wage in country i to the average monthly nominal wage of the EU countries

The conventional variables in trade equations represent the exporters' supply, the importers' demand and the cost associated with international trade. More specifically, in both equations the income variable represents endowments of the trading partners. In particular, for the exporting country/region the supply of exports depends positively on the production capacity. This is captured by GDP. Thus we expect a_1 to be positive in equation (1) and b_2 to be positive in equation (2).

Turning to the importing country/region, the demand for imports depends positively on its income as this reflects higher demand. Thus we expect a_2 to be positive in equation (1) and b_1 to be positive in equation (2).

The geographical distance variable, D_i , which appears in both trade equations, represents resistance to trade. That is, it reflects the various costs either with respect to transportation or information associated with international trade. As a result, we expect a_3 and b_3 to be negative.

⁶ See Papazoglou and Liargovas (1997), Liargovas and Papazoglou (1999) and Liargovas and Chionis (2001)

Turning now to the FDI equation, one would expect the coefficient of y to be positive since the particular variable reflects the size of the market of the host country. The coefficient of the openness ratio is expected to be positive. That is investors prefer countries with large external sectors and relative liberal trade regimes which may mean easy access to regional markets. Lower wages of the host country in relation to wages of the investing countries should encourage FDI inflows. Thus we expect the coefficient of the wage ratio to be negative.

Finally, the signs of the PI and LI are expected to be positive in all three equations. Both these variables introduce the transition process by considering the effect of the liberalization and privatization process on the size of the trade and FDI flows. Thus an important element that describes the current status of the transition economies is incorporated into the analysis.

The estimations were carried out using annual data for the period 1991-1998 for the 11 transition economies (11x8=88 observations)⁷. The data are withdrawn from IMF (trade statistics), EBRD (Liberalization, privatization indexes and wages), and Eurostat (GDP)⁸. Using longitudinal estimation techniques we allow for the intercept to vary across countries (“fixed effects”).

The first three columns in Table 13 report the output results obtained from the fixed effects model. We report the values of the coefficients (standard errors in parenthesis) as well as the values of R^2 , the adj. R^2 and the Likelihood Ratio Probability. The results can be interpreted as follows.

First, with respect to the conventional variables of the trade model, we see that the GDP of the transition economies as well as the distance variable have the correct signs and they are statistically significant in all gravity equations. The European GDP although that has the correct sign is not statistically significant. We should also note the insignificance of PI variable in export equation and the insignificance of LI variable in import equation.

Turning to the FDI equation, all three conventional variables appear significant with the expected sign. As far as the importance of the transition process is concerned, we confirm the hypothesis that the observed patterns of trade and FDI flow in our sample of countries have been affected by the speed and form of privatization programs as well as the progress towards the liberalization of the economic system. Overall the two factors to a large extent help explain the differences in the degree of economic integration of the countries selected with the west and particularly with the EU.

Finally, it should be noted that in all cases, country specific effects turned out to be highly statistical significant (using a likelihood ratio test), indicating that there were some differences across countries that are not captured by the explanatory variables.

⁷ Bosnia&Herzegovina is not included due to data limitations.

⁸ Extrapolation techniques were used in order to estimate the missing values.

Proposition 2: The Balkan economies should encourage intra- regional cooperation

The main arguments in favor of regional cooperation fall in three main areas: trade, FDI and EU integration. Trade liberalization could increase regional trade flows and if trade substantial then economic growth could come as well. The creation of a South East European Free Trade Area (SEFTA) could serve this end. Foreign investment is attracted by large markets and therefore if the Balkan economies intensify all the forms of cooperation, they will be able to create such an area for investment. Finally, for the Balkan countries whose economic transformation lags behind those Central European States, regional integration is the only way to go farther and to increase their chances at EU. This is because a force restructuring may be an excessive price to pay for chances at EU membership and may be farther off and less certain at this time. Increased regional integration will provide a strong local cultural support in order to strengthen democratic process in these countries. It will also provide economic prosperity and will act as training strategy towards future participation in EU.

Proposition 3: Effective use of financial assistance is crucial.

The problem with the financial assistance is not the actual amount but with the effective use (Table 14). For example the total amount of funds that has been directed to the five Balkan countries (including EU bilateral assistance and EBRD funds) is more than 8.2 billion EURO over the period 1991-99.⁹ But all countries are now poorer than they were in the beginning of the 1990s, thus this amount helped these countries merely to survive rather than develop and prosper.

In fact, what these developments suggest is that the Balkan countries do not have increased absorptive capacity of foreign funds. Therefore they lack institutions. The building and strengthening of the institutional environment is obviously one of the factors that not only enhances economic reforms but also increases the absorptive capacity of an economy. Hence the emphasis on institution building should occupy a central place in the foreign assistance to these countries.

5. Conclusions

After ten years of transition to market economy, the Balkan region is still characterized by economic regression, social, economic and political distress and regional dis-integration. All these elements are inter-related and contribute to the "dismal picture" of the Balkans. This paper showed that there is a way to escape from this situation. It involves the implementation of wide scale structural reforms, the enhancement of regional integration among the Balkan countries and efforts for an effective use of foreign assistance.

⁹ This amount has been estimated to be around 18% of GDP and therefore seven times the 2.5% of GDP of beneficiaries countries of the Marshall plan in post war Europe.

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Table 1. Output performance, 1989-99

	Real GDP in 1999 (1989=100)	GDP annual growth 1999	Year in which output was lowest
Albania	92.88	8	1992
Bosnia-Herzegovina	44.8	12	1995
Bulgaria	67.716	2.6	1997
Croatia	77.766	-0.3	1993
FYR Macedonia	73.944	2.7	1995
Romania	73.568	-3.2	1992
Yugoslavia	41.157	-19.3	1993
Czech R	96.806	-0.2	1992
Hungary	100.32	4.5	1993
Poland	122.838	4.1	1991
Slovakia	101.9	1.9	1993
Slovenia	105.949	4.9	1992

Source: UN/ECE (2000)

Table 2. Employment and unemployment in south-east European transition economies, 1996-98 (percentage change)

	1996	1997	1998	1989-98 cumulative change
<i>Total employment (% change over preceding year)</i>				
Albania	-2.0	-0.7	-0.4	-23.4
Bosnia-Herzegovina	123.0	52.7	5.9	-37.2
Bulgaria	0.1	-3.9	-1.6	-26.7
Croatia		-0.7	-2.0	-26.6
Romania	-1.2	1.0	-1.9	-22.8
FYR Macedonia	-4.4	-5.4	-3.5	-35.2
FR Yugoslavia	-0.5	-1.5	-1.7	-18.1
<i>Unemployment</i>				
Albania	12.3	14.9	17.6	
Bosnia-Herzegovina		39	38	
Bulgaria	12.5	13.7	12.2	
Croatia	15.9	17.6	18.6	
Romania	6.6	8.8	10.3	
FYR Macedonia	39.8	42		
FR Yugoslavia	26.1	25.6	27.2	

Source: UN/ECE (1999).

Table 3. Selected external financial indicators for the south-east European economies, 1998

(Billion and million dollars, per cent)

	<i>Current account/GDP (per cent)</i>	<i>Gross debt (billion dollars)</i>	<i>Gross debt/exports (per cent)</i>	<i>Gross debt/GDP (per cent)</i>	<i>Net FDI/ current account (per cent)</i>	<i>Cumulative FDI inflow/ per capita (dollars)</i>	<i>Official reserves (million dollars)</i>	<i>Reserves in months of imports</i>
Albania	-6.4	0.8	213	26	19	120	349	4.5
Bosnia and Herzegovina	-38.5	4.8	624	117	859	3.3
Bulgaria	-2.1	10.1	173	82	159	162	2 831	5.4
Croatia	-7.3	8.5	95	40	49	469	2 816	3.0
Romania	-7.9	9.6	99	25	68	199	1 663	1.5
FYR Macedonia	-8.2	1.2	83	34	41	89	306	1.8
Yugoslavia	-4.6	15.1	638	58	200	0.5
<i>CETE-5</i>	-4.1	110.7	90	37	77	681	54 876	4.5
<i>SETE-7</i>	-6.8	30.1	115	38	63	236	7 965	2.8
<i>Eastern Europe</i>	-4.6	140.8	94	37	73	503	62 840	4.2

Source: UN/ECE secretariat estimates.

Table 4. Private sector's share of GDP

	1991	1992	1993	1994	1995	1996	1997	1998
Albania	15	16	30	50	60	75	75	75
Bulgaria	16.6	25.3	35.9	40.2	45	45	50	60
Croatia	25.2	34.9	41.2	44.9	45	50	55	60
Czech Rep.	17.3	27.7	45.1	56.3	70	75	75	80
Hungary	41	48.1	55.6	58	60	70	75	80
FYR Macedonia	18	20	30	35	40	50	50	55
Poland	45.3	48.2	53.5	56	60	60	65	70
Romania	23.6	26.4	32	35	40	60	60	60
Slovak Rep.	17.3	32.4	39	58.2	60	70	75	75
Slovenia	15.7	19.5	20	30	45	45	50	55

Source: EBRD.

Table 5. Liberalization index

	1991	1992	1993	1994	1995	1996	1997	1998
Albania	0.96	2.64	2.8	2.8	2.33	2.67	2.63	2.93
Bulgaria	2.48	2.64	2.64	2.56	2.56	2.56	2.81	3.11
Croatia	2.48	2.88	3.16	3.28	2.78	3.17	3.13	3.43
Czech Rep.	3.16	3.44	3.6	3.6	3.44	3.56	3.50	3.80
Hungary	2.96	3.12	3.28	3.44	3.44	3.56	3.75	4.05
FYR Macedonia	2.6	2.72	3.12	3.12	2.44	2.67	2.63	2.93
Poland	2.88	3.28	3.28	3.44	3.33	3.44	3.50	3.80
Romania	1.44	1.8	2.32	2.72	2.44	2.56	2.75	3.05
Slovak Rep.	3.16	3.44	3.32	3.32	3.22	3.33	3.38	3.68
Slovenia	2.84	3.12	3.28	3.28	3.11	3.22	3.31	3.61

This index is calculated according to data which come from the following sources: 1991-94 from De Melo, Denizer and Gelb (1996), 1994-98 from EBRD, EIU and Institutional Investor.

Table 6. Balkan shares in total trade of Balkan countries (%) 1998

Country	Exports	Imports
Albania	3	7.2
Bosnia-Herzegovina	66.6	52.8
Bulgaria	7.7	3.4
Croatia	25.2	12.2
FYR Macedonia	23.4	32.8
Romania	1.9	1
Slovenia	15.1	1.9
FR Yugoslavia	35.1	16.3

IMF Direction of trade Statistics

Table 7. Exports to and imports from EU (in million dollars)

<i>Exports of:</i>	1991	1992	1993	1994	1995	1996	1997	1998
Albania	79	68	87	137	185	235	124	154
Bosnia & Herzegovina			34	14	29	81	168	258
Bulgaria	919	1144	1090	1564	2013	1913	1936	2086
Croatia			2214	2531	2672	2302	2220	2240
Romania	1576	1536	2027	2970	4388	4271	4750	5250
FYROM			364	361	409	518	469	589
Czech Rep.	4083	5665	6354	7480	9273	12760	13556	16586
Hungary	5972	6644	4982	6818	8077	8234	13603	17243
Poland	9578	8221	9794	11929	16039	16248	16533	18493
Slovak Rep.	1152	1506	1618	2340	3208	3645	4119	5739
Slovenia			3847	4539	5648	5369	5322	5852
Total	23359	24784	32411	40683	51941	55576	62800	74490
CEE-5	20785	22036	26595	33106	42245	46256	53133	63913
SEE-6	2574	2748	5816	7577	9696	9320	9667	10577
<i>Imports from:</i>								
Albania	239	432	527	572	754	1020	519	620
Bosnia & Herzegovina		120	141	226	714	942	1022	
Bulgaria	1504	1609	1908	2379	2098	1780	1621	2201
Croatia			2585	3096	4664	4625	5403	5883
Romania	1800	2564	2955	3429	5292	5205	5850	6770
FYROM			402	551	688	905	750	830
Czech Rep.	3628	5776	7058	8813	12847	17834	15423	16603
Hungary	5894	6307	6764	8891	9515	9685	13240	13625
Poland	10083	9048	12204	14087	18782	23739	27000	29800
Slovak Rep.	1023	1629	1946	2432	3354	4434	5954	6904
Slovenia			4266	5140	6685	6368	6309	6679
Total	24171	27365	40735	49531	64905	76309	83011	90937
CEE-5	20628	22760	32238	39363	51183	62060	67926	73611
SEE-6	3543	4605	8497	10168	13722	14249	15085	17326

Source: IMF Direction of Trade Statistics

Table 8. Export and import shares to and from EU (in millions dollars)

	1991	1992	1993	1994	1995	1996	1997	1998
Albania	0,3%	0,3%	0,3%	0,3%	0,4%	0,4%	0,2%	0,2%
Bosnia & Herzegovina	0,0%	0,0%	0,1%	0,0%	0,1%	0,1%	0,3%	0,3%
Bulgaria	3,9%	4,6%	3,4%	3,8%	3,9%	3,4%	3,1%	2,8%
Croatia	0,0%	0,0%	6,8%	6,2%	5,1%	4,1%	3,5%	3,0%
Romania	6,7%	6,2%	6,3%	7,3%	8,4%	7,7%	7,6%	7,0%
FYROM	0,0%	0,0%	1,1%	0,9%	0,8%	0,9%	0,7%	0,8%
Czech Rep.	17,5%	22,9%	19,6%	18,4%	17,9%	23,0%	21,6%	22,3%
Hungary	25,6%	26,8%	15,4%	16,8%	15,6%	14,8%	21,7%	23,1%
Poland	41,0%	33,2%	30,2%	29,3%	30,9%	29,2%	26,3%	24,8%
Slovak Rep.	4,9%	6,1%	5,0%	5,8%	6,2%	6,6%	6,6%	7,7%
Slovenia	0,0%	0,0%	11,9%	11,2%	10,9%	9,7%	8,5%	7,9%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
CEE-5	89,0%	88,9%	82,1%	81,4%	81,3%	83,2%	84,6%	85,8%
SEE-6	11,0%	11,1%	17,9%	18,6%	18,7%	16,8%	15,4%	14,2%
<i>Imports from:</i>								
Albania	1,0%	1,6%	1,3%	1,2%	1,2%	1,3%	0,6%	0,7%
Bosnia & Herzegovina	0,0%	0,0%	0,3%	0,3%	0,3%	0,9%	1,1%	1,1%
Bulgaria	6,2%	5,9%	4,7%	4,8%	3,2%	2,3%	2,0%	2,4%
Croatia	0,0%	0,0%	6,3%	6,3%	7,2%	6,1%	6,5%	6,5%
Romania	7,4%	9,4%	7,3%	6,9%	8,2%	6,8%	7,0%	7,4%
FYROM	0,0%	0,0%	1,0%	1,1%	1,1%	1,2%	0,9%	0,9%
Czech Rep.	15,0%	21,1%	17,3%	17,8%	19,8%	23,4%	18,6%	18,3%
Hungary	24,4%	23,0%	16,6%	18,0%	14,7%	12,7%	15,9%	15,0%
Poland	41,7%	33,1%	30,0%	28,4%	28,9%	31,1%	32,5%	32,8%
Slovak Rep.	4,2%	6,0%	4,8%	4,9%	5,2%	5,8%	7,2%	7,6%
Slovenia	0,0%	0,0%	10,5%	10,4%	10,3%	8,3%	7,6%	7,3%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
CEE-5	85,3%	83,2%	79,1%	79,5%	78,9%	81,3%	81,8%	80,9%
SEE-6	14,7%	16,8%	20,9%	20,5%	21,1%	18,7%	18,2%	19,1%

Table 9. FDI inflows (millions US dollars)

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Albania	8	32	45	65	89	97	42	45	41
Bosnia- Herzegovina								100	60
Bulgaria	56	42	40	105	82	100	497	401	739
Croatia		13	77	95	83	509	196	600	1332
FYR Macedonia				24	13	12	30	115	40
Romania	37	73	94	341	419	263	1215	2031	961
Czech Rep.	513	983	552	749	2526	1388	1275	2540	5108
Hungary	1459	1471	2339	1146	4453	1983	1653	1700	1944
Poland	117	284	580	542	1134	2768	3077	5129	6757
Slovak Rep.	82	100	107	236	194	199	161	250	240
Slovenia	41	111	113	131	176	186	321	165	83
Total	2313	3109	3947	3434	9169	7505	8467	13076	17305
SEE	101	160	256	630	686	981	1980	3292	3173
CEE	2212	2949	3691	2804	8483	6524	6487	9784	14132

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Table 10. FDI per capita

	1992	1993	1994	1995	1996	1997	1998	1999
Albania	10	14,2	20,3	27,5	29,4	12,4	13,2	13
Bosnia- Herzegovina							27	16
Bulgaria	5	4,7	12,5	9,7	11,9	59,4	48,3	89
Croatia	2,9	16,6	20,4	17,8	113,4	43,6	133	298
FYR Macedonia	0	0	12,4	6,5	6,3	15	57,5	20
Romania	3,2	4,1	15	18,5	11,6	54	90,3	43
Czech Rep.	95,2	53,4	72,5	244,5	134,8	123,9	246,8	498
Hungary	142,5	227,3	111,7	435,3	194,6	162,9	168,2	193
Poland	7,4	15	14	29,4	71,6	79,6	132,6	174
Slovak Rep.	18,7	20	43,9	36,1	36,9	29,9	46,4	45
Slovenia	55,8	56,8	65,8	88,4	93,5	161,3	82,9	42
Average	34,07	41,21	38,85	91,37	70,4	74,2	95,1	130,1

Table 11. FDI shares

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Albania	0,3%	1,0%	1,1%	1,9%	1,0%	1,3%	0,5%	0,3%	0,2%
Bulgaria	2,4%	1,4%	1,0%	3,1%	0,9%	1,3%	5,9%	3,1%	4,3%
Croatia	0,0%	0,4%	2,0%	2,8%	0,9%	6,8%	2,3%	4,6%	7,7%
FYR Macedonia	0,0%	0,0%	0,0%	0,7%	0,1%	0,2%	0,4%	0,9%	0,2%
Romania	1,6%	2,3%	2,4%	9,9%	4,6%	3,5%	14,3%	15,7%	5,6%
Czech Rep.	22,2%	31,6%	14,0%	21,8%	27,5%	18,5%	15,1%	19,6%	29,5%
Hungary	63,1%	47,3%	59,3%	33,4%	48,6%	26,4%	19,5%	13,1%	11,2%
Poland	5,1%	9,1%	14,7%	15,8%	12,4%	36,9%	36,3%	39,5%	39,0%
Slovak Rep.	3,5%	3,2%	2,7%	6,9%	2,1%	2,7%	1,9%	1,9%	1,4%
Slovenia	1,8%	3,6%	2,9%	3,8%	1,9%	2,5%	3,8%	1,3%	0,5%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,8%	100,0%
SEE	4,4%	5,1%	6,5%	18,3%	7,5%	13,1%	23,4%	25,4%	18,3%
CEE	95,6%	94,9%	93,5%	81,7%	92,5%	86,9%	76,6%	75,4%	81,7%

Table 12. Initiatives stimulating trade and regional integration in SEE

Table 7. Initiatives stimulating trade and regional integration in SEE

Country	AA (1992)	CEI (1989)	CEFTA (1992)	BSEC (1992)	TECA (1992)	CSEE (1996)	RP (1995)	EU- RA (1996)	SECI (1996)	ATP (1996)	SP (1999)	Total
Albania		✓		✓	✓	✓	✓	✓	✓		✓	8
Bosnia- Herzegovina		✓				O	✓	✓	✓	✓	✓	6+O
Bulgaria	✓	✓	✓	✓		✓	✓		✓		✓	8
Croatia		✓				O	✓	✓	O	✓	✓	5+O+O
FYR Macedonia		✓			✓	✓	✓	✓	✓		✓	7
Romania	✓	✓	✓	✓		✓	✓		✓		✓	8
Slovenia	✓	✓	✓		✓		✓		✓			6
Yugoslavia						✓	✓	✓		✓		4

Explanations as regards the different types of initiatives are given in the text

✓ means participant. O means Observer

Source: Uvalic (2000) with some minor modifications

Table 13. Regression Results

Variable	Export equation	Import equation	FDI equation
Constant	-4.0 (-2.0)	2.9 (3.2)	-4.1 (-3.0)
y_{it}	1.0* (0.05)	1.81* (0.4)	1.12* (0.6)
y_{it}[*]	0.30 (2.8)	2.8 (1.91)	
D_I	-5.2* (0.5)	-1.0* (0.2)	
LI_I	4.5* (1.8)	3.5 (3.1)	2.69* (1.9)
PI_I	3.1 (2.2)	2.5* (1.1)	0.94* (0.6)
OPR_I			2.0 (0.3)*
WR_I			-8.6* (2.7)
R²	0.85	0.85	0.87
Adj.R²	0.90	0.80	0.81
Likelihood	82.47	69.10	50.98
Ratio			
Probability	(0.001)	(0.0029)	(0.0006)

Standard errors in parenthesis

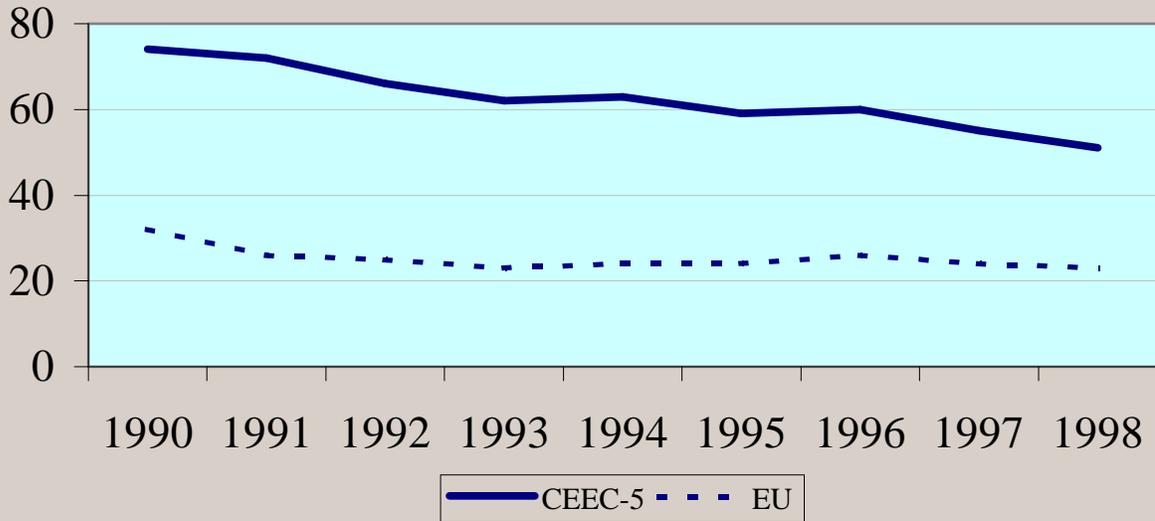
*denotes statistical significant coefficient at 5% level

Table 14. EU Financial assistance to the Balkans, 1991-99 (million EURO)

	Albania	Bosnia- Herzegovina	Croatia	Yugoslavia	FYR Macedonia	Total
PHARE	616,4	754,5	49,6	41,7	236,7	1708,6
Humanitarian Aid	41,2	1032,1	290,8	262,8	45,7	1908,7
Food Aid	16,5					16,5
Balance of Payments	20	60			40	120
EIB	46					46
Other	122,8	221,2	9,3	17,5	2	385,1
Total EU	862,9	2067,8	349,7	322	324,4	4184,9
EU Bilateral	712,8	507,9	1165,9	712,4	178,2	3277,2
Grand Total	1575,7	2575,7	1515,6	1034,4	502,4	7462,1
EBRD	68	70	511	0	143	792

Source: Uvalic (2000) based on EU Press Release PR 33/99 May 1999.

Chart 1. Average per capita GDP at PPPs in the South-east European transition economies relative to central Europe and the EU average, 1990-98 (per cent)



Managing Sapard Aid – A Comprehensive Approach ¹⁰

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This paper¹¹ outlines the recent developments introduced in Bulgaria to implement the Special Accession Programme for Agriculture and Rural Development (SAPARD). Bulgaria was the first applicant country, which introduced proper system to manage the SAPARD aid. The institutional and monitoring framework established with this respect are presented in the context of the requirements that should be fulfilled for operating the instrument. On this basis a short analysis of the achieved results is made. The aim is to prompt further reflection and to assist the reader to form an independent opinion.

General Overview of the SAPARD Instrument

SAPARD is a key instrument for the implementation of the reinforced pre-accession strategy of the EU outlined in Agenda 2000 and laid down in Accession Partnerships. The objectives of SAPARD are set in Council Regulation (EC) 1268/1999¹². Assistance under the programme is provided to contribute to the implementation of the acquis communautaire concerning Common Agricultural Policy and related policies as well as to solve priority and specific problems for sustainable adaptation of the agricultural sector in the applicant countries. SAPARD has an annual budget of 520 000 000 EUR and comes under the responsibility of DG Agriculture. It is budgeted for the period 2000-2006.

Under the Council Regulation (EC) 1268/1999 the following applicant countries are eligible to receive support under SAPARD: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. By virtue of the Commission decision¹³ on the allocation of the funds in the applicant countries the annual EU financial contribution for Bulgaria amounts to 52 124 000 EUR (1999 prices). The Community contribution for the implementation of the objectives under SAPARD may be up to 75% of the total expenditure. However the Community financing may cover 100% of the expenditures for technical assistance.

¹⁰ The author is a chief expert at the Public Internal Financial Control Agency. This article does not express the official position of any of the institutions presented. All the observations and statements are based on the personal opinion of the author.

¹¹ This material further develops the article *The Challenge of Managing SAPARD Programme in Applicant Countries – the Bulgarian Case*, published in *Európa* magazine in September 2001

¹² Council Regulation (EC) No 1268/1999 of 21 June 1999 on Community support for pre-accession measures for agriculture and rural development in the applicant countries of Central and Eastern Europe in the pre-accession period, OJ L 161, 26.06.1999, p. 87

¹³ Commission decision 1999/595/EC of 20 July 1999 on the indicative allocation of the annual Community financial contribution to pre-accession measures for agriculture and rural development, OJ L 226, 27.08.1999, p. 23

I. Understanding the Basis for the Implementation of SAPARD

1. Some theoretical issues

The following steps precede the transfer of funds under SAPARD. The Commission first sets the rules for implementing the programme. In compliance with these rules the applicant countries must establish a system for managing the pre-accession instrument. Once the Commission is satisfied that all the necessary requirements are fulfilled it decides to confer the management of aid.

First of all a programme for agriculture and rural development that would be implemented during the 2000-2006 period should be elaborated. To achieve this aim applicant countries have to develop a rural development plan. The plan sets out the strategy, activities and actions for the achievement of sustainable agriculture and rural development. The document must be prepared in compliance with the provisions of the Council Regulation 1268/1999. The plan includes up to 15 pre-accession measures. The financial support under SAPARD is granted for the implementation of these pre-accession measures. After consultation the plan is submitted to the Commission. The Commission assesses and approves it as an agriculture and rural development programme.

Secondly the Commission must sign with each applicant country bilateral agreements – Multi-annual and Annual Financing Agreements - to guarantee that the aid will be managed in accordance with the Community legislation. The Annual Financing Agreement sets out the annual financing commitment of the Community and where necessary amends provisions of the Multi-annual Financing Agreement. The Multi-annual Financing Agreement lays down the Community management and control rules for implementing SAPARD during 2000-2006 period. It enshrines the following key principles: decentralized approach, differentiated appropriation system and the clearance of the accounts procedure:

- SAPARD programme management is fully decentralized to an agency established under the responsibility of each country. The decentralized approach applied for SAPARD is unprecedented. The Community rules for aid granted under PHARE and ISPA do not allow project selection, tendering and contracting to be undertaken without ex-ante approval of the Commission;
- Financing arrangements under SAPARD are based on the differentiated appropriations system. Under this system payments do not need to be made and entered into the accounts on the date when the appropriations are committed. This system is applied as a rule to Structural Funds spending in the Member States. The differentiated appropriations approach enable the paying agencies to obtain Community financing up to the second year after the resources have been committed;

- The European Agricultural Guidance and Guarantee Fund (EAGGF)¹⁴ clearance of the accounts procedure is applied. This procedure provides an independent body to certify the accuracy of the annual accounts of the agency that manages the SAPARD aid. The Commission also checks that expenditure complies with SAPARD rules in particular through on-the-spot-checks. Financing may be refused for expenditure that is found not to comply. Flat rate corrections will be applied when the agency has not carried out proper checks;

Each country must establish an accredited SAPARD implementing and paying agency. Only expenditure carried out on the basis of decentralized management through SAPARD agencies may be eligible for Community financing. The act of accreditation is issued by Competent Authority, which is a body within the applicant country specially authorized to perform this function.

