EU is Worth It

Why the EU Is Vital for Its Member States

Canan Atilgan (Ed.)

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Contact person:

Dr. Canan Atilgan
Coordinator for European Politics
Konrad-Adenauer-Stiftung e. V.
Klingelhöferstr. 23
10785 Berlin
Phone: +49 30 2 69 96 35 11
E-Mail: canan.atilgan@kas.de

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Preface

Canan Atilgan / Elmar Brok

The European Union can look back on a 50-year-long success story. It is a dream and a vision that became true in the aftermath of the disaster of World War II. The Union has made a significant contribution to prosperity, democracy, and security in Europe. Europe today is the largest political union and the largest economic area in the world. It is a union of values and of solidarity between nations and citizens; much more than a common market. It is a common political area in which citizens live together in democracy, peace, freedom and prosperity.

Nonetheless, when it comes to evaluating today's European Project the Europeans lack an overall positive view. In particular, to name a recent event, the failure of the constitutional referenda in two founding states of the EU has demonstrated that support for European policies is no longer as strong among European citizens as it used to be. Is this just a mere passing thunderstorm or an earthquake shaking the fundamentals of out European Union? Is the European project being called into question?

Enthusiasm for the European project has given way to indifference and even fear. It appears as if the process of European integration has moved so rapidly that the Europeans seem to have lost track of the development. Instead of seeing the abstract grand design of Europe, its citizens feel the individual consequences of the European process of change. These contribute to individual fears of competition through cheap labour and the destruction of their jobs through the migration of their companies to other member states and countries outside the EU. In addition, the feeling that "Brussels" is diluting national identity and sovereignty has increased over the past years. This feeling is intensified through a creeping process of globalisation.

Many Europeans no longer believe that a system they perceive as exceedingly complex can deliver the efficient policies they want. Why should more national financial resources be transferred when no efficient policies will put these funds to good use? EU contributions amount to just one fortieth of the GDP of each member state, or nearly forty times less than the total public finances of the member states combined. The people, however, view these modest figures as exaggerated, since they are not aware of how the value added by the EU can benefit not only their own countries but also themselves, respectively.

Today, the greatest European achievements are taken for granted: lasting peace, prosperity, and preservation of values in a globalising world. These accomplishments of the EU should not be forgotten when asking about their costs. Therefore, we should always keep reminding ourselves of the advantages of the European Union. New generations of Europeans must be conscious of the fundamentals of Europe and the progress the European integration has brought to all of us. Next year, we will celebrate the fiftieth anniversary of the signing of the Treaty of Rome. This will be a great opportunity to reflect on the achievements and the value of the EU. Moreover, we should use this anniversary to enthuse the young generation to strive for another 50 years of European progress.

The Konrad Adenauer Foundation which views herself as a major promoter for the European idea has taken the initiative in publishing this book, in order to shed more light on the economic uses and political advantages of European integration for 15 member states. It takes up the central concerns of European citizens and illustrates that the European project is indispensable from a political as well as an economic standpoint. The objective of this publication, therefore, is to explain the value basis of Europe of today and to contribute to the further understanding of European integration. For, only within the EU will the Europeans be able to guarantee future prosperity and security.

This book would not have been possible without the support and engagement of the Konrad Adenauer Foundation's staff across Europe. We would like to take this opportunity to thank them very much for their contributions. Special thanks are owed to all the authors for their making their expertise available to the public. With their support it becomes clear once again: The EU is worth it! ■

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Belgium, the Netherlands, Luxembourg

Marion Abel / Barbara Einhäuser

1. Introduction

The Dutch and French referenda on the Treaty establishing a Constitution for Europe – despite all the fateful consequences of the Constitutional Treaty's uncertain future – have had a positive effect. They have unmistakeably revealed the distance, the scepticism and the lack of trust in the European project currently felt by citizens. At the European Council in June 2005, the heads of state or government therefore prescribed a "period of reflection" for the European Union.

The latest Standard Eurobarometer survey in October 2005 indicated that both the Member States and the European institutions would be well-advised to intensify their efforts to interact with citizens and explain the reasons for the European project, as the survey reveals a further weakening in the main indicators of support for the European Union.

Nonetheless, the majority of Europeans remain in favour of the Union's main policies and are also supportive of the adoption of a European Constitution.[1] The consensus reached by the heads of government in December 2005 on the financial perspective 2007-2013 also holds out a fresh promise of hope after the crisis in early summer 2005.

Alongside the Netherlands, it has become apparent that citizens in Belgium and Luxembourg increasingly doubt the benefits of European integration. They question whether Europe is really worth it for the individual citizen or Member State. Which political benefits are afforded by European integration? What about economic benefits? Is Europe worthwhile for smaller countries – such as the Benelux countries – as well, or are the benefits marginal at best?

In other words, what does EU membership mean for the three founding members, Belgium, the Netherlands and Luxembourg, today?

2. The Climate of Opinion in the Benelux Countries

In all three countries, there is sustained pessimism among citizens about the national economic and employment situation. Price increases, problems in healthcare systems, immigration, integration, terrorism and pensions are the key issues currently dominating national politics and influencing many citizens' opinion of Europe.

2.1 The Climate of Opinion in the Netherlands

Since the rise and death of right-wing populist Pim Fortuyn, the murder of film-maker Theo van Gogh and the ensuing ultra-right-wing attacks on mosques and Muslim institutions in November 2004, Dutch society has been in crisis. The Balkenende Government's massive cuts in public spending, reforms of the Dutch social systems, and plans to raise the retirement age from 66 to 67 and limit the possibility of early retirement have met with fierce resistance. Growth rates have fallen, jobless figures have risen, and in late 2004 national strikes disrupted the public transport system, with mass demonstrations taking place. This widespread disillusionment with national politics also influenced the debate on the European Constitution. However, it was mainly issues such as the Netherlands' status as a net contributor, immigration, the possible accession of Turkey to the EU, and concerns about the Netherlands' loss of sovereignty in an over-enlarged European Union that were targeted by the Constitution's opponents in order to transform the referendum into a protest vote against the government.

The Eurobarometer survey produced in October 2005 reflected this mood of uncertainty: after the murder of Theo van Gogh in spring 2005 (and the previous survey), concern about terrorist attacks increased from 22% to 40% (+18%). Europe and the opening of borders have created a sense of insecurity among citizens, with the number of "Eurosceptics" increasing as a result.

Nonetheless, 61% of respondents (-6%) perceive the advantages of EU membership positively. The number of citizens in favour of a constitution has risen again: 9% more than in spring 2005, i.e. a total of 62% of Dutch citizens, support the idea of a constitution for Europe.

2.2 The Climate of Opinion in Belgium

Since the conclusion of coalition negotiations between the Liberals and Socialists in July 2003, Prime Minister Guy Verhofstadt is now heading the Belgian Government for a second term. Due to Belgium's high unemployment (January 2005: 12.7%, i.e. 590.865 unemployed) and demographic change, the primary focus of Belgium's domestic policies is on job creation, consolidating social security, and increasing the efficiency of the police and justice system. As in the Netherlands, people are worried about the future, which is reflected in increasing Euroscepticism.

Just 45% (-11%) have a positive view of Europe. While the overwhelming majority (67%) of citizens regard EU membership as a “good thing” for their country, this figure has decreased by 8% since the previous survey. Moreover, 69% consider that they and their country generally benefit from EU membership, but here, too, a 4% decrease could be observed compared with the previous survey.

Nonetheless, as in the Netherlands, support for a constitution has increased (+1%), now standing at 77%. Despite all the growing scepticism, this figure reflects the Belgian population’s awareness of the need for an EU-25 that is capable of effective action – an awareness which is the outcome of the Belgium Government’s vigorous support for the European integration process and the draft Constitution.

2.3 The Climate of Opinion in Luxembourg

The Grand Duchy of Luxembourg is one of the most prosperous countries in the European Union: for example, GDP is twice the EU average, and Luxembourg’s economy is one of the most successful in the EU, achieving strong growth.

For that reason, the climate of opinion in Luxembourg differs from that of its two neighbours: the Grand Duchy leads the tables in the Eurobarometer survey: 82% of all Luxembourg nationals polled – 2% more than in the previous Eurobarometer survey – felt that EU membership is a “good thing” for their country, while 75% (+3%) perceive the advantages of membership positively. Support for the idea of a European Constitution is up by 6% among the Luxembourg nationals polled. In July 2005, in the wake of the "no" votes in France and the Netherlands, 56.5% of the electorate in Luxembourg endorsed the Treaty establishing a Constitution for Europe in a referendum. The Constitution's critics in Luxembourg had warned that it would erode the country's social achievements by allowing greater liberalisation and encouraging cheap competition from other EU states. So even in Luxembourg's comparatively strong economy, the debate about Europe has been dominated by concerns over jobs and social security. Other key issues in Luxembourg's domestic policy debate are education reforms, immigration policy, internal security and the environment. Luxembourg's sound economy – but also the vigorous endorsement of the Luxembourg Government and especially the Prime Minister, Jean-Claude Juncker – has resulted in an above-average level of support for the European integration project in the Grand Duchy.

The real benefits of European Union membership for Belgium, the Netherlands and Luxembourg are analysed in more detail below.

3. Economic / Financial Benefits of the European Union for the Benelux Countries

The EU's economic benefits are especially apparent for small countries such as Belgium, the Netherlands and Luxembourg. They profit primarily from the enlargement of their markets and access to 450 million EU consumers. While other countries were able to capitalise on economies of scale in industrial production early on, the smaller European countries had no such opportunities due to the limited size of their domestic markets.[2] This aspect tends to be taken for granted and is therefore overlooked in the debate about the economic benefits afforded by the EU.

3.1 The Netherlands

The Netherlands is an export nation with a trade surplus of €26.2 billion.[3] The trade balances show that most of the Netherlands' exports – 56% – go to other EU Member States. Germany is the Netherlands' principal trading partner: 27% of Dutch exports go to Germany. The value of imports of German goods into the Netherlands amounts to €47.9 billion, making the Netherlands the second largest market, behind France, for German goods. In total, the volume of trade between Germany and the Netherlands amounted to €93.4 billion in 2004. After Germany, EU Member States Belgium and France are the Netherlands' principal trading partners, with the US only ranking fifth.

The benefits of EU membership for the Netherlands as an export nation are quite obvious: the euro, as the common currency, makes payments faster and more straightforward and eliminates transaction costs in the euro zone. The introduction of the euro has driven forward economic and financial integration by making markets more homogeneous, and has promoted the development of new and innovative products and technologies. It reduces the risks associated with exchange rate fluctuations, and stands for transparency and fair competition between the euro zone countries. A study by the European Commission estimates that this saves the euro zone countries around 0.4% of EU gross domestic product – around €30 billion in 2004.

The European internal market has enabled massive savings to be made on customs duties and facilitates trade between the individual EU Member States. Enlargement has opened up the Netherlands' access to new and expanding markets.