Finally a complete accreditation package is sent to the Commission. The Commission analyses the national and sectorial programme/project management capacity, financial control procedures, and structures regarding public finance. After it establishes that key accreditation criteria are implemented satisfactorily, the Commission takes the decision to confer the management of SAPARD programme on implementing agencies.

2. Practical Steps to Implement SAPARD in Bulgaria

This part describes the practical approach to achieve the Commission requirements. At the beginning efforts were put to develop the National Agriculture and Rural Development Plan (NARDP). The Bulgarian Ministry of Agriculture and Forestry (MAF) took the overall responsibility for its preparation. The NARDP has become possible thanks to the efforts of an intra-governmental Working Group under the MAF, including representatives from different ministries, farmer associations, producer organizations in the food industry, regional development agencies and non-governmental organizations (NGOs).

The plan was submitted to the Commission on 28 December 1999. Following the approval of the STAR Committee (Committee on Agricultural Structures and Rural Development) the NARDP¹⁵ was formally approved by Commission decision C (2000) 3058 final on 20 October 2000¹⁶.

The next step for the Bulgarian authorities and the Commission was to conclude the Multi-annual Financing Agreement. As a result of the negotiations that preceded its signature the Bulgarian authorities and the Commission prepared a document that became the basis for the successful management of the SAPARD aid in Bulgaria. Proper coordination was established at national and international level and Bulgaria was the first

¹⁴ The European Agricultural Guidance and Guarantee Fund is established to finance the expenditures necessary to be made by the EC budget under the Common Agricultural Policy to keep the prices of the agricultural products at the same level.

¹⁵ For further information on the NARDP, please check the following website: http://europa.eu.int/comm/agriculture/external/enlarge/countries/bulgaria/index_en.htm

¹⁶ OJ L 161, 26.06.1999, p. 87

applicant country to conclude the Multi-annual Financing Agreement¹⁷. The document was signed on 18 December 2000. The Annual financing agreement was signed on 20 April 2001.

Finally the Competent Authority should issue the act of accreditation. The Minister of Finance and the Minister of Agriculture and Forestry signed the document. In this way the Bulgarian SAPARD Agency¹⁸ - a functional unit operating within the State Fund Agriculture (SFA) in MAF has been appointed for the implementation of some of the pre-accession measures set out in NARDP. The National Fund¹⁹ - a Directorate in the Ministry of Finance has been appointed for the financial functions it is due to perform in the framework of the implementation of the SAPARD programme.

To issue the act for accreditation the Competent Authority had to make an examination covering the procedures and structures of the SFA and the National Fund for compliance with the following key accreditation criteria: written procedures, segregation of duties, pre-project approval and pre-payment checks, payment procedures, accounting procedures, computer security, internal audit. An independent audit company – Deloitte&Touche - has been contracted to carry out the necessary examination on behalf of the Competent Authority. The company performed the national pre-accreditation review and issued audit reports. On the basis of these reports the Competent Authority issued the act of accreditation.

The Commission examined the basis for the national accreditation and asked for supplementary information. Finally, it was satisfied that Bulgarian authorities had demonstrated their ability to implement the SAPARD programme. On 14 May 2001²⁰ the Commission conferred the management of SAPARD programme on a provisional basis to State Fund Agriculture for the implementation of the measures “Investment in agricultural holdings”, “Processing and marketing of agriculture and fishery products” and “Development of and diversification of economic activities, provision for multiple activities and alternative income” and on the National Fund for the financial functions it is due to perform in the framework of the implementation of the SAPARD programme in Bulgaria.

¹⁷ Both Multi-annual financing agreement and Annual financing agreement could be reached at the following address: <http://www.evropa.bg/en/prog/sapard.htm>

¹⁸ The SAPARD Agency was established on the basis of Decree of the Council of Ministers issued on 14.07.2000.

¹⁹ The National Fund has been established following the signature of the Memorandum of Understanding between the Republic of Bulgaria and the European Commission on 7 December 1998 and its ratification by the National Assembly of the Republic of Bulgaria on 11 February 1999.

²⁰ Commission Decision 2001/380/EC, OJ L 134, 17.05.2001, p.63

II. Institutional and Monitoring Framework Established to Implement SAPARD Programme in Bulgaria

1. Institutional framework

The setting of the institutional framework necessary to execute the Bulgarian SAPARD programme required a lot of work. The Bulgarian authorities managed to complete it in short time. Their efforts were supported by the financial assistance and support granted under PHARE programme and SIGMA²¹. This part of the paper describes the institutional system established to manage SAPARD in Bulgaria and the role each of the institutions has with respect to SAPARD implementation.

1.1. The SAPARD Agency

To achieve the accreditation criteria the SFA has developed a number of manuals and procedures to manage the SAPARD aid. The manuals established mechanisms that guarantee that the distribution and usage of funds under SAPARD would be managed in compliance with the Commission requirements.

In compliance with the Multi-annual Financing Agreement the Bulgarian SAPARD Agency discharges an implementing function and a paying function²².

The Agency administrative structure includes: Central Office, 28 District Offices, and 6 Regional Offices. The Central Office is comprised of: Operational Department, Financial Department, Internal Audit Department, Legal Department and IT Department. The Agency is managed by an Executive Director, 2 Deputy Executive Directors and Managing Board.

The selection procedure plays a key role in the management of SAPARD regarding the quality of the selected projects and the results that will be achieved through them. The text below provides a brief overview on the key steps that need to be taken by the SFA officials to approve projects for financing under SAPARD.

The 28 District Offices are responsible for distributing the necessary application forms and for collecting completed document packages, submitted by potential applicants. On receiving documents the officials at District Offices register them and check that the package contains complete and legitimate set of documents. On-the-spot-check is performed to verify the information provided by the applicant. Officials from the District Offices may perform this function by themselves or to delegate it to representatives from other institutions.

Then the document package is sent to the Central Office of the SAPARD Agency. Officials from the Operational Department there check the documents against the criteria

²¹ Support for Improvement in Governance and Management in Central and Eastern European countries– a joint initiative of OECD and the EC combining PHARE and OECD resources to assist Central and Eastern European countries to build financial management and control systems

²² The specific responsibilities of the SAPARD Agency related to the implementation of both functions are set in Article 5, Annex A of the Multi-annual Financing Agreement.

again. They also perform a second on-the-spot-check and transfer the document package to the Selection Committee for further consideration.

The Selection Committee is appointed by the Executive Director of the SFA. It includes representatives from the SAPARD Agency and other relevant ministries and bodies, whose participation is determined on the basis of the type of measure that is implemented. The Selection Committee verifies that the work performed on the eligibility and ranking of projects has respected the established criteria. It proposes a list of projects for approval to the Executive Director of SFA.

Once the project is approved for financing a contract for granting financial aid is signed with the applicant. The contract determines the financial aid (maximum 50 % of the total sum invested) that will be granted to the beneficiary provided that the project is implemented in compliance with the SAPARD rules. After the project is carried out the beneficiary submits a document requesting for funds to one of the six SAPARD Regional Offices. Officials from the Regional Offices check whether all the costs incurred under the project comply with the criteria for eligible expenditure. They also perform on-the-spot-check and finally determine the amount of money that should be granted to the beneficiary. The funds are provided under the payment procedure explained in the text below.

1.2.The National Fund

The National Fund is established as a central treasury entity to manage the Community assistance allocated to the Republic of Bulgaria. The main objectives and tasks of the National Fund are:

- to manage the Community assistance allocated to the Republic of Bulgaria;
- to ensure an efficient and transparent financial management, administration and control of the Community funds;
- to ensure that the rules, regulations and procedures pertaining to procurement, reporting and financial management under the respective financial instrument PHARE, ISPA and SAPARD are respected as well as the national rules pertaining to payment;
- to establish operational relationship between the National Fund and the Implementing Agencies including the SAPARD Agency.
- to transfer funds to the Implementing Agencies, including SAPARD Agency
- to ensure the flow of national and other co-financing resources as set out in the PHARE and ISPA Financing Memoranda and SAPARD Multi-annual Financing Agreement.

To implement SAPARD programme the National Fund has prepared a written manual. The manual outlines the necessary procedures that should be applied so that proper relationships are established between the key players involved in the execution of the programme.

The National Fund and the SAPARD Agency reached an agreement by signing Memorandum of Understanding on the timely submission of information, including

monthly financial report, request for funds from the SAPARD Agency, information on the payments received at the SAPARD Agency BGN account in a standardized format. The organization of the National Fund ensures the division of authority, responsibility and duties among the officials. The full structure includes three departments: Treasury Department, Financial Control Department and Monitoring and Assessment Department. SAPARD funds are transferred from the European Commission to the accounts of the National Fund. These accounts are opened in a bank selected by the National Fund on the basis of certain pre-defined criteria. The funds at the accounts held by the National Fund are government guaranteed. The National Fund opens a separate EUR bank account for funds received from the European Community under SAPARD and a separate BGN bank account for the national co-financing under SAPARD. The accounts shall not be used for any other purpose.

To perform payment under SAPARD programme the SAPARD Agency submits a request for funds to the National Fund. The request for funds is a declaration signed by the Executive Director of SAPARD Agency. It summarizes expenditures and disbursement forecasts. The request for funds is to be presented every two weeks. The checklists included in the National Fund manual for the approval of the request for funds involve the following activities: conformity and financial check by the Financial Control Department, confirmation of availability of funds by Treasury Department and approval by the Managing Director.

Payments from SAPARD Agency BGN account shall be initiated by the SAPARD Agency on the basis of approved limits. The approved limits represent the amount, based on approved requests for funds from the SAPARD Agency, which the Agency is entitled to spend on the programme. Limits are authorized by a double signature system. Each drawing by the SAPARD Agency up to the limit approved shall be split at a proportion 75%/25% between the EUR and BGN accounts at the National Fund. The splitting shall be performed automatically by the servicing bank

1.3. The Public Internal Financial Control Agency – the Certifying Body

The Public Internal Financial Control Agency (PIFC Agency) is the body dealing with the public internal financial control in the Republic of Bulgaria. It is a legal entity with a separate budget under the Public Internal Financial Control Act²³ (PIFC Act). It comprises of a Central Office and 28 regional directorates covering all the administrative regions of the country. Structurally the PIFC Agency is under the authority of the Minister of Finance but it is functionally independent.

The Agency audits all public organizations and juridical entities, constituted with blocking quota, state or municipal property, or those, whose liabilities are guaranteed with state or municipal property. The scope of the public internal financial control is further extended in the PIFC Act with respect to the EU funds granted to Bulgaria. In this respect the control covers the financial activities of the spenders of funds under European Union programmes as well as the financial activities of entities that receive funds under European union programs, in respect of such funds.

²³ The Public Internal Financial Control Act entered into force on 1 January 2001

A new function introduced by the PIFC Act is the performance of the certification on the accounts of functional units responsible for expenditure of funds and programmes of the European Union.

The appointment of the PIFC Agency as a Certifying Body of the accounts of the Bulgarian SAPARD Agency is provided for in the Policy Paper on Public Internal Financial Control in the Republic of Bulgaria. The Policy Paper is the key programming document that outlines the overall concept of change of the public internal financial control in Bulgaria.

The document's strategic outlines are further developed in the PIFC Act. The act vests in legal texts the obligations stated in the Policy paper and officially authorizes the PIFC Agency to exercise the new function of audit and certification of European funds, programs, implementing structures and beneficiaries in the Republic of Bulgaria.

The PIFC Act and the Regulation on the implementation of the PIFC Act provide for the development of a Regulation on the certification procedure. The procedure should regulate in details the rules for the performance of the certification audit. It will be elaborated under a forthcoming twinning project that is financed under PHARE 2000 programme and will be implemented in collaboration with the French Ministry of Economy Finance and Industry.

Under Art. 6 Section A of the Multi-annual Financing Agreement the PIFC Agency shall be responsible for:

- delivery of a certificate on the annual account of the SAPARD Agency as well as the SAPARD EUR account regarding the integrity, accuracy and veracity of those accounts;
- reporting on an annual basis on the adequacy of management and control systems of the SAPARD Agency;
- verification of the existence and correctness of the national co-financing element;

The performance of certification audit is a new function for the Agency. Under a PHARE project that is currently implemented the PIFC Agency auditors receive technical assistance to develop their capacity to perform it successfully. Deloitte&Touche Company is contracted to provide the necessary expertise.

The stakes to perform the certification function successfully are high. It is not only a matter of prestige and successful performance of official duties of the PIFC Agency. The performance of the certification activities is also important for the successful implementation of the SAPARD programme in Bulgaria.

By implementing the tasks of the Certifying Body the PIFC Agency also guarantees the achievement of a key requirement set by the European Union under the negotiations for accession. When preparing the audit report the Bulgarian auditors shall check that the financial interests of the Community are properly protected as regards the amounts to be collected by the SAPARD Agency and where appropriate guarantees obtained. The need for Bulgaria to establish the necessary co-operation with Community bodies to ensure, upon accession, protection of the financial interests of the EU is set under the negotiating

chapter 28 – Financial Control. The PIFC Agency is the leading institution under this Chapter.

2. Monitoring Framework Established for the Execution of the Programme

Both selection procedure and criteria are continuously monitored by Managing Authority and Monitoring Committee established in compliance with the requirements of the Multi-annual Financing Agreement. The Management Board of the SFA performs the functions of the Managing Authority. It is responsible for the efficiency and correctness of coordination and reporting on the monitoring and evaluation of the programme²⁴.

The Monitoring Committee was established in compliance with an ordinance issued by the Minister of Agriculture and Forestry. The Committee includes representatives from different ministries, NGOs, trade unions, the European Commission, the World Bank and the European Bank for Reconstruction and Development. On its first meeting that was held on 22 May 2001, the Monitoring Committee adopted its rules of procedure²⁵. The rules of procedure were drafted by the Rural Development Directorate within the MAF, which supported the work of the Monitoring Committee functioning as a Secretariat.

III. Analysis of the Work Performed

Bulgaria was the first country for which the management of the SAPARD aid has been conferred. This was a major achievement in itself and a matter for national pride. The successful completion of the programme and the achievement of the aims set remains however the ultimate objective. The following conditions must be fulfilled to achieve this goal:

- The institutions involved must function effectively. The Commission currently has verified that that an operational (but not operating system) has been established to manage SAPARD in Bulgaria. Now the Bulgarian authorities are proving in practice their capacity to implement the pre-accession instrument according to the rules. The fact that the institutional framework was established so quickly and the lack of practical experience to manage pre-accession aid on a decentralized basis may lead to some difficulties. Anyway the system is already working and people involved are strongly determined to keep it functioning in compliance with the Commission requirements;
- One should bear in mind that the establishment of proper system to operate SAPARD, results from the efforts of many institutions. Therefore proper level of consultation is necessary to be established and sustained to achieve and improve the results of the programme;
- Further efforts are necessary so that the Commission decides to extend the conferral of management to the other measures set in the Bulgarian SAPARD programme. This should be done soon so that the country could use all the funds committed for 2000.

²⁴ The specific tasks of the Managing Authority are detailed in Article 5 Section B of the Multi-annual Financing Agreement

²⁵ The responsibilities of the Monitoring Committee are given in Article 7 Section B of the Multi-annual Financing Agreement

- A lot of projects must be initiated for financing. Once the funds under SAPARD are committed and proper system for their financial management is established, they must be eventually spent. The selection procedure determines that SAPARD aid is granted after the investments are made. Obviously a beneficiary must have all the sum necessary beforehand. A proper system should be established to provide credits on preferential basis for those applying for SAPARD aid;

Conclusion

The efforts to manage SAPARD have various implications. The assistance is granted to achieve certain priorities related to the sustainable development of the agricultural sector and the adoption of the *acquis communautaire* of the Common Agricultural Policy. This however does not undermine the institution building experience that will facilitate the management of the Structural Funds once Bulgaria becomes a member of the European Union.

By achieving the key requirements set by the Commission, Bulgaria started to manage the Community aid on a decentralized basis. Proper institutional framework was established to manage the money granted under SAPARD effectively and efficiently. The achievement of the SAPARD objectives remains a challenge for the future. However positive experience regarding the establishment of the necessary mechanisms and cooperation for managing SAPARD on the principles applied under the Structural Funds remains a solid base for the management of the SAPARD programme in Bulgaria.

Cross Border Cooperation In The Field Of Customs Control With A Special Focus On Combating Cross-Border Crime -Some General Remarks

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Since 1990, borders are appearing and disappearing. Borders and border regions are in fact in a state of flux in post-Cold War Europe. There is indisputable evidence of profound changes in the meanings of borders and in the ways of cross-border interaction.

A border is defined by a dualism. On the one hand, being a political and administrative fact, it fixes the territorial integrity of the Nation-States. The border serves as an identity reference. With forming and consolidating new Nation-States, decision makers are confronted with new problems of establishing borders, border control and visa regulations. On the other hand, the evolution of the political and economic systems as well as induced phenomena (like cross-border pollution or cross-border crime) do transgress the notion of borders. Thus, effective frontier policing requires cooperation between national forces ; borders cannot be managed from one side only. The whole issue touches upon numerous interests above and beyond the technical-administrative ones.

A closer look at Southeastern Europe shows that the border situation is very specific there. Southeastern Europe is a polymorphous space characterised by a heteroclitic geography favoring small state-building. The territory of every state in the region has known either arbitrary amputations or extensions. Thus, the confines in the Balkan Peninsula, the theatre of many territorial conflicts, are watched over anxiously. The idea of the precariousness of borders plays an important role in the culture and political memory of the different peoples and communities which make up the heterogeneous world of Southeastern Europe.

Against this background, the list of inter-state problems between the countries is often very long. This bears on the setting up of border regimes and the porosity of state borders in general. At the same time, each in their own way, the states of Southeastern Europe suffer from a lack of governance capacity. As a result, persistent social and economic crises and the breakdown of law and order provide the ideal conditions for «uncivil society» to flourish. In this context, it is important to point out that many of the problems which the region faces cannot be resolved on a national basis. They are regional problems in the stronger sense of the word (and not only common problems) requiring collective action. They include organized crime, narcotics smuggling, trafficking in human beings, terrorism, which are increasingly beyond the reach of a single state in the region to address – and which the international community is unable to ignore.

The dismantling of borders after the Cold War period is often blamed for a proliferation of transnational crime, because greater liberty to travel coincided with a lessening of social control and law enforcement. Frontier-crossing offers numerous possibilities for hard-pressed populations to earn money through both legal and illegal means. Currently,

the two main anxieties of the European Union (EU) are migration and cross-border crime. The two issues should not be automatically linked. Multi-faceted migration does not necessarily cause cross-border crime.

Some data on drug and human trafficking

Wars, embargoes, sanction regimes and politically-motivated trade wars have determined the flows and infrastructures for the last decade in Southeastern Europe and have left their print in the region. The backbone of the transport infrastructure (both railway and highway) of the region, the route linking Zagreb and Belgrade, had been closed for almost ten years because of the successive wars in the former Federation of Yugoslavia. It is not only connecting Central Europe but also Western Europe to the South East of Europe and further down to Turkey and the Middle East.

Traffic had to be re-routed and a coherent customs policy was under these circumstances not possible. The vacuum created by the uncontrolled borders had led to struggles for control over smuggling and trafficking routes. On the one hand, the increase in drug trafficking but also in drug production in the region can be seen as a response to economic crises. On the other hand, it is an offshoot of the wars in former Yugoslavia. The wars have produced their spin-off effects : all the belligerents have experienced the benefits of informal economy, financed arms purchases with drug money, set up new organised crime structures and established contacts with their counterparts in the rest of Europe. Like in the neighbouring regions of the Caucasus and the Middle East, drug traders have taken advantage of economic embargoes to infiltrate their merchandise into the more « respectable » smuggling of basic necessities, like oil. The fact that those taking part in the drug trade were actively involved in the war, that some of them controlled entire regions and had/have a special relationship with the powers made and makes it difficult for law enforcement agencies to root them out. In fact, the wars and the resulting blockades which starved the old traffickers quickly generated new networks which are far more diversified and perform far better.

Today the traditional « Balkans smuggling route » (Istanbul-Sofia-Belgrade) functions again. The alternative routes passing in the North through Bulgaria, Romania and Hungary and in the South through Macedonia, Greece and Albania have been grafted onto the classical route through Serbia. All of them are channeling drugs to the Schengen area.

These routes which are being used for the trade of narcotics are now increasingly used for the trafficking of human beings. The movements are professionally organised. Recent reports by the International Organization for Migration (IOM) based in Geneva referred to the Balkans as the « open back door » to Western Europe. It is estimated that half a million illegal migrants crossed the region on their way to the European Union in 2000.

In this context, it should be reminded that the trafficking in women for sexual exploitation has become a significant problem. It is estimated that more than 175 000 women are trafficked via Southeastern Europe every year. A pilot project of the IOM implemented in Bosnia and Herzegovina indicates that the majority of trafficked women in the Balkan region originate from four countries : Moldova, Romania, Ukraine and

Bulgaria. Many of the victims have travel documents, arranged by the traffickers, as well as work permits and visas.

EU borders policies

Against this background, the question of finding a balance between the export of stability and the import of instability, between internal and external security as well as between border control and permeability is an issue for all individual states in Southeastern Europe and for the EU as a whole. It all comes down to the type of rapport the EU wishes to pursue with outlying regions and with future members.

The enlarging EU has been making a massive contribution to opening up a border-free European space. Idealists inside the EU may view this process as the most advanced part of the story of an inclusive Europe. Realists may view the definition by the EU of its integration area on the inside and the establishment of common outer borders through the creation of common asylum, immigration and visa law as another thing. The apprehension is a harsh, unthinking application of the EU's Schengen border regime with divisive effects. The introduction of visa regulation figures indeed among the politically sensitive topics of EU enlargement towards the east.

The applicant countries are facing a number of problems stemming from the requirement that they take in the EU's Home and Justice Affairs acquis, which, since Amsterdam, also includes the Schengen acquis. Improvement of border control procedures and practices, a growing homogenisation of regulations on asylum and refugee treatment and the introduction of common visa policies are « internal policy issues » for EU members. These questions are, however, largely foreign policy issues for the applicants. They require them to define relations with neighbours on an entirely new basis. These neighbours can be countries not designated as candidates, but also candidates less advanced in their negotiations for membership. Thus, EU regulations could be detrimental to a thriving cross-border cooperation, which the EU has otherwise been trying to encourage (for example through euroregions). For instance, Bulgaria, for its part, would like to maintain the mutually beneficial relations it has succeeded in building with Macedonia. The country has signalled that Macedonia will be the last country from which it will require visas. All in all, the borders in Southeastern Europe are highly sensitive with a future outer-ring of visa-free states (Croatia, Slovenia, Hungary, Romania, Bulgaria and Greece), which will surround an inner core subject to visa requirement (Bosnia and Herzegovina, Macedonia, the Federal Republic of Yugoslavia and Albania).

There is of course the danger of exclusion effects, most vividly in terms of new restrictions on the movement of persons across previously open borders, and more widely in terms of motivation and incentives for borderland states to sustain the difficult reform process of the post-communist transition. Moreover, experts are arguing that the introduction of visa regulations in accordance with the Schengen regime will by no means meet the expectations. Cross-border crime, smuggling and migration can only be contained through tightened visa regulation to a certain extent. Questions of minority and citizen rights maybe so contradictory to visa regulations that they contribute to circumventing EU regulations. Visa are not very effective in the fight against organised

crime ; what really makes the difference is concrete aid to the systems of law enforcement.

Some activities in this field are already ongoing, including an initiative led by the United Kingdom and Italy to send a team of forty EU experts to Bosnia and Croatia to train officials in the fields of immigration, border controls and law enforcement. A SECI (Southeast European Cooperative Initiative) Regional Center for combating transborder crime was opened in Bucarest in November 2000. In Albania, Greece, Italy and Germany are funding a coordination center to fight trafficking in human beings. There exists the Stability Pact Anti-Organised Crime Initiative (SPOC) as well as the anti-trafficking task force initiative launched under the Justice and Home Affairs sub-table in september 2000. There is, however, some concern that the most important bilateral and international efforts in this field will by-pass the Stability Pact for Southeastern Europe.

The difficulties of the countries in Southeastern Europe to control their borders is cause for serious concern both for the countries themselves and for outsiders. There is a clear interest for the EU in providing substantial assistance in establishing effective control of the borders of the countries in the region. But it is the dual vision of creating borders that are both open and secure which is the only one that can inspire the populations both of the EU and of Southeastern Europe.

Illegal Trafficking In Bulgaria

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The term illegal trafficking denotes two different types of offences – the illegal trafficking in goods and the illegal trafficking in persons. The illegal trafficking in goods is also referred to as smuggling or contraband and means any import or export of goods in violation of the existing legislation, while the illegal trafficking in persons (illegal trafficking in human beings) stands for the unlawful transfer of people across the state border.

I. ILLEGAL TRAFFICKING IN GOODS

1. General Characteristics

Illegal trafficking in goods is usually perpetrated in order to avoid payment of customs duties, taxes, and fees. As a result financial and business benefits could be gained through circumventing customs, tax, police and other forms of control, including the various registration, licensing, and permit procedures and import and export bans and limitations.

Smuggling is always an illegal activity, which usually violates the legislation of more than one country. It is carried out through a variety of illegal methods but is also very often covered up by using the legal forms of export and import in order to circumvent the control performed by the law enforcement authorities (border police, customs authorities, road inspection, etc.).

Illegal trafficking is closely related to organized crime since the planning, preparation and execution of such illegal activities usually require the existence of established criminal structures within the country.

The illegal trafficking in goods has caused considerable damage to the country's economy and has a destructive effect on the institutions and the rule of law in the country.

The goods most frequently subject to illegal trafficking are those with high import tax rates (cigarettes, alcohol, motor vehicles), goods subject to national bans and restrictions such as arms, narcotic substances and precursors, pornographic materials, subsidized goods, protected animal species and plants, goods and technologies of civil and military use, works of art and objects of cultural and historical value, strategic raw materials, forged goods and products violating intellectual property rights, goods subject to international control, nuclear and radioactive materials, hazardous and toxic substances and wastes, hi-tech products, etc.

Illegal trafficking could be carried out at two types of places along the border – points where customs control is executed and points outside customs control.

A significant prerequisite for illegal trafficking in general is the fact that customs control is always selective. Since it is objectively impossible to carry out full physical control of all goods crossing the border, the Bulgarian Law on Customs proclaims the right of the customs administration to judge if a customs check should be conducted or not and if the consignment crossing the border corresponds to the documents produced to the customs administration. However the adequacy of customs control and the effectiveness of the customs authorities in detection, detainment, and seizure of illegally imported and exported goods is a key factor for combating illegal trafficking.

2. Goods Subject To Smuggling

Illegal trafficking mainly involves goods that tend to undergo transformation, or are completely consumed when used such as fuels and lubricants, alcoholic and non-alcoholic beverages, tobacco products, foodstuffs, raw materials for the production of goods, etc. It is quite difficult these goods to be tracked down and identified as illegally imported once they have been transported across the border and sold within the territory of the country. In the same time machines and equipment tend to be smuggled less often because they carry specific technical characteristics and marking that can later be checked such as identification numbers, unique technical solutions, specific materials of which they are made, etc. These characteristics are much harder to alter and much easier to be subsequently detected. However machines and equipment are usually very expensive and their illegal trafficking is far more profitable. Furthermore the illegal trafficking in machines and equipment in turn leads the smuggling of the necessary supplies and spare parts.

Illegal trafficking is clearly related to the increased or reduced consumption of goods in the country in a given season. In Bulgaria, for instance, in the months before and during the summer season mainly sportswear and summer apparel, non-alcoholic and low alcohol content beverages, fruit and vegetables, perfumes and cosmetics are smuggled, while in the fall and winter there is a rise in the illegal import of domestic appliances, gifts and children's toys, which are particularly in demand before the Christmas holidays.

Illegal trafficking also involves various types of goods that are subsequently used for criminal purposes. Such goods are for example special types of paper and inks for the printing of counterfeit currency; false excise strip stamps; counterfeit documents of companies, organizations, and state institutions; etc.

Very common is the illegal import of low-quality products and merchandise after the expiration date, since such goods are subject to a number of limitations and bans. When imported illegally, the identification and labeling of the merchandise are usually changed, the dates of manufacture and expiry are forged, the packaging and the documentation accompanying the merchandise are changed. This largely applies to foods and cosmetics, as well as merchandise whose technical characteristics, chemical composition, and physical structure do not conform to national standards.

Counterfeit merchandise is also subject to illegal trafficking as far as the products with false brand names are considerably cheaper than the originals. Both luxury products and goods for mass consumption have been counterfeited. The losses incurred do not only concern the country but likewise the owners of the genuine brands and the manufacturers.

The most commonly counterfeited and illegally copied products in the country are of Turkish, Polish, Chinese, and Arabic origin. The counterfeit products are usually manufactured by companies that do not respect the proper technological and other standards, and the quality of the merchandise is considerably lower than that of the originals.

3. Illegal Trafficking Related Fraud

Several types of fraud schemes can be identified in the sphere of illegal trafficking in goods.