The trade surplus increased by €10,831 billion in the accession year 2004 compared with the previous year. Of this figure, €862 million can be attributed to the new Member States. The greater economic integration resulting from enlargement offers Dutch companies the potential for substantial cost benefits. This in turn opens up the prospect of major profits for the economy as a whole, with the Netherlands benefiting from lower prices for consumers and companies and a larger volume of trade.

The Port of Rotterdam is an important hub for the international and intra-European movement of goods. As the world's third largest port, Rotterdam is also a major economic centre in Holland and, indeed, Europe, – due to international customs revenue – as well as being an important cargo junction for trade between the European Union and the rest of the world. In 2002, for example, 15% of the total volume of cargo transhipped in EU ports was transhipped in the Netherlands, which thus ranked second behind the United Kingdom (18.5%). Rotterdam handles export freight from other EU countries with no direct access to the sea but which still use maritime transport. The European Union thus plays a role in generating additional revenue for the port.

This unique position in Europe offers the Netherlands clear benefits compared with other countries and attracts many companies into the Netherlands, thus ensuring economic growth and prosperity. In September 2004, a survey by the *Economist Intelligence Unit (EIU)* rated the Netherlands the most attractive business location in Europe and ranked it second in the world after Canada. This favourable image is due, not least, to its membership of the EU.

The single currency, the euro, and lack of complex border procedures also benefit the tourism sector in the Netherlands.

The Netherlands is one of the net contributors to the EU. Its net contributions must therefore be set against the "indirect" economic benefits described above. Nonetheless, at the last summit of Heads of State or Government in December 2005, the Dutch Government managed to secure a deal whereby the Netherlands' contribution will be reduced substantially in the coming years. This was a response to the domestic policy debate during the referendum on the Constitution, which had highlighted the issue of the country's excessively high contributions to the EU. According to current estimates, the Netherlands' net contribution rate for the period 2007-2013 will thus be reduced from an average of 0.44% of GDP in 2004 to an average of 0.33% of GDP (*Frankfurter Allgemeine Zeitung).*

Direct subsidies from the EU totalled €2.115 billion in 2004. Of this, €60.6 million went towards administrative costs, €366.1 million were targeted to internal policies, €355.3 million to structural measures, and most of the EU aid – i.e. €1.3329 billion – was paid as agricultural subsidies.

The European Commission estimates that in the period 2008-2013, the Netherlands' net balance will amount to -0.55% of GNI (maintaining the present mechanism and without applying any corrections).

When considering these figures, it must be borne in mind that the EU, as emphasised at the start of this paper, cannot be reduced solely to its economic or political aspects. Nor should it be forgotten that the benefits of an open and in particular an enlarged market in which all companies face the same fair competition are more difficult to express in simple figures than the contributions to, and funding from, the EU budget.

3.2 Belgium

According to the German-Belgian-Luxembourg Chamber of Commerce, Belgium ranks as the world's tenth-largest trading country, with EU Member States accounting for around 75% of its external trade. Germany is Belgium's principal trading partner for both imports and exports. Belgium thus benefits from the advantages associated with the internal market and the euro. In international terms, Belgium actually has the highest external trade share in GDP. The Port of Antwerp's role in this context must not be overlooked: it handles more than 60 million tonnes of transit transport every year.

Belgium's export figures have also increased as a result of EU enlargement, with Belgium increasing its trade surplus by €1.406 million in 2004 alone compared with 2003. Of a trade surplus totalling €23.205 million, €1 503 million came from the EU-25's new Member States. The enlargement of the market and the associated benefits for Belgium, as a smaller country, are apparent from these figures.

Belgium's capital, Brussels, is also Europe's capital. The European institutions in Brussels, not to mention the countless business organisations which have opened offices there to represent their interests vis-à-vis the European Union, ensure that there are plenty of jobs for Belgium's workforce. Within just a few years, Brussels became a prestige city and, thanks to additional factors such as its central location in Europe, the absence of capital and wealth tax, and its well-developed infrastructure, it is now one of the most popular business locations in Europe. The German-Belgian-Luxembourg Chamber of Commerce recently ranked Brussels the fourth most attractive business location in Europe.

The Belgian daily newspaper *La Libre Belgique* (16 January 2006) reports, for example, that Brussels far outstrips its rivals as the "world capital of translation". Around 1.000 translators are employed by the European institutions alone, and there are a further 2.700 translators working on a freelance basis.

According to a recent publication by the European Commission's Directorate-General for Personnel and Administration, 16.127 people are employed by the European institutions in Brussels, amounting to 72% of the EU's total staff. For Brussels, this means jobs and economic development. The increased demand for housing and a well-developed infrastructure, together with tourism, encourages further GDP growth. The European Commission predicts that for 2005, Belgium can again expect further GDP growth, amounting to 2.1%, putting it ahead of the EU average (1.9%).

Belgium's contribution to the European budget shows a positive net balance once administrative costs are factored in. This means that Belgium benefits from its EU membership inasmuch as it receives more from the Community funds than it pays in. In 2004 its contribution to the EU amounted to €4.091 billion (according to European Commission figures, May 2005), whereas payments from the EU to Belgium amounted to around €4.9 billion. This included €2.7732 billion in administrative costs, €729.3 million for internal policies, €351.4 million for structural measures and €1.0836 billion in agricultural subsidies.

For the period 2008-2013, the Commission anticipates that Belgium will again show a net balance of +1.32% of GNI on average (maintaining the present mechanism and without applying any corrections).

3.3 Luxembourg

If Luxembourg's trade is compared with the other two countries, it is apparent that again, a large percentage of its imports (74.7%) and exports (57%) are undertaken with its immediate neighbours. According to information supplied by the German Federal Foreign Office, 25% of Luxembourg's imports come from Germany, 37.4% from Belgium and 12.3% from France. The export figures are similar: 25% of Luxembourg's exports go to Germany, 20% to France and 12% to Belgium.[4]

Compared with other European countries, Luxembourg benefits very considerably from transit transport. For example, Luxembourg recorded "the largest proportion of transit transport, accounting for 86% of inland waterways transport [in Europe]".[5] This is primarily due to its central location in Europe. With trade being facilitated by the internal market, Luxembourg is increasingly being used by its export-strong neighbours as a "through station" on the northward journey to the ports of Antwerp and Rotterdam. This fact and the presence of the EU institutions in Luxembourg have naturally resulted in improved infrastructure development, which is also having a positive impact on the tourism sector. Indeed, 62.7% of holiday-makers come from neighbouring countries: 23.7% from Belgium, 15.2% from the Netherlands, 13.6% from Germany and 10.2% from France.

As a small Member State, Luxembourg benefits particularly from enlargement as well. Since the accession of the 10 new Member States in 2004, Luxembourg's trade surpluses with the newly acceded countries have risen continuously. In 2004, €233 million flowed into the Grand Duchy from these countries, compared with just €88 million in 2003. This is an increase of more than 50% in a year. Poland contributes most to Luxembourg's profits, accounting for a trade surplus of €77 million, followed by the Czech Republic (+€52 million) and Hungary (+€38 million). If these figures are compared with the costs of EU enlargement for Luxembourg, statistics produced by the European Commission in 2004 reveal that its share – 0.2% – was the lowest of all the "old" Member States. Luxembourg has traditionally attached particular importance to cultivating its relations with the Central and Eastern European Countries. In 2004, goods with a value of €15 million were exported to Romania; the figure for 2005 was €13 million. These figures are likely to increase further after Romania's accession to the EU and the further expansion of Europe's internal market.

As the seat of other EU institutions such as the European Court of Justice, the European Investment Bank, the Court of Auditors and the secretariat of the European Parliament, the Grand Duchy has great appeal for companies and banks, and new jobs are being created all the time. Luxembourg's economy has benefited from this process for years.

According to a press release from the German-Belgian-Luxembourg Chamber of Commerce, Luxembourg is likely to achieve above-average economic growth in the coming year: predicted GDP growth for 2005 was increased from 3.8% to 4.2% for 2005 and from 4% to 4.4% for 2006.

The statistics on business start-ups in EU countries also reveal that among the old EU-15, only Luxembourg has continuously registered a business "birth rate" above 10%.[6] This in turn confirms that thanks to the European Union, Luxembourg is not only gaining in prestige as an international financial centre; it also benefits from sustained growth, employment and prosperity as a result of its EU membership.

The EU institutions established in Luxembourg provide numerous jobs. At present, 3,149 out of a total of 22,389 EU jobs are based in Luxembourg.[7] In addition, according to the German-Belgian-Luxembourg Chamber of Commerce, around 8,000 people are employed in work "related to Europe". This benefit is especially apparent from the EU's budget figures: in 2004, out of a total of €1.0825 billion, €945.9 million in administrative costs flowed to Luxembourg, €29 million was paid to the Grand Duchy for structural measures, €68.7 million for internal policies, and €38.9 million in agricultural subsidies. By contrast, Luxembourg's Government paid relatively little – €238 million – into the EU's coffers in 2005.

The Grand Duchy of Luxembourg does not have a university of its own. Luxembourg's school-leavers therefore have no option but to study abroad. EU membership brings further benefits in this respect: the Bologna Process now under way, which is aimed at the harmonisation of national higher education systems and the recognition of qualifications throughout the EU, makes it much easier for Luxembourg's citizens to study elsewhere in the

EU. Some 1,200 Luxembourg nationals are currently studying at German institutions of higher education.[8] Out of a total of 6.288 students from Luxembourg, 19.6% are registered at German higher education institutions, 22.6% in Belgium, and 22.6% in France.

4. Political Benefits of the European Union for the Benelux Countries

Today, the internationalisation of many different policy spheres determines the nation-states' foreign policy. There is increasing intermeshing of countries' external relations at trans-national level in a process which also involves non-government actors, i.e. civil society. For the EU, this means that the individual Member States can achieve less on their own. In today's increasingly complex and globalised world, no country can deal successfully with "classic" policy fields – such as foreign and security policy – on its own, or indeed withdraw from them all together. However, other international policy spheres and issues – energy policy, environmental protection, development policy, terrorism, proliferation of weapons of mass destruction, the opening of new markets worldwide, and more intensive competition – also cannot be resolved on a purely national basis; coordination and cooperation are essential in all these areas.

The European Union is a response to these concerns. It offers advantages, especially to the smaller Member States such as the Benelux countries, and grants them more authority worldwide through the European framework. In this context, it is especially important to mention that under the current system, there is relative over-representation of Belgium, the Netherlands and Luxembourg compared with the large countries in the weighting of votes in the Council, due to an adjustment in favour of countries with a smaller population.

The Benelux countries thus have greater opportunities to exert influence, both within the EU framework and also in the international arena. After all, cooperation among the EU Member States does not end at European level. It continues in the international arena too: in the United Nations (UN) and in the Organisation for Security and Cooperation in Europe (OSCE). The EU is an important partner for both these organisations. Nowadays, small countries such as Belgium, the Netherlands and Luxembourg can only influence the decisions adopted by the international organisations from within the EU framework: within the EU, there is an increasing level of coordination of the positions to be adopted in the OSCE and the UN. In the United Nations General Assembly, with its 191 member states, the EU now holds more than 1/8 of all the votes. In these institutions, an individual country – particularly in the case of the small Benelux countries – finds it almost impossible to gain a hearing. Only the European Union opens the door to the world stage for the Benelux countries.

The EU Member States benefit from the EU's role in the UN and OSCE in very practical terms too: a meeting at ministerial level takes place once a year between the EU and the Secretary-General of the United Nations as part of the regular meetings held within the EU-UN framework. The Deputy Secretary-General of the United Nations and other high-ranking UN officials regularly visit the European institutions in Brussels and Luxembourg. Sixteen specialised agencies of the UN have now opened offices there as well, with good reason. Regular meetings are held between UN officials and the European Council's Political and Security Committee. The EU Member States thus benefit in tangible ways from an increased exchange of information between the EU and the UN, and among the EU ambassadors to the UN and the OSCE.

After the murder of Theo van Gogh in spring 2005, concern about terrorist attacks increased among the Dutch population, as is apparent from the Eurobarometer survey undertaken in October 2005. In Belgium and Luxembourg, too, the figures have increased in recent years. Combating terrorism is a key priority on the foreign policy agenda of all three countries.

Through the European Union a coordinated approach can be adopted to combating international terrorism. Soon after the terrorist attacks on 11 September 2001, the EU adopted a Plan of Action on Combating Terrorism, which contained more than 70 measures/actions; in March 2004, it adopted a Declaration on Combating Terrorism with seven strategic objectives as the basis for a common approach to combating terrorism, and in November 2004, it endorsed the Hague Programme. An EU Counter-Terrorism Coordinator was also appointed, and cooperation between the intelligence services in this area has been improved. The office of the EU Counter-Terrorism Coordinator is the main clearing house for intelligence gathering and sharing among all the EU Member States, thus providing an overview of possible threat scenarios. This sharing of information among the various police and security agencies in the Member States is the basis for effective anti-terrorism. Gijs de Vries from the Netherlands has been appointed to this key international post.

The draft Treaty establishing a Constitution for Europe also contains a solidarity clause which states that the Union and its Member States shall act jointly in a spirit of solidarity if a Member State is the victim of terrorist attack or natural or man-made disaster. In the European Convention which drafted the Constitution, Belgium, the Netherlands and Luxembourg lobbied explicitly for the introduction of this clause.

However, the European Union not only provides mutual assistance in the event of a terrorist attack; it also combats the causes of radicalisation and terrorist recruitment. With its joint approaches in the area of development policy, the EU not only contributes to poverty reduction, but also targets the roots of terrorism and armed conflicts which also pose a threat to the EU Member States.

The EU plays a key role, too, in combating international organised crime – from illegal arms and drug trafficking to child pornography and money-laundering – as well as illegal immigration, human smuggling and human trafficking. As a result of the current situation and public debate, the Netherlands attaches particular importance, in its foreign policy agenda, to trans-national police and judicial cooperation, the establishment of a common European asylum system, and more intensive control of external borders. The Dutch Council Presidency therefore presented the Hague Programme in October 2004, setting the objectives to be implemented in the area of freedom, security and justice. The other Member States have also recognised the urgent need to address these trans-national problems jointly within the EU framework.

The EU Member States' cooperation within the framework of the European Police Office (Europol) and Eurojust, the EU body designed to improve judicial cooperation, enables the EU Member States to tackle these problems efficiently and establish an effective system of protection. Europol and Eurojust supply the EU Member States with information and help them to adopt preventive measures and bring prosecutions. Both agencies have their headquarters in The Hague, thus contributing to The Hague's international reputation as the "legal capital of the world".

For Belgium in particular, where the debate about immigration plays a particularly important role at present, the establishment of a common European asylum system, together with more intensive control of the EU's external borders, is especially important. On their own, national measures do little to curb illegal migration flows. If they are to be effective, such controls must be implemented as close to the source as possible, starting with the countries of origin and transit countries. Through its poverty reduction and development programmes, the EU is the appropriate framework for action in this context. Neither Belgium nor the Netherlands nor Luxembourg can perform this function alone. They benefit from intra-Community and international cooperation within the EU framework.

As the number of asylum applications in Belgium rose by 4% in 2005 compared with the previous year, Belgium has an interest in closer cooperation among EU Member States not only to combat illegal immigration, but also in relation to asylum. In order to address the causes of the refugee situations more effectively and identify long-term solutions, especially for the conflicts which have lasted for years in the refugees' countries of origin, coordination with third countries is essential, and Belgium cannot achieve this on its own. The countries of origin of most refugees in Belgium (i.e. Chechnya, Rwanda and the Democratic Republic of Congo) make the international dimension of this problem clear.

The Benelux countries benefit from EU-wide cooperation in many different areas. EU-wide networking in research is also important, for example. The EU's GALILEO satellite project is a good example. The individual Member States would find it quite impossible to undertake a project of this financial magnitude on their own.

The European Union is a community founded on the principle of peaceful relations and shared values, which are now enshrined in the Charter of Fundamental Rights. It is keen to promote these values beyond its borders and act as a role model in the world. The more countries commit to these shared values, the easier it is to present them convincingly in the international arena.

The Kingdom of Belgium's foreign policy, according to its own definition, is based first and foremost on adherence to values such as respect for human rights, democracy and the rule of law, good governance, environmental protection, sustainable development, regional conflict prevention and respect for international law. In a community such as the European

Union, which shares these common values, Belgium can achieve more by contributing to the shaping of international policy on a joint basis, thus gaining in influence. It can lobby more intensively for consideration to be given to the ethical dimension of foreign policy and bring its values to bear more fully. For example, Belgium attaches particular priority to a coordinated approach by EU Member States in the context of arms exports controls for countries with a poor human rights record, and has already tightened up its own arms export control regime.

A specifically Belgian issue arising in the context of EU membership is the conflict between the two major language communities – Flemish and Walloon – in Belgium. Tensions increased noticeably during the 1960s, when the widening economic gap between the prosperous region of Flanders and industrial Wallonia further fuelled the conflict. This resulted in the adoption of a federalised and decentralised system, which drove the communities yet further apart. The EU offers not only an integrative framework with which all Belgians can identify, but also actively addresses the social imbalances between the regions within the EU, as well as the problems that these imbalances cause. Every year, the EU disburses structural funding and financial support for internal policies to its structurally weak regions. This funding eases the burden on the national budgets and, in Belgium's case, evens out the economic gap between the two language areas.

Nevertheless, this is not the only reason why the present Belgian Government is a fervent advocate of the further development of the EU. According to Belgian Prime Minister Guy Verhofstadt in his book *The United States of Europe*, an EU which recognises the identity and specific cultural characteristics of its Member States must be developed further. He explicitly calls for the deepening of the European integration process and appeals for a Europe which has viable and effective institutions as well as budgetary autonomy.

Successive governments of Luxembourg, too, aware of the benefits and opportunities afforded by the EU, have supported their country's membership from the outset and have driven forward the development of the Union. The Grand Duchy has gained a reputation as a pro-active player in the development of European Union policies. In particular, the current Prime Minister of Luxembourg, Jean-Claude Juncker, has utilised the opportunities to raise his own and his country's profile at European and international level. Over the last two decades, he has been a key player in almost all the progress made on European integration and is regarded as a pioneering thinker behind the United Europe. His call for a prominent role for the EU, especially in security and defence policy, reads as follows: "It is essential for us to achieve more commonalities on matters of European security, defence and foreign policy, for us to be more mindful than before of our European responsibility, and to formulate and implement a common policy. And what applies to foreign and security policy is right for European development assistance too. The international economic order remains fundamentally unjust, and Europeans can do much to make matters more just and simpler for the people. That is why development assistance is also a European project. The European Union should serve as a model on this issue for the whole world. That is why we in Europe must ensure that the contributions we are able to make for the rest of the world are also in line with our ambitions for ourselves."

This statement makes one thing very clear: if the Member States wish to lobby at the international level for the values which are defined as "European", cooperation within the EU is both an opportunity and a necessity.

5. Conclusions

Nowadays, most economic and political challenges are international. Common policies within the EU framework strengthen national and European values and guarantee a framework for action for the individual Member States in a globalised environment. Acting on their own, the nations would probably no longer be able to assert themselves in the world markets. Under Europe's protective mantle, they can maintain their position. No country can master today's security policy challenges alone. The EU's common foreign and security policy can respond to these challenges more effectively.

As is apparent from this paper, the European Union affords many benefits to its Member States. As small countries, the Benelux countries benefit in particular from their integration into the EU. Firstly, through their membership of the European Union, they gain in authority in the international arena and can exert greater influence over world events. Secondly, they derive substantial benefits from economic agreements, the single market and economic and monetary union. As a "body to overcome the disadvantages of smallness"[9], the EU benefits Belgium, the Netherlands and Luxembourg in economic and political terms.

All in all, the EU is vital for the Benelux countries. It provides stability, assists in identifying solutions to trans-national problems such as terrorism, environmental pollution and poverty, and makes life much easier for private individuals in a variety of ways, including the freedom to enter 25 different countries and a single currency that can be used in 15 of them.

The policies and commitment of all the governments, past and present, of these three founding members of the EU show that they consider European integration to be essential for the articulation and assertion of their national interests.

Europe is worth it! ■

[1] Cf. Eurobarometer 64 (December 2005): http://europa.eu.int/comm/public_opinion/archives/eb/eb64/eb64_first_de.pdf

[2] Cf. Sinn. Hans-Werner: „Finsterer Merkantilismus“ [Dark Mercantilism], Wirtschaftswoche, 09.02.2006.

[3] Cf. Eurostat: ‘Euro-zone external trade in balance’ (October 2005).

[4] NB: as at July 2005.

[5] Eurostat: ‘Inland waterways freight transport in Europe in 2004’. (Manuscript completed 12.01.2006)

[6] Eurostat: ‘Business Demography in Europe - results from 1997 to 2002’. (Manuscript completed on 30.09.2005)

[7] European Commission, Directorate-General for Personnel and Administration: „Personalbestand im Jahr 2006“ [Staffing in 2006].

[8] Cf. Federal Foreign Office, Country Information, Luxembourg (as at: July 2005).

[9] Cf. Sinn, Hans-Werner: „Finsterer Merkantilismus“ [Dark Mercantilism], Wirtschaftswoche, 09.02.2006.

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Czech Republic

Stefan Gehrold

1. The Czech Republic: Back at the Heart of Europe

Since the upheaval in Eastern Europe in 1989, the Czech Republic has undergone enormous changes. The communist regime was replaced by liberal values and the one-party state by a pluralist democracy. The centrally planned economy was abolished and the free market economy introduced. Privatisation reduced the role of the State in the economy. Lastly, with the peaceful separation from Slovakia, the Czech Republic became fully independent.

So why give up this independence and become subordinate again – this time within the European Union (EU)? This became an increasingly common question in the 1990s, particularly in view of the rapid upturn in the economy.