The first very common form of fraud is the one related to the reported quantity. Traffickers declare smaller quantities of goods and thus pay lower import taxes and duties, which increases their profit once the goods are sold within the country. A similar form of illegal import is the declaration of the number of parcels (boxes) only without specifying the particular content and quantity of the merchandise contained in them. This is also a way of justifying the underreported taxable value of the merchandise and of importing double or triple the quantity declared all while making the import appear legitimate.

Another widespread form of fraud is the one involving inaccurate description of the merchandise. The information provided in the declaration concerning the physical description of the merchandise is wrong, inaccurate or incomplete, which in turn allows improper classification. The fraud consists of deliberately citing a tariff number different from the actual one with the purpose of taking advantage of the difference in tax rates, evading certain import or export limitations or bans, importing goods at a reduced or zero rate, exceeding the limits under a certain quota as well as avoiding certain forms of control – hygienic, sanitary, veterinary, standardization.

A very typical form of fraud is the valuation fraud. It concerns the declared value of the merchandise imported, exported, or transited through the country and consists of either under- or overstating the value of the goods. This type of fraud is usually related to a certain tampering or forgery of the documents presented at customs concerning the taxable value such as the invoices and trade contracts, especially the part concerning the size and form of payment for the merchandise, as well as other documents showing costs related to the correct determination of the taxable value. The importers deliberately omit to include and declare all taxable elements or they over- or underreport certain costs. Such costs subject to inaccurate reporting are the ones incurred for insurance or for the transportation of the goods to an entry border checkpoint, commissions and fees paid to intermediaries involved in the sale, packaging costs, royalties and licensing fees, costs of processing and lading operations abroad, etc. Sometimes traffickers do not declare part of a subsequent resale, under which proceeds will accrue to the seller of the merchandise abroad, as well as other indirect payments that should be included when determining the taxable value of the merchandise. The importers also divide the payment of the delivery into several installments and only declare the advance payment or the final installment as taxable amounts.

Closely related to the valuation fraud is the presentation of false invoices at customs with an indicated value not corresponding to the real one. This double invoicing usually aims at declaring a lower taxable value and concealing the merchandise actual price. Particularly dangerous are the cases when the broker or the person representing the company to the customs authorities prepares a false invoice and underreports the taxable value in the declaration on behalf of the company in order to appropriate the funds that have been provided for the payment of the import taxes and fees due. The traffickers often interchange the goods listed on the invoice wherein the total invoiced amount remains the same, but the price of the goods subject to higher import tax rates is understated, while the price of the goods with lower or zero rates is overstated. A common practice with false invoices is to take advantage of the different currency exchange rates and declare the price in a currency likely to create the impression of high value in absolute terms.

The declaration of a lower value than the price actually paid or payable is aimed at fully or partially avoiding the payment or provision of guarantees on the import taxes and other fees due. The underreported value can also be used for the purpose of providing less security (bank guarantees, cash deposits) in the case of transit of goods from the customs office of departure to a receiving customs office, since the amount of collateral required depends on the sum of import tax and other fees due.

The overstating of the value creates conditions for unlawful value added tax recovery and for obtaining higher compensations. Overstating the value of import and export of goods is one of the most efficient money laundering methods. Through the false invoices the unlawful funds (dirty money) are effectively integrated back into the economy. Overstating the invoice value in the case of import serves to justify the sums deposited later in a local bank, and in the case of export, the amounts received from abroad.

The origin-preference fraud is related to the origin of the merchandise. Such fraud schemes aim at infringing the rules and requirements concerning the origin of goods laid down in bilateral or multilateral agreements. This form of fraud is also resorted to in order to pay lower customs duties and taxes, to circumvent certain bans and restrictions or existing trade sanctions and embargoes. Importers deliberately do not disclose the true origin of the merchandise in order to unlawfully take advantage of favorable import status granting reduced or zero rates.

The presentation of documents certifying the origin of the goods determines that the merchandise originates from a given country or it has been fully manufactured or has undergone substantial, and economically motivated, transformation in that country. These documents are typically subject to counterfeit or substitution. The most important document of this type is the certificate of origin. In the cases when such a certificate is not required, the origin is determined through a written declaration by the exporter, carrier, or other person on the invoice, contract, or shipping document.

In cases of fraud the certificate of origin may not be authentic or may not be issued by the proper authorities and either genuine or counterfeit forms are used with forged signatures and stamps. There are also practices of using duplicate certificate numbers, providing tampered duplicates at a later stage, or presenting certificates that in fact do not concern the merchandise declared at customs even though they have been issued by the competent

authorities in the respective country of origin. Concealing the origin of the goods can be done successfully in third countries as well, by substituting the documentation or through the so-called “mixture” of goods in the invoice. The packaging, marking, and labeling of the merchandise may also be altered.

The certificates of origin can also be counterfeited with respect to their validity, by changing the date of issue of the certificate (of a certificate that has expired) in order to have it accepted by the customs authorities.

The transit fraud includes fraud schemes related to the transiting of goods aimed at diverting the goods from customs control and supervision so that they can remain in the country without payment of customs duties and fees. The documentation ascertaining the completion of the transit is counterfeited by false stamps and documents certifying that the merchandise has arrived from the customs office of departure to the receiving customs office in unaltered condition and the transit operation has been concluded.

Counterfeited documents are also used for the fraud schemes involving import and export authorizations. The purpose is to circumvent certain bans or restrictions, related to the various forms of control such as veterinary or phytosanitary control, as well as limitations on the transfer of strategic commodities, arms, nuclear, chemical and biologically active substances, works of art, objects of cultural value and archeological artifacts, etc.

Another frequently used form of fraud is related to the intended use and end consumer of the merchandise. The goods are not used for the initially declared purpose and the end consumer is changed in order to benefit from preferential reduced or zero rates or to circumvent existing bans.

In the cases of fraud related to tax and duty refunds the merchandise allegedly intended for export never leaves the country (fictitious export) or the merchandise is exported at a deliberately overstated value.

There is also a practice of using “ghost” companies and organizations on behalf of which the goods are imported and exported. Such companies and organizations may or may not be registered in Court and if they are registered, then the names and addresses used are inaccurate or untrue. Ghost companies are also used for the purpose of customs duty and tax evasion or nonpayment, especially under drug trafficking and money laundering schemes.

Finally a separate form of illegal trafficking in goods is the so called outright smuggling, when the respective vehicle is let through the border checkpoint without any record in customs documentation. This means that the transfer of goods remains unregistered and without any customs clearance of the merchandise carried.

There are several methods for control over these various forms of illegal trafficking in goods. Such methods are the physical examination of the merchandise transferred and the post clearance checking of the accuracy and truthfulness of the data contained in the customs declaration. These two methods are aimed at examining the correspondence between the quantity, the quality, and the value of the goods and the data indicated in the customs declaration allowing the customs authorities to establish whether the

merchandise actually found in the respective vehicle or container corresponds to what had been declared and to the tariff number and commercial description given in the declaration. The same methods can be effectively used for checking the authenticity of origin-certifying documents. In this cases inquiries are made with the beneficiary country and confirmation is requested concerning the authenticity of these documents. The same checks could be carried out under subsequent control, which takes place at the wholesaler's storage facility. An additional form of control is taking samples of the merchandise for analysis and comparing the results with the data from the declaration.

Under the customs legislation the customs administration has the power to exercise such control, to check the documentation concerning the import and export of the merchandise, to request further information from the persons involved in the international transaction or from any other persons or companies concerned. It should be noted that the control is selective and subsequent checks are only carried out when customs authorities have sufficient grounds to question the accuracy of the value declared or have sufficient information about violations committed in connection with the taxable value.

4. Mass Trafficking or “The Suitcase Trade”

Mass trafficking is a specific form of illegal trafficking in goods, which is exemplified by the so called “suitcase trade”. The significance of the latter is often unreasonably underestimated. However the volume of the suitcase trade constitutes a considerable part of the illegal export and import of goods to and from Bulgaria.

Suitcase traders repeatedly cross the state borders in both directions, often several times in a single day. Upon each crossing they transfer merchandise for which no customs duties and other fees are paid. Additional profit is earned from the price differences of the smuggled goods on both sides of the border. Suitcase trade is typically of organized nature and is mainly carried out across the borders with Serbia, Macedonia, and Turkey. The goods most typically exported and imported are gasoline, household consumer goods, foodstuffs and beverages, fruits and vegetables, etc. It may also involve goods subject to import and export bans.

Expert evaluations indicate that the volume of suitcase trade with Turkey varies with its value being USD 800-900 millions annually in the early 90s. However the suitcase import of Turkish goods exceeds 20 times Bulgarian suitcase export (Bulgarian goods exported in this way are primarily meat and meat products, cigarettes, alcohol, etc.). The bazaar in Dimitrovgrad functions as the main marketplace for the smuggled goods.

According to data provided by the National Statistical Institute the turnover of the suitcase trade with Macedonia and Yugoslavia is smaller, the total annual figures hardly exceeding DEM 100 millions. In general, the goods of Bulgarian origin prevail in these regions and the export is larger (its volume even doubled during the embargo years).

5. Illegal Trafficking in Motor Vehicles

The illegal import of cars is considered a part of the mass trafficking although it is not a form of the suitcase trade. Both new and used cars are being imported and the typical violations include the payment of lower customs duties for new and used cars through

incorrect calculation or deliberate change of data about the vehicle, as well as the import and export of stolen cars with forged documents. Trafficking is associated with a number of fraud schemes – insurance fraud, changes in the documentation concerning the initial and subsequent police registrations, undervalued amount on the invoice and non-inclusion of transport costs, unlawful use of duty-free import status granted to people with disabilities and immigrants. Documents certifying disability are counterfeited, the actual capacity and power of the engine are concealed in order to avoid payment of excise duty, etc.

The traffic in stolen cars is exceptionally lucrative. The profit from a sale of a single luxury vehicle may reach up to tens of thousands of levs. Stolen car traffickers typically use such documents that would impart legitimacy to the import. The goal is to legitimize the alterations done on the car such as changed vehicle identification numbers, new color, changed dates of the initial and subsequent police and other regulations.

One of the major channels for the export of stolen cars from Europe to Africa and Asia runs through Bulgaria. Some towns in the country have been turned into stolen car depots. In the ports the cars are loaded onto ships and transferred to Asia and Africa where their traces are lost. Some of the stolen cars remain in Bulgaria and are sold at prices lower than their actual value.

Illegally trafficked cars are typically taken to garages where they are repainted and the identification numbers on the engine and the chassis are changed. There is some information that stolen cars are being disassembled and imported in the form of spare parts. Changed vehicle identification numbers, false licenses, and identification stickers are all used in car trafficking.

6. Illegal Trafficking in Drugs

With the rise in trade and the free movement of people there is also increased risk of greater quantities drugs passing through Bulgaria. The Balkan Route is one of the major circuits for the transfer of heroin from South-Western Asia and of marijuana from South-Eastern Asia through Turkey and the Balkan countries, to Western Europe. Bulgaria is a significant drug-transit country centrally located on three traditional Balkan Routes between Turkey and, respectively, Serbia, Romania and Macedonia. The Northern Balkan Route from Turkey through Bulgaria to Romania is the most frequently used overland route.

The main illegal drug transiting Bulgaria is heroin from the Golden Crescent and South Asian sources. Heroin is transferred in all kinds of ways and in quantities ranging from small parcels for personal use to huge commercial shipments. Cars, trucks, and buses are the vehicles most typically used to transport the drugs. Great quantities of drugs are still transported in refrigerator trucks and trucks carrying perishable goods.

Indirect indications of the scope of drug trafficking is found in the number of shipments intercepted by the competent authorities. In the first half of 2000, for instance, more than one ton of drugs were seized along the Bulgarian borders and 60 offenders, mainly male, were detained. The amount of heroin was over 800 kg, while the quantity of hashish and marijuana was more than 200 kg. The drugs seized include 20 kg of amphetamines, over

6,000 ecstasy and captagon pills, over 3,000 liters of acetic anhydrite and phenyl acetic acid. The drugs were mainly detected at Kapitan Andreevo checkpoint, as well as the checkpoints in Malko Turnovo, Kalotina, Zlatarevo, Gyueshevo, Sofia Airport, Vidin, and Rouse.

The seizure of isolated shipments, the detection of the transport channels and the persons involved in them, as well as the analysis of the information collected will assist customs and police authorities in exposing and preventing part of the drug traffic through the country.

The evolution of the domestic drug market is also of interest. There has been a tendency for the drugs to overtake the peripheral regions of the country. According to expert estimates and surveys conducted, 50,000-70,000 people smoke ganja. Since the mid 90s the number of cannabis fields discovered has been doubling each year. The largest cannabis fields were found in the regions of Blagoevgrad, Petrich, Varna, Pazardzhik, Plovdiv and Kyustendil. There are already channels for the export of cannabis mostly to Greece and Cyprus. Due to more intense police activity in South-West Bulgaria, the cultivation of marijuana is gradually shifting towards Northern Bulgaria. Last year vast cannabis cultivation fields were discovered in the regions of Vratza and Rouse.

Around 10,000 Bulgarians are heroin-dependent and 40,000-50,000 people use pharmaceutical drugs having a similar effect (e.g. Diazepam).

Due to the low purchasing power of the potential clients, the estimated value of the Bulgarian drug market does not exceed DEM 200-300 millions. For this reason the black market is virtually inundated with poor quality drugs. According to the National Drug Addiction Center, nearly 95% of the heroin ingredients are not genuine. The expensive drugs, such as cocaine, sold at the price of DEM 120 per gram, are most popular among the members of the underground groups, who are characterized by a high rate of addiction.

The number of drug users has been continually increasing. While in 1972 they only numbered 190, by some estimates, the number of regular drug users currently exceeds 50,000. The chief reason for this negative tendency is the lack of social immunity: the state tends to treat drugs as a medical, rather than a social and economic problem.

7. Illegal Trafficking in Objects of Historical Value

Objects that are part of the country's cultural and historical heritage are commonly sold off at trifling prices abroad. Unique works of art and objects of cultural value are illicitly taken out of the country. One of the reasons for this is the lack clear-cut regulations and another one is the shrinking legitimate domestic market in objects of cultural and historical value. The true market for these objects is found in the West and illegal trafficking is resorted to for transfer.

Specialized criminal groups dealing in antiques buy antique objects and export them through illicit channels to Western Europe, Japan, and USA. Invaluable icons, paintings, and church artifacts are taken out of the country. By rough estimates, the objects

recuperated from illegal export attempts constitute 10 – 15% of those actually taken out. This means that at least 300,000 cultural artifacts have left the country in the past decade.

8. Legislative Measures against Illegal Trafficking in Goods. Criminal and Administrative Liability

In strictly legal terms, smuggling qualifies both as a crime and as an administrative offence. In the first case criminal liability is envisaged under the Criminal Code and in the second case administrative liability is sought in accordance with the Law on Customs.

It should be noted that criminal liability is provided for a limited number of cases defined under Article 242 of the Criminal Code as qualified contraband. All the rest of the cases of illegal trafficking in goods are referred to as customs contraband and fall under the scope of application of the Law on Customs.

The objective elements of the crime qualified contraband comprise the transfer of goods through the country's border without the knowledge and authorization of the customs authorities, when this has been done:

- by persons who are dealing systematically with such activity;
- by using another's or forged official document, or an official document with untrue content;
- by a public official, who is in direct relation with the customs office;
- when strongly effective or poisonous substances, or explosives, weapon or ammunition, have been transferred;
- or when goods and articles for commercial or production purposes in big amounts have been transferred;
- by two or more persons, who have agreed in advance.

The sanction envisaged in the Criminal Code is deprivation of freedom for up to 6 years and a fine of 2,000 levs.

A separate provision is included envisaging higher sanctions for the transfer across the country's border of narcotic substances and/or their analogues as well as of precursors, equipment, or materials for the production of such substances without the respective permit. These sanctions are: deprivation of liberty of 10 up to 15 years and by a fine of 100,000 up to 200,000 levs for high-risk narcotic substances, deprivation of liberty of 3 up to 15 years and by a fine of 10,000 up to 100,000 levs for risk narcotic substances, and deprivation of liberty of 2 up to 10 years and by a fine of 50,000 up to 100,000 levs for precursors, equipment or materials for the production of narcotic substances.

If the subject of the contraband under the mentioned provisions is in particularly great dimensions and the case is particularly severe the sanctions envisaged are also increased.

In all cases of smuggling the object in question is confiscated regardless of whose property it is. If the object is missing or has been alienated, the offender is liable to pay an amount equivalent to its retail price. The vehicle used to transport or carry such goods is also subject to confiscation irrespective of its intended use and of whether it is owned by the perpetrator or by a third party. It is also important to ascertain whether the vehicle

of transportation or transfer has been used to commit the crime of smuggling. An exception to the general rule is made when the value of the vehicle clearly fails to match the seriousness of the crime of smuggling.

It is worth noting that smuggling is one of the rare examples in the Criminal Code of the Republic of Bulgaria where a penalty is provided for an attempted smuggling in particularly great dimensions representing a particularly severe case or where the perpetrator is a customs official. Likewise, criminal liability lies against the perpetrator if the crime is not completed for reasons beyond his or her control. The attempt is punishable in the cases explicitly laid down in the Code and is connected with the type of goods (narcotic drugs) or their quantity (a particularly grave case), or the job description of the perpetrator (a customs officer). Smuggling would only exist if committed by a person able to understand the nature and consequences of his or her acts and intended to achieve the criminal result, i.e. direct intent is required. In any other case there would be no crime.

The crime of smuggling may be committed by any Bulgarian or foreign person. It suffices for the goods to be transported or carried across the border of Republic of Bulgaria without the authorization of the customs.

Where the smuggling represents a case of minor importance, the sanction envisaged is a fine imposed through administrative proceedings. According to Article 93, point 9 of the Criminal Code a case of minor importance is any case where the crime committed, in view of the lack or insignificance of the harmful consequences or in view of other extenuating circumstances, reveals a lower degree of threat to the society by comparison to the ordinary crimes of the respective type.

When there are no harmful consequences or these are clearly insignificant, the person has not been sentenced before, has not been confronted with an administrative penalty and has committed no other such act, the authority imposing the administrative sanction – i.e. the customs authority – is competent to assess whether the case is one of minor importance.

By virtue of the amendments to the Code of Criminal Procedure in effect from January 1, 2000, the investigation of the crime of smuggling and of the administrative offences involving smuggling falls entirely within the competence of the customs administration. This legislative solution has vested the customs administration with the entire responsibility to control the compliance with the legislative requirements for the transfer of goods across the border and to investigate the offences committed in this context. Thus, the indispensable legislative, organizational and structural prerequisites have been put in place to improve the efficiency of that administration.

When smuggling is not qualified as a crime, i.e. the offence does not fall under the scope of application of the Criminal Code, the liability of the offender is specified according to the Law on Customs. The offence is called customs contraband and includes the transfer or transport or the attempt to transfer or transport goods across the country's border without the knowledge and authorization of the customs authorities, as far as the offence is not qualified as a crime. The liability is under the form of a fine the amount of which is 50 up to 150 per cent on the customs value of the goods smuggled. When the subject of

the customs contraband are goods subject to excise duty, or goods banned for import or export, the fine is of 100 up to 200 per cent on the customs value of the goods.

The Law on Customs also provides for confiscation of the goods smuggled even in cases when the offender is unknown. The vehicles used for the smuggling are also subject to confiscation. Both the vehicles and the goods are confiscated irrespective of whose property they are.

II. ILLEGAL TRAFFICKING IN PEOPLE

1. General Characteristics

Illegal trafficking in people has been constantly growing and is in most of the cases under the control of organized crime. It can be divided in several different forms depending on the persons illegally crossing the border including the transfer of illegal immigrants, women to be engaged in prostitution, labor force to work under inhuman conditions, trafficking in children, illegal adoptions at exorbitant prices, etc. Trafficking in people often involves officials from passport control services who accept forged identification documents. Special means of counterfeiting documents are used such as: casts of seals of regional and national police services, which are used for the authentication of international passports (dry and ink seals), documents for permanent residence in the country, international passports (blank forms) without photographs and names, stamps of tourist agencies and hotels in different cities, company seals, forged visas. The persons involved in trafficking in people often have double citizenship (e.g. Bulgarian and Turkish) and use different names. Networks of trusted hotel owners and people renting private lodgings as well as visa services providing companies and tourist agencies are also used by the traffickers.

The clandestine leading of people across the border is done by traffickers that are often repeat offenders who continue to engage in this type of activity. The crossing of the border by land is typically done in groups led by a guide who is familiar with the area to be traversed. He is connected to a center of operations in one of the large cities where the grouping of the potential migrants is carried out. Candidate migrants usually have a meeting point – a railway station, restaurant, or private house. Then they are met close to the border, boarded on a means of transportation and finally placed in the charge of the guides. The channels for the trafficking in people are controlled by organized crime and the organizers inside the country as a rule get a share of the proceeds.

The trafficking in people is very often done in secret compartments of buses and trucks. Typically the “shipments” are accompanied by the organizers or other trusted individuals by car. They escort the “shipment” to the border checkpoint and wait until the vehicle crosses the border. The clandestine migrants are often accompanied by their children, have little baggage and carry no money or identification papers with them. Young women who have been kidnapped and forced to engage in prostitution also cross the border illegally.

By various estimates, between 20,000 – 40,000 people tried to cross the border illegally during the past decade. Adding those intercepted along the external border, the total figure doubles. The information from the Border Police indicates that 22,733 border

offenders were caught in 1999 alone, which was 4,500 more as compared to the previous year. Romanians proved most active in this respect in 1999 (2,933 offenders), followed by citizens of Turkish, Moldavian, and other origin.

2. Illegal Migrant Trafficking

The first major form of illegal trafficking in people is the migrant traffic. It includes both the trafficking of Bulgarian citizens abroad and of foreign citizens to or via Bulgaria.

During the period 1989 – 1992, over 300,000 ethnic Bulgarian Turks emigrated to Turkey. After the restrictions imposed by the Turkish government, the illicit trafficking in people to Turkey continued to grow for a number of reasons such as the existence of separated families, including children who had been left in Bulgaria, and economic reasons – seeking a means of subsistence.

According to expert estimates, some USD 30 – 50 millions circulate in the illicit emigration market, which comprises the issuing of false and authentic visas.

Bulgaria is also involved in the international trafficking in “third world” emigrants, serving as an interim stop while Istanbul is the base. According to expert surveys the illicit passage from the Middle East to Western Europe via Turkey and Bulgaria costs up to DEM 15,000, with migrants paying separately for each stage of the journey. The illegal network also comprises interim stops in Bulgaria in order to obtain documents for the illegal transfer abroad. One such clandestine camp for migrants of Kurd origin was exposed near the city of Assenovgrad. The Bulgarian participants in such traffic only act as intermediaries.

Another form of illegal trafficking in people is the trafficking of Bulgarian nationals to work in neighboring states. Women make up the bulk of the traffic, while men are illegally hired mostly as seasonal workers. By some estimates the number of Bulgarian nationals illegally residing in these countries ranges between 50,000 – 89,000 people.

3. Criminal Traffic

The criminal traffic forms a separate element within the illegal trafficking in people. This largely concerns people involved in pick pocketing and theft during the high tourist season, for the most part in Greece. This traffic also includes the illegal transfer of pregnant women to Greece so that they can give birth abroad and sell the newborns under conditions agreed in advance, with the selling price ranging between DEM 10,000 – 15,000. The main reasons for this is the highly restricted and complicated regime for adoption of Bulgarian children by foreigners.

One of the most profitable forms of traffic is that of women and young girls sold for prostitution. Given that there are 90 brothels operating in Sofia alone, the number of prostituting women and girls in the country as a whole is roughly estimated at about 12,000 – 15,000. According to the data included in the 1999 Human Rights Report published by the US Department of State some 3,500 Bulgarian women are trafficked to Poland, 1,000 to the Netherlands and the Czech Republic, while others are trafficked to Germany, Belgium, France, Canada, Yugoslavia (including Kosovo), Romania, Hungary,

Macedonia, Italy, Greece, Cyprus, and Turkey. Unofficial estimates show that currently there are about 10,000 Bulgarian girls and women prostituting abroad the monthly profit from this business approximating DEM 50 million. Most of the girls are under the age of 18 and primarily of Roma or ethnic Turk origin.

A survey conducted within the La Strada Program, an EU funded project for fighting trafficking in women, revealed that there are three main channels for trafficking Bulgarian women abroad. The first one goes through Romania to Poland and the Czech Republic and then to Germany, Italy and the Netherlands, the second one is through to Macedonia to Albania and then to Italy and Spain, and the third one is to Turkey, Greece and Cyprus.

The victims of trafficking are transferred to the destination countries mostly through companies for the recruitment of escorts and of women wishing to work abroad. There are about 300 such companies in the country, but none of them has been granted a license to recruit escorts or dancers. A survey made by Animus Association Foundation revealed that 94% of the ads offering work abroad actually sought attractive single women aged up to 25 years of age.

However Bulgaria is not only a sending country in relation to illegal trafficking in women but it is also a destination and a transit country. Unofficial data show that women have been trafficked into Bulgaria mainly from the former Soviet Union (Russia, Ukraine and Moldavia) as well as from Romania and Macedonia and the country also serves as a transit point for traffickers bringing women from Russia, Moldavia, Romania and Ukraine into Greece and Turkey.

4. Legislative Measures against Illegal Trafficking in People

The cases of illegal trafficking in people fall under the scope of application of the Criminal Code of Republic of Bulgaria and criminal liability is provided for the perpetrators of such offences.

Two general types of offences are regulated under the Criminal Code – illegal crossing of the state borders under Article 279 and illegal trafficking under Article 280.

According to Article 279 two different cases of illegal border crossing are envisaged. The first one consists of entering or leaving through the state border without the permit of the competent state authorities, while in the second one there is a permit given but the border has been crossed not through the specified places therefor. The sanction for committing this type of crime is deprivation of liberty of up to 5 years and a fine of up to 30 levs and if the offender has already committed such violation before the sanctions are increased to deprivation of liberty of 1 up to 6 years and a fine of up to 50 levs. In addition to these penalties the court is empowered to impose compulsory settlement as well. The fine could be replaced with a confiscation of the whole perpetrator's property or a part of it. Deprivation of liberty of up to 2 years or corrective labor are the penalties provided for an intentional attempt to commit the above mentioned offences. According to a special provision included in the law no sanctions are imposed to persons who have entered the country in order to receive a right of asylum under Bulgarian Constitution.

The illegal trafficking in people is criminalized under Article 280. The offence consists of transferring persons or groups of persons across the state border either without the permit of the competent authorities or with such a permit but not through the places specified therefor. The sanction provided is deprivation of liberty of 1 up to 6 years and a fine of 500 up to 1,000 levs. The sanctions are increased to deprivation of liberty of 1 up to 10 years and a fine of 1,000 up to 3,000 levs and a confiscation of the whole perpetrator's property or a part of it in the following cases:

- a person under 16 years of age has been transferred across the border;
- the transfer has been performed without the knowledge of the person;
- the person transferred is not a Bulgarian citizen;
- a motor vehicle, or air transport, or other means of transportation has been used. In this case the vehicle is subject to seizure if it is perpetrator's property;
- the transfer has been organized by a group or organization or has been performed with the participation of a public official, which has taken advantage of his or her official position.

Separate provisions are included in the Criminal Code dealing with certain offences usually accompanying the trafficking in women. Article 156 provides a penalty of up to 10 years deprivation of liberty and a fine of up to 1,000 levs for the abduction of a female for the purpose of disposing of the woman for lechery. The penalty is higher (deprivation of liberty of 3 up to 12 years) when the abducted woman is under 18 years of age, or if she has been disposed for lechery, or if the purpose of the abduction is to dispose the person for lechery abroad.

Some Key Issues of Understanding the Negotiations on Accession to the European Union

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At present, ten Central and Eastern European countries (CEECs), all linked with an Association Agreement to the European Union (EU), are included in the process of negotiations in order to become member of the EU in the next years. According to the domestic road maps of the individual countries, negotiations are expected to be finished between the end of 2002 and the end of 2004.

During the Nice summit in December 2000, the European Union declared itself ready for enlargement as of 2004. Therefore, membership today practically depends on two basic developments: first, the internal preparation of the candidate countries, and, second, the successful conclusion of negotiations with Brussels and the member countries. Although it is obvious that successful participation in the EU structures and decision making processes needs much more than just excellent negotiation strategies and tactics, the latter can have an important impact on the length of negotiations and the conditions of membership, particularly in the first critical years after joining the Union. Moreover, the negotiation period can be considered as a confidence-building process between experts on all sides participating in the negotiations, and may create a perception to what extent each country will be able to cope with the challenge of accession.

This paper tries to concentrate on some key issues connected with negotiations on accession. It is divided into three parts. The first chapter clarifies some basic terms which have to be understood correctly in order to draw viable negotiation strategies. The second chapter deals with shaping and implementing negotiations strategies of the candidate countries. The concluding chapter summarizes basic guidelines of successful negotiation and healthy preparation for membership.