After the Second World War, Czechoslovakia, bordering what was then West Germany, was on the very front line of the Cold War. It witnessed both its own stagnation and decline and, with the founding of the European Community, the emergence and blossoming of a new political and economic power right on its doorstep. Yet it was cut off from trade, cooperation and exchange with Western Europe. What it lost as a result became clear after the change in 1989, since which time more than 60% of the Czech Republic's trade has been with European Union countries. Foreign investors started to show an interest, but all too often were put off by red tape and the lack of legal certainty. The step of joining the EU had to be taken to avoid being sidelined once again while other transition countries became members.

The Czech Republic's multi-faceted history is proof that it belongs at the heart of Europe, and the golden city of Prague bears witness to the fact that today's Europe also has its roots in the Czech Republic. It is therefore not surprising that the people of the Czech Republic never lost their awareness of being European, and that accession was supported wholeheartedly by all parties despite repeated outbursts of anti-European populism.

Almost two years after joining the European Union in May 2004 it is time for the Czech Republic to take stock and to examine whether expectations have been fulfilled and challenges overcome, and whether the European Union is worth it for the country on the Vltava.

2. Europe: Worth It Economically and Financially

The Czech Government applied to join the EU on 23 January 1996. Far-reaching decisions followed, laying the legal, political and economic foundations for the Czech Republic's long-term involvement in the European free trade area. The Czech Republic was also covered by additional aid measures for the applicant countries and received extensive financial support and advice from the responsible EU bodies. This help from Western Europe had a symbolic effect on the Czech Republic and all the other Eastern European transition countries, even before any binding agreements were signed: the West was looking for friends, not for outlets for its own products. The idea was to create an area of thriving economic development based on common cultural, religious and historical values in order to ensure lasting peace and prosperity.

As with the other applicant countries in Eastern Europe there was still a long way to go, with huge challenges that called for a great deal of courage to make changes. Now that it has finally joined, however, the Czech Republic is enjoying all the advantages of the single market: no customs duties for exports within the EU, common external customs tariffs for all EU countries, free movement of goods, capital and services, the freedom to work anywhere in Europe, and lower transaction costs as a result of the abolition of border controls on the movement of goods.

Rapid Growth since 2004

The effects of these and many other advantages immediately became apparent in 2004. Exports to the EU grew by around 25% that year, and imports upwards of 20%. The share of foreign trade with the EU countries increased to almost 80%, with Germany the Czech Republic's main trading partner, accounting for 30% of both imports and exports. By the end of 2005 the balance of trade was in equilibrium. In 2003 there was a deficit of € 2.18 billion, but this was cut to € 649 million in 2004 by an increased share in exports of industrial products and services. Early in 2005 the deficit was reduced further, so that after the first six months there was actually a trade surplus of 1.5% of GDP.

The Czech economy is primarily relying on developing industrial production. Even among the Warsaw Pact countries Czechoslovakia was one of the most heavily industrialised regions and therefore has a long tradition to draw on. Since joining the EU in 2004 this sector of the Czech economy has become hugely more attractive. Foreign firms are now involved in around 50% of Czech industrial production, accounting for a total of 70% of Czech exports. In 2005 industry confirmed that it was driving economic growth, with the 11% increase in production on the previous year exceeding all expectations. The main production sectors are motor vehicles, rubber and plastics processing, and mineral oil refining. These products sell well on the EU market.

Growth through Thinking European

The Czech Government has cleverly used the benefits of EU membership to speed up privatisation and bolster foreign direct investment. The "CzechInvest" State agency has helped interested parties in other countries to find suitable targets for investment and to get through the necessary approval procedures. In the field of exports a number of branches of the State-appointed "CzechTrade" agency are looking for possible markets throughout the EU. The Czech Republic has established itself as an attractive trading partner in the Union.

The Czech Republic contributes to the EU budget, like all the other Member States: in 2005 it contributed €555 million. In 2006 the figure will be around €1.1 billion and in subsequent years slightly more. The Czech government first has to approve the financial perspective for the EU budget for 2007-2013. But the Czech Republic also benefits here.

The economic growth rate has settled at around 5%. Thanks to the high volume of exports and the restructuring and modernisation of the national economy with the help of EU funding, even higher growth could be achieved in the near future. In the first six months of 2005 the Czech national budget recorded a surplus of € 100 million, which was used to reduce the tax burden on those with medium and low incomes. The level of new borrowing was also cut. Without the benefits of EU membership, figures like these would be unthinkable.

According to the acting head of government, Jiří Paroubek, the Czech Republic hopes to bring its GDP up to the EU average by 2013 at the latest. Direct investment, now easier in the EU single market, will help to achieve this target, but it would be a pipe-dream without wide-ranging EU financial support for the Czech economy. The Czech Republic receives just under € 2.5 billion from the Structural Funds, plus a further € 480 million from the Cohesion Fund. Considerable progress has already been made in transforming the structure of the Czech economy away from the dominance of agriculture, which previously accounted for almost 20% of all those in active employment and 6% of GDP, but with low productivity, to a highly industrialised economy with a modern services sector. Aid is still urgently needed to expand infrastructure and improve worker mobility, however. The Czech Republic could not overcome these challenges alone.

The Economy on Track to Catch Up

Following on from 2004, 2005 has also been a record year for the Czech economy: growth is steady, the balance of trade positive, and industry is developing with the help of growing foreign investment. The Czech Republic is on the path to success. Would this sort of development be conceivable without EU membership? It is unlikely. The Czech Republic would be excluded from the largest single market in the world, with 480 million inhabitants. Exports would incur customs duties, and Czech products would face higher taxes abroad compared with those from the EU. The security achieved by having harmonised legislation would be lost, as would the free movement of capital, and this, together with the existence of administrative barriers, would make the country less attractive to foreign investors. The absence of international investors (predominantly European, as the figures show) would not just lead to a chronic lack of capital, there would also be none of the know-how brought by foreign investors which the Czech Republic's knowledge-based economy urgently needs. The Czech Republic would be sidelined, watching the further development of the European economic area and unable to overcome its structural and development problems on its own because of the lack of financial assistance.

The country has shown that the situation is quite different. The Czech Republic has actively pursued the development of its own economy, converted the advantages of EU membership into growth and thus shown that, for the Czech Republic, the EU is certainly worth it!

3. Europe: Worth It Politically

Today the Czech Republic is a permanent part of the West's security network. As well as joining the EU the government in Prague also joined NATO in 1999. In the late 1980s Czechoslovakia was still one of the Warsaw Pact members, but within just a few years a former enemy had become a good friend and neighbour. With the accession of the countries of central and Eastern Europe – the former satellite states of the Soviet Union – the central idea behind a united Europe is once again becoming clear: to establish an area of peace and security where stability and prosperity can grow.

A New Security Dimension

In contrast to the five decades after the Second World War the Czech Republic today forms part of a system of reciprocal security within the EU. This system is based not on the imposition of a policy from a distant capital, but on the development of a common security structure that involves all members on an equal footing.

Through its membership in the European Union the Czech Republic has seen its national stature recognised and has certainly not surrendered its own identity, as populist groups have repeatedly claimed. Only when it finally joined the EU were its borders confirmed and secure from the sort of outside intervention that Czechoslovakia suffered in the 20th century. Joining the EU has also now given the Czech Republic, like all the other transition countries of central and Eastern Europe, a certain level of protection against potential demands from Moscow. This has been an important consideration for many people in Central and Eastern Europe. The Czech Republic is also better prepared in the European network to deal with crises in the post-Soviet area in the Near East and the Caucasus.

As a member of the EU the Czech Republic can face all the challenges of a globalised world with confidence. Within the Union it stands side by side with 24 other countries that can work together to combat the dangers of international terrorism and organised crime. The Czech authorities can use Europol's know-how and databases and rely on support from all the Member States' police forces in the fight against human and drug trafficking, prostitution and car trafficking. As the "hinterland" of the EU's border with Eastern Europe, the Czech police have a special role to play in monitoring transit traffic. The country benefits here from extensive help from the EU in the form of technical equipment and specially trained police and security forces.

Unafraid of Globalisation

The Czech Republic can rely on the protection of the EU single market against the booming economic giants in Asia and the danger that its markets will be flooded with cheap products and copies. Given Asia's two billion population, US dominance and Russia's burgeoning ambitions to be a great power again, a country like the Czech Republic with only 10 million people could quite easily come under undesirable influences. In a Union with another 470 million people the Czech Republic can be more proactive in the international community. As a result of the economic attractiveness associated with EU membership, the increasing development of its own strength and its inclusion in a comprehensive European security structure, the government in Prague can rely on strong partners and assert its own ideas more forcefully on a totally different level. Without its inclusion in the EU there could be the risk of falling back into old dependencies or even isolation.

Stable Values

The Czech Republic is also reaping the rewards of EU membership at the national level. Instability in the post-Soviet area and the transition countries of Central and Eastern Europe shows that fledgling democracies, human rights, protection for minorities and freedom of the press are not yet secure and face numerous dangers. The exchange of cultural values in the EU has created an area where old prejudices and hostilities are disappearing and new friendships are being forged. Economic integration, easier travel and the abolition of labour restrictions are bringing people closer together, making new wars and conflicts, which Europe has repeatedly triggered in the past, unlikely. Twinning arrangements between towns and local authorities, schools and sports clubs, political parties and associations build up a foundation of trust that allows populism and radicalism no room to grow. The development of European values and the transfer of knowledge and experience within the EU give its citizens a great deal of security.

4. Europe: The Czech Republic Cannot Do Without It

In its long shared history the Czech Republic has already shown that it is indisputably part of the European community of values. Even fifty years behind the Iron Curtain could not suppress this feeling of common identity. Today the Czech Republic is one of the forces driving growth among the new Central and Eastern European members. Czechs have quickly learned the rules of the single market and skilfully applied them to benefit their own development.

The Czech Republic's growth would be inconceivable without the advantages of a common European economic area. Markets would be closed off, foreign direct investment would face barriers, some of them insuperable, and EU aid would be unattainable. It would be impossible to drive forward the modernisation of infrastructure and the reorganisation of the economy without the pressure of European competition, the attraction of lucrative profits in duty-free export trading, and European aid. There could only ever be limited growth in such an isolated position.

Without EU membership the Czech Republic would be facing the problems of globalisation alone. Terrorism and crime can only be tackled at the level at which they operate – internationally. But it would clearly be more difficult for the police and investigating authorities and for the military to cooperate trans-nationally without a common foundation – EU membership.

Today the Czech Republic is clear proof that membership of the EU is worth it. In economic terms the country is experiencing record development year on year, and on a political level democracy and pluralism are taking root. In cultural terms the country is benefiting from the flourishing exchanges of students, schoolchildren and trainees and between countless twinned towns and local authorities. Travel restrictions are a thing of the past, and people can now go where they want. It is clear in every respect that the Czech Republic cannot do without Europe. ■

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Estonia

Veiko Lukmann

1. Background

Estonia could probably live without the EU. The question rather is, could we live as securely and could the future be potentially as prosperous if Estonia was not a member of the EU?

Germany or Great Britain would probably have no security problems living without the EU. For new member states this is crucial.

There is a difference between old Member States and new Member States' relationship with the EU. Being a member of the EU for the new Member States is a fresh experience that brings many changes. The changes appear in many fields and are most noticeable in the content of media. Changes are also seen in daily life.

As the differences are noticeable already by definition and old Member States have been members of the EU for a longer period of time, the presence of the EU might be less evident in the states of “Old Europe”. Therefore, these states may tend more to think that they could do without the EU. These states’ attitude towards the EU may also be different from that of the newly joined Member States since the older (and larger) states contribute more to the EU budget.

The differences are also obvious in historical perspective. The Soviet Union’s occupation of Estonia left marks in the minds of the Estonian people that will not easily go away. The Estonian people’s experience of communism and totalitarianism in the post World War II era is quite different from the experience of people in “Old Europe”. This experience will continue to affect Estonia’s political decision-making process. Particularly, these differences will be evident in Estonia’s foreign policy relations with Russia.

The outcome of the past and present differences between Estonian experience and that of “Old Europe” is that there continues to be a feeling of “us” and “them”, despite Estonia’s accession to the EU.

Although the EU is probably more present in the minds of Estonians (and other new Member States’ citizens) than it is in the citizens of the EU-15, citizens in all Member States distinguish between the EU and their own individual countries. The native country is thought of as “us” while the EU is always “them”. So, the question arises: How can a sense of European identity and the importance of the EU be strengthened? Much has already been done. The EU has already made a difference for Estonia.

This paper will take a closer look at how Estonia has been benefiting from being a member of the EU and recommend possible strategies for raising the profile of the EU in all Member States.

2. Financial and Economical Benefits from EU-Membership

In 1992, after gaining independence, 92% of Estonian trade was with Russia. This was to change rapidly as Estonia turned towards EU and away from Russia. On May 1, 2004, Estonia joined the EU.

Today Estonia's main trading partners are the EU Member States. After the most recent enlargement round, the EU block accounts for more than 80 of Estonian trade. Estonia's economy is highly integrated with the EU economies. Most of Estonia's foreign investments now come from the Member States, both as direct investments and through the financial sector.

Benefits from Structural Funds

Estonia was already benefiting from EU funds before becoming an EU member.

Between 1992 and 2003 Estonia used about 330 million euros of EU funds through the PHARE program.

Now a European Union member, Estonia will have the opportunity to take part in the regional policy of the Community and to receive even more financial assistance from the EU budget. Between 2004 and 2006 Estonia will receive 372 million euros in Structural Funds aid.

The four Structural Funds that Estonia is benefiting from are the European Social Fund (ESF), European Regional Development Fund (ERDF), European Agricultural Guidance and Guarantee Fund (EAGGF), and the Financial Instrument for Fisheries Guidance (FIFG).

The largest share of the money (227 million Euros) comes from ERDF. As Estonia is a small country of 1.3 million inhabitants the amount of money transferred to it is being noticed. Local municipalities and companies are using the money quite effectively, but there is still much to learn about using EU funds to achieve maximum utility.

The 76 million euros from ESF are less noticeable in Estonian daily life. The Estonian economy shifted its orientation from east to west very rapidly. New technologies and changes in production have led to a lack of competency in some fields of the labour market. ESF funds are thus being put to good use in developing human resources capabilities.

About 57 million euros of EAGGF funds have been devoted to improving rural living conditions in Estonia. Significant social problems still exist in some rural areas, a result of the collapse of agricultural production after losing Russian markets in 1992.

The 12.5 million euros of EU funds from the FIFG are being implemented in Estonia through the Estonian National Development Plan (NDP).

The Baltic States have been the most successful in implementing the Structural Funds; other new Member States have used the funds more moderately. By the end of 2005, more than 20% of the total amount of Structural Funds had been distributed to final recipients in Estonia. By the year 2008, the end of Structural Fund assistance, more than 90% of the funds allocated to Estonia will have been distributed.

In addition to the above four funds, the Cohesion Fund has been helping to finance large-scale environmental and transport investments.

Cohesion Fund resources are probably the most apparent to the Estonian public as these funds are being used to improve public infrastructure. 309 million euros will be invested in projects between 2004 and 2006.

Although many projects are already enjoying great success, some problems have arisen. Environmental projects, for example, have a minimum cost in order to be financed from the Cohesion Fund. The majority of Estonian municipalities are too small to use or even apply for projects that have to cost at least 10 million euros. Municipalities have formed partnerships in order to use the money, but the process is complicated. Still, the Cohesion Fund is being put to most effective use in Estonia.

Unlike most European national railways, the Estonian rail system is privatized, making it difficult to use EU funds for railway investments. Estonia lacks the capabilities to use EU funds to improve roads. Funds will therefore be used to rebuild Tallinn Airport.

Agricultural Benefits

Agricultural projects are being processed by the Estonian Agricultural Registers and Information Board (ARIB). ARIB was founded as the agricultural and rural agency in 2000, the first accredited fund distribution agency in the candidate countries. In 2001, 122 projects were financed for 17.9 million euros. SAPARD (Special Accession Programme for Agriculture and Rural Development) support then constituted 7.6 million Euros of it. During the years 2001-2004 Estonian agriculture and rural life was supported by SAPARD with 70 million euros.

In 2004, ARIB paid farmers, agricultural operators, local governments and the food industry 115 million euros as support grants, 83 million of which came from the budget of the European Union.

As the figures show, the increase has been significant. Although social problems persist in some rural areas, small companies, food industries and farmers have new technologies that contribute greatly to their efficiency and productivity. Together with projects funded from ESF, these funds are helping to ameliorate the conditions for rural life in Estonia.

Joining the Eurozone

After the accession to the European Union, the countries seeking to become part of the Euro area must first join the Exchange Rate Mechanism II (ERM II).

During membership in ERM II, a country must maintain the stability of its national currency against the euro and meet the other Maastricht criteria (concerning inflation, interest rates, exchange rate, budgetary balance, and government debt).

Estonia joined the Exchange Rate Mechanism II on 28 June 2004. From the point of view of Estonian economic stability it was important that the ERM II framework could be implemented without changing Estonian monetary policy and currency board principles. The European Union has confirmed that Estonia's current system is in line with the ERM II requirements.

In 2003 the citizens of Estonia decided to join the EU and with it the Euro-zone. On 1 September 2005, the Estonian government approved the first version of the national changeover plan, the basis for making preparations for the adoption of the euro.

The Estonian government together with the Bank of Estonia have set the goal of adopting the euro on January 1, 2007. There is still uncertainty over whether Estonia will be able to meet the necessary requirements by that date.

A speedy accession to the Economic and Monetary Union is seen as both appropriate and useful for Estonia. With the Estonian kroon pegged to the euro and enjoying close trading and investment relations with the EU, Estonian currency is already closely integrated to the European economy. The adoption of the euro is therefore a logical continuation of Estonia's current monetary policy. Accession will further reduce currency fluctuation risks, which as a result will lessen interest rate differences between Estonia and the EU. Further benefits are to be derived from the elimination of currency exchange service fees for both the businesses employing the euro in foreign trade as well as private persons travelling in the Eurozone.

The term "euroisation" or "the early introduction of the euro" has been used to refer to three independent processes within Estonia's economic policy discussions. First, "euroisation" denotes the introduction of the euro as a new currency to replace the Estonian kroon. Second, "euroisation" refers to the accession to the Economic and Monetary Union (EMU) and the "Eurosystem". Third, "euroisation" signifies the ever-widening use of the euro in daily life — in payments and settlements as well as to express the price of goods and services.

Upon joining the EMU, Estonia will fully give up its right to issue cash and account money as a national economic policy instrument. Most decisions affecting the development of the European economy are made in discussions between the full members of the EMU. If Estonia seeks to continuously represent its interests in Europe actively and efficiently, rapid accession to the Eurozone is a logical step toward this goal. Foreign investors and rating agencies are also counting on a rapid accession to the Eurozone when evaluating the credibility of Estonia's economy.

Budget

According to the most recent data for 2005, Estonian government revenue was 55.1 billion kroons or 99.8% of the projected revenue for the year.

At the same time, government spending was 52.7 billion croons or 96% of the annual budget. According to preliminary reports, the state budget surplus reached 2.4 billion EEK at the end of 2005.

As the economy of Estonia grows rapidly (10% in 2005), so does the budget. The future prospects at the moment look quite good. With the EU contributions from 2007-2013 figured in, Estonia may be able to catch up to Europe's average by 2015, according to some analysts. It is still a long way to go.

Other Benefits

Estonia has benefited from EU membership in other fields as well. For example, Estonian scientists now have more opportunities for collaboration with colleagues in the EU. In addition, more foreign students are now studying at Estonian universities, increasing the chances for international exchange of ideas. EU membership is also improving the Estonian investment climate, leading to increased direct foreign investments

3. Political Influences

Security

When speaking about security nowadays we must speak about international terrorism. Estonia thus far has remained untouched by this scourge. Still, as the member of the international community Estonia is willing to cooperate with other nations to make the EU more secure for European citizens.

Estonia enjoys fruitful relations with police agencies across Europe. The proof can be seen in several successful police-operations against smuggling narcotics and against organised crime. The Criminal Intelligence Department of the Estonian Central Criminal Police (CID) integrates the role of the Interpol Central Bureau, the Europol National Unit, the SIRENE office, the Coordinating body of BSTF and the responsible agency for liaison officers abroad.

Security also concerns environmental issues. Environmental problems are becoming the biggest challenge to the European Union and the entire world. In Estonia the biggest problem is energy production from oil shale. Mining oil shale wastes clean water and produces large amounts of CO^2.

Generally the Estonian natural environment is in quite good condition. There is a lot of forest, wetland and untouched places. We hope to keep it this way.

Globalisation

Globalisation raises questions about preserving the Estonian culture and language, spoken only by 900,000 people as a native language.

Further, it raises questions about Christian values and preserving the European values inside the EU.

On the other hand, it opens new perspectives for Estonia. Estonia's ability to compete internationally is a frequent subject of conversation. The competitiveness of the EU as a whole is also often discussed. This is a difficult question for the older Member States. Newer Member States, such as Estonia, have a lot to offer.

Common Foreign and Security Policy

Security concerns were very important in Estonia's decision to join the EU and NATO. The bitter memory of Soviet occupation and the close proximity of Russia play heavily into Estonia's security policy considerations. Considering the recent problems with Russian energy supply, Gazprom, and the sudden rise in gas prices in the former Soviet republics, Estonia is justified in not trusting Russia. The pipeline between Germany and Russia may also increase the threat of the Russian gas-weapon being used against EU Member States (such as Estonia).

New and old Member States must maintain solidarity on this issue. Russia has been acting in an imperialistic way and may try to use its clout to undermine the EU. We must remain vigilant.

Strengthening Estonian and European Values

Christian democratic policies are the best for safeguarding and strengthening European and Estonian values.

We must also work to improve the availability of information about the EU in the Member States. This must be done in a way that prevents the local media from distorting the facts on the EU. One suggestion has been for the EU to create a centralized media agency to cover all of Europe in the respective national language. The information would thus be made uniform for all countries. EuroNews is not available in 25 languages!