1. Understanding fundamental terms

From the very beginning of the process CEECs had to be aware of the fact that negotiations with the EU substantially differ from the rules of the game known by and applied in traditional diplomacy. In the classic sense, negotiations start with a clear and diverging position of the participants and, after several rounds, end up in a compromise which satisfies all partners, since it contains some elements of the original position of both or all participants, while, evidently, ignores others. In sum, the end result is some kind of a mix of different interests. The starting point of negotiations with the EU is, however, the *acquis communautaire*, the 90.000 page volume of community policies, which all applicants have to take on. Therefore, the rules of the game cannot be negotiated, they have to be accepted. In this sense, the word "negotiation" to be applied for the discussions with Brussels and the member countries on joining the EU is to some extent misleading. In reality, "classic" negotiations are confined to requests of transitory exception from the community rules. They include the identification of those areas where

such requests should be asked for, as well as the timeframe (the number of years) within which full adaptation of the *acquis* will be achieved in a new member country. In this context, however, negotiations are a two-way process, since not only the applicant countries but also the EU can and will ask for temporary exceptions.

In addition, "negotiations" are being carried out between two parties of highly different quality. The EU is in the position of the policy-maker, while all candidate countries are policy-takers. This imbalance is further strengthened by the fact that the EU, sometimes after conflictive discussions among the member countries, represents one of the world's most powerful economic group, while, on the other side, applicant countries are always individually involved into discussions. In other words, concerning enlargement, the EU never negotiates with a group of countries, even if more countries are in the process of negotiation at the same time. In other areas, such as trade policy, technical cooperation or financial issues, the EU practice knows the group-to-group approach (see Lom Convention, Europe-Asia dialogue, EU-Mercosur cooperation, Stability Pact for Southeastern Europe, etc.).

Finally, a further deviation from the classic rules can be seen in the different timing of presenting national positions. It is always the candidate country which has to put on the table its position on a given chapter. There are altogether 31 chapters to be negotiated on. They can be classified in three basic categories: chapters temporarily closed, chapters opened and chapters to be opened. The most advanced applicant countries have already opened 29 chapters, since negotiation on institutional questions can only be started once the Nice Treaty has been ratified by the member countries. Also the chapter "Others" will be opened in the last stage of negotiations and the corresponding EU paper follows later. It is symptomatic that in some key chapters, as agriculture, financial transfers or budget, the EU has not yet put forward its position. As a result, some chapters could only be opened in virtual terms, by having presented the position of the applicant country but without having any counterpart on the EU side. Obviously, in-depth discussion cannot start in this situation.

In sum, the manoeuvring room of the candidate countries is extremely limited in the negotiation period. The rules of joining the club have been defined by the present members of the club, and they will not be rewritten as result of accession talks. In some cases, accession negotiations may enrich the *acquis* and add to the rules of the club (see higher environmental standards in Sweden, Finland and Austria, which became part of the *acquis* and, thus, obligatory for former member states as well, or the changing scope and instruments of the structural fund after the Iberian and the Nordic enlargement, the creation of the cohesion fund in connection with the launching of the project of the Economic and Monetary Union. In turn, there seems to be more room for present candidate countries to shape EU rules after becoming full member of the Union.

It is a basic rule of the negotiation process that no chapter is closed until all chapters are closed. Therefore, chapters already discussed and agreed on enjoy a "temporarily closed" status. They can always be reopened as long as the negotiations last. This approach seems to be logical from various considerations. First, the Community *acquis* is constantly changing, as more and more areas will be drawn under the competence of Brussels. The

new members have to adopt and adjust to the *acquis communautaire* as it is at the moment of accession. Since the *acquis* is constantly being enriched, the *acquis* to which the candidate countries formulated their national position papers at the beginning of negotiations, is likely to be different both at the moment of closing the negotiations and at the moment of accession. All changes occurred until the end of the negotiations have to be included in the accession treaty. Additional changes happening in the period between the signature of the treaty and factual membership have to be introduced into the document continuously, up to the moment of accession.

Second, when formulating their position paper, candidate (or even member) countries have to start from a certain date, when they believe they can become members of the EU. Since most of the requests on temporary exception have a clear timetable, the requests are based on this hypothetical date of accession. If, however, the date of accession is postponed, some of the requests may lose sense, which, automatically, leads to changes in temporarily closed chapters. For instance, Hungary originally started from an accession date in 2002. Some requests on temporary exception were formulated accordingly. Since membership will not materialize in 2002, but most likely in 2004 only, requests addressing the two-year period of 2002-2003 became obsolete (e.g. the extension of the monopoly right of MATAAV, the Hungarian Telecommunication Company until the end of 2002).

Third, domestic developments both in the member countries and in applicant states can result in modifications of the content of temporarily closed chapters. These changes can be twofold: either the withdrawal of requests or the inclusion of a new request upon further negotiations.

Fourth, both member countries and candidates can try to link a special question of a given chapter in the process of negotiation with another chapter already closed. As a result, they may ask for reopening the respective chapter. If, however, this approach became the overall practice, the speed or even the mere process of negotiations could be seriously threatened. Therefore, the Commission would like to avoid any kind of "linkage-creation". As a case in point, see the rejection by the Commission of reopening the chapter on free flow of services (as asked by Austria and some German circles) in connection with the discussion on the free flow of persons (labour). Also, the candidate countries seem to decline such an approach, even if the "linking" promised some results. Most probably, the gain in a special area could be overcompensated by the negative effects of losing time and slowing down the process of accession.

It is very important to underline that the EU has closed the way of "derogations" for any new member country. In the past, such an opportunity was given to present member countries, and, in fact, some of them made use of this chance. Denmark and the United Kingdom did not enter the social pact, some countries remained outside the Schengen agreement and, most recently, Great Britain and Denmark declined participation in the EMU (Greece, in 1999, was not yet ready, while Sweden did not comply with one Maastricht criteria which could be used as a welcome pretext against unpopular membership in the EMU). It is no more possible to apply the "opting-out" approach. In other words, each new member country has to take on the full *acquis*. Therefore, the word "derogation" should be forgotten and, instead, the terms "temporary exception" or "transitory requests" have

to be constantly used both in professional papers and in all information devoted to the wider public.

The EU's most recent strategic paper on enlargement published in November (The European Commission. Enlargement. Strategy Paper. Brussels, November 8, 2000), has introduced some new elements which are related to the negotiations on accession. First, transitory requests have been classified into three categories: acceptable, not acceptable and negotiable. The first covers those requests in the case of which it is clear that the applicant country would not be able to take on the *acquis* in the short run (before membership), adjustment to the EU needs financial transfers and, most importantly, the request is outside the "hard core" of the internal market. In contrast, all (or most) requests affecting the normal functioning of the internal market and/or distorting the competition within the EU, fall into the category of "not acceptable". All other requests can be negotiated, without knowing at the given moment whether they will or will not be accepted.

Second, the door was opened for making use of the so-called "set aside" approach. In order to help accelerate the negotiation process and not to stick on one issue which could paralyze the temporary closing of a given chapter (in which all other problems have already been cleared), the Commission can agree on closing the given chapter and take out the one (or two) blocking element(s). As a result, the number of temporarily closed chapters could be increased, which, by breaking the deadlock, may have a positive psychological impact on both parties. However, at the same time, it shifts one or more highly sensitive issues into the final stage of negotiations. There is a danger that by "setting aside" a larger number of critical issues, the final package to be negotiated, which, in all cases, will contain the most delicate problems, could be overburdened. In such a situation, successful compromise-finding will be extremely difficult and the negotiations may be continued for a longer period, including the possibility to unlock the final package and return to the individual chapters. In sum, the application of this principle is an ambiguous instrument. Each applicant country, in general, and each chief negotiator, in particular, has to know to what extent this instrument can be successfully used in the negotiation process. In principle, a very small number of set-aside issues may positively influence the final bargaining power of a given applicant country, particularly if the final package does not contain a larger number of heavyweight issues.

Finally, the widely used and several times misused category of "second-class membership" has to be dealt with. It is clear that any kind of such a negative differentiation would flagrantly violate the basic principles of the European integration. In addition, it would be extremely difficult or even impossible to have such a position accepted by the societies of the prospective member countries. Nevertheless, we have to define what can and what should not be considered "second-class membership". The separation is rather easy: everything that would create lasting, institutionalized, contractually fixed differentiation belongs to the area of "second-class membership". In turn, different phasing-in periods which end up in equal treatment after a given, relatively short time and with a clear timetable of "upgrading", should be regarded as normal in the first years of membership. Thus, one of the key tasks of the negotiating teams is how to reduce the duration of the phasing-in periods. This, of course, also depends on the absorption and adjustment capabilities of the new member countries.

Just to mention some concrete examples. Disregarding the to-be-negotiated transitory agreements, which, as rights and obligations are concerned, will provide full membership after a certain time of transition, there are at least four crucial areas of phasing-in. First, EU transfers will be gradually increased, as already indicated in the financial framework 2000-2006 attached to Agenda 2000. This procedure is due both to the parallel phasing-out approach concerning the present net beneficiaries of EU transfers and to the gradual establishment of the necessary legal, financial, institutional and human factors in the candidate countries to be able to absorb the money they are entitled to. As overall experience shows, due to the bureaucratic nature of the process to apply for EU funds and to the necessary time for domestic preparation, financial resources provided by the EU could generally be used with a certain delay. This has been a common feature of the PHARE and the pre-accession funds in the CEECs and the main experience in the previously joined countries. (Burgenland, a region entitled to EU regional support was able to draw the first sums one year after Austria, a well-prepared country, joined the EU.) The same holds for the phasing-in of the candidate countries' contribution to the EU budget. Both sums, and more importantly, the timing of the phasing-in process represent one of the critical areas of the coming stage of negotiations.

Second, a phasing-in period is unavoidable concerning the integration of new members into the framework of the Common Agricultural Policy. Since the agriculture in the CEECs has partially different features than in the EU, temporarily also new financial constructions may be considered. This, however, could not be regarded as a "second-class membership" as long as the new members will be adequately compensated (e.g. by higher production quotas or higher amount of money directed to the modernization of agriculture and rural areas).

Third, the rules of the game of membership in the EMU contain a clear restriction. New member countries have to be waiting for EMU membership at least two years in the ERM-2 framework, disregarding their coping (or not coping) with the Maastricht criteria. In this case, phasing-in is institutionally stipulated.

Fourth, also full-fledged membership in the Schengen agreement will come some time after accession. Austria had to wait almost two years to have the German/Bavarian/Austrian border as a real Schengen border. Despite Austria's EU membership, Germany has kept normal control at the Austro-German border after 1995.

The basic common feature of all of the previously listed cases is, however, that: (a) full and just participation in all EU community policies is not blocked but institutionally and legally recognized from the very beginning;

(b) the transitory period has a unequivocal timeframe (roadmap) including the duration of the phasing-in process, the gradual (annual) adjustment to the EU structures and identification of the necessary instruments both on the EU side and in the new member state.

In contrast, "second-class membership" could be created in all areas indicated above, if: (a) EU resources would keep on favoring present net beneficiaries and discriminating new (and poorer) countries, or, not less importantly, present beneficiaries would change the rules of the game of having access to EU funds that the new members would not be

able to qualify for money; There are already some disquieting signs of such efforts in preparing the next round of budgetary negotiations on the financial framework between 2007 and 2013, to be started early 2005.

(b) new members would be excluded from the Common Agricultural Policy or they would get only a small part of the money present agricultural producers get, or if a smaller amount of direct income payment would not be complemented by other supporting financial instruments;

Furthermore, the Nice summit has provided a classic case of "second-class membership" by ensuring 22 seats in the European Parliament to three present member countries with a population of 10 million each (Belgium, Greece and Portugal), and 20 seats only to the Czech Republic and Hungary, with an identical population. (This discrepancy is expected to be solved once the chapter on institutions will be opened.)

Finally, a dangerous precedent would be any attempt to create a "core group" within the EU by excluding others from the decision-making process. Evidently, this would not only affect the new members but some of the present member countries as well. While the extension of qualified majority voting (QMV) is widely supported by smaller member countries, any effort to create a large-country-hegemony would be strongly opposed. Therefore, a more federal European structure should be supported instead of the intergovernmental architecture which will always contain the temptation to negotiate, take decisions or bloc initiatives (unfriendly to large countries) without or above the heads of the smaller countries.

2. How to construct and implement negotiation strategies and tactics?

At the latest after the Madrid summit of the European Council in December 1995, where green light was given to start negotiations on accession with the candidate countries to be proposed by the Commission's report based on the avis (conducted between the spring of 1996 and the summer of 1997) and to be approved by the European Council, candidate countries had been facing an unique challenge of defining their negotiation strategies. They were focusing on two fundamental questions:

- (a) how to define, represent and protect key "national interests";
- (b) what kind of approach should be accepted concerning the negotiations in general, and on transitory requests, in particular.

During the process of negotiation, some further issues have also emerged, such as the possibility of linking different chapters or the chance of a stronger cooperation among the candidate countries.

This part concentrates on the first two issues - (a) and (b) - and only makes some comments on further points.

The problem with identifying national interests begins with the definition of such interests. Depending on the interest situation of a given lobby, be it political, economic, social, environmental, etc., "national interests" will be differently interpreted. Of course, each group would argue that its own interests

are the most important ones on the national level. In order to create a more or less systematic approach, the Government has to assume the leading role in this field. However, it does not mean that the Government should define "national interests", but it should coordinate the debate, both by asking different interest groups to prepare and submit their position and by starting a wide-range dialogue with the society. Unfortunately, the first exercise remained rudimentary, because the elaboration of the position of interest groups has mostly not been followed by an institutionalized dialogue between the Government and various interest groups. Even more regrettably, the second did not start at all before the negotiations. Therefore, most of the homework is expected to be done in the critical stage(s) of negotiations and with a public opinion which is generally not (well) prepared to understand what is going on and how it should argue in order to support the position of the country's negotiating team in Brussels and to contribute to the necessary (self-)adjustment process at home.

It has to be mentioned that, in most cases, "national interest" is a relative concept in various aspects. First, it is dependent on which group raises this issue. Each lobby may have a vital interest in some questions, but not all of them can be represented at the Brussels' negotiating table. Because some of them bluntly crash with basic EU rules, while some others would generate high-cost consequences for the applicant country (either in form of equivalent EU transitory requests or resulting in substantial delay of the negotiation process). More importantly, not all sectoral interests can be represented by the Government and the negotiating team, so that they cannot be included into the national position papers. As a result, a careful weighting of different interests is indispensable before starting negotiations. Second, "national interests" are time-dependent, and just in two aspects. On the one hand, their relative weight may be changing over time, as previous interests decline or vanish, while new interests become stronger. On the other hand, time is a crucial factor in the negotiation process. Sometimes the too long insistence on "national interests" may lead to substantial time delay concerning the date of accession. In consequence, the political, social and macroeconomic damage to be suffered by the delayed accession can easily outpace the potential gain promised by stubbornly and inflexibly defending "national interests" in a given issue.

In fact, a more or less balanced picture, as a starting point to prepare national position papers, can only be obtained if the basic interests of the different groups are collected and in each case impact studies are carried out. The impact studies should not only identify the economic costs and benefits of defending or rejecting the different interests formulated, but they have to include macro-level social, political, regional, institutional and psychological consequences as well. In this way, a comprehensive and harmonized package, hopefully without major internal contradictions, can be created. This maxi-package, containing almost all interests not sharply contrasting with the EU legislation, and with clear financial implications, has to be discussed again with all interested parties. (Unfortunately, it did not happen in any candidate country. In most cases, even the most necessary impact studies have not been prepared.)

The next step is crucial for the choosing of the appropriate negotiation strategy. Faced with a full-fledged list of "national interests", the Government has to decide whether it will base its approach on the representation of all or most interest positions as argued for in the above document or it would like to opt for a well-targeted strategy concentrating on

vital key issues only and abandoning the representation of all other partial interests during the negotiation process. Both approaches have their pros and cons. Let us remember that during the last round of EU accession negotiations, Sweden and Finland preferred the "concentrated" approach dealing with a small number of "national interest" issues, while Austria decided to talk about a larger number of issues.

In the following, the advantages and disadvantages of both approaches will be shortly summarized.

The negotiation strategy based on a large number of transitory requests is based on the following (partly alleged) advantages: Poland, the Czech Republic and Hungary all chose this approach. We can already see the very difficult position of Poland due to its inflexibility. The Czech Republic and Hungary proved much more flexible, also due to the better acceptance of the negotiation results and compromises by their respective societies. Hungary started with about 90 requests prepared in March 1998, before starting official negotiations. During the screening process this number was reduced to about 70. A further substantial cut occurred when it had to be decided on which requests had to become part of the position papers. Altogether about 40 requests were forwarded to Brussels, of which a part has already been withdrawn (most spectacularly in the environmental chapter), and further steps in the same direction can be expected as the negotiations touch upon the most critical chapters, as competition law, transport policy, agriculture, etc.

(a) the presentation of many special interests increases confidence in the EU and the member countries, for it demonstrates that the given applicant country does understand the *acquis communautaire* and is technically well prepared for negotiations;

(b) it shows, in an evident way, to the society that the Government is strongly committed to represent and resolutely protect a wide range of "national interests", and it is not ready to "sell-out" the country to the EU;

(c) a large number of transitory requests may be a good instrument to show a high level of flexibility and to get additional advantages from the EU by withdrawing some of the requests during the negotiations on accession;

(d) in the domestic context, the more transitory requests are formulated, the more the Government is defending the position of the status-quo-interested lobbies. This is likely to lead to a short-term political and economic consolidation which may be needed in several CEECs;

(e) Finally, it can signalize towards the EU that the applicant country's society does not tolerate too big concessions in case of membership, while the success of accession/enlargement is not only in the interest of the applicant countries but of the EU as well. In the eighties, Portugal tried to identify a number of "specificities" during and even after the negotiation process. Most of them turned out either to be no Portuguese "specificities" or to be untenable against a unified large integration group.

At the same time, this approach has a high level of fragility both on the level of official negotiations and in its domestic context. In the first case, it can raise the impression that

the given country is not yet well prepared for negotiations, let alone accession, if it has a large number of transitory requests. In a more benevolent scenario, the EU and the member countries could understand the large number of special problems of the candidate country and propose in-depth discussions of each of the transitory requests. This, however, could prolong the negotiation process and the applicant country may easily run out of time (sometimes even "backed" by similar, although largely hidden, interests of some member countries). In addition, transitory requests are a two-way street. Thus, by accepting some requests of the candidate country, also the EU may ask for counter-exceptions, which may generate higher losses for the candidate country than the potential acceptance of its request by the Commission and the EU member countries. It is not less dangerous that, in the first stage of negotiations, the EU accepts some "soft" requests in order to crowd out hard requests in the final stage of negotiations by making reference on its high-level flexibility in previous periods. As a result, the large number of transitory requests can backfire and just because of the lack of clear priorities between soft and hard demands/interests, less important "national interests" will not leave any room to "hard-core national interests" to be successfully represented. Finally, there is no question that withdrawn requests have a serious impact not only on the interested political, business or social groups but also on the budget of the given country. Therefore, impact studies should be carried out immediately on this issues as well. Also they should be involved in the budgetary planning of the next years and made public to the society (certainly a dangerous exercise in the critical stage of the accession process, including the referendum).

Concerning the second case, short-term political and economic consolidation based on status-quo-interests can sharply contrast with longer-term, dynamic adjustment needs. Once it turns out that by far not all requests can be pushed through, and the EU and the member countries will not be ready to accept the majority of "specificities", the Government finds itself in a critical situation. Either it risks, by insisting on its original requests formulated in the national position papers, to prolong or even to postpone negotiations, with clear negative impacts of a belated accession. The negative impact may be both political (no participation in crucial EU reform plans once they start), economic (later access to EU funds), or, most importantly, stability-related (all CEECs are living in a very dynamic time and in a not less dynamic or even volatile region). Or the Government feels obliged to withdraw some or most of the previously formulated transitory requests. However, this step has to be communicated to the interested lobby groups at home, which may immediately generate good reasons for demagoguery. They would argue that the Government has betrayed key players representing "national interests", and it had "sacrificed" the country's interests in favour of EU membership. This, too, can be a good opportunity to argue in line with "second-class membership". No doubt, that some political movements or parties would immediately embrace and fully benefit from such a situation.

The later such a step occurs, the more dangerous the situation may become. Namely, late withdrawal would deprive several interest groups of the necessary time to adjust to harsh pressures coming from accession to the EU. Therefore, the general argument would be the following: why did the Government not tell us the truth two or three years ago, why did it promise something what it was unable to keep. It would have been much better to tell at the beginning that the applicant country could not advance or break through in several concrete questions. Thus, it would have been better to start a tough preparatory

period, maybe with some governmental or even EU support, to make the given sector fit for accession at the very first moment it may happen. The late or belated withdrawal of several transitory requests can easily start a "competition of request withdrawals", since, at the moment, 12 countries are negotiating on accession. Such a development could even more undermine the position of the interested sectors (and countries) and further improve the impressively dominating bargaining position of the EU.

Investigating the shortcomings of the large-scale request approach, some countries opted for a more limited number of transitory requests (e.g. Slovenia or Estonia). It has the advantage to concentrate on really vital interests and defend them even in the final round of negotiations. Such a position does not give room to the EU either to ask for complementary transitory exceptions or to pick-out the "soft" issues and crowd out the hard ones at the end of negotiations. Also, communication with the domestic players seems to be less problematic and conflictive. More importantly, instead of protecting lobby interests, the Government could devote its energy to start discussion with the society and prepare it for the challenge of membership. Finally, this approach, at least at the first glance, promises quicker progress in the negotiations and earlier accession.

Of course, without high risk, this way can only be followed by countries well prepared for accession. Even in this case, the EU and the member countries may have a justified mistrust concerning the low number of transitory requests. It could raise serious questions about the fact to what extent these countries have really understood the meaning of the *acquis communautaire*. And, how could you adjust to and enforce it, despite or even because of the "easy promises"? In addition, some manoeuvring room to get additional advantages in the negotiation process may remain unused. More importantly, if the low profile approach is the result of not having involved the society into the preparation of negotiations on accession, the negotiated treaty may be felt as an externally imposed "dictate" on the economy and society of the given country - with unknown consequences both for the outcome of the referendum and, even more, in the first years of membership in the EU.

Beyond the above mentioned strategic issues, there are some other questions which are expected to emerge during the negotiation process.

First: should candidate countries ask for short(er) or long(er) transitory periods? The easiest answer certainly is, it depends on the topic to be addressed. In fact, the answer is more complicated. First, the duration of a transitory period largely depends on the EU's willingness or unwillingness to accept or to decline a certain length of the "exceptional status". While in the purchase of agricultural land, the EU seems to be ready to accept a seven-year transitory period (similar to the EU-induced exception in the labour market), it is highly questionable that it would agree on Poland's 18-year request.

Second, the length may depend on the volume of the EU's financial commitment. Larger amounts required to finance the adjustment process may extend the transitory period, while smaller amounts are likely to shorten it. In the domestic context, each government should consider that longer transitory periods do not only make formal adjustment easier but longer-term competitiveness weaker. The reason behind this development is the widespread experience according to which the longer a transitory period lasts, the higher is the probability of creating strong interest groups oriented towards protection- and

subsidy-seeking instead of efficiency-seeking, or status-quo-mentality instead of competition-mentality.

Second: can or should different chapters be linked together during the negotiation process? Hypothetically, several options have been surveyed by the policy-oriented research: linking the free flow of capital with the free flow of labour (purchase of agricultural land vs. free movement of workers); combining the free flow of labour with getting additional resources from the social fund; postponing the issue of agricultural land purchase up to the hard-core negotiations on agricultural issues, etc. Until now, the Commission has been very strong in rejecting all such efforts not only by the candidate countries (anyhow, they remained on the level of "loudly thinking"), but also by the EU member countries. Spain's effort to link the chapter on free flow of labour with the future of structural funds, a clear example of blackmailing Germany and German taxpayers, has been rejected by the Commission (and Germany) in an unusually straightforward manner. The Commission's clear position is that no chapter can be linked to any other. Particularly chapters with financial implications have to be handled separately from any other chapter.

Third: can individual candidate countries negotiate different agreements with the EU? It is a widely shared idea in the Polish public opinion that because of its size, influence and political importance, let alone its specific problems, Poland may obtain better treatment once joining the Union than other candidate countries. One of the hidden (believed) arguments behind the lagging behind of Poland in the negotiation process is just this hope for special treatment (as of today only 17 chapters could be temporarily closed, with a number of crucial conflicts in hard-core issues, as the four freedoms). Although some country-tailored measures cannot be ruled out, there are two basic rules of the accession negotiations. First, following a transitory period, all countries have to have the same rights and obligations in the integrated community. Second, for technical, administrative and political reasons, very few exceptions can be made among the candidate countries. In case of abandoning this basic line of negotiation, all candidate countries could easily find several areas where they think they should be treated in a different (more favorable) way. As a result, the same competition could start as in the case of withdrawing transitory requests. This process, with catastrophic results both for the enlargement process and the future cohesion and manageability of the Union, could then be called "special advantage-seeking competition".

Fourth, and probably most importantly: can candidate countries (mainly those in Central and Eastern Europe) find common negotiation positions and act as a group vis a vis Brussels and the member countries? This question has been raised several times and many experts urged a more common position already well before the negotiations started. The reality is, regrettably or just because it is reality, different.

First, the EU has never been ready to carry out accession negotiations with a group of countries. In all cases in which more than one country wanted to join the integration, negotiations were all the time realized on a strictly bilateral basis.

Second, the EU has always used its dominating bargaining power to further improve its position in the emerging treaty. This was regularly achieved by finding the "least resistance" among the given candidate countries and come to terms with it in a difficult chapter. Afterwards, all other candidates were forced to accept the "pattern" formulation.

In the ongoing negotiations, Slovenia was the first to temporarily close the environmental chapter. All other candidates, provided they wanted to have this chapter closed as well, had to accept the "Slovenian" terms. Next, Hungary agreed on the widely disputed chapter on the free flow of persons (labour) and caused some consternation in Poland with a rather inflexible attitude. Polish inflexibility could not be explained by preparing for national elections in September 2001 only. The dividing line is not only between parties but within the society - which will hardly change its split attitude after the elections either. On the contrary, looking at the election results and the composition of the new Sejm, the manoeuvring room of the Government and of the negotiating team does not seem to have improved. Third, the Czech Republic signed the chapter on the free flow of capital first, and has put the other countries into a "forced path".

Third, the most important barrier to agree on common positions is the different weight or mixture of interests of the individual countries concerning the individual chapters. The differences are not only due to the different value of the given question in the national priority list, the diverging level of preparation in the given field, the different level of influence of domestic pressure groups, but also to the highly different public reaction to be expected in negotiating on highly delicate issues.

Nevertheless, a certain level of cooperation has been already established. There are regular meetings on different levels of the Government and public administration. Chief negotiators and experts regularly exchange their views as well. Most remarkably, cooperation among the first-group countries has been indicated by their regular half-year meetings immediately after the EU summits in June and December. The last meeting in Ljubljana had, for the first time, produce an official communique as well.

There is one field in which, based on previous experience, the candidate countries could and should be successful. All previous enlargements resulted in the creation of special target areas entitled to additional financing. Portugal and Spain benefited from the largely expanding structural fund, both plus Ireland and Greece had access to the cohesion fund created on the eve of the EMU project. Also rich countries, as Sweden, Finland and Austria found justified arguments to get additional EU resources to their sparsely populated Arctic or Alpine regions. There is no doubt that the candidate countries could easily find arguments in favour of a special fund exclusively (or mainly) supporting the transforming region of Central and Eastern Europe. This would not only be urgently needed because of the advanced stage of negotiations on accession, but also in order to counterweigh the efforts of the present net beneficiaries to change, according to their interest, the currently valid entitlement pattern of the EU's structural and regional funds.

3. Recommendations and dilemmas

The negotiation strategy of the candidate countries has to be based on clear criteria. They include:

(a) realism, meaning that it has always to be taken into account that negotiations" are not classic diplomatic exercises and even the limited scope of bargaining takes place among unequal partners;

(b) a clear future-oriented adjustment strategy driven by longer-term advantages of future membership instead of short-term technical gains during the negotiation process;

(c) an evolutive approach based on the fact that from now to accession both the EU and the applicant country are changing, and this factor has to be taken into account during the whole period of negotiation on accession and in the preparation for membership at home as well;

(d) an offensive, proactive approach emphasizing not only the interests of the candidate country but also its reliability as a future partner and, not less importantly, its contribution or value added to be brought into the new and enlarged EU;

(e) the same proactive approach at home to support rapid adjustment instead of protecting outdated status quo interests (including the definition of transitory requests);

(f) a well-designed domestic adjustment strategy in order to raise the country's competitiveness on an adequate level before EU membership and not to wait for EU resources in order to start major restructuring or infrastructural, institutional or environmental development until accession (each year of not doing so would be a fundamental loss and delay in the process of becoming a full-fledged member of the community);

(g) intensified contacts with EU member countries, parallel with negotiations in Brussels, on diplomatic, political, business, professional, expert and civil society levels, since influencing the official position of the member countries and their public opinion has to be a fundamental task of all candidate countries in the critical period of negotiations and the ratification of the accession treaty;

(h) openness towards domestic actors and public opinion, without hiding problems and conflicts with the EU, but, at the same time, explain what are the costs and benefits of accession and why, despite partially high costs, membership creates a different quality of the country's international standing and development prospects;

(i) by realizing that it is the society that enters the EU and it is the society's well-being and comfort which will define, how a country will feel and perform in the framework of integration, it is necessary to establish a dense network of cooperation between public administration on different levels (including local and regional authorities), business and the civil society. This should be a two-way street of information and not a new instrument of declaring some principles or just informing the society or part of it about the latest developments or the plans of the Government. Grass-root, bottom-up initiatives, ideas, fears and dilemmas have to be given high priority;

(j) understanding that official negotiations focused on some narrow legal issues, must not divert the public opinion and policy-makers from the most important goals of membership, such as higher level of stability, economic predictability, business confidence, clear rules of the game, accelerated economic and social modernization, higher amount of financial resources to develop crucial sectors as physical and human infrastructure as well as environment protection, upgraded cross-border cooperation, etc.

Even in case of the best domestic preparation for membership and the most brilliant negotiation strategy and tactics in Brussels (and in the member countries), a number of important dilemmas will remain. The solution of them is not in the competence of the candidate countries. In this field, their policy-taker position manifests itself in the most transparent way. Namely, none of them, irrespectively of their level of EU maturity or mastership of negotiations, will be asked about the time and the scope of enlargement. Nobody knows, when and under which conditions a candidate country will become member of the EU. As of yet, nobody knows whether we will witness a merit-based or a politics-driven enlargement, whether the enlargement will be based on a "big bang" approach or a small group of countries will be taken, with subsequent enlargements in the next years or decade. Still, the task and duty of all candidate countries are to get prepared in the best way for the historical chance when the EU will open its door for new members. EU maturity is not only needed at the negotiation table. It is much more important to successfully integrate the economy, the society and the public administration of the new member country into the EU structures after accession. It is not only a chance but a unique historical responsibility of first-wave accession countries in order to keep the door open for further enlargements, and, consequently, contribute to the strengthening of cohesion and stability in the European continent.

Europe's Military-Political Engagement In Southeastern Europe

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The Kosovo War marked a watershed in the internationalisation and Europeanisation of Balkan security. Since then, we have witnessed the “Balkanisation” of European security with ESDP and the debate on the post-Cold War role and tasks of NATO. The Washington Summit in April 1999, celebrating the 50th anniversary of the organisation, in fact marked both its first war as well as the beginning of the long-overdue debate on its future strategic orientation. Key to the debate is the contentious issue of the US and Europe sharing (or dividing) burdens, responsibilities and, in the end, political authority.

The Impact of the Kosovo War

From an EU perspective, the impact of the Kosovo War reaches beyond the obvious debate on ESDP, triggered by the glaring inadequacies in European military capabilities demonstrated during the air strikes against the Milosevic regime in Belgrade and the Serbian military in Kosovo.

1. European Security and Defence Policy (ESDP) is Europe's next big idea, driving EU integration and reform forward at a junction where other tracks seem to offer less perspective for European consensus. Nevertheless, understandings of ESDP in Paris, London and Berlin differ significantly. The accession states, moreover, are primarily interested in the “D” in ESDP and detest the idea of a European defence identity at the expense of NATO. Conversely, most member states focus the “S” in ESDP to provide peacekeeping forces for security and stability in a “wider Europe”, including first and foremost the Western Balkans.
2. Thus, Europe's self-perception is changing from a regional economic organisation of dwarf-like political-military weight to a regional power responsible for security, stability and prosperity in Europe as a whole. Despite the dilemma as to how to export stability without importing instability, the EU cannot isolate itself from neighbouring regions like the Western Balkans or North-western Russia.
3. Consequently, the EU's strategy and philosophy of Eastern enlargement has been changed to take into account the consequences of the Kosovo War and the stability risks of South Eastern Europe. The decision to open negotiations with the “Helsinki-Six” was based on these risk potentials rather than economic developments in Romanian and Bulgaria. The dilemma of “quality and speed” in enlargement, however, remains a major challenge: Adding the “Zagreb-Five”, the EU now envisages a membership of 33 in the medium or long term.

What will be next, after the Europeanisation of Balkan security and the Balkanisation of European security? How and when will the results of the dialectic process change

European involvement in Balkan security? Will the recent changes in Belgrade – without being overly optimistic – create a situation enabling an EU with a preference for peacekeeping over warfare to become a major player in Balkan security?

All in all, Balkan security and European engagement in regional security are as much about Europe as about NATO and transatlantic co-operation. Thus, Balkan security has three key dimensions:

1. Security issues and risks endemic to the region, ranging from hard security (including post-communist state building and the status of Kosovo and Montenegro) to soft security;
2. European security strategies for the region and European capabilities
3. The transatlantic debate concerning ESDP, NATO, burden sharing and exit strategies.

Hard and Soft Security Risks in the Region

The general tendency of shift from hard to soft security risks is beyond doubt and in its own right a positive development, as long as the tenacity and implications of the soft-security risks, both for the region and for Europe as a whole (though markedly less for the US as a global power!), are not underestimated. It is worth noting, moreover, that the EU concept of “Western Balkans” is misleading: The risks are not limited to the five countries of the Western Balkans, just because Romania and Bulgaria now happen to have Europe Agreements. The structural roots of at least some of the risks concern the “Eastern Balkans” too. In that respect, the outcome of the recent parliamentary and presidential elections in Romania should be taken as a warning. The internationalisation of Balkan stabilisation may preclude another aggressive dictatorship in the region, it does not, however, resolve Claus Offe’s dilemma of simultaneity or nationalist rhetoric as an alternative to reform.

Hard security: Despite positive developments, in every thinkable scenario a long-term international (military) presence will be required in the region. For decades to come, though probably in decreasing numbers, peacekeepers will have to stabilise the region and deter nationalist “entrepreneurs”. Securing borders will remain at least partially an international task – as the flare-ups in southern Serbia have recently shown – as well as monitoring the implementation of eventual agreements on a final territorial status and state building. Evidently, the final status of Kosovo is pivotal to all issues of hard (as well as soft) security in the region: Will Montenegro and Kosovo achieve independence and if so, by what means? What will be the impact on multiethnic states like Macedonia or Bosnia-Herzegovina and, last but not least, Serbia and the Serbian-dominated FRY?

Soft security: The increasingly prominent and visible soft-security risks are partly inherent to the structurally weak states of the region, partly related or induced by the massive international interference and assistance itself. In many respects, taking the transition process in Southeastern Europe as just another case of post-communist transition, similar to Poland or the Baltic states, is a fallacy. The developmental process in the region is quite distinct from East Central Europe transition. Thus, the term “economic reconstruction” suggests a return to a (market economic) status quo ante that really never existed in most of the region. Consequently, the states and societies lacks the capability to absorb the massive Western assistance effectively and the process lacks

regional “ownership”. Consequently, “aid addiction”, criminalisation of entire economic sectors, glaring socio-economic disparities and failing states with an unhealthy merger of political and economic elites (and their interests) are bound to occur. Democratic, reform-oriented elites tend to be small, often losing out to the powerful economic elites with a stake in unregulated economic development, state weakness. A Russian-style development towards almighty tycoons and businessmen constitutes a key long-term risks for next to all states and entities in the region. The fact that Milosevic and his cronies gave up political power so readily, may also be seen as an indication of their successful economic entrenchment.

The final status of Kosovo: The current state-of-limbo in principle implies a return to FRY sovereignty and Belgrade rule in the long term, although no Western analyst of political decision-maker seriously contemplates this option. An unlimited continuation of the current situation, however, would satisfy neither party to the conflict. In fact, the demise of the Milosevic regime has further complicated the situation. Heeding the (then) opposition’s advice not to grant independence to Kosovo as it would enable Milosevic to blame the opposition for this “national tragedy”, the international community failed to realise that the opposition-turned-rulers would take the blame anyhow, after a change of regime! Conversely, the recent positive changes in Belgrade got the Kosovars worried. At the conference commemorating five years of the Dayton Agreement, Djukanovic, Thaci and Rugova all made particularly uncompromising statements on independence: Nothing short of full independence would satisfy the rightful demands of the Kosovar and Montenegrin peoples. In a worst-case scenario, UNMIK and KFOR could end up enforcing a status quo against the passive or violent resistance of both Serbs and Kosovo Albanians! Due to the Bush administration Balkan policy of “benign neglect” extrapolated by the new crisis foci after September 11, sorting out the Kosovo imbroglio will be by and large a European burden.

Recent and forthcoming events will place the status issue on the top of the international agenda, no matter whether or not Washington and Brussels are willing and prepared to face it: The installation of a democratic government in Kosovo with its understandable but unacceptable urge to declare independence; a possible referendum on independence in Podgorica – de facto ending FRY federalism, even without applying the Res. 1244 legalist argument; the threat of another KLA reawakening and the structural blockades to successful transition under UNMIK rule and without clarification of sovereignty questions. Brussels and Washington prefer to postpone the status issue way beyond 2001. The fact that the status issue is on the political agenda should not imply the full independence is the only way out or that, even if independence were the final outcome eventually, it would not be worth while to try and control the process towards independence. The legitimate right to national self-determination of the Kosovars, moreover, would not be the only factor to consider. Human rights guarantees, and the UN resolution and the state sovereignty would have to be taken into account as well. Last but not least, Europe’s interest in a self-sustaining stable and secure region would also have to be considered.

Redefining Regions, Institutions and Players

Typically, the key external players in Balkan security in a the middle of long (post-Cold War) or more recent (post-Kosovo war) process of soul-searching, redefining their identities and tasks in global and regional conflict prevention and resolution. The US has adopted a strategy preparing for two nearly-simultaneous regional conflicts both threatening vital national interests, whereas the Balkans are considered an indirect threat only. Peacekeeping, moreover, is considered an unsuitable activity for the US military, detrimental to combat readiness. Conversely, NATO has begun to adapt to a post-1991 world dominated by minor, “irregular” conflicts of the intra-state rather than inter-state type. Preparing for deterrence and one all-out war effort against an equal opponent is becoming anachronistic. The EU is making more and faster progress towards ESDP and CFSP that even optimists would have considered possible two, three years ago. Yet, even if the EU would be able to handle the current military situation in the Balkans without US participation, an escalation would still be beyond EU capabilities in terms of political decision-making capabilities as well as military man-power and hardware.

At the same time, the region itself is being redefined in more than one sense: For the EU as a regional power it is the region par excellence for the Rapid Reaction Force and ESDP. The EU unlike the US as a global power cannot consider an exit strategy from the Balkans, all the more so as the EU has offered the five countries of this “enclave” an accession perspective, reconfirmed at the Zagreb summit. Additionally, the region may have been redefined by the inclusion of Moldova into the Stability Pact, one the one hand, and the fact that a extensive first round of EU enlargement in 2004/2005 (i.e., a “big bang” with eight East Central European countries) would recreate a potentially instable Southeast Europe region of European “latecomers”, including Romania and Bulgaria.

EU and NATO Enlargement

Americans tend to underestimate the complexity of EU accession and the value of EU enlargement for the stabilisation of the region, pushing for speed rather than quality for geopolitical and domestic (burden-sharing) reasons. Europeans, conversely, tend to focus on the normative, *acquis*-driven character and the quality of enlargement, rejecting considerations of geopolitics or European “national interest”. It seems, Americans should become more European here and acknowledge that only a well-managed, sustainable enlargement is an asset. And Europeans more American in acknowledging the geopolitical component and context of EU enlargement: Eastern enlargement cannot be a “platonic” process strictly separated from the parallel process of NATO enlargement.

At the moment the best guess seems to be a minor NATO enlargement round 2002 with Slovakia and Slovenia (and possibly Lithuania). Thereafter, the open-door would de facto be closed for some years. The EU seems to be heading for a major enlargement round in 2004/2005, including the two Mediterranean islands, all of the Luxemburg-Six as well as the other Baltic states and Slovakia. Thus, EU enlargement would de facto compensate for NATO membership for the northern tier of East Central Europe, whereas the southern tier with Romania, Bulgaria and the “Western Balkans” would have to content themselves with PfP and a long-term EU perspective: A next enlargement round might

eventually include Croatia, Macedonia, Romania and Bulgaria. Such a EU-NATO “division of labour” would raise at least two questions: What security guarantee does EU membership offer for the non-NATO members in the Baltic region? Would security in Southeastern Europe would become a NATO matter, leaving an institutional and functional gap as far as soft security and NATO-Stability Pact co-operation are concerned?

And hard security ought to remain a NATO assignment: The logic and regional power of the EU is and remains primarily soft power based on economic might and an accession perspective as a highly effective strategy to stabilise East Central Europe during the transition process of the past ten years. With the Stability pact and the Stabilisation and Association Agreements the EU has created a path for the Western Balkans towards full membership.

Hard security, however, is only a sideline in this process: The Stabilisation and Association Process has a basic conditionality of good-neighbourly relations and the Stability Pact has a Third Working Table with two sub-tables, one for Justice and Home Affairs as a genuine EU matter and one for Security and Defence Affairs. The latter sub-table is by far the weakest part of the Pact so far, absorbing a mere fraction of the 2.4b Euro “budget” created for the Pact at the March 2000 funding conference.

The Stability and Half of the Third Working Table

At the International Funding Conference on March 29-30, 2000, 80 international organisations and national governments pledged over 2.4b Euro: 260 million or 12% of the project funding goes to the first working table, 1.8 billion or 84% to the second and 78 million or a mere 4% to the third working table for security issues. Judging by these budgets, it would seem that the Balkans don’t have a security problem!

Yet, the beginning of a new century has not resolved the region’s deficiencies in security and stability. Quite on the contrary, the region still has a disproportionate potential for conflict, insecurity and humanitarian catastrophes. The magnitude of the task of stabilising and reforming the region is not related to its geographical size. Comparisons with post-war Europe are therefore misleading. The Western Balkans encompasses 230,000 km² - less than Romania, and 25 million inhabitants - less than the Benelux. The GDP of all states of the region, including Romania and Bulgaria, is less than the GDP of Portugal or similar to that of Bremen and Hamburg together!

The security and stability risks may be summarised in two categories, hard and soft security or, in the logic of the Third Table, Security and Defence Affairs and Justice and Home Affairs. The hard security risks of the region are partly related to the military conflicts of recent years, but many of them have a much longer tradition and a corresponding tenacity:

1. There exists a plethora of troubled ethnic relations and disputed borders. Ethnic stereotypes and mutually exclusive national histories have been instrumentalised by political entrepreneurs for a long time. They now have many causes and few remedies. In some states they were a temporary mobilising force during the transition

period, in others they have come to replace political and economic reform in order to legitimise the elite.

2. The Milosevic regime is the prime example, of course, of a regime unable to survive over longer periods of time without external threats or crises and using the corresponding national mobilisation, a regime with an immense disruptive potential for the region.
3. There also exists widespread distribution of small arms in the population, challenging the state's monopoly of force. Although not a sufficient explanation for violent conflict, readily available arms certainly contributed to the escalation of conflicts. Remember the temporary fade out of Albanian state authority in 1997 and the subsequent rise of armed resistance in Kosovo. A related and immediate side effect of armed conflict with disastrous human and economic consequences concerns the mines left in the fields and along the roads.
4. Experience from other regions that have gone through longer periods of civil war and ethnic strife teaches us that demobilisation may be an even more crucial peace objective than demining: a large and frustrated segment of the population, unable to reintegrate in society and used to a life with arms, is an open invitation to political adventurers.

With the increasing military, economic and civil intervention of the international community, we witness a shift from hard to soft security risks. Probably the greatest success of NATO in the Kosovo crisis was the prevention of a destabilisation of the region as a whole. Preventive military presence and humanitarian action countered Milosevic's refugee crisis to destabilise Albania and Macedonia. The soft security risks of domestic destabilisation under the header "Justice and Home Affairs" are a more intrinsic EU matter than military and defence issues. These soft risks are also closely related to the imminence and proximity of EU Eastern enlargement. Let's face it: Failing states or delinquent regimes may be a desperate reaction of the elite to the advent of Europe, but they continue to survive with deplorable economic parameters and without reform strategy. Paradoxically, these states and regions do not survive *despite* the proximity of European stability and prosperity or assistance: Their survival is largely *due to* this proximity and European reform assistance. Overall, the distinct tendency is for ethnic risks to become economic risks in weak states along the EU border. To name some risks – more real than potential:

1. The high level of insecurity and daily violence in some regions, related to ethnic tensions, socio-economic uncertainty and unemployment.
2. A high level of corruption in the political and economic system, low level of trust in police and judiciary as well as a limited capacity to absorb international assistance effectively.
3. Circumstances favouring the increase of organised crime, which are related to deficits in law enforcement, border controls and customs: Smuggling, drug trafficking, trafficking in human beings, etc.

4. The key is, of course, the glaring gap in living standards both within Southeastern Europe, between Southeastern Europe and the ten accession states and most of all between Southeastern Europe and the EU-15. As a reminder: GDP per capita in 1998: Albania 900 USD, which is half the level of Romania or Bulgaria, one-sixth of the Croatian GDP/p.c. which has half the level of its Slovenian neighbour, champion of the accession states with half the EU average. In the early 1990s the ration between Poland and the East German Länder used to be 1:9. Now between EU and Western Balkans it is at least 1:25.

In sum, the *destabilising* effects of international aid programs, the enormous socio-economic asymmetries and the process of EU enlargement are already there, faster than any Quick Start Package could ever be. The *stabilising* potentials of integration in Euro-Atlantic structures, international aid programs and the progress of socio-economic reform are much slower in coming, but irreversible. The question of how to best counter these destabilising factors in the category of Justice and Home Affairs - a serious threat for the region, but also for Europe as a whole – has produced two partly conflicting views: regional co-operation or bilateral orientation towards Euro-Atlantic organisations.

Thus, the question arises what contribution the third table of the Stability Pact can make - as it is determined to uphold both principles: promote regional co-operation and act as a starting point for the long road to integration in Euro-Atlantic structures, even making the promise of “drawing the region closer to the perspective of full integration” conditional on regional co-operation. The experience of the ten accession states seems to suggest that the potential for regional co-operation should not be overrated, once an option for EU accession has been created for part of a region. Nevertheless, what has been achieved so far in terms of regional co-operation even in such guarded domains of national sovereignty as security policy is truly astonishing.

The Third Table of the Stability Pact

The Stability Pact, being an initiative by consolidated democracies and prospering market economies, faces the inevitable tension between Balkan remedies and Western preferences. As the Pact depends on the initiative and engagement of others, it did not come as a surprise that most project applications for the funding conference of the Stability Pact in March were handed in by Western governments, NGOs and international organisations. Nor did it come as a surprise that – in terms of projects and funding involved – security issues were definitely underrated.

Deep-rooted European preferences shone through in the project applications: Table 1 projects dealing with democratisation and minorities tend to be long-term projects involving cumbersome negotiations and political setbacks, while producing more often than not unquantifiable “soft” results. Conversely, the table 2 projects dealing with reconstruction of national economies, regional infrastructure and trade facilitation produce concrete, accountable results in the short or medium term. The security issues and military hardware dealt with in table 3 are neither to the liking of many organisations in the field, nor do they seem to fit the European self-image and the European idea of conflict resolution.

Thus, the final list with project proposals presented to the Stability Pact Office and discussed at the Table Three meeting in Sarajevo mid-February 2000 consisted of 172 proposals, 64 for Security and Defence Affairs, 108 for Justice and Home Affairs. The relative weight of the sub-categories within the two sub-tables (in numbers of projects) also bears witness to European preferences.

In SDA, “Humanitarian Demining” predominated with one-third of all projects: No-one can doubt the importance of demining; the effect is immediate, accountable and (hopefully) lasting. However, two important tasks – demobilisation and small arms – seemed to be underrated. All the more so, as the first Oslo meeting of the Working Table in October 1999 had “expressed concern at the destabilising effects of the huge amount of small arms and light weapons in South Eastern Europe. It urged countries of the region to intensify efforts to interdict illicit transfers of small arms and light weapons”. In JHA, “Organised Crime” and “Legislative and Judicial Reform” took the lead with over 50 per cent, while Migration and Corruption appear on the lower end of the scale.

Similarly, a breakdown by sponsor and sub-category reveals that all major sponsors – with the surprising exception of Bulgaria - share a clear *faible* for JHA-projects. The Stability Pact’s regionality principle, however, proved effective: 99 out of 172 proposals targeted three or more countries in the region, an additional 34 were meant for Bosnia. Some countries and organisations had strong preferences: out of Germany’s 14 proposals no less than 8 were for legislative and judicial reform. 13 out of 35 Bosnian proposals were for institutional reform. In sum, many of these preferences make sense or at least cancel one another out.

Apart from such a slant of the table, a far larger problem seems to be lurking: The absence of a reliable framework for policy orientation, a new order for the future. For how long will the Milosevic regime be able to keep the region in a state of nervous tension and the full development of regional co-operation in a state of limbo? Will there be a finality for the Serbian and Albanian questions as well as for their linchpin – the status of Kosovo? And, from a different, but no less relevant perspective: Which countries will at what time join NATO or the European Union? How will the relations between the different Euro-Atlantic organisations – NATO, EU, WEU, OSCE develop?

This last open question relates back to the Third Table of the Stability Pact: One of the merits of the Pact is the involvement of the Russian Federation. Conversely, the role of NATO in the Third Table is remarkably small. Even in the sub-table on Security and Defence Affairs, only three projects were NATO-sponsored. Justice and Home Affairs is an intrinsic European topic closely related to a perspective of EU integration. It is - in addition to economic stability and civil society development – a typical strength of the European commonwealth of nations. The other sub-table, arms control, military budgets and regional defence co-operation seem to be somewhat outside the framework of the Stability Pact. For these issues, a diverse network building and a differentiated form of integration may prove appealing and effective for the countries of the region with the flexible instruments of Partnership for Peace, the Euro-Atlantic Partnership Council, the Multinational Peace Force Southeastern Europe (SEEBRIG) and the 19+7 model of the Southeast Europe Initiative for arms control and confidence building. At least Croatia found it appealing. As much as the relation to the World Bank is a key issue for the Second Table, the relation with NATO is crucial for the Third Table in order not to end up with the question, who is duplicating whom?

ESDP, NATO and the Transatlantic Dimension

Because of Russian and French resistance – some say, French and Russian resistance - NATO's has only a taken presence in this sub-table and the newly created co-ordinating body between NATO and Stability pact still has to prove its effectiveness. The original draft of the Stability Pact highlighted the perspectives of EU and NATO accession for the countries of the region. The final version highlighted only the EU perspective and diplomatically referred to NATO's "open-door" policy.

De facto NATO has by far the best set of tools for security integration in the region: PFP, SEEBRIG, the 19+7 South East European Initiative, the Membership Action Plan as well as the Euro-Atlantic Partnership Council. Thus, the idea of a NATO-led Security Pact for Southeastern Europe, complementary to the EU-led Stability Pact, to fill the institutional gap has some political and symmetrical appeal.

After the terror attacks of September 11, 2001, on the World Trade Center and the Pentagon, multilateral leanings have gained ground in US foreign policy, embracing even the United Nations. From a security-policy perspective, this development has only enhanced an already evident trend towards burden-sharing and "benign neglect" for issues of European security and stability by the Bush administration. Therefore, the European Union is likely to shoulder more of the burden for a region with a notorious potential for risks is underlined by the Tetovo crisis. The Macedonia mission has seen only a nominal US participation with logistics and troops transferred Macedonia from neighbouring Kosovo. Since NATO has decided to consider the terrorist attacks a case for collective defence by NATO as a whole, European troops will have to take over Balkan assignments from US troops engaged in Afghanistan. Theoretically, Macedonia could be the test case for ESDP Europe has been waiting for with anxiety and some eagerness. Yet, the perfect test case may have come too early and ESDP still has a number of obvious deficits: ESDP is still working-in-progress, despite the increasing expectations towards the EU as a foreign- and security-policy actor.

The new procedures, instruments and institutional framework definitely mark a step forward compared to the state of affairs under the CFSP of the 1990s. Nevertheless, it is doubtful the activities of the EU in the Balkans would have been possible without CFSP. ESDP nevertheless substantially increases the room for manoeuvre for a European Balkan engagement in the concrete case of the efficacy of the co-operation between the High Representative, the European Commission and its Special Representatives. Thus, some specific deficits of the EU as an international actor become apparent:

- Although CFSP marked a qualitative step forward compared to the previous European Political Co-operation (EPC), the strategic vision of the Union is still in need of clarification: The objectives of the CFSP formulated in article 11 of the Treaty are remarkably general in scope.

- The tension between intergovernmentalism and joint decision-making mechanisms cannot be overcome by installing new actors and institutional structures alone.
- The problem of deficits in the coherence of European foreign policy has been identified by both the High Representative for CFSP and the European Commission. Yet, no credible solution has appeared on the horizon so far.

The Tetovo Crisis as a Test Case

The Tetovo crisis has become a test case for the EU as an economic, political *and* military power for the Wider Europe, including the Balkans. Today, the EU's Balkan engagement is no longer limited to reconstruction and reform assistance (Stability Pact and Stabilisation and Association Process), but also in the long-term process of peace-keeping in Bosnia and Kosovo, over-fulfilling all transatlantic demands for burden-sharing. Recently, diplomatic crisis-prevention and crisis-management, including military engagement, has been added to the European activities in the region.

This spring, the Tetovo crisis took both insiders to the region and western observers largely by surprise. The root causes of the conflict, however, were well known: the process of equal rights for the Albanians delayed for ten years; the rapidly deteriorating economic situation in particular in the Albanian-dominated Northeast of the country; etc. In view of the numerous other crises, the international community failed to put pressure to bear on the Macedonian government to take responsibility for a adequate representation and mirroring of society in the political system. The conflict and the violence were triggered by the defeat of radical forces (Thaci's PDK and most of all Haradinaj's Alliance for the Future of Kosovo) in the local elections in the autumn of 2000 and the restoration of Yugoslav control over the demilitarised zone between Kosovo and Serbia in the Preshevo valley as well as the border demarcation between Macedonia and the FRY. The outcome of the elections was a serious setback for the Greater Kosovo solutions and a step towards peaceful conflict resolution. The end of the grey zone between the two states countered the lucrative criminal activities of many a "political entrepreneur" in the region.

Although the violent rebels in and around Tetovo did receive support and assistance from Kosovo (making a fool out of KFOR and the US troops in particular), the Macedonian claim that the rebels were all criminals and had no local support or roots whatsoever was neither convincing nor constructive. A certain local mobilisation did take place, but was – in view of local discrimination and poverty (up to 50% unemployment) – more limited than what even the rebels themselves had expected. The crisis escalated in part due to the politically counterproductive and militarily useless shelling of the hills around the city of Tetovo by the Macedonian army. Without European intervention the worst-case scenario of a civil war not unlike the Bosnian ten years ago and ending with bloodshed and, most probably, the disintegration of the Macedonian multiethnic state, might have become reality.

For Europe and the continuous development of its security policy the Balkans and the current Tetovo crisis are pivotal in more than one respect:

1. Stabilising the Balkans: Macedonia in praxis constitutes the challenge for European crisis-management that will decide on the credibility and chances for regional stabilisation in the medium term and a long-term track towards EU accession. If the Macedonian challenge is mastered successfully, multiethnicity and political rationality will have come out on top for the first time in the battle against the generation of ethnic conflict. If the mission fails, the geopolitical consequences are beyond imagination and the chances for a negotiated arrangement in the region will be nullified for decades to come.
2. Europe as a regional power: The European strategy of „soft power projection“ and a comprehensive, integrated spectrum of instruments ranging from diplomacy, humanitarian aid, economic sanctions to military intervention is put to the test. The fact that Macedonia, the first country in the region to qualify for a Stabilisation and association Agreement with the EU (April 9, 2001) became the key stability risk of the region almost at the same time put enormous pressure on the Union with the very credibility of its integration strategy on the line.
3. ESDP: The involvement of European rapid reaction forces in the Balkans is a medium-term option. In the framework of the ‚Headline Goal‘ a force of 50,000 to 60,000 soldiers plus 5,000 policemen is envisaged. They would have to be available at short notice for the duration of at least one year. Typically, this force has about the size of IFOR and KFOR together as the Balkans seems essentially the only European crisis region where a involvement of the rapid reaction force seems politically and militarily possible. The success or failure of the European in Macedonia will – irrespective of the global fight against terror – mark a crossroads in transatlantic relations.

In this context the issue of regional structures for security and stability on the Balkans and their integration in Euro-Atlantic institutions is no less relevant: In the framework of the Third Table of the Stability Pact, for instance, a successful co-operation of the region’s defence ministers has established itself. Nevertheless, NATO – hardly involved in the third table of the Stability Pact – remains the key organisation, offering its own frameworks for regional co-operation that have proven more effective and intensive than ever envisaged. This holds true for the Partnership for Peace (in regional security co-operation and demobilisation, military restructuring), for the Euro-Atlantic Partnership Council, the Membership Action Plan and in particular for the US initiative for a 19+7 South East Europe Initiative (SEEI). Formally, SEEI is the NATO contribution to the Third Table of the Stability Pact, but France and Russia would like to see SEEI as a temporary forum for dialogue rather than a real institution for co-operation, arguing that it might duplicate OSCE and other activities in arms control and confidence-building measures. To some, these and other US initiatives has an aura of competition with European activities in the region.