4. Conclusions

Estonia has achieved much by joining the EU. Although there is still a long way to go to reach the average European standard of living, Estonia's economic future looks promising. At the same time, politically and culturally it will take time before Estonians come to terms with the painful memories of Soviet occupation. ■

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Finland

Catja C. Gaebel

1. Background

When Finland applied for EU membership in March 1992, the country was in the middle of the worst peacetime recession of the 20th century. Central government debt and unemployment soared and there was pressure to devalue the Finnish markka. Devaluation did eventually prove necessary, and the external value of the markka plummeted. Furthermore, the Soviet Union, an important export country, had collapsed shortly before. When membership took effect, together with Sweden and Austria in the beginning of 1995, recovery was already preceding apace, thanks primarily to exports and the electronics industry.

The third phase of Economic and Monetary Union (EMU) began on the 1st of January 1999, with Finland as one of its founding members. At that time there was hope for improved credibility of monetary policy, as the Finnish monetary policy traditionally suffered the lack of credibility, causing recurrent balance of payment problems and large risk premiums in market interest rates.

Although for the most part Finland's foreign trade with EU countries was already free before membership, access to the internal market and the customs union has provided a boost to commerce and investment. Since Finland is geographically remote from the major markets of Europe, membership has increased awareness of the Finnish economy and Finnish companies. This success can be measured in many sectors, particularly electronics having a significant positive impact.[1]

2. Financial Benefits

As Finnish monetary policy traditionally had suffered from a lack of credibility, which caused recurrent balance of payment problems and large risk premiums in market interest rates, the hope for improved credibility of monetary policy was clearly there. It was hoped and expected that the high credibility of the Euro area monetary policy would imply lower interest rates, in particular lower and more stable long-term interest rates.

It was also predicted that the monetary union would be conducive to wage moderation, because better credibility would lower inflation expectations and therefore imply smaller inflation premiums in wage contracts. In the monetary union the wage inflation does not take off as easily as before, as the monetary policy can no longer bail out export industries in the event of problems like in the old days characterized by "inflation-devaluation cycles".

Both these Hopes Have Since Been Realized[2]

Before EMU membership, the exchange rate for the Finnish markka and Finnish money market interest rates were relatively volatile. In the Euro area, short-term interest rates are now determined by the common Euro-area monetary policy and the equilibrium prevailing among the area's financial markets. Being a part of the Euro area has increased stability and credibility on Finland's relatively thin money market. Thanks to elimination of the foreign exchange risk, interest rates have on the long term been lower on average than they would have been had Finland remained outside the area.[3]

From a consumer perspective, in fiscal policy, foreign trade and companies operating in the domestic market, membership of EMU has brought more significant change than EU membership itself.

Finnish companies operating in the Euro area no longer confront any foreign exchange risks. The use of the Euro has furthermore increased continuously outside the Euro area, making it easier to conduct business. EMU membership has reduced the cost of transactions incurred in changing currencies and hedging against currency risks.

Rapid Growth in the Early Years of EU Membership

The causes of the recession in Finland in the early '90s were many, some of them internal, others external. Before the recession, in 1989, Finland's per capita GDP corrected for purchasing power was 8% above the average of the EU-15 countries; by 1993, because of the recession, it was 6% below. Then an upswing began. By 2004, per capita GDP corrected for purchasing power was again above the EU-15 average, this time by 3%.

In the early years of EU membership, the Finnish economy grew more rapidly than the economies of the EU countries on average. This was partly the result of the rapid upturn following the recession and the devaluations. Access to the EU's internal market and EMU membership also contributed to this growth. Introduction of EU legislation at the same time has been integrating the operations of Finland and the other EU countries, and this has made it easier to do business in the internal market. Extending the internal market to the new Member States, which are relatively important to Finland, is also a positive step.[4]

Eastern Enlargement – A Positive Development

Enlargement of the European Union to the CEE countries is a positive development for Finland. Estonia is particularly important for Finland, and economic relations with Estonia differ from those with many other countries. Considering Estonia's small economy, the country is unusually important for Finland's foreign trade. Moreover, it has become part of the Finnish production chain in a number of sectors, such as textiles and electronics. Via direct investment, Finnish companies in Estonia have played a greater role in everyday business than they have in any other country. At the end of the '90s, direct investment by Finnish companies began to expand increasingly southwards from Estonia, to other CEE countries. Only 1.1% of all Finland's direct investment abroad goes to Estonia, but the importance of this investment to Estonia is greater than the figure would lead one to expect.

Economic Policy and Competitiveness

In the 1980s, the public sector in Finland had very little debt. The recession at the beginning of the 1990s changed the situation dramatically. The ratio of gross public sector debt to GDP quadrupled in five years to 60%. Since then the figure has been consistently reduced, and in 2004 it was only 44% of GDP, one of the lowest figures in the EU-15 countries.

Taxation also affects competitiveness, and there has been pressure to reduce it. Along with further integration of the internal market, EU enlargement – particularly with regard to geographically close countries like Estonia, Latvia, and Lithuania where labour costs and taxes are lower than in Finland - strengthens this tendency. There has been pressure to lower taxes across the board. This applies not only to personal income tax and corporate taxation, but also to some commodity taxes and motor vehicle taxes. These taxes were indeed reduced in 2003 – 2004.

Competitiveness is also directly affected by production costs. Finland has a centralised incomes policy system covering almost all wage-earners. Before EU membership, corrections for rapid increases in prices and costs were intermittently offset by reducing the external value of the markka. As a member of EMU, Finland no longer has this option. Hence, costs increases in Finland should stay at par with those in competitor countries and costs should not be based on incorrect estimates of productivity. During the EMU period, labour costs in Finland have risen at a moderate rate and the labour market seems to have understood the requirements of EMU membership rather well in this respect. In recent years, Finland has in fact been one of the world's most competitive countries measured by a number of indicators.[5]

Consumers Have Benefited

At the outset, EU membership lowered prices of food, in particular, and thus increased consumer purchasing power. Foreign chains have entered many retail sectors, especially clothing and banking, but also daily consumer goods, and this has increased competition. This development has increased the selection available and curbed prices, in some cases even lowering them.[6]

The Importance of Foreign Trade Has Increased

Economic integration reduces barriers to trade and thus promotes international commerce. The contribution to Finland's GDP of exports and imports of goods taken together has raised from 39% in 1960 to 58% in 2003. The EU-15 countries account for 50 to 65% of this trade.

As a percentage of GDP, Finland's trade with the EU-15 countries was relatively stable up to 1991. Later, the EU-15 and especially the Euro area have become more important. One contributing factor was the sharp decline in the value of the Finnish markka at the beginning of the '90s, although increasing integration has also had a positive impact.

An Increasing Volume of Direct Investment

Since the end of the 1990s, EU membership and globalization have also led to a rapid increase in the flow of direct investment to Finland. Mergers between Finnish and Swedish firms in particular have been numerous. Growth in the volume of direct investment has been a tendency throughout Europe.

The flow of direct investment around the turn of the century was considerable. Over 70% of direct investment abroad has been in other EU-15 countries, particularly in Sweden, the Netherlands and Germany.

Finns Successful in EU Programmes

The European Commission accepts on average 25% of all applications, whereas 30% of Finnish applications have been approved. Stepping into the year 2002 Finland had been involved in 1046 EU projects. The success rates are amongst the Competitive and Sustainable growth and Information Society Technologies programmes.[7]

3. Political Benefits and Influences

The EU strengthens Finland's security thanks to the shared identity and solidarity of the member countries as well as the Union's diverse capabilities. Membership has given Finland influence never previously experienced in matters concerning its national interest as well as the development of the international operational environment.

Participation in a common foreign and defence policy complements national foreign policy and offers Finland an avenue for increased influence and responsibility in international affairs. It has expanded Finland's outreach in foreign policy and increased the number of matters for which Finland must adopt a stance based on EU solidarity, assessment of national interest and expertise.

Membership in the EU has broadened the conduct of international affairs to encompass Finland's entire administration and Finnish provinces as EU policy enters the area of traditional domestic policy. Together with constitutional reform that emphasises the authority of parliament, EU membership has strengthened the position of the government and parliament in tandem with the President of the Republic.

Finland supports the strengthening of democratic change, the market economy and civil society in Russia and its adherence to common European values and cooperation. With the help of the EU's resources and through cooperation with nearby areas, Finland is able to support regions of northwest Russia, which are adjacent to Finland and the Baltic Sea Area.[8]

By joining the EU Finnish security policy moved from the neutrality imposed by the Soviet Union to a policy with a priority on European integration through the European Union. By joining the EU Finland has retained its independent defence and security posture, even as it seeks to strengthen its standing abroad and gain added leverage, thought the EU, for dealing with Russia.[9] For Finland as a non-member of NATO, the membership in relation to defence and security becomes even more significant.

Finnish Values in the EU

Membership of the EU is founded upon Finland's national identity as a Nordic Democracy. With the benefit of EU membership Finland has sought to enhance its well-being and security as effectively as possible by making a full contribution to cooperation among the Member States and by taking part in the strengthening of the Union's efficiency.[10]

Like other Nordic countries Finland has been able to keep its competitive edge without having to give up its traditional welfare state model. In addition to democracy, strong respect for human rights, the rule of law and good governance, the Nordic welfare state is based on social justice.[11]

4. Conclusions

With the EU Finland has experienced, and is still experiencing, that in financial and business terms:

- It is easier to conduct business.
- Being a part of the Euro area has increased stability and credibility on Finland's money market.
- Consumers are benefiting: EU membership has lowered prices of food and increased consumer purchasing power.
- Increasing volume of direct investment.
- Finns are successful in EU programmes.

In political terms:

- EU strengthens Finland's security.
- Membership has given Finland influence never previously experienced, both national and international.
- EU membership has expanded Finland's outreach in foreign policy.
- With EU membership Finnish security policy moved from the neutrality imposed by the Soviet Union to a policy with a priority on European integration through the European Union. ■

1 Written for Virtual Finland by Ville Kaitila, researcher at The Research Institute of the Finnish Economy (ETLA), http://virtual.finland.fi/netcomm/news/showarticle.asp?intNWSAID=25876

2 Sinikka Salo: „The first eleven years of Finland's EU-membership. Presented to The Austrian and Finnish EU-presidencies: Positive Experiences as a Driving Force" Brussels 16 January 2006

3 Written for Virtual Finland by Ville Kaitila, researcher at The Research Institute of the Finnish Economy (ETLA), http://virtual.finland.fi/netcomm/news/showarticle.asp?intNWSAID=25876

4 Written for Virtual Finland by Ville Kaitila, researcher at The Research Institute of the Finnish Economy (ETLA), http://virtual.finland.fi/netcomm/news/showarticle.asp?intNWSAID=25876

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France

Sylvie Goulard

1. Background

On 29 May 2005, France – a founding member of the EU – rejected the draft Treaty establishing a Constitution for Europe, which was intended to set the seal on political Europe. This was due to a bundle of reasons which is not easy to disentangle: weakening growth and unemployment weighed heavily, and disenchantment with the government also played a part. The extremely lively debate focused on European issues as well. The French called a great many aspects into question: the social model favoured by the EU, the geographical borders, the need to liberalise services, even Europe's place in the world. So should we conclude that the 55% of French citizens who voted "no" would be willing to bid farewell to the European Union?

That would be a rash conclusion. Admittedly, some of the “no” votes came from the traditional Euro-sceptics’ camp (right-wing extremists, hard-line Gaullists, communists and Trotskyists), but the decisive factor was the U-turn by some longstanding advocates of European integration. Many fell for the tactical reversal by Laurent Fabius, the socialist ex-Prime Minister, and were hoodwinked by it. With lamentable consequences: the “no” voters rejected the text because they felt it did not do enough for integration, because in their view, the economic model promoted by Europe was being shifted onto an “ultraliberal” course. Paradoxically, their electoral choice entrenched the much-criticised paralysis, reversing the modest but genuine progress resulting from the Constitution’s provisions on democracy and social harmonisation. This episode is unlikely to go down in the annals of Cartesian thought.

So what is the purpose of the European Union? That is a reasonable question. The younger generation in France no longer comprehends the real purpose of the European project, as it considers peace to be secure. It is equally instructive to consider what the EU actually costs us, and how much benefit we derive from it, but this evaluation only makes sense if we exclude pure accountant’s logic from the equation. Europe cannot be reduced to double-entry accounting, based on the principle that whatever I pay into the Community budget I must get back in financial transfers. Mrs Thatcher’s cry *“I want my money back*” or the debate about Germany’s role as a net contributor ignores one of the key pillars of the European integration process, namely the development of trans-national solidarity – a solidarity which, through targeted investment, safeguards wealth creation in order to increase everyone’s prosperity, with the more advanced countries’ companies generally securing the markets that have emerged in the less well-resourced regions.

And can one of Europe’s achievements, namely peace, be quantified at all? How can we account for the human lives that have been spared and the devastation that has not been wrought? What price do we put on Franco-German reconciliation? What value should we attribute to the liberation of Greece, Spain and Portugal from dictatorships, or to the democratisation of the former communist states? They are impossible to quantify – but there is no disputing the benefits.

There is another benefit, too, which cannot be calculated in euros and cents: the massive impetus for modernisation that has been triggered by the European project. Without competition policy, France would undoubtedly be tempted to continue paying out State subsidies without a second thought. Without the euro, we would still be faced with the fatal devaluations we had to contend with in the 1970s and 1980s. But it is becoming increasingly difficult to use the concept of Europe as a modernisation tool. Politicians have laid the blame for vital reforms at Brussels’ door so often – claiming “it’s all Brussels’ fault” – that sadly, citizens have become mistrustful. Unfortunately, the EU has opted in favour of the Open Method of Coordination, as it did on the issue of the economy at the Lisbon European Council in 2000, instead of relying on the tried, trusted and clear Community rules, with the Commission monitoring the application of legislation and, if necessary, initiating proceedings in the Court of Justice, as occurred with the Stability and Growth Pact. The failure of the Lisbon strategy and the rejection of a unified patent regime for Member States, both of which have dramatic consequences for our companies, prove that the EU can only be used as a lever for reform to a limited degree.

2. Economic and Financial Benefits of EU Membership

Let’s imagine for a moment that Europe did not exist: no Thalys train to whisk us from Brussels to Paris; astronomical airline prices, because of Boeing’s abuse of its dominant market position. There would be massive queues at the border crossing point at the Kehl Bridge. The journey to Rome would be reasonably cheap because the lira has just been devalued again, but the traveller would have to change money and the foreign exchange offices charge high rates of commission. In France, citizens' savings would be eaten up, yet again, by double-digit inflation. The number of students participating in exchange programmes would be less than 1,000 a year. The film *L'Auberge Espagnole* (Pot Luck – a film about the lives of Erasmus students in Barcelona) would never have been made, and Spain would possibly not be a member of the EU.

No one – certainly not the radical Euro-critics – has ever tried to calculate how much "no Europe" would cost.

Let's get back to reality. Europe's main achievement is to have created a massive market with 450 million consumers who enjoy freedom of movement and can exchange their products. Anyone despising this market-economic vision, who has nothing but mockery for regulations on the diameter of bath taps, for example, should recall the words of Paul Henri Spaak who observed back in 1942 that: "Only when we find a solution that guarantees both the security of nations and their economic stability can we arrive at a formula for peace"[1]. Our stability is linked to these slightly farcical norms and to the judgments of the European Court of Justice which are sometimes just as absurd. But let me give you another example: the famous *Cassis de Dijon* ruling, which states that a product legally manufactured in one EU state may circulate freely in another. Precisely because it is not built on sand but on sound economic realities, the EU is able to assert itself in the face of every adversity. Since its establishment in 1993, the single market has created more than 2.5 million jobs and generated more than €800 billion in additional value added.[2]

France has benefited enormously: the value of French exports to the other EU countries has doubled since 1992 and now exceeds €200 billion.

Although they may not always be aware of it, the French directly benefit from the EU every day.

Let me cite some specific examples: the EU's competition policy has radically reduced telephone tariffs in recent years (even though it is sometimes difficult to compare prices). In the 1990s, this policy also thwarted a deal between eight pharmaceutical companies which were forced to pay a record fine for illegal cartel agreements that kept prices at artificially high levels. The fine – €855 million – flowed into the EU's coffers. The US corporations General Electrics and Microsoft were both forced to submit to Commissioner Mario Monti's conditions in order to avoid being denied access to European markets. The fact that such mighty economic actors have recognised the validity of European decisions is a great victory for Europe. Tetra Laval and Schneider Legrand are unlikely to have fond memories of the same Commissioner's decisions, but the French should remember that he gave the green light to the merger of the two major retailers Carrefour and Promodès and to the Alstom bail-out, for example.

With the euro, exports within the Community are shielded from conversion risks. The euro has pushed down interest rates substantially and promoted corporate investment. The curbing of inflation benefits savers. Travelling within the Eurozone is easier, both for tourists and for those who have to travel for their work – from business people to lorry drivers. As the second key currency alongside the dollar, the euro is progressively reinforcing Europe's international weight. This is entirely in line with the French vision of a "Europe Puissance".

Thanks to the CAP, France has been able to maintain, throughout its territory, a farm sector which supplies one of the world's major agricultural and food industries. Between 2000 and 2006, 590,000 French farms will have received €317 million in financial aid from the CAP. The radical reforms introduced in 1992 have been continued. The subsidies have now been decoupled from production levels in order to avoid overproduction. Although these subsidies still benefit some major producers disproportionately at the expense of small farmers, rural development is being driven forward increasingly vigorously. Perhaps we should also remember – strange as this may sound in our age of abundance – that at the end of the 1950s, production deficits often occurred. In this respect, the CAP is a great success, even though it requires further reform. Many problem issues directly or indirectly associated with agriculture affect our shared European interests: the EU's food independence, the preservation of our countryside, fauna, flora and our water resources, and the production of biofuels and other alternative energies.

In addition to the direct achievements of the CAP, the European Union has had a further positive impact for France in the negotiating rounds. Agricultural production in France is nurtured by ancient traditions and wealthy rural regions; thanks to the EU, designations of origin are protected both within the single market and in the world negotiating rounds. France would find it difficult to defend its lifestyle on its own. Some countries' exporters might have viewed this as a barrier to trade. In the Association Agreement signed with Chile in 2002, the Commission ensured that it contained a clause protecting the various designations of origin. So the EU is not stopping us from eating cheese made from unpasteurised milk, as some Eurosceptics claim; what it is doing, above all, is helping us to protect champagne and Camembert from "fakes".

France also benefits from the EU's efforts to maintain fish stocks, which are steadily decreasing due to intensive fishing and pollution. In this area, too, joint action by the Europeans has more weight in the dealings with Japan or other countries. The French fishermen benefit as a result.

Like other countries, France has benefited from structural funding to promote the development of its structurally weak regions. In France, this funding has been targeted primarily towards the restructuring of the industrial regions in the north and Pas de Calais.

Ambitious projects are also associated with the EU. We may recall that in the Spaak report, which served as the basis for the negotiations on the Treaty of Rome, some experts said that they would miss the European presence in the large aircraft market.[3] Airbus has remedied this deficit and is now safeguarding tens of thousands of jobs in the Toulouse area and enjoys a world-class scientific reputation. Some time ago, the European satellite navigation system Galileo was launched. This enables any individual to determine his or her position or the location of any moving or stationary object (e.g. a vehicle, a ship, a herd of cattle, etc.). This joint project, involving the EU and the European Space Agency, will make Europe independent of American GPS. The launch of the ambitious ITER project was also the result of the joint endeavours of the Europeans and the French authorities at national and local level. With the choice of Cadarache near Aix-en-Provence in France as the construction site for the test reactor, Europe successfully asserted its interests against Japan, which was supported by the United States. For the Provence-Alpes-Côte d'Azur region, this project means an influx of hundreds of high-level researchers and, in the medium term, the creation of numerous jobs. France is directly benefiting from European diplomatic efforts; in return, Europe is becoming the location for a unique worldwide research and development initiative involving a strategically-oriented technology. The recent oil price increases and the intermittent threat to gas supplies have reminded us how vital it is to undertake research into reliable and high-quality energy resources on a continent which has few of these resources of its own.

On environmental issues, Europeans have worked together within the framework of the Kyoto Protocol to ensure that greenhouse gas emissions are kept at the lowest possible level. This is entirely in line with France's interests, for according to experts, France is especially vulnerable to the impacts of climate change due to its geographical location. No European country can possibly influence these negotiations – in which the Europeans face the Americans and the threshold countries – on its own. The Atlantic coast, which is susceptible to the risks of oil pollution, has been able to count on Europe's support to tighten up controls on shipping. A European Maritime Safety Agency was created in the aftermath of the *Erika* and *Prestige* oil tanker disasters, which occurred in 1999 and 2003 respectively. Monitoring of maritime transport, especially in the English Channel and around Ile d'Ouessant, was increased. As the norms apply to all European ports, especially Rotterdam and Antwerp, which have to absorb the high-density shipping along the French coast, a joint approach is especially useful.

The adoption of the REACH directive, which provides for toxicity testing of chemicals before they are brought to market, proves that the European regulations yield tangible progress in protecting the public. Those who often wonder what the EU is doing for them will be pleased to hear that this legislation has closed the gaps in national law, with conditions that apply to the entire European market in order to avoid distortions of competition. Higher environmental standards are often equated with higher costs for companies, it is true, but they also force companies to face up to the challenges of the most demanding markets, such as Japan, which are often the most lucrative. The EU's Framework Programme for Research (2002-2006) has been boosted by €19 billion and the Member States have set themselves the goal of committing 3% of their GDP for research. France must aim to achieve this target as it is currently lagging behind the Scandinavian countries and is also affected by the outflow of a certain number of young French researchers who are highly sought after in the US.