The real crossroads for the future of European Balkan policy, however, are the upcoming decisions on EU and NATO enlargement and their interaction. With its priority for regional stabilisation, the EU has drawn its consequences from the Kosovo War by inviting Romania and Bulgaria to open accession negotiations in December 1999, although both had failed the mark of the economic criteria. Additionally, the states of the Western Balkans received a perspective of future accession implemented in the form of

the parallel Stabilisation and Association Process. Thus, a “Zagreb-5” complemented the Luxemburg-6 and the Helsinki-6, bringing the long-term number of EU members up to 33. In contrast, at its Washington Summit, NATO insisted on its “open-door policy” without, however, accelerating the Prague 2002 next round of enlargement. Potential candidates in the Balkans were offered the Membership Action Plan as an operationalisation of the PfP, but no concrete promises of membership.

Meanwhile, some argue that the EU should give stability priority over conditionality by accepting all ten East European candidate states in 2004/2005. As the prognoses for NATO enlargement only consider Slovenia and Slovakia (possibly Lithuania too), a “big bang” in EU enlargement would create a paradoxical relation between the European Union and the North Atlantic Alliance.

The future security architecture would remain largely undefined. Would it be based on regional structure, on European institutions or on NATO guarantees? (Limited) security guarantees, however, have long been identified as a key prerequisite and framework condition for the future negotiation process in the region concerning status issues, minority and human rights.

In view of the apparent long-term presence of international forces as peace-keepers in protectorate-like situations in Bosnia, Kosovo and possible Macedonia too, the issue of a more comprehensive security architecture for the region is a real one. Such a architecture, based on a UN mandate for NATO troops and might take the form of a “Security Pact” mirroring the current Stability Pact.

The Balkans and the Future of ESDP

So far the comprehensive European engagement in the Tetovo crisis has met its promises. After the first signs of escalation had reached Brussels, special envoys of NATO, EU, Council of Europe, US government, OSCE and the Stability Pact rushed to Tetovo, accompanied by some European foreign ministers. Thus, some frictions and dissenting voices were inevitable (e.g. concerning direct contact with the rebels). The new military and political-military institutions in Brussels were involved in the Macedonian mission, even though the build-up of military capabilities has not been completed yet.

Despite its leading role in the Tetovo crisis, the European Union still needs the world-power authority of the United States of America, e.g. to enforce the signing of the Skopje Agreement of August 13, 2001. Nevertheless, EU diplomatic pressure and the implicit sanctioning leverage of an economic power prevented the interference of neighbouring countries or Albanian parties from Kosovo in the conflict. Therefore, the fact that US forces and political attention has refocused on the global struggle against terrorism will make peace in the Balkans more difficult to achieve for Europe as a regional power alone.

Given the difference in outlook, capacities and interests between a regional and a global power, however, a *differentiation* of labour might be feasible: Security in Southeastern Europe as a NATO objective with an increasing role for the Europeans and a reduced but undisputed American participation, putting an end to harmful debates on burden-sharing and exit strategies. Nevertheless, such a differentiation (rather than division!) of tasks and

burdens certainly has more appeal than a division of labour along the lines suggested by Condoleezza Rice with the US in charge of high-tech warfare and the Europeans doing post-war reconstruction and long-term peacekeeping. As a well-known classic once noted, division of labour inevitable leads to alienation... Conversely, a coherent transatlantic strategy for the stabilisation of the region may open new options for progress in the region as well as in Europe as a whole.

INTERREG III - How it works and how it will work with Tacis

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The Stability Pact For South-Eastern Europe - Experience And Perspective

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The Stability Pact is a political initiative to encourage and strengthen co-operation between the countries of South Eastern Europe, and to streamline existing efforts for assisting South Eastern Europe's political, economic and security integration to Europe. The Stability Pact is the first serious attempt to replace the previous, reactive crisis intervention policy in South Eastern Europe with a comprehensive, long-term conflict prevention strategy. At the same time, the Stability Pact is not a new international organisation nor does it have any independent financial resources and implementing structures.

The objective of the Stability Pact is to build a functional cooperation already underway and to ensure that the existing resources are used in the best way possible.

But, nevertheless each of us must understand that the Stability Pact itself represents a major project that retains its own success or failures. We still have to determine its future configuration and objectives adapted to the regional realities. In the same time, we are aware of the fact this institution has a long way until its fully representation.

The Stability Pact is a long-range project which is aimed at the region as a whole and proposes to take into account of the needs of all its countries.

Looking back, it is time to say that in the implementation of the Stability Pact, important lessons were drawn from the Marshall Plan. In the same time, we have to consider the different economic, strategic and political frameworks of nowadays Europe. One thing is obvious: the Stability Pact requires a more complex effort than the Marshall Plan.

I shall underline with your permission, several reasons. First of all, we all agree that the region the Marshall Plan was designed for, is quite different from the Stability Pact's one. That region was not involved in a changing process, composed by states that are seeking for their regional definition. Therefore, the Marshall Plan did not face the conflicts or crises determined by this process.

Secondly, the Marshall Plan used only investments for economic reconstruction within a region that already disposed of the necessary "ingredients" for a free market. Maybe, the most important difference is made by the working system itself. In the Marshall Plan case there was an "unique" donor, the United States of America, and the beneficiary countries were "forced" to collaborate in order to reach its attention. If we take into consideration the Bosnia-Herzegovina example, we all remember that there are several donors contributing to the reconstruction plan.

Close to 40 members belong to the Pact, individual states as well as multinational organizations and institutions from NATO, the EU, the Council of Europe and the OSCE

all the way to the International Monetary Fund and the World Bank. In the same time, the Stability Pact tries to cover the aspects of democracy, human rights, security or defense.

Enhanced regional co-operation (integral part of the Stability Pact mandate and qualifying element for EU-membership) has improved considerably over the last two years and is by now an established element of regional intergovernmental dialogue. The ownership of this process has gradually shifted to the countries of the region. It has found expression in the revitalized Southeast European Co-operation Process (SEECp), in the regionally and internationally well orchestrated reaction to the crisis in FYR Macedonia, as well as in many regional project proposals and concrete initiatives such as the negotiation of bilateral free trade agreements, an Investment Compact designed to promote private investment in the region, and programs to fight corruption and organized crime.

Since the creation of the Stability Pact, partners have engaged in substantial discussions on scope, focus and priorities of its activities. At the first Regional Table meeting in September 1999, a preliminary workplan was agreed upon. It served as a basis for preparing quick start projects for the first Regional Funding Conference (29 & 30 March 2000). Subsequently, strategy and workplan were further refined. Having reviewed a large number of initiatives, the Regional Table, at its second meeting in June 2000, adopted the "Agenda for Stability". This document identified selected key areas of interest for all three Working Tables, giving direction with regard to goals and timetables for implementation.

Now that the Stability Pact approaches the finalisation of the Quick Start Package, and thus successfully completed the first stage of its engagement, a thorough review of interests, objectives and profile of Stability Pact activities appears to be necessary. In the light of decisions taken at the Working Tables, this document attempts to outline the strategic frame for future work, pinpoints priorities as elaborated by the Working Tables, and draws operational conclusions for the coming period.

The Quick Start Package was presented by the Special Co-ordinator of the Stability Pact to the Regional Funding Conference held in Brussels on 29-30 March 2000. Donors pledged EURO 2.4 billion. One year later, out of 244 projects of all three Working Tables, 201 (82%) are underway. This package has not only generated significant additional amounts of support for the region but has resulted in much faster delivery of promised aid than previously.

The European Parliament and the Parliamentary Assemblies of the OSCE and of the Council of Europe have agreed to sponsor the parliamentary dimension of the Stability Pact by creating a Parliamentary Troika covering all aspects and all Working Tables of the Stability Pact. This step will result in closer working relationships between these parliamentary institutions and the Pact and will make parliamentary co-operation a prominent feature of regional co-operation in South-eastern Europe.

South-eastern Europe has witnessed fundamental political changes in Croatia, the FRY, and Bosnia and Herzegovina, that created an innovative environment for co-operative policies in the region. Most importantly, democratic changes in Serbia paved the way for

the full inclusion of the FRY in the Stability Pact, opening up the opportunity for designing true regional strategies in key sectors. For the first time in a decade, all governments in south-eastern Europe are committed to Euro-Atlantic integration, market economy and regional co-operation, as well as to peaceful settlement of disputes. However, serious security challenges that require enhanced conflict prevention measures still prevail.

It is the time to comprehend that the regional co-operation serves as a catalyst to the aspirations of the countries in the region to integrate themselves into European structures. Capacity building for local ownership and responsibility, in order to achieve democratic consolidation and economic progress, is a precondition for enhanced regional co-operation to which the Stability Pact is particularly committed.

The important think, however, is that the Balkans are finally being perceived as part of Europe. This is expressed by the Pact's consistent use of the term "Southeastern Europe" instead of "the Balkans". Regional co-operation should take fully into account the diversity of countries involved and should by no means be perceived as an alternative but rather as a catalyst to European and Euro-Atlantic integration. Emphasizing local ownership of the process, the Stability Pact has developed a productive working relationship with the Southeast European Co-operation Process, which includes *inter alia* collaborating in implementing a regional economic action plan. Recent achievements also include the "Memorandum of Understanding on Trade Liberalisation and Facilitation" and the "Agenda for Regional Action" on refugee issues. Further opportunities should be seized with regard to developing a regional approach to issues such as liberalising visa regimes, managing borders and improving the region's energy infrastructure.

Furthermore, the principal strategic objective of the Stability Pact remains the fullest possible integration of the countries in the region into the European political and economic mainstream. The Stabilisation and Association Process (SAP) and the accession process for candidate countries which also participate in the Stability Pact - the European Union's main contributions in support of stabilisation efforts in the region - have shown considerable progress. Stabilisation and Association agreements were signed with the FYR of Macedonia and initialled with Croatia. The Stability Pact is committed to coherence as well as mutual and complementary support to both the SAP and the accession process. It will continue to assist countries in the region to make full use of the opportunities and instruments provided to accelerate their rapprochement with the EU. Best practice from the EU accession process' experience needs to be made full use of. On the other hand, the EU remains fully committed to exercising its leading role in support of the Stability Pact, in line with the conclusions of the Zagreb summit.

However, it is important to agree that the regional co-operation can not exist without a strong security culture. It is obvious that the concept has changed in the light of the new events. Instability is a concept that can not be passed talking about south eastern Europe. Instability concept refers without no doubt to a relative economic future, inter-ethnic and cultural issues.

As you know, the Stability Pact is closely watching the South-Eastern Europe security enforcement. Its main objective is to create a new and modern security and stability environment. Therefore, the Stability Pact represents a very reliable medium to co-

ordinate long and medium-term efforts needed to achieve peace, prosperity and regional co-operation within the southeaster region. Meanwhile, the Stability Pact should be regarded as a

The Stability pact's strong implication in achieving a concrete security culture within the region, is reflected by its objectives' diversity. Please allow me to briefly expose you these objectives, trying in the same time, to draw the Stability Pact's security philosophy and role:

- Preventing and solving the potential inter-ethnic crises and conflicts
- Initiating a consolidation process of the democratic and civil institutions, as well as those promoting the democratic ideals, human rights and minorities, in order to reform the political and economic environment
- Achieving a mutual climate of security and stability, by encouraging the reconciliation and co-operation initiatives within OSCE or any other regional institutions
- The fight against organised crime, corruption and terrorism
- Creating a viable and active free market based on adequate macro-economic strategies, on substantial private investments and a transparent legislation, capable to encourage economic grow
- Promoting economic co-operation within the region and west countries
- Creating the conditions for the South-eastern countries to be integrated into the political, economical and security structures

We do agree that these objectives are very demanding and ambitious. But their effects to the process of configuring a regional security culture, are day by day, more visible. Regarding the foreign security issue, we have to remark that international banks convened upon economic strategies – which were adopted by all the participant countries within the Stability Pact – in order to assure regional development.

Much has been achieved since the First Regional Conference held last year for promoting the Stability Pact objectives, not only in terms of financing and implementing the QSP but also in terms of setting the priorities for the Stability Pact's future work and in developing strategies under each of these priorities.

With the strong advocacy of the Stability Pact, the international community has agreed to hold a second Regional Conference in Bucharest on October 25-26. This event reflects the strong desire of the countries of the region, expressed through the SEECP, to schedule a follow-up event to the March 2000 funding conference and to hold this event in the region.

The objective of this second Regional Conference is to focus on the status of the various donor supported programs, on progress made in developing new strategies approved

within the various Working Tables of the Stability Pact and on the process put into place by key actors channel donor resources to the Stability Pact priority areas.

Energy Efficiency And Renewable Energy In The Context Of Environmental Friendly Use Of Energy

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Energy and the Environment

There exists a considerable body of European Union environmental legislation having a direct or indirect impact on the Energy sector. The Cardiff European Council endorsed the grand design of integrating sustainable development into all area of EU policy, with varying degrees of success thus far. Production, consumption and transport of energy all have a major impact on the environment, which has become the key constraint for decision-makers in directing energy policy and, as consequence, for industries in the sector.

Community Legislation

Regarding the integration of environmental considerations into energy policy, the Commission has pledged to focus its efforts on energy efficiency and energy savings, the production and use of less polluting sources of energy, and reducing the environmental impact on the production and use of energy sources. Across the range of Community environmental constraints requiring close monitoring in the energy sector, those evolving most quickly and becoming increasingly more stringent mainly concern the atmosphere. The directives gives the principles constraints, those having the greatest impact on the activities of energy industries and liable to alter the fundamentals of the sector, in view of the large number of Community environmental Directives having a direct or indirect effect on it. The European Commission is indeed constantly probing for further efforts through more stringent measures.

The **Directive on integration pollution prevention and control (IPPC)** aims to prevent or minimise the impact on the atmosphere, water and soil of emissions from industrial installations with a high pollution potential, not least energy industry facilities, with a view to achieving a high level of environmental protection. The Directive outlines requirements to be imposed on all installations, both new and existing plants. These fundamental obligations cover a range of measures designed to combat the discharge of industrial effluents into water, the atmosphere and soil, and to reduce the generation of waste. They serve as the basis for granting operating licenses to industrial installations.

The **Directive (and its subsequent amendments)** concerning large combustion plants has a major impact on the energy industry from an environmental standpoint. It sets emission ceilings for power stations for SO₂, Nox and particulates, and has had a major impact on the electricity generating sector. It applies to power stations over 50MW, with ceilings adapted according to the age of installations. The Member States are required to

draw up programmes to achieve annual reductions in emissions and meet the thresholds laid down in the Directive. They are however free to adopt more stringent ceilings and timetables, or include other pollutants and impose additional conditions. Member States are also responsible for monitoring emissions. The Directives include provisions on the review of emission limits.

The **Auto-Oil I and II** programmes were designed to set down cost effective technical and economic standards for motor vehicles and fuels for 2000 and 2005.

The proposal for a **Directive on the incineration of waste aims**, where possible, to prevent or reduce air, water and ground pollution resulting from the incineration of waste.

The Commission has also proposed **new legislation on the taxation of energy products** in order to establish a global fiscal regime for taxation of such products, with a view to improving the functioning of the internal market, promoting more environmentally friendly attitudes, and encouraging increased use of the labour factor. Parliament has approved the Commission's proposals, subject to a number of amendments emphasizing the ecological aspect of the fiscal reform, but the text is currently blocked within the Council of Ministers, notably by Spain. It provides for a shift in the tax burden from labour to energy consumption. The draft Directive specifies those energy products covered by the provision and stipulates a minimum level of taxation on these products. The Member states will be barred from applying lower rates of taxation, but will be entitled to grant derogations or exemptions, or to offer partial or total refunds in certain very specific cases.

Energy Efficiency in the Context of Environmental Friendly Use of Energy

The extensive use of energy presents a severe challenge to the environment. Fossil fuel combustion is responsible for the majority of greenhouse gas and most local and transboundary air pollution, as well as acidification and water pollution, and contributes to land degradation from mining, drilling and waste. Nuclear energy represents a potential for hazards, waste management tasks, etc., and this should also be recognized.

Of course, whenever the issues of energy efficiency and demand arise, people tend to imagine efforts to rein in energy consumption by encouraging more "eco-friendly" attitudes such as turning out lights when leaving a room or avoiding use of cars for short journeys. In reality energy efficiency is above all a hidden concept, since a great deal more energy can be saved unawares than by making "forced efforts" that do not last.

The majority of the potential for energy efficiency is to be found in processes and instruments that depend little on consumers' attitudes. Far-reaching and costly promotional and information campaigns are required, but do not always prove to be particularly effective. The greatest effort will need to be focused on invisible forces. This is not to say that environmental awareness should not be encouraged among consumers, but such ecological attitudes will only bear fruit in the long term.

Benefits of Energy Efficiency Policies.

Benefits to economy, environment, employment and security of supply

Improved energy efficiency can help ensure that limited resources will be used more efficiently. This will yield indispensable economic, environmental and energy security benefits. Efficient use of energy and use of cleaner fuels and renewables may, if cost-effective, in most cases reduce and/or substitute the use of fossil fuels, thereby reducing environmental degradation, slowing down the rate of climate change, and improving economic performance, especially in economies in transitions. The implementation of energy efficiency policies provides a chance to create new jobs and reduce unemployment by developing new markets for energy services.

Energy efficiency is a driving force in economic development and thus of substantial importance to competitiveness in the international market. In many countries and thus of substantial part of the economy. In the economies in transition energy often represents one third of, or even more, of gross national product at market prices. An assessment in the Russian Federation indicates that for energy three per cent of saved energy, national income may improve by one percent. This shows that important macroeconomic benefits are obtainable.

In countries with substantial indigenous energy resources, energy efficiency will increase export opportunities and income. In net energy importing countries, the import bill will decrease and security of energy improve.

In addition, enhanced energy efficiency will delay the need for new energy supply capacity. The result will be overall economic savings for consumers, industry and governments and a shift in investments from supply- to demand-side.

A 30% reduction in energy consumption in industrial countries would correspond to an annual reduction of approximately 6000 Mt. carbon dioxide and become one of the major contributors in our efforts to challenge climate change. Simultaneously, emissions of sulfur dioxide, nitrogen oxides and other air pollutants would fall.

Consequently, energy-efficiency policies may promote sustainable development in the industrial countries. Energy efficiency policies can create “win-win” situation, in which economic potentials are realized while leading to environmental improvements and stretching the world’s resources. In this context it is important that the industrial countries set an example.

The activities to implement these policies need in many cases to be further organized. This necessitates new dedicated national efforts based on international cooperation.

Implementing energy efficiency policy- international cooperation

There are many reasons why the potential for energy efficiency improvements is not being fully achieved. There are many barriers in the energy markets which hinder the realization of energy efficiency potentials. The role of national governments is to identify these barriers, and to design and implement the right policy framework and programmes

on energy efficiency. The private sector and the actors on the local and decentralized level also have a role in identifying and overcoming barriers to greater energy efficiency. Countries are encouraged to cooperate internationally to share experiences and lessons learned.

Building obligations for Parties to carry out energy efficiency policies are stated in the Energy Charter Treaty and its Protocol on Energy Efficiency and Related Environmental aspects. According to the Kyoto Protocol, and the UN/ECE Convention on Long-range Transboundary Air Pollution and its protocols, Parties to these agreements may choose to employ energy efficiency policies and measures to fulfill their obligations.

The **Kyoto Protocol** sets targets for reducing greenhouse gas emissions by 2008-2012 in countries which are listed in Annex I to the Convention on Climate Change. The targets imply a 5% reduction compared to the 1990 level of emissions in those countries as a whole. The reduction obligation differs from country to country, reflecting for instance different starting points and options. The Protocol emphasizes however the need to speed up energy efficiency actions in all countries, especially economies in transitions.

The EU secured agreement in Kyoto that as a regional entity, should be recognised in its entirety as a Party to the Protocol. In this context, the Community negotiated an 8% reduction on 1990 levels in emissions of the six gasses listed for the period 2008/2014 for “European bubble”. The EU most industrialised nations, notably, the Netherlands, Denmark and Germany, have agreed to make the greatest contribution to achieving this goal. One notable exception is France, which, on the grounds of the importance of its nuclear industry, secured the right to maintain the status quo. By contrast, countries such as Portugal and Spain have been granted limited increases in emissions, in order to ensure that they are able to pursue their economic development.

The EU currently preparing the ratification of the Kyoto Protocol, which it hopes will enter into force in 2002. The Commission believes the Union as a whole should make use of all available instruments in respecting its international undertakings, and that concrete commitments must be adopted at the earliest opportunity.

The **Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects** in April 1998 became legally binding on those countries that have ratified it. Other signatory countries have declared their intention to implement the Charter’s provisions on a voluntary basis. The implementation is monitored by the Energy Charter Conference, which has entrusted the Energy Charter Secretariat to supervise, monitor and assist in the implementation process.

The **Protocol to the 1979 ECE Convention on Long-range Transboundary Air Pollution on Further Reduction of Sulphur Emissions (1994,Oslo)** allows Parties, among other measures, to make use of energy efficiency measures to achieve emission reduction targets. Increased energy efficiency is expected to be among the implementation instruments for a new protocol on nitrogen oxides and related substances which is under negotiation. The Executive body for the Convention has also decided to consider cost-effective reductions of sulphur in the preparations for this multi-pollutant multi-effective protocol, since measures on sulphur that go beyond the Oslo obligations

may introduce positive trade-offs in certain cases. The energy sector will once again, together with the transport sector, be the main target.

There is an urgent need to investigate and develop monitoring, modeling, and reviewing principles. Using the network and experiences gained in the areas of energy and the environment created through the Energy Conservation Initiative may strengthen international cooperation on energy efficiency and help inform ongoing work under international agreements.

Community Policy on Energy Efficiency

Future measures have to build on existing initiatives, overcoming weakness and pursuing successful experiences. It is important to underline that initiatives, with varying degrees of effectiveness, have been undertaken at Community level since the 1970's. However, by the late 1980's, the Commission concluded that the different energy efficiency instruments passed by Council in the 1970s and early 1980s had not fulfilled expectations. More effort was than required from the Member States. In 1986, the Council adopted a Resolution concerning new Community energy objectives, which inter alia, called for a 20% improvement in energy intensity of final demand by the year 1995. A 1987 **Communication entitled "Towards a continuing policy for energy efficiency in the European Community"** (COM (87)233 final) proposed 14 energy efficiency measures to Member States to help achieve the 1995 target.

The Commission's proposal of 13 November 1990 (COM(90)365 final) for a Council Decision concerning the promotion of energy efficiency in the Community stated that "Community action in this field is revived in the light of changes in economic trends for energy and the need for greater environmental protection. In the energy policies pursued by most Member States, energy efficiency generally has become a lesser priority". The 1990 proposal stated further that the "majority of Member States have energy efficiency-linked investments". This conclusion led, among other things, to the approval in the 1991 of the multi-annual **SAVE Programme** for energy efficiency.

There has been recognition at Community level, that technological programmes can play an important role in providing the basis for energy efficient technologies. In the **JOULE-THERMIE** programme launched in 1995 as a specific programme of the Fourth Framework Programme for RTD, 280 MECU were devoted to energy efficiency, representing 27% of the total budget and contributing to substantial achievements, especially in the reduction of energy intensity in buildings, transport and the process industries. A recent evaluation of THERMIE indicates that this Community programme is very well known amongst stakeholders on Community energy markets and that it has impacted on markets shares for energy efficiency technology.

However, the principal focus of the Community's action has been SAVE Programme. After evaluation of the results of **SAVE I**, the **SAVE II** programme was adopted in December 1996 with an indicative budget of 45 MECU for five years. Its aim is "improving energy intensity of final consumption by a further one percentage point per annum over that which would have been otherwise attained. SAVE II was enlarged by the addition of the regional and urban energy efficiency programme and an electricity end-

use programme and in March 1998 the Commission adopted its decision opening up the SAVE programme to Bulgaria, Lithuania, Poland, Romania, Slovakia, Czech Republic.

One of the major elements of the Community's non-technological efforts relates to the development and adoption of **legislation** having a Community-wide scope. The legislative programme largely relates to traded goods and, as such, is essential in completing the internal market. Evaluations of the effects in Member States in the **Community labelling programme** indicate that the programme has had a positive impact both on the share of energy-efficient models in EU manufactures' assortment of products and the market of sales of efficient models. An extrapolation of the present trend of improvement in the energy intensity of cold appliances as of the labelling, for example, indicates a reduced average intensity of 15% for the entire EU cold appliances market by the year 2010. This improvement is in large measure a result of labelling is supported by the fact that there was no significant rate of change before labelling was introduced.

An important element of SAVE has been its focus on helping to build the necessary capacity and infrastructure for energy efficiency and to improve policy analysis. SAVE provides support for pilot actions and information dissemination activities in the area of appliances, building, education & training, industry and transport.

In 1998 the Commission adopted a **Communication on Energy Efficiency in the European Union- Towards a Strategy for the Rational Use of Energy** (COM (98) 246 final). In this document the Commission:

- outlines the potential for energy efficiency improvements from now until the year 2010;
- analyses the nature and types of barriers to the exploitation of this potential;
- reviews programmes and measures and their relevance to barriers and potentials;
- examines the economic rationale for programmes to remove barriers to energy efficiency, and
- and proposes elements for a strategy and priorities to exploit available potential which reflects Community and Member States role and capabilities.

A further important element of Community action has been supported for investments in less developed regions. The European regional Development Fund (ERDF) and the Cohesion Fund have the possibility to contribute to increased energy efficiency.

Renewable energy in the context of the environmental friendly use of energy

The pressure on the environment of continued economic development and the need for secure, moderately priced energy supplies are increasingly important factors in European energy policy. The single European Market, and the Internal Energy Market that is part of it, create opportunities for such a policy to be coordinated at the European Community level and to take into account the increasing links between EC Member States and countries in Central and Eastern Europe. In order to do this effectively, the Commission of the European Community and governments and regional level need to be informed of the different energy options, and the different policy choices affecting energy development.

Renewable energy sources are indigenous, and can therefore contribute to reducing dependency on energy imports and increasing security of supply. Development of renewable energy sources can actively contribute to environmental protection, job creation, predominantly among the small and medium sized enterprises which are so central to the Community economic fabric, and indeed themselves form the majority in the various renewable energy sectors. Deployment of renewables can be a key feature in regional development with the aim of achieving greater social and economic cohesion within the Community.

Community Policy

Development of renewable energy has for some time been a central aim of Community energy policy, and as 1986 the Council listed the promotion of renewable energy sources among its energy objectives. Significant technological progress has been achieved since then thanks to the various Community RTD and demonstration programmes such as **JOULE-THERMIE, INCO and FAIR** which not only helped in creating a European renewable energy industry in all sectors of renewables but also in achieving a world-wide leading position. This technological leadership will be maintained by the contribution of the 5th RTD Framework Programme in which the renewable energy technologies will have a central role to play. With the **ALTENER** programme, the Council for the first time adopted a specific financial instrument for renewables promotions. The European Parliament for its part constantly underlined the **role of renewable energy sources** and in a Resolution (PE 216/788;fin) strongly advocated a Community action plan to advance them. In its **White Paper**, “An Energy Policy for the European Union the Commission put forward its views as regards Community energy policy objectives and instruments to achieve them. Three key energy policy objectives were indentified, viz. Improved competitiveness, security of supplies, and the protection of the environment. Promotion of the renewables is indentified as an important factor to achieve these aims. A strategy for renewable energy sources was proposed, and specifically cited in the “indicative work programme” attached to the Energy Policy White Paper. The European Commission has recently adopted a **Directive for improving the use of the renewable energy sources till 2010**. In the Directive is imposed the Member States to double their electricity production from renewables. Its relied mostly on the use of wind and solar energy. The preliminary estimations are that the share of these energies in the overall energy balance to increase till 12%. In the Directive specific measures are proposed to be implemented by each Member State. The document has been launched as a measure for following the requirements of the Kyoto Protocol. The proposed Commission Directive has accepted a positive opinion by the Council and the EU Parliament.

Energy Efficiency and Renewable Energy as Part of the Bulgarian Energy Policy

□ Existing legislation in The Republic of Bulgaria.

Energy Efficiency is a strategic goal for the energy sector development and it is a precondition for overcoming the crisis in the national economy, for increasing its competitiveness and its ability to be inserted in the European energy market. Due to these reasons a separate section on the energy efficiency is included as an element of the

Energy and Energy Efficiency Act(EEEA), adopted by the National Assembly In 1999. A similar explicit section is set also in the National Strategy for development of the Energy Sector and the Energy Efficiency till 2001.

In 1998 Bulgaria joined the SAVE II Programme by a Decree of the Council of Ministers No: 626/19.11.1998.

A National plan for actions on climate change was elaborated and adopted by the Council of Ministers in 2000. This national plan represents a sample of bundle of measures, the application of which may allow for the reduction of GG emissions by our national economy and household without having any harmful impact on the economic growth and standard of living in the country. The plan fits to the basic strategic target of the National plan for economic development for the period 2000-2006, i.e. “ achievement of sustainable low inflation economic growth as a prerequisite to increase incomes and conditions of life for further integration in the European economic and social space”.

Harmonization of the legislation with the acquis for rational use of energy

The legal basis for the development of domestic appliances labeling is presented by the Consumers’ Protection and Rules of Trade Act (CPRTA) and the Products Technical Requirements Act (PTRA).

On the grounds of the CPRTA, draft ordinances have been made up for the introduction of energy labels for household appliances, in compliance with the Framework Directive 92/75/EC, and the implementing Directives 94/2/EC, 98/11/EC for selected types of household appliances . These draft ordinances are in the process of coordinating and will be approved by the end of 2001. On the grounds of PTRA, draft ordinances have been made up in compliance with the “new approach” Directive 96/57/EC with regard to the energy efficiency of the household electric refrigerators, freezers and their combinations and Directive 92/42/EC - with regard to energy efficiency of hot water boilers fired by liquid or gaseous fuels, which will be approved until the end of the year.

Until the end of 2002 , on the grounds of CPRTA, the remaining ordinances for household appliances labeling, meeting the requirements of Directive 95/12/EC for washing machines, Directive 95/13/EC for drying machines, Directive 96/60 for the combinations of washing and drying machines and Directive 97/17 for dish-washers will be worked out and approved.

□ Institutional framework for the implementing the harmonized law

The development and carrying out of the state policy in the sphere of energy efficiency is implemented by SAEER, and in the remaining sectors of the economy- by the respective branch ministries and institutions.

The regional policy with regard to the energy efficiency and renewable energy sources is carried out by regional energy centers – Haskovo, Rousse, Stara Zagora, Plovdiv, etc., under the methodological guidance of SEEA and SAEER. The branch policy in energy efficiency is carried out by the respective branch centres, like the Energy Efficiency Centre in Industry under the Ministry of Economy, etc.

The harmonization of the relevant legislation is carried out by the Ministry of Economy, SEEA and SASM / State Agency of Standards and Metrology /.

Renewable energy sources.

Existing legislation in The Republic of Bulgaria

A significant contribution to the increasing of the energy generation from renewable energy sources can be expected from the bio mass through its using for cogeneration of heat and electricity in the energy and other industrial enterprises (its economic potential has been assessed to 2.2% of the national energy balance), as well as the usage of solar energy through photo-voltaic installations for electricity generation and thermal systems for heating and /or hot water for residential, public and industrial buildings.

According to the EEEA, there is no requirement for issuing of licences for the generation of electricity from installations with capacity up to 5MW and for the generation of heat with capacity up to 1MW.

The EEEA contains encouraging regulations concerning the purchase of electricity and heat from renewable energy sources, envisaging for the respective transmission or distribution company to purchase the electricity and heat generated from renewable energy sources in quantities and under preferential prices, determined by the terms and conditions stated in an ordinance approved by the Council of Ministers.

The Draft Amendment and Supplement Act to the EEEA envisages obligatory purchase of electricity generated by renewable energy sources in plants with capacity up to 10MW.

Institutional framework for the implementing harmonized legislation

The Republic of Bulgaria has the necessary institutions available for encouraging the usage of renewable energy sources and particularly for the participation in Alternator II Programme, as well as in other activities related to the increasing of the generation of electricity and heat from renewable energy sources. SAEER and SEEA are these institutions, either of them in its sphere of competence- with regard to the usage of renewable energy sources as a source for the generation of heat and electricity in public utilities (SAEER) on the one hand, and on the other - for own needs and end-user consumption (SEEA).

Minorities: The Roma Issue - How to Avoid Social Exclusion

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The protection of human rights and fundamental freedoms as well as the recognition of the international standard in this field is a main priority of the policy of the Republic of Bulgaria. Our country has ratified the following international instruments by which guarantees the protection and interests of all persons under its jurisdiction:

- 2000 European Social Chart (revised);
- 1998 Frame Convention on Protection of National Minorities;
- 1998 Abolishment of Forced Labour Convention (No 105, ILO);
- 1994 European Convention against Torture and Other Forms of Cruel, Inhuman and Degrading Treatment or Punishment and its Protocols No 1 and 2;
- 1993 Convention on Refugees' Status of 1951 and UN's Protocol on Refugees' Status;
- 1992 European Convention for the Protection of Human Rights and Fundamental Freedoms and its First Protocol;
- 1970 International Covenant on Civil And Political Rights and International Covenant on Economic, Social and Cultural Rights;
- 1966 UN International Convention on the Elimination of All Forms of Racial Discrimination;
- 1962 UNESCO Convention against Discrimination in Education;
- 1961 ILO No 111 Convention on Discrimination (Employment and Occupation);

By a law Bulgaria regulated the recognition of the competence of the European Commission on Human rights as well as the jurisdiction of the European Court on Human Rights to consider appeals of natural persons, NGOs and groups of persons on violence of rights provided by European convention.

Republic of Bulgaria develops legislation providing legal guarantees for non-admission of discrimination and follows coherent policy on their implementation as well as creates equal opportunities and social integration for vulnerable groups in society, including minorities and persons granted a refugee status.

Bulgarian legislation excludes any form of discrimination and racism: Constitution of Republic of Bulgaria; Labour Code; Act on Protection against Unemployment and Employment Promotion; Act on Social Assistance; Act on Supplementary Voluntary Pension Security; Act on Refugees; Act on Child Protection; Act on Civil Servant; Act on Public Education; Act on Higher Education; Act on Customers Protection and Trade Rules; Radio and Television Act; Act on Physical Education and Sport. Some of the acts of discrimination based on racial or ethnic origin are provided for crimes by the Penal Code.

The adopted by the National Assembly Act on Amendment and Supplement of the Labour Code, promulgated in the State Gazette № 25 on March 16, 2001 contains a provision regulating the protection against direct or indirect discrimination, privileges and restrictions based on nationality, origin, race, colour of the skin, age, political and religious affiliations, membership in trade unions and other public organizations and movement, marital, public, material status and disability in performing labour relations. This provision introduces for the first time into Bulgarian legislation the term and legal definition of indirect discrimination. So Bulgaria transposed one of the requirements of Directive 2000/ 78 ECC, adopted at the end of last year and liable to transposition by December, 2, 2003.

The National Council for Ethnic and Demographic Issues operates under the Council of Ministers. It is composed of represents of ten ministries at deputy minister level, four governmental agencies, including the Refugee Agency and State Agency for Bulgarians Living Abroad as well as representative NGOs of minorities. The Council is a body for consultation, co-operation and co-ordination between the state institutions and NGOs on the elaboration and implementation of the national policy on ethnic and demographic issues and migration as well as the promotion and protection of the tolerance and understanding between Bulgarian citizens of different ethnic origin and religion.

Regional councils on ethnic and demographic issues with a structure similar to the one of the National Council are established in 25 districts. One expert is appointed in all of the 25 districts up to now.

Roma cultural centers financed by the state budget of the National Council on Ethnic and Demographic Issues are established in the cities of Sliven, Montana, Pazarjik and Sofia. The respective municipalities provide rooms for these centers.

The Framework Programme for Equal Integration of Persons of Roma Origin in the Bulgarian Society was adopted by the Council of Ministers in 1999. It outlines in mid-term perspective the activities to be taken by the state authorities regarding the establishment of real political, social, economic and cultural prerequisites for complete integration of Roma persons in the Bulgarian society. The main activities envisaged in the Framework Programme are related to the development and implementation of programmes on vocational training and employment for Roma persons, special training for experts working with ethnic minorities as well as improvement of Roma suburbs.

The programme envisages amendment of the existing legislation in order to guarantee discrimination protection. Except for the legislation changes mentioned so far the Penalty Code should include in detail all aggravating and attenuating circumstances, as the racial motive should be obligatory among the aggravating circumstances. For a number of offences (homicide, bodily injury, rape, ect) qualified session of the courts should be provided for offences of racial motives.

The Bill on prevention of discrimination, envisaged in the Frame Programme for Equal Integration of Persons of Roma Origin in the Bulgarian Society, is in the process of elaboration. It will take into consideration the EU directives as well as the recommendations of the European Commission against Racism and Intolerance under the

Council of Europe and UN High Commission on Human Rights in the field of drafting of a specialized anti-discrimination legislation. In regard to the above mentioned, a twinning project with EU member-state is envisaged.

In compliance with the objectives set up in the Framework Programm, the Integration of Roma Persons into Bulgarian Society Project under PHARE is forthcoming to start. The cost of the project is 500 000 EURO. It consists of two main components: Access to education for Roma children and Urbanization of Roma suburbs. The activities on the preparation for the next PHARE project for 2001 are under way in co-operation with the Ministry of Education and Science and Ministry of Culture. The total amount of the project is 1.5 mil EURO. The greater part of the means will be dispersed in order to continue the activities on the improvement of the quality of education of Roma children by providing training for teacher assistants to work in multi ethnic environment and support Roma initiatives in the field of culture.

Currently there are experts in the Ministry of Education and Science appointed on the mother tongue issues (Turkish and Hebrew). Experts on Roma language also should be employed. The elaboration of new textbooks is required in order to promote the spirit of tolerant co-existence and understanding among students. Such draft textbooks are prepared by NGOs.

At the same time the national programmes directed to the increase of the participation of persons of Roma origin at the labour market are being implemented:

- Implementation of Literacy, Qualification and Employment Programme which provides education, vocational training and employment persons of Roma origin.
- Continuing to implement From Social Care to Employment National Programme, which includes supply with qualification and mediator, services to unemployed persons on social assistance. The Programme is also directed to regions with mixed ethnic population where the prevailing part of the persons on social assistance have Roma origin.
- Continuing to implement Investments in the Development of Labour Market and Vocational Training Programme, which is designed for the vulnerable groups on the labour market, including unemployed Roma persons and Roma students, preliminary leaving school.

The acting regional programmes on employment are directed to the most vulnerable groups on the labour market including persons of Roma origin. Some of the existing micro projects are specially designed for this group, such as:

- Improvement of the Living standards in the Municipality of Turgovishte Project (under the Regional programme on employment in the district of Turgovishte);
- Socially Useful Activities Project (under the Regional programme on employment in the district of Turgovishte);

- Chance for Long Term Unemployed Persons with Basic or Lower Education on the Territory of the Municipality of Pleven (under the Regional Programme on Employment in the district of Pleven);

In parallel with the above mentioned programmes a number of other measures are being implemented in the country aiming at promoting employers to employ unemployed persons particularly of Roma origin, such as : promotion of employers to employ long term unemployed; promotion of unemployed persons to self- employment activities.

A broad public debate is focussed on the problems of racism and discrimination. It concerns such important issues as: access and equal opportunities at the labour market; social protection, social security, education and vocational training. Newspapers and magazines dedicated to the minority problems are published in Bulgarian press (7 Roma, 4 Turkish, 3 Armenian, 2 Romanian, 2 Jewish, 2 Russian, 1 Macedonian). Bulgarian National Radio, Darik National Radio, Alma Mater Radio and Seven Day Plovdiv Radio broadcast regular programmes on ethnic issues. The programmes of the Bulgarian National Television, Evrokom National Cable TV, Seven Days TV and regional cable TV stations in Plovdiv, Vidin and Pazardjik contain broadcastings for the minorities. The first private Roma TV is established in the city of Vidin.

Currently there are experts in the Ministry of Education and Science appointed on the mother tongue issues (Turkish and Hebrew). Experts on Roma language also should be employed. The elaboration of new textbooks is required in order to promote the spirit of tolerant co-existence and understanding among students. Such draft textbooks are prepared by NGOs..

Conservatism And Hate-Speech In Romania

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Like most of other countries with a strong agrarian (and/or pastoral) past, Rumania is a land of intolerance against all sorts of minorities, be they ethnic, national, religious or sexual. For the traditional form of community in such a region of the geographical Europe (a region called by a historian like Fernand Braudel "*the wrong side of Europe*"), the village, everything different is something alien – and, by that, an enemy of the very subsistence of that community. This is the reason for that, into Rumanian folklore, for example, people with red hair are considered to be bad people, and only because such a hair color is not at all frequent for ethnic Rumanians (but red haired people are too often considered to have a certain Jewish descending); as such, it may be considered that the disliking of people with red hair is sort of a 'masked' form of anti-Semitism. Even in 1945, over 80% of the populace of Rumania was making a living to the countryside, doing agriculture; the quick, communist industrialization only made things worse, i.e. accelerated the process of 'ruralization' of the cities. Inside the conservative, traditional communities the very survival of the "organic community" is the highest priority, and the "stranger", the "alien" is perceived to be a feared, destructive force (e.g.: Jews in Rumania, during the second half of the XIX-th century). The very conservatism of the traditional Rumanian village was simply translated to the cities and towns, and Ceausescu's national-communism could be considered, from this perspective, as a genuine product of the most bigot elements of the Rumanian peasantry of all times.

This form of conservatism is actually kept in a certain 'lethargy' by a few post-communist factors, among them:

The new mantra of 'European integration' has also the effect of deflecting the politically incorrect discourse, and harboring it to the marginality of the political spectrum (e.g.: the Greater Rumania Party and its leader, Corneliu Vadim Tudor; in other countries: Csurka, Jirinovski etc.).

The bloody (and dirty) war in Yugoslavia was quite an important deterrent for any rabid nationalist in Rumania; the inter-ethnic open and violent conflicts (like the one in Tirgu-Mures, of March 1990, between local – but not only so local ... -- Rumanians and Hungarians) were prevented by the regular, normal action of the authorities (local and central administration, police etc.). Nevertheless, until late 1996 there were several cases of mob violence against Roma (cf. villages of Hadareni – 1993, or Kogalniceanu – 1992), in which the passivity of police and/or local authorities was the most distressing element.

For Rumanians, the recent tragedy of Yugoslavia have additional scary overtones, because, during Ceausescu's dictatorship, Tito's Yugoslavia was perceived by many (intellectuals, but also the general public) as a possible model for Rumania. The shock was amplified by the fact that both Rumanians and Serbs have a certain common tradition (Christian Orthodox, for example, but also anti-Hungarianism, anti-Semitism, mistrust on both Germans and Austrians, obvious uneasiness and uncertainty about own identity, nationalism etc.).

The interest of EU and USA on this region (Upper Balkans, South-East Europe, Central Europe etc.) was mounting after mid-nineties, when public opinion and political class of the developed world realized that conflict prevention could be much cheaper (for EU and USA, both in financial and political terms) than direct/late intervention to bring peace into the region, and to finance the reconstruction. Special projects and programs on preventive action were designed and implemented, in an effort to defuse major ethnic tensions.

The increasing active role of the emerging civil society in Rumania. This participation to sectors left until recently to the politicians' level was one of the most positive important developments after the fall of the national-communist dictatorship. Taking into account the fact that during the communist dictatorship, in Rumania – somehow like in Albania, North Korea or Cuba -- , the civil society was completely destroyed, the revival, after December 1989, of Rumanian civil society – especially in such sensitive territories like human rights, national minorities' rights, sexual minorities' rights, Roma, gender issues, children's protection etc. – was considerably supported (logistically and financially) by foreign counterparts. As such, many Rumanians have started to believe that these issues are, somehow, imposed on them by foreigners (and, of course, these foreigners must have had their own agenda).

The relative low profile of traditionally imperial policy of Russia into the region, and the weaknesses (economic, ideological, even military) of the post-Soviet states. By contrary, each time Russia has had an active and high profile policy into the region of South-East Europe, the level of nationalism increased, sometimes dramatically.

There are several degrees of hate-speech, as there are several degrees of separation. The most common beginning of a hate-speech is a joke; ethnic jokes could be considered as a true paradigm of this proto-hate-speech. It is obvious that in contemporary Rumania, there are, practically, no more jokes on Jews, Germans, Armenians, Ukrainians, Albanians etc. "Soft" jokes about Bulgarians are, nevertheless, common. Nasty sorts of jokes are the ones about Hungarians, Roma and Russians. But also about the "new minorities": Chinese, Arab, Kurdish and/or Turkish, Bangladeshi etc.

In a basically traditional society as Rumania, it is very possible to find hate-oriented speech not only against ethnically different people, but even against Rumanians from other regions of the country. For example, in some cities of Transylvania (e.g.: Brasov), the real "interethnic tensions" are not between Rumanians and Hungarians, but between "natives" (Rumanians, Hungarians, Germans, Jews – all, considering themselves as "Transylvanians") and the "new-comers" (most of them ethnic Rumanians, but "colonized" from the poorest regions of the country, mostly from Rumanian Moldova). The hate-speech against Moldavians (as new-comers in Transylvania) is widespread in Transylvania, and it is not based on ethnicity, but on regionalism. Lately, after December 1989, the "old-Moldavians" in Transylvania made sort of an alliance with the "natives" against the "new-new-comers" from the ex-Soviet Moldova. It seems that the "freshest" new-comers have to be "welcomed" with derogatory attitudes and, too often, with different forms of hate-speech, beginning with all sorts of jokes.

But nationalism in Rumania is not only the by-product of a historical development of the village and the traditional agrarian and/or pastoral community; after December 1989, a

new sort of hardship has started, and lots of people become subject of obvious frustrations, first of all of ones with an economic basis. As such, deep economic frustrations of a significantly numerous segment of the populace were producing the necessity of ideological compensations; the only two ideological compensations were (1) religion (eventually, into the form of fundamentalism) and (2) nationalism. Because in Rumania the largest majority of the population is of Christian Orthodox faith, and because the hierarchy of the Rumanian Orthodox Church was largely considered to be a compromised one, because of its long-standing subordination in front of the political leadership (and not only during the communist period), any religious fundamentalism was difficult to become widespread and ideologically efficient. As a compensatory ideology, nationalism, by reverse, was “acceptable”, and much more familiar with many Rumanians, especially after the long decades of national-communism and Ceausism. In Rumania (like into Tito’s Yugoslavia), nationalism has had a definite anti-Russian flavor, often turned to be as an anti-Soviet one; unlike in Yugoslavia, in Rumania nationalism was not anti-Communism. It was national-communism.

Labour Migration – Chances and Risks

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Migration as a phenomenon is typical for every country and the only difference between one or another is its rate and dimensions. From historical point of view we can differentiate roughly:

1. 19th century - East – West movements from the rural/agricultural East countries to the industrialised countries of the West as well as to the Americas and Australia. Their main motivation was the economic one.
2. Before and during the World War II – due to rise of Nazism in Germany. Approximately 20 million people were involved in that process.
3. During the so-called Cold War period and the establishment of the Soviet system in most of the Eastern countries. However we cannot speak about real economic migration during that period but about predominantly political migration.
4. Since 1989. The start of the democratic changes in the SEE countries gave an impetus to this phenomenon and the reasons could be sought at a political, psychological as well as at economic level.

The main factors influencing migration are of socio-economic, political and demographic nature.

Firstly, the democratic changes opened new opportunities to the citizens of the post-communist countries and they saw their dream to travel freely has come true.

Secondly, the disappointment from the slow process of reforming society and imitation of reforms in the beginning of the nineties made many young people seek real democracy and economic opportunities abroad.

Thirdly, the process of structural reforms carried out and transition towards market economy were characterised by a process of lowering of the living standard, growing unemployment due to closure of non-profitable enterprises, impoverishment of part of the population etc.

In the first three years after the start of the democratic changes a net total of 1,2 million people moved from East to the West. But basically migration followed the past patterns of East – West migratory movements, influenced by historical links between the countries and ethnic and cultural ties. However, in the next years immigration from the CEEC

declined steadily and a tendency of short-term or time-limited work or trade related stays became prevalent (European Trade Union Year Book, 1999). For example, in Bulgaria the main flows were directed towards West (incl. USA and Canada) and Greece.

According to some statistical data about trips of Bulgarian nationals abroad for 1997 especially to the Member-States (12 - Portugal, Luxembourg and Ireland not included). The total number of Bulgarians travelled amounts to 465 541 out of whom on private purpose – 437 937, and under labour contract – 373. It is interesting to pay attention to the data concerning our southern neighbour - Greece knowing the situation with the Bulgarian immigrants there – total number – 258 209 out of whom – 254 996 declared private purpose and only 95 under labour contract.

When we speak about chances and risks I prefer to speak about effects of migration. So, basically the effects of migration are two-fold. On the one hand there is the so called “brain drain” of the most valuable part of the population especially among the young people, which might be looked upon as irreplaceable loss of national intellectual wealth in our ageing society. *It is also a fact that a great number of the qualified immigrants are engaged in low-qualified activities in the countries of immigration which gradually leads to loss of skills and experience.*

On the other hand the *accumulation of knowledge, experience and capital could be seen as a future investment in the society as a whole.* It may not be in the purely physical sense of the word but through transfer of business, investments etc.

Especially with the case of Bulgaria we could say that due to historical and mainly political reasons the *Bulgarian Diaspora abroad lacks the tradition of other countries as Poland, Greece etc.* and the relations with the mother country are still very strong. Thus it is quite possible many of the migrants to return back and apply in practice the know-how obtained.

Migration is closely related with the process of Bulgaria’s accession to the EU – especially in the sphere of free movement of labour – one of the fundamental freedoms characterising the establishment of the single market of the Community. In May 2001 in the framework of the inter-institutional working group the Negotiation position of Bulgaria on Chapter 2 was elaborated which was adopted by the Council of Ministers and presented to the EC in Brussels. In it Bulgaria unconditionally states that no transitional periods would be needed and that it will have the necessary administrative and judicial capacity and will finalise the transposition of the *acquis communautaire* by the date of accession.

The Chapter 2 on Free Movement of Persons has always been one of the most difficult and irrespective of its place it is usually opened at a later stage. This is due to the fact that some EU Member-States show concern about the undesirable effect it might have on their labour markets and social security schemes. It is also a sensitive issue for the accession countries too since they want to see their citizens not only to travel freely but to have the opportunity to work.

The result of this concern is the decision of the European Council in Goeteborg to set transition periods concerning the free movement of workers (under the scheme 5+2+2

years) for all candidate countries except Cyprus and Malta. What does that mean? It includes five main elements:

- General transition period of five years, during which the Member States can apply own restrictions, or go further than others in opening their labour markets. The transition period does not apply to students and non-wage earners;
- Automatic review two years after the above transition period;
- One further review if requested by a current or new Member State;
- A further transition period of two years, where the labour market has been seriously disrupted;
- And finally a standstill clause to protect nationals of candidate countries currently legally resident and working in the EU.

On the other hand results from surveys on attitudes of candidate countries' citizens plainly disproved the apprehensions for a serious flow of workers to the Member States. According to a survey made in May 2001 by the CEORG (Central European Opinion Research Group) the share of persons of active age interested in finding a job in Member States is below 10% and just insignificant part of them want to settle abroad permanently. The effect on the labour market of the Member States will not be so tangible and does not correspond to some fears in that direction. Presently only 0.2% of employed persons come from the candidate countries. In a long-term perspective it is not expected the job seekers from candidate countries to overcome 1% of the EU population. This, as well as the experience from preceding accessions, shows that fears from a serious flow of workers from the new EU members are groundless. It is expected that the enlargement in itself gives an additional incentive for the candidate countries' economies, the integration within the common market will increase the investment in them, creating additional employment opportunities.

In her address to the Inter-Ministerial Meeting of EU Accession Countries in Geneva, June 2001 Mrs. Anna Diamantopoulou, Commissioner for Employment and Social Affairs underlined that fears of mass wave of migrants proved totally unfounded.

Some Member States as Denmark, the Netherlands, Sweden, Spain declared that there would be no barriers before the citizens of the candidate countries to access the labour market from the date of accession.

The European Commission has issued several communications related to migration issues:

- Communication on a Community Immigration Policy (COM(2000)757), where the EC set out its ideas for a new approach to migration flows management and in particular for a common policy on admission for economic reasons. The success of the policy depends on effective co-ordination and adoption of new measures.
- Communication on an Open Method of Co-ordination for the Community Immigration Policy. The key element of the method is the approval by the Council of multi-annual guidelines for the Union – these guidelines initially will be related to the following spheres – management of migration flows; admission of economic migrants; partnership with third countries and the integration of third country

nationals. The first guidelines will be approved in 2002 and could be revised on annual basis. The Member States should prepare National Action Plans, which will be reviewed and adapted on an annual basis. It is important to state that the applicant countries should be informed about the process of development and evaluating the Community immigration policy and they are involved in the earliest possible stage in the open co-ordination method before accession through appropriate arrangements. This will imply that candidate countries will be involved in the process in particular by participating in the committees or working groups, which will be set up;

- Draft of COUNCIL DIRECTIVE on the conditions of entry and residence of third-country nationals for the purpose of paid employment and self-employed economic activities - COM(2001) 386 final. The goal of the directive is to improve the management of migration flows and it determines for the first time common criteria in all Member States, a single procedure, which has been simplified and made transparent through the introduction of a single document (stay and residence), while establishing the rights of third-country nationals.

On the other hand we should not forget that work force mobility is a factor, which has a favourable influence in macroeconomic aspect and facilitates the dynamics and growth of economy. The work force mobility will also have a favourable influence on some demographic problems – as ageing of population – which cause increasing anxiety. The free movement of workers gives an additional opportunity to preserve the viability of social security and pension schemes

What is important is to provide such measures and strategy, which to guarantee the necessary and optimal migration balance.

Bulgaria has taken a number of initiatives and measures with respect to establishment of new migration policy based on the European standards – political, economic and social.

This new policy is an important component of the policy for European integration especially after the elimination of the visa regime for the Bulgarian citizens. It is carried out in conformity with the international and European standards and is directed towards the achievement of an optimal balance between the free movement of persons and the control over illegal migration while respecting fundamental human rights and freedoms. In practice this means: strengthened internal and border security; promotion of regulated forms of migration; and respect of the rights of legally residing migrants.

Such measures include:

1. Bulgaria joined the Geneva Convention on Refugees and the New York Protocol of 1967 (in 1993). An Agency for the Refugees at the Council of Ministers was set up;
2. A number of primary and secondary legislative acts have been adopted:
 - Act on Foreigners in the R. Bulgaria
 - Act on Bulgarian Identity Documents
 - Act on Refugees
 - Act on Bulgarian Citizenship
 - Act on Protection against Unemployment and Employment Promotion. Working group has been established for drafting amendments and supplements to the Act.
 - Act on Bulgarian Nationals Living Abroad

- A new Ordinance on the terms and conditions for issuing work permits for foreigners in the R Bulgaria is under elaboration
3. Strengthening the visa policy - agreements for no visa regime with the countries in Asia and Africa which are potential source of illegal immigration were denounced; state borders safety was improved and the control over border regime was reinforced
 4. Agreements for readmission with more than 20 countries were signed. Others are being negotiated.
 5. The legislative framework in the labour force exchange broadens, good examples being the existing bilateral agreements with Germany in compliance with the recommendations of the Europe Association Agreement.

An important factor for balancing labour emigration is the stabilisation of economic and political situation, leaving behind the shocks resulted from the transition to market economy and moving towards economic growth. Conditions for creation of new jobs are being established, promotion of small and medium sized business, decrease of tax burden, improvement of investment climate, outlining real opportunities of achieving high living standards, social security and wide variety of opportunities for self-realisation of each citizen in the country.

Policy in the sphere of labour migration is directed towards the support of national labour market and commitment of the country's agreements in respect to the EU and other European and international organisations related to free movement and right of establishment.

The Ministry of Labour and Social Policy supports the position expressed by the Final Communication of the VI Conference of the European ministers for migration organised by the Council of Europe (Warsaw 1996) and Recommendation 1306 of the Parliamentary Assembly of the Council of Europe that short-term labour migration is to be discussed as a prevailing model in future and undertakes measures for development of regulated forms of short-term employment.

Under the Act on Protection against Unemployment and Employment Promotion Bulgarian citizens have the right to work in another country on the basis of intergovernmental agreement and national legislation under a contract with Bulgarian employer, who has the right to carry out activities with Bulgarian workers on the territory of another country, and with foreign employer through the mediation of the National Employment Service (NES) or another Bulgarian legal or natural person.

At present there are three agreements between the Republic of Bulgaria and the Federal Republic of Germany in force:

- Agreement on employment of workers from Bulgarian enterprises for execution of contracts for work in the Federal Republic of Germany (of 1991) - 268 persons were send in the period January - June 2001

- Agreement on mediation of Bulgarian students for employment during the summer holidays employment and enhancement of their professional and language skills (of 1992) - 200 persons were sent in the period January - June 2001;
- Agreement on provision of mediation services to Bulgarian workers for fixed-term employment in the field of hotel and restaurant business (of 1999) – 656 persons were sent in the period January – June 2001.
- Agreement for exchange of trainees with Switzerland - 17 persons received work permit in the period January - June 2001

An Agreement between the Government of the R. Bulgaria and the Republic of Greece on seasonal employment of labour was signed in 1995 enforced in July 1997 (but because of different factors the agreement is not implemented efficiently by both parties. The Bulgarian party has proposed to update it and sign a new agreement).

Bulgaria seeks ways for signing agreements for labour exchange under the Europe Agreement with other Member-States and applicant countries. An Agreement for mutual employment of citizens with the Czech Republic was signed in December 1999 (in force since 4 May 2000); negotiations for concluding agreements with Spain and Portugal are underway. However this process is rather difficult and slow.

The current national legislation regulates the following rights of the foreign workers:

- Non-admission of discrimination on the basis of race, nationality, ethnic belonging, political affiliation, membership in trade union organisations and movements, public status, property status and state of health;
- Equal treatment of the employed foreign workers in terms of working conditions, payment and dismissal;
- Settlement of employment and insurance relations of foreign workers employed by local employers under the terms of Bulgarian labour and insurance legislation;

The Bulgarian Government pursues a steady policy of respect of fundamental human rights and freedoms, non-discrimination, tolerance and social integration of all groups of population, including legally residing in the country immigrants.

A National Council on Ethnic and Demographic Affairs at the Council of Ministers is functioning as a form of dialogue between the government structures and the representatives of minority's organisations. However, the Council needs strengthening of its administrative capacity and financing. A new Bill on fight against discrimination is under elaboration.

One of the main priorities of the Government is the reduction of unemployment and its duration among the disadvantaged groups on the labour market - minorities (especially persons of Roma origin), being characterised by comparatively higher emigration potential. At present on the labour market it is being implemented a number of programmes and measures for social and economic integration of unemployed Roma people - programmes "Literacy, Qualification and Employment", "From Social Care to Employment", "Temporary Employment", "Winter". Their basic objective is to provide the Roma community with adequate opportunities for labour realisation and qualification.

Bearing in mind the ambitious intentions of the Government to assume the challenges and responsibilities in terms of the transposition and implementation of *acquis communautaire* in the sphere of migration till the date of accession to the EU, as well as to have an active contribution for the transformation of Europe into an area of long lasting peace, prosperity, social justice, safety and stability, the efforts are directed towards:

- Finalising the harmonisation of legislation in the sphere of free movement with *the acquis* as per the time table set in the NPAA;
- Development and strengthening of the institutional and administrative structures for implementation and control of *the acquis*;
- Establishment and implementation by stages of a mechanism and procedures for co-operation between the NES and the employment services of the Member States and the European Commission in the field of employment (EURES);
- Enlargement of international co-operation, co-ordination and setting into line of migration policies and establishment of better conditions for mutual exchange of information between the states. In this respect the deepening of regional co-operation in the sphere of control over illegal migration as well as the development of possibilities for trans-border employment is of particular importance;

In conclusion, it is necessary to stress that Bulgaria participates actively in the work of the European and international organisations in the sphere of migration - the Council of Europe, International Labour Organisation, International Organisation on Migration for the purposes of elaboration and implementation of an efficient migration management strategy. In this respect I would mention just two events - a roundtable for Central and Eastern European countries was held in Sofia in the autumn of 1999 (under the auspices of the Council of Europe and hosted by the MLSP) on the legal status of migrants. As its follow-up a Round table on the legal status of persons admitted for family reunification took place in October 2000 in Sofia. The Bulgarian party is hopeful that realisation of similar roundtables will turn into a tradition so that all issues of labour migration encompassed in the corresponding international legal instruments and good European practices will be discussed.

The Debate On Europe In The EU And The Dispositions Of Eu Member States

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This contribution describes the debate on the future of the EU in the current EU member states and analyzes why particular member states might take particular positions in this debate and in their policy towards the EU. On this basis, conclusions are drawn for the current accession countries and their dispositions concerning the EU. The arguments are tentatively developed and do not attempt to provide ready-made, conclusive explanations. Rather, they are intended to stimulate comments and discussion.

I. Contributions to the future of Europe

Since 2000 there has been a broadening debate on the future of the European Union in the member states. Numerous visions and concrete reform proposals have been voiced by politicians and public figures. Many controversies have been centred on the three core institutions of the current EU: the European Parliament, the Commission and the Council.

With respect to the *European Parliament*, some participants to the debate have proposed complementing the current Parliament by a second chamber of national deputies, whereas others have argued that the Council, consisting of member state governments should become the second chamber of the EP. This difference mirrors diverging notions of a division of powers – perhaps influenced by the existing models of US and German federalism. It has also been disputed whether such a second chamber should perform the same legislative functions as the current EP or whether it should be confined on a constitutional review.

A key and hitherto unresolved problem in the debate on the future EP is whether and to what extent the EP can claim to represent a European demos. For example, today votes are not proportionally counted which is in contrast with a core principle of nation state democracy. Even after the corrections agreed in the Nice Treaty, a parliamentary deputy from Germany represents 830000 citizens while a deputy from Luxemburg represents a constituency of 70000 citizens. Electoral rules and, until recently, salaries of deputies have differed across nations. Deputies have only formed transnational parliamentary groups while there are no European parties in the sense of the domestic parties in the member states. These features of the EP denote its ambiguous and transient state between representing national and European citizens, indicating that a European demos, understood as a common European culture, identity and public sphere is still weakly developed.

The future *Commission* of the European Communities has also been subject to an intensive reform debate. Some participants have proposed the direct election of the Commission President by the citizens. Currently, the Commission and its President are nominated and appointed by the governments of the member states, but the envisaged President and the team have to be approved by the EP. The proposal for a direct election seeks to strengthen the Commission and to make people identify with a leading European

personality. Another proposal has sought to empower the EP by endowing it with the right to elect, and not just to confirm, the Commission. While this proposal tends to strengthen the democratic legitimation of the Commission, there are also contributions intending to increase the power of the EU member states over the Commission by transforming the Commission into a secretariat of the Council.

The core problem in this debate is whether the so-called Community model should be retained, strengthened or be replaced by inter-governmental forms of co-operation. Core elements of the Community model are: a strong Council which represents the European nations and national legitimacy, restricts the problems of majority rule in a European society with persisting national plurality but enables, through qualified majority voting, space and incentive for policy debate; the European Parliament which represents a European public and what may become a future European demos, which also organises political deliberation and scrutinises the work of the Council and the Commission; the Commission which is, through its particular role in the policy process between Parliament and Council, committed to performance, professionalism and objectivity.

Regarding the role of the *Council* in a future EU, proposals have focused on improving the co-ordinating function of the General Affairs Council in relation to the European Council and to sectoral Council formations. To achieve a better co-ordination both on the European and national level, it has been suggested to introduce a permanent General Affairs Council with Ministers who would also be responsible for co-ordinating EU policy in their domestic cabinets. This proposal reflects the current situation where governments do not always speak with one voice in Brussels because sectoral Ministers have an incentive to rally support among their European colleagues in order to convince their domestic Cabinet. The EU member states have already agreed to reduce the number of different Council formations from over 20 to 15. Another proposal aims at improving the management of the Council by establishing team presidencies of several member states.

To conclude, a major dividing principle in these debates is whether a country or a politician advocates an intergovernmentalist or an integrationist position. 'Intergovernmentalism' is a policy orientation that intends to view and enhance the EU as an organisation based upon the co-operation among the participating states. 'Integrationism' emphasizes and seeks to render the EU a supranational entity representing the peoples and citizens of Europe.

The following section asks what explains member state positions in the continuum between these two opposed policy approaches. The section focuses on domestic factors influencing the disposition of a member state.

II. Domestic context of EU policy-making

A state's policy towards the EU is not only legitimised by its citizens entrusting their government with a mandate in general elections. Member state governments constantly need to explain their decisions in public and have to justify them against the critique of the opposition. This need for legitimation is exacerbated in case of the EU since member state governments may lose in voting and thus have less power to realise those policy options in the EU about which they have convinced their domestic public.

Faced with this legitimation problem, governments in the EU member states have only restricted maneuvering space to formulate an EU policy acceptable to their citizens and public. This restriction implies that policy-making is not only the result of situational circumstances or driven by the dynamic of events in the EU.

One may identify four more permanent domestic context factors that might shape the scope of EU policy-making: party politics, history of integration, state features and citizen attitudes.

1. Party politics

Does the party 'colour' of a government matter for the position a member state advocates in the EU? Evidence from three big EU member states suggest that it does, but only to a limited extent:

In Germany for example, the Christian Democratic Party considers itself a pro-European, integrationist party, but the former government led by Chancellor Kohl was against extending qualified majority voting to the issues of asylum, refugees and immigration, contrary to other EU member states. The Christian Democrats also support a horizontal fiscal equalisation among the EU member states which would give more powers to nation states than the current fiscal constitution of the EU. The German Social Democratic Party takes generally pro-European views similar to the CDU, but has also argued for re-nationalizing parts of the Common Agricultural Policy and the cohesion policy.

In the UK, the Labour party is certainly more pro-European than the Conservatives, but there have been few substantial changes in basic, intergovernmentalist British positions on the EU when the Labour Government came to power (exception: the approval of the Maastricht social protocol and European defence and security policy). In France, the difference between inter-governmentalist and integrationist camps cuts across the political spectrum in so far as politicians such as e.g. the former socialist Minister of Interior, Jean-Paul Chevènement, and the right-wing former Prime Minister, Alain Juppé, prefer strengthening the sovereignty of nation states in the EU system.

2. History of integration

If party politics does not explain the specific European disposition of a member state fully, it may be history that matters more.

Often the founding member states – Belgium, France, Germany, Italy, the Netherlands and Luxemburg – are distinguished from the later entrants to the European Communities. Whereas the founding members established the EU in the wake of the experience of World War II, the political constellation had substantially changed in 1973 when the UK, Denmark and Ireland joined the EU. These accessions coincided with the oil crisis and the end of the post-War prosperity era based on Keynesianist macro-economic policies and welfare state-building - developments that may have prejudged the importance the new members have since then attached to the EC/EU as a free-trade arrangement. Greece joined the EC in 1981, Portugal and Spain followed in 1986, after their transitions to democracy which were influenced by the democratic standards and expectations in the EU. Austria, Finland and Sweden became EU members in 1995, after the end of the East-

West-conflict, implying that concepts of non-alignment and neutrality had lost their meaning in these three countries.

Different national histories have resulted in different meanings attributed to the EU and European integration. In France and Germany, the EU has been seen and continues to be seen as a peace-building institution that has facilitated the Franco-German rapprochement after WWII. The British perception of the EU has been shaped by Great Britain's history as a World-oriented empire, its continued role in the Commonwealth and its special relationship with the United States. This framework of reference resonates with a self-description of 'British' as an identity different from 'European'. Because British cultural and political identity is more strongly rooted in these traditions, British governments have attached primary importance to the EU as a common market, while many people tended to view the political framework as a 'necessary evil' one has to incur in order to garner the economic benefits of integration.

The Scandinavian member states have been less affected by WWII, have unfolded their own co-operation in the Nordic Council and combined a strong multilateral international engagement with political and military neutrality. These components of national and foreign policy identity also suggest an approach to the EU that attaches less importance to the peace-building, political integration function of the EU.

Historical experiences thus somehow crystallize in identity constructions and general images of 'Europe'. 'Europe' means different things in different countries, and the question of what 'Europe' stands for may be more easily answered by asking: What does it stand against? A tentative, sketchy answer is that in Germany, Europe stands against Germany's own nationalist and authoritarian history. In Italy, the opposite of Europe may be the country's badly functioning institutions, in France it may be the predominance of Germany in Europe or the predominance of the United States. Such identity constructions tend to structure the background of public perceptions of the EU and a country's position towards 'Europe'.

3. State features

History, however, is not the whole story. History has produced states and states, as they are, seem to influence how a government positions its state in the EU policy process.

It makes a difference whether a member state is small or big. Small EU member states can endorse either an *intergovernmentalist* standpoint emphasising national independence or *strongly support integration*. Intergovernmentalist policy stands for upholding as many institutional veto-points as possible within the EU framework, thus making large member states dependent upon the consent of small member states and giving small states the opportunity to influence the policy of the large states at least negatively. The biggest risk of such a strategy is to be disconnected from the integration process but not able to avoid being affected by its consequences – as the example of the European Monetary Union and the ensuing economic dependence of Denmark, Great Britain or the EFTA-states on Euroland demonstrates. In contrast to this, a policy in support of integration wishes to bind the power of large member states within a supranational framework, hereby enabling small member states to partake in decisions that would otherwise be made among the large states only. This strategy in turn presents the risk of small member states

being overridden in certain policy fields, which they could decide upon independently, if a supranational framework did not exist. Further influencing factors are:

1. State organisation. The EU consists of federal states (Austria, Belgium, Germany), regionalised states (Italy, Spain, increasingly UK), unitary centralised states (Greece, France, Ireland, Portugal) or unitary decentralised states (Denmark, Finland, Netherlands, Sweden). Since federal states have institutionalised a model of power-sharing between national and subnational legislatures, they may be better able to accommodate a supra-national legislature such as the EU.
2. Ethnic plurality. The more a nation state is defined in non-ethnic terms and symbols, the better it seems to be compatible with the EU, as we can see in the integrationist disposition of Belgium with its two big language communities.
3. Economic wealth. The so-called cohesion countries with a Gross Domestic Product per capita of less than 90 per cent of the EU average – Greece, Ireland, Portugal and Spain – put more emphasis on the idea of the EU as a community based on solidarity than other member states usually do.
4. Location. Interest may differ according to whether a country is situated at the core or the periphery of the EU. Core countries such as Austria have to face more traffic passing through their territory, border countries such as Italy or the future Central and East European member states have to incur the burden of policing the external border of the EU. The Atlantic and Nordic orientations of Britain and Scandinavia are also rooted in their location on the fringe of the EU. In the case of Greece, the EU also has a meaning as a protective framework against Turkey, a neighbour that used to be a threat in history.

4. Citizen attitudes

The above-mentioned state features and historical experiences may only become relevant for EU policy in a member state if they are considered relevant by citizens. The regular Eurobarometer surveys allow to compare citizen attitudes and opinions on the EU.

Initial results of Eurobarometer survey No 54, (autumn 2000) Brussels, 8 February 2001:

"The majority of people take a favourable view of membership of the European Union. 50% of citizens consider it to be a good thing (+1% in comparison with spring 2000), whereas 14% take the opposite view. In each of the Member States, positive views outnumber negative views, and there was an increase in positive opinion in four Member States: Germany (+ 7% in six months), Austria (+ 5%), Luxembourg (+ 4%) and the United Kingdom (+ 3%). The States whose citizens are most positive about membership of the European Union are Luxembourg, Ireland and the Netherlands. In reply to the question about the benefit derived from membership of the Union, the answers remained unchanged: 47% of citizens think that their country has benefited, while 32% take the opposite view.

The level of confidence in the Commission, which stood at 40% in spring 1999 and 45% in the previous Eurobarometer survey, rose to 46% in autumn 2000, with

significant increases over the previous six months in Spain (+ 6%), Italy (+ 3%) and Luxembourg (+ 3%). The level of confidence in the Commission exceeds 50% in eight Member States. · 55% of Europeans support the single currency, whilst 37% are against it. The Member States in which this support is strongest are Italy, Luxembourg, Belgium, Greece, Ireland, Spain and the Netherlands. The majority of public opinion is against the euro in Sweden, the United Kingdom, Denmark and Finland.

At the same time, Europeans are optimistic about the prospects for the employment situation. 30% of citizens consider that it will improve in 2001 (+ 4% in one year), whereas 23% believe that the situation will deteriorate (- 5%). The Member States in which people are most optimistic about this matter are Finland, Sweden and Ireland.

There is a majority of Europeans in favour of enlargement of the Union to include new countries: 44% of the people interviewed took this view, with 35% against. The Member States in which public opinion is most favourable to the accession of new countries are Greece, Italy, Spain, Denmark and Sweden. The countries in which the people take the least favourable view of enlargement are the United Kingdom, Austria and France.

It comes as no surprise that Europeans continue to support a common foreign policy (65% for and 20% against), and a common security and defence policy (73% for and 15% against)."

This survey indicates that there are significant differences between the member states. In Ireland, Luxemburg and the Netherlands, more than 70% of the citizens think that the EU membership of their country is a good thing. Austria, Finland, Sweden and the UK are those countries where the share of EU supporters lies under 40%. These diverging levels of general support may account for a more Euroskeptic, intergovernmentalist policy approach in Sweden and the UK on the one hand, pro-integration positions in Ireland, Luxemburg and the Netherlands on the other.

Citizens were also asked whether their country would benefit from EU membership. In Greece, Ireland and Luxemburg more than 70% of the population believe that their country has benefited from being a member of the EU. The fact that Spain and Portugal nearly reached the 70% can be taken as an indication that citizens in the cohesion countries are aware of the financial support they receive from the EU and that they evaluate it positively. In contrast, only few German, Finnish, Swedish and British citizens view EU membership as beneficial.

Citizens' dislike for the Euro seems to indicate why Sweden, the UK and Denmark have not joined the Economic and Monetary Union (EMU), but the low level of support for the Euro in Germany and Finland does not provide an explanation why these countries participate in the EMU.

The public support for enlargement does not confirm the assumption that citizens of cohesion countries would reject enlargement because they would fear losing funds and markets to the Central and East European accession countries. The highest level of support can be found in Greece, and the cohesion countries have support levels above 50 per cent. Low levels of support, however, do not necessarily lead a government to block

enlargement: support levels are below 40 in France but also in Austria, Germany and UK, where governments have been strongly in favour of enlargement.

Overall, the general, unspecific support for the EU has declined throughout the EU since the beginning of the nineties. Possible explanations related to the EU are the low attractiveness of EMU as an integration project and perhaps also the failure of the EU to achieve conflict prevention goals in former Yugoslavia or the New Independent States originating from the former Soviet Union.

The Eurobarometer data have indicated a certain, though not always unambiguous, correlation between support levels and policy orientations. They do not tell anything about the direction of causality: do member states take Eurosceptic, inter-governmentalist positions because their citizens want them to do so - or are citizens skeptic about the EU because politicians tend to portrait the EU in a negative way?

III. Implications for the future new EU members

This tour d'horizon through domestic factors explaining why a member state takes a specific position on the EU does not try to answer all questions. Rather, it has tried to give an idea how factors such as party politics, national historical legacies, features of the state structure and citizen attitudes impact on the formation of long-term and relatively stable policy dispositions towards the EU, dispositions that restrict but also enable policy-makers to formulate national interests on issues of European politics. It is not possible here to explore how the mentioned factors influence the emerging European policies of the accession countries. Instead, three general implications for the European policy-making in the accession countries may be mentioned:

1. EU policy is more interlinked with domestic perceptions, issues and conflicts than one might expect.
2. Mutuality: the domestic context induces politicians to prefer certain policy options over others, but the political dynamic of EU also affects the domestic conditions for policy formulation.
3. Public acceptance is crucial for sustainable EU policies, but public acceptance can - to a limit extent - be shaped by policy makers. It is important that this shaping is and remains informed by positive visions on Europe.

Commentary Remarks

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Contribution 1:

(a) Experience with Finnish border control along 1300 km of common border with Russia: to what extent can this experience be used in Central and Eastern Europe, due to the following differences:

- densely populated border regions;
- no natural barrier at borders (green-field borders against forests in Finland)

(b) It would be interesting to start a major research on the economic (and social?) impact of cooperation in border regions at different levels of development. Three patterns could be studied:

- cooperation between two developed border regions,
- cooperation between a developed and a less developed border region,
- cooperation between two (or more) underdeveloped border regions (without development anchor).

Our starting hypothesis is that we need different policy mix in all cases to generate sustainable growth for the given region. The research should focus not only on identifying the differences among different border region patterns but to elaborate appropriate case-to-case policy mixes.

(c) The interrelation between stability and economic development level has been the topic of many scientific research projects. There is no clear evidence of that more developed countries are necessarily more stable (e.g. basques in Spain, Northern Ireland, Corsica in France, or, on the contrary, surprisingly high level of stability in less developed, and even more, in transition countries, in the nineties). In turn, the other side of the interrelationship, namely the impact of (self-sustained) stability on lasting economic development seems to be more obvious. Externally imposed stability (as in Bosnia or other parts of ex-Yugoslavia) cannot generate lasting economic development. Economic activities overwhelmingly depend on the demand generated by international actors present in the region (military forces, institutions, NGOs, etc.). Once they leave the given country/region, economy collapses, and political stability is seriously threatened.

(d) In this context, the introduction of the DM/Euro as the official national currency, is not the right (or the final) solution. While it helps keep inflation on a low level, it can hardly produce grass-root competitiveness. However, without the latter, genuine economic development will not start, and the country's (region's) vulnerability will remain extremely high.

(e) Sustainable economic development in South Eastern and East Central Europe requires substantial net capital inflow (direct investment, credits, transfers, grants, etc.). However, the timing of the financial transfer fundamentally affects its main objective (target). The later the transfers take place, the higher is the likelihood that the money will finance short-term stability (damage limitation) and not economic development. In an in-

between situation, the transfers would finance social peace. So, there are three different modalities to use transfers: damage limitation, social peace, economic development. No question that the last one only can contribute to lasting stability. However, the precondition for it would be immediate transfer within a strategic project and not always delayed piecemeal approaches.

(f) Different community policy areas of the European Union show different priorities and speed. This has an impact on the enlargement process as well. In the last years (and days), security has been clearly upgraded. The road map to enlargement has to give priority to this element. While, in terms of internal cohesion, it would be risky to let countries join the European Union which are not yet fully prepared, the growing security requirements of all countries of Europe (and of the citizens themselves) underline the necessity to integrate all candidate countries immediately into the security framework of the EU (and NATO). How can the European Union develop a multi-level road map to accession, in order to cope with the new situation (without slowing down the enlargement process but include all candidate countries into more and more areas of community policies)?

Contribution 2:

(a) In statistical terms, energy efficiency can be improved in two ways: by closing energy-intensive industries (as it happened in most transition countries), or by improving the utilization of energy. The second option can be achieved either by saving energy (as a result of higher prices or other policy measures) or by giving incentives to energy-saving investments.

(b) The energy policy of the candidate countries is influenced by the following factors:

- adjustment to the EU acquis,
- high level of dependence on one external supplier,
- ongoing/starting liberalization of the energy market.

(c) Hungary will partially liberalize the energy market as of January 1, 2002. It means that large users of energy will be allowed to freely purchase 50 per cent of their energy demand. In turn, small users (including households) will remain tied to the national energy system, without free choice.

(d) The privatization of the energy-generating plants in Hungary happened in 1995, as part of the austerity program (Bokros package). It resulted in an inflow of more than US\$ 4 bn of foreign currency, which helped stabilize Hungary's economic situation. At the same time, the privatization agency committed itself to guarantee an annual net profit of 8 per cent to the new foreign firms (German, French, Belgian, US). (Net profit in most foreign-owned companies in Hungary is higher than this sum.) In turn, new foreign owners have committed themselves to carry out large modernization programs (further investments) in the Hungarian energy industry, which, in 5 to 10 years would have been unable to function without additional investments (and these investments could not have been financed from Hungarian savings).

Unfortunately, the present Hungarian government ignored parts of this contract and, by freezing the price of gas in the autumn of 2000, it cut the profit margin of foreign

companies. The answer was the stopping of large investment projects. A lesson to be learnt...

(e) Another and not less important lesson: the intervention into determining the gas price (an increase of it by 6 per cent instead of 12 per cent) was based on the (much) higher than predicted inflation target of the government. As the inflation rate was about to be higher than 10 per cent in 2000 (and higher than in 1999), the government, for very clear and not less costly political motives, has decided not to let the inflation rate increase above 10 per cent. Subsidized gas prices, however, have several negative impacts:

- they benefit all users, irrespective of their financial and social status (therefore, they are anti-social),
- they brought the value of MOL (the Hungarian oil and gas company) shares in the stock exchange to a catastrophic decline - with obvious consequences for one of Hungary's leading and few regionally active "multinational" companies, and, not less importantly, for all shareholders. If we assume that many of the gas users have been small shareholders of MOL, all of them have clearly lost more on the declining share values than what they - temporarily - may have "gained" through the artificially lower prices;
- sooner or later, depressed gas prices cannot remain. They have to be increased, and at a higher rate than general inflation. Therefore, a new inflationary pressure is already built into the price development, which may become effective in the crucial stage of Hungary's preparation for membership in the EMU (the process of complying with the inflation criteria of Maastricht).

(f) Question: how can the possibilities of regional energy cooperation in South Eastern Europe be assessed, in order to loosen unilateral dependence on Russian supplies?

(g) While devoting sufficient attention to energy efficiency, we should think about the possibility of creating industrial and service activities dealing with energy efficiency. Since there will be a substantial need for more efficient equipment and technologies in our energy market in the next years, new activities could be based on this emerging demand. In this context, cooperation with foreign firms (including foreign direct investments in the CEECs) should be encouraged.

Contribution 3:

(a) National identity has been defined both as a history-driven and as a history-creating product. In both cases, the fundamental question is, to what extent will national identity be affected by global challenges? And what would be the reaction of nation-states to globalization?

(b) Remark to Petr Drulák: The fact that external powers define CEEC's history, should not automatically lead to fatalism. In a realistic approach, we have to recognize that all East Central and South Eastern European countries have been policy takers and not policy makers for many centuries. They have followed external patterns to catch up to the more developed part of Europe. The basic question is not, whether we can replace foreign patterns by our own ones (it would be disastrous, even if we had some ideas about it). A successful catching up needs the following components: create the absorption capacity to

take on more developed patterns; save, at the same time, the most important elements of your genuine development; once the "imported" pattern is not rejected by your society and institutions, enrich it with your own values. In this way, your special development pattern can be created (there are some countries in the world economy which could do it, and much more countries, who failed - but why should CEECs necessarily fail?).

(c) Manifest differences in national interests among EU member countries have been revealed at the Nice summit. The clear expression (and divergence) of national interests is due to several factors:

- no direct external pressure to hold a community together (although globalization could be this factor, but its "crawling" (schleichende) nature is different from the very clear and hard nature of military threat),

- the threshold of integration has been reached, where sensitivity to national independence becomes clear,

- solidarity in the EU is declining (not only because of coming elections in France and Germany).

The real test of solidarity and cohesion will not be so much the enlargement process but the potential consequences of the common currency. If some member countries of the EMU will face serious difficulties (due to asymmetric shocks and differences in productivity increase, fiscal policies, social system, institutional background), the protection (and sustainability) of the common currency will require EU-level actions. As a result, the EU budget may be substantially increased, well beyond the present ceiling of 1.27 per cent of GDP of the member countries. Will member countries be ready to substantially increase the common budget?

It is interesting to note that most of the candidate countries seem to be more European than part of the EU member countries. They are more ready to give up part of their sovereignty (in order to foster their economic development) and to agree with qualified majority voting (even if they are small countries which can easily be outvoted).

(d) NATO and EU, as two pillars of European security cannot be separated from each other. NATO acts as the hard security pillar, while the EU has been considered to be the anchor of economic modernization. In the last years, it has increasingly become a "soft" security pillar as well (justice and home affairs, migration, asylum, Schengen). After the terrorist attack on the United States, a more sophisticated division of labour can be outlined, by entering NATO also the "soft" security field.

(e) Remarks on the opinion poll results (Krassimir):

- there are widely differing results from one sample to the other (see Estonia or Hungary);

- yes votes alone (if they are below 100, as indicated in table 2) do not tell the whole story, namely those who are not "yes" voters, are not automatically "no" voters;

- opinions for and against accession to the EU differ widely across countries. It is very important to look at the social polarization/fragmentation in the individual countries. There are two basic patterns: first, majority of "yes" voters, a relatively large minority of "I do not know", and small share of "no" voters. The other pattern reveals a clear cleavage in the society (with a low representation of "I do not know" voters). It is an open question, whether polarization is the result of a successful communication policy or the outcome of

history-rooted experience and emotions. In case of the latter, some countries may have serious problems with their own citizens, both in the final stage of negotiations on accession and during the referendum on accession (being Poland the most outstanding example).

Conclusions from the working group discussion on the Nice Summit and the consequences for an enlarged EU

- ⇒ Internal debate on the future of Europe should be initiated before an international one.
- ⇒ European debate should not include only the member states but also the countries that are not EU members (the accession countries).
- ⇒ A public awareness campaign on the future of the EU should be organized before or together with the debate.
- ⇒ The media should participate more actively in the public debate since its present involvement is insufficient.
- ⇒ The question what people expect from the EU appears to be a key prerequisite for the public debate.
- ⇒ Bulgarians have positive attitude towards EU accession – 75%.
- ⇒ A specific accession mechanism is the “integration through networks” – cooperation between entities from both the EU member states and the accession countries (e.g. non-governmental organizations, professional associations, etc.).
- ⇒ Accession countries should be aware of how the EU will look like at the time they will join the EU becoming full members.
- ⇒ The future of Europe will be developed in two main directions – internal reform in the accession countries and reform of the EU.
- ⇒ A special status could be established for the accession countries that will not be accepted in the EU within the first enlargement.
- ⇒ A public awareness campaign on the enlargement and the accession of new countries should be initiated within the EU member states.
- ⇒ A mechanism for better understanding the nature of the EU within the accession countries is the exchange of people between EU member states and the candidate countries.
- ⇒ The debate on the future of Europe could be divided into two different levels – debate within the general public and debate among the policy makers.
- ⇒ The accession is closely related to transition, i.e. the completion of the process of transition is considered to be a crucial prerequisite for accession, since the fulfillment of the accession criteria could not be achieved without finalizing the transition process.