3. Political Benefits

The positive impacts of European integration can be felt at the political level, too. When Dominique de Villepin delivered his widely acclaimed speech against the war in Iraq to the United Nations Security Council on 14 February 2003, he spoke as the Foreign Minister of a permanent member of this body. This is a national privilege. What effect would this speech have had without the protective shield of the euro? If the franc had still existed, a massive speculative attack on the French currency would have been enough to put France in a precarious position.

France’s position in the world can no longer be separated from its status as a member of the EU. With hindsight, it is clear that neither the countries that opposed the war on Iraq (France and Germany), nor the countries that sided with the Americans (United Kingdom, Spain or Poland) were able to exert any influence over the US position. Tony Blair was forced to fall into line behind his ally without being able to say a word, even on the lies concerning the weapons of mass destruction; the French and the Germans were also unable to prevent the war. A united Europe would have been able to bring its weight to bear, but as Europe was divided on this issue, it was largely irrelevant. If France were to bid farewell to Europe, it would forfeit every opportunity to influence world affairs.

It is no secret that the joint representation of European interests is inadequate. One issue which frequently arises is the question of an EU seat on the Security Council. This issue must be explored in a debate which is free from taboos. Answering this question requires the complex problem of the democratic legitimating of collective decisions to be resolved: which body would take the decision? What form would the discussion process take? What type of parliamentary control is envisaged? These issues must be given consideration, based on the desire to implement this project without acting rashly, which would simply give the Euro-sceptics a pretext for thwarting the initiative, just as they have already torpedoed the concept of joint Franco-German embassies. The question is why Europeans have still not established any joint representation in the financial institutions: the existence of the euro, its strength as a currency, and its international reputation would entirely justify a joint seat for the euro zone in the IMF and the World Bank. It is equally astonishing that Europeans do not have joint representation in the UN's specialised agencies such as the WHO, the FAO or the ILO. What is the point of a national response to bird flu, which is transmitted by migrating birds? In this particular case, the EU is not necessarily the most appropriate body, but at least it has a critical mass.

It is even more important for Europe to pursue joint action in the negotiating rounds, where our interests are inseparably linked. Europe speaks with one voice in the WTO; here, it is essential to agree a European position, not least because many different partners are now involved – rich and poor, countries from the north and the south. The basis for negotiations forged for Hong Kong in December is rather shaky but it largely depends on a European consensus which has held up so far. Many jobs in France depend on the successful conclusion of this round. There are many French people who criticise capitalism and the market, but a number of French companies play in the world league. They cannot afford to leave the world stage. One weakness in the arguments put forward by the anti-globalisation movements (such as Attac), incidentally, is that they demand a multilateral approach to trade issues but criticise the only regulatory body in existence – namely the WTO – at the same time.

In the foreign policy field – vis-à-vis Syria or Iran, for example – Europeans immediately think of comparing their respective analyses and harmonising their positions; this is not always enough, but it would be extremely advisable in relation to states which support terrorism or want to wipe Israel off the map. High Representative Javier Solana has presented an initial paper for a European strategy which has been endorsed by all the Member States and which contains an initial set of shared guidelines. With this reaffirmation of our common values and the recognition that the EU cannot shirk its responsibility in world politics, the EU is moving steadily closer to the traditional French position; it is only a short time since some countries had a much more rigid view of their neutrality. The notion that the EU is a purely civilian power lingered in some people's minds. Until 1994, Germany's Federal Constitutional Court consistently ruled that foreign operations by the Federal Armed Forces were impermissible. Today, Germany is as committed and predictable a partner as everyone else; its authority, its commitment to human rights and its democratic self-perception will be crucial for the emergence of a Union which fulfils its international responsibilities in all respects. We have Germany to thank, first and foremost, for this development, but Franco-German cooperation has also supported and facilitated this process. It is sad that the French have become so absorbed in the debate about the "French decline" that they forget that they can look back with pride on the positive influence exerted in many areas.

In order to be able to implement our ambitious goals at the international level, we must accept greater pooling of our resources and national competencies. As a result of the rejection of the Constitutional Treaty, the EU will lack valuable instruments: legal personality, a minister with a dual function, a common diplomatic service. A lot of time is being lost which could have been used more productively. But that is what happens sometimes with democratic referenda.

This setback should not distract attention from the progress which has been made in defence policy since Europeans acknowledged that they failed to prevent the war and ethnic cleansing in the former Yugoslavia. Whereas in 1992 the French and the Germans were still pursuing outdated notions, the

EU now has a common vision and is taking practical action on the ground. The military operation Concordia, undertaken in Macedonia in 2003, has helped to stabilise the situation there. In December, the European Union took over the work of the UN force in Bosnia-Herzegovina. Other activities have been carried out in that region: combating organised crime, reconstruction, and building democracy and the rule of law. This approach was agreed at the Franco-British consultations in St Malo and has been implemented because Germany and other countries were able to join in with these activities quickly. The Union has thus equipped itself with resources for peacekeeping, crisis management and humanitarian missions: it now has the capacity to deploy up to 60,000 rapid reaction troops within 60 days and to maintain such a force on a mission for one year. The EU will have 13 battle groups at its disposal by 2007. The establishment of the European Defence Agency is intended to rationalise Europeans' defence spending, which amounts to more than half the US defence budget but certainly does not amount to half the US's strike capability due to duplication and incompatibility of weapons systems.

France, which continues to maintain the independence of its armed forces and insists on a separate European army, cannot fail to be heartened by the fact that the EU now has instruments at its disposal which enable it to agree and undertake independent, albeit limited, operations outside the usual NATO procedures. This type of operation was carried out for the first time in Congo in June 2003; it was not a large-scale operation but it had considerable symbolic significance, involving the deployment of troops in Bunai in the Democratic Republic of Congo pending the arrival of UN forces. In terms of humanitarian assistance, it was important that this type of handover took place. Of course, such progress falls far short of what is required to meet the challenges of an insecure world: in Darfur or other regions devastated by war and interethnic or religious conflicts, the EU has not always been able to restore peace.

Some people may be tempted to add the tremendous success of enlargement policy to this list of EU achievements. The EU's appeal as an area of peace, democracy and human rights is a success in itself. It equips the EU and its Member States with the means to bring influence to bear on their neighbours; it gives them the opportunity to intervene in their internal affairs with sovereign self-justification. The existence of partnerships, the financial support provided through the funding programmes in advance of accession, and not least the prospect of accession persuade the governments of these countries to accept this intervention. The negotiation process is completely asymmetrical: the Europeans dictate the conditions, the accession candidates comply with our demands, and the outcomes are to everyone's benefit. Enlargement has thus facilitated the transformation of the Central and Eastern European Countries, just as it helped other Member States to break open their entrenched structures.

Nonetheless, it is difficult to maintain this line of argument, as the Council and the Commission do, without acknowledging the fears associated with this process, or recognising the limits to this approach. France has recognised this fact more quickly than other countries, where this debate is only just beginning. In France, many pro-European voices – from Valéry Giscard d'Estaing to Robert Badinter – can be heard warning against this policy drift. The criticism has been directed primarily towards Turkey: a large and highly diverse country, much of which is extremely underdeveloped, which would quickly advance to become the most powerful country in the EU. Undoubtedly France, which lies some distance from the new Member States in geographical terms, is more likely to notice the disparities rather than the expected benefits. Nonetheless, the entire process seemed to be fated from the outset. Europe's citizens were given no explanations. The decisions were taken over their heads. The EU would have had greater credibility if it had not allowed Malta and Cyprus to jump on the enlargement bandwagon when it was already under way: the "moral obligation" to the victims of Yalta was high-jacked. The accession of divided Cyprus – without any prospect of resolving the dispute between the Greek and Turkish Cypriot communities – and Malta, whose opposition parties are still hostile to EU membership, has damaged the credibility of Europe's leaders. The ensuing variations in Europe's living and social standards were also underestimated; they arise in what is supposed to be a single market, hence the exaggerated but real fears of "Polish plumbers". And not least, the European institutions did not undergo the reforms necessary to cope with so many countries. The deepening that was promised and was supposed to take place before enlargement has not happened. In the conflict over a Union of nations and a Union of states, the latter has prevailed. So should we be at all surprised by the mistrust among Europe's peoples? There are growing concerns about a Europe which undertakes enlargement without a proper concept and fails to respect its own citizens. That is certainly no reason to dispense with Europe, but there is a need for clarification. In order to regain the trust and confidence of Europe's citizens, there will be no alternative but to withdraw the promises made to the Turks and, recently, to the Balkan states. With the inclusion in the French Constitution of a provision making a referendum obligatory for all future enlargements, the entire enterprise is becoming so fraught with problems that the Community's authorities and the other European capitals would be well-advised to consider an alternative solution.

4. Summary and Conclusions

In sum, it is clear that we are walking on a knife-edge: it would be wrong to overrate the French 'no' vote in the referendum or to view it as a fundamentally Euro-sceptical attitude; most French people are keen to continue playing an active role in the European venture. Nonetheless, it would be fatal to act as if nothing had happened.

However, despite all the imponderables associated with these ballots, the French and the Dutch have raised real issues: what is the purpose of the EU now that peace is secure? What form of society should the initiated process lead to? Is the aim still to unite comparable and relatively close nations in order to implement joint political projects? Can enlargement be halted? We must find answers to these questions; anyone seeking to revive the Constitutional Treaty would simply reinforce the public's distaste for it. The Commission's retention of the Services Directive and the supposed debate about a "Plan D" do little to reassure us.

We should refrain from playing off the countries which have voted "no" against those which have voted "yes"; apart from Luxembourg and Spain, the process largely determined the outcome. In Germany, France's principal partner, a referendum would have unleashed heated debates about the Euro, Germany's contribution to the budget or the division of competences. Each country has its own sensitivities, but there is widespread unease. Citizens quite rightly feel that they are often passed over in the decision-making process; this was apparent from the most recent Eurobarometer survey.

In an insecure, globalised world, the EU undoubtedly pays off. However, those in government must take the EU seriously, which they failed to do in recent years. It is time for the EU to bring its persuasive powers to bear in many areas. It is time for some serious thinking, and we cannot simply muddle through, as we have done in the recent past. There are many decisions ahead.

Now that we have arrived at this level of integration, we must broach the core issue of sovereignty: the spiral effect – the common market leads to the single market, the euro "automatically" results in the global steering of the economy – no longer applies. The task now is to shape Europe consciously and to defend the sacrifices and concessions associated with this process pro-actively to the citizens. The tasks which we have yet to approach are the establishment of European diplomacy, police and judicial cooperation – which is still not flourishing to the same extent as the cooperation among the mafia organisations – a common economic policy within the EU and a new Lisbon strategy. Finally, we must determine, once and for all, the external borders of the EU. ■

[1] Report to the Belgian Council of Ministers, 16 April 1942, in 'La pensée européenne et atlantique de PH Spaak', Goemare Editeur.

[2] Most of the statistics cited in this article are taken from Eurostat and the brochure 'L'essentiel sur l'Europe', which was published by the French Government for the referendum campaign.

[3] Preface, p. 9 of the Report of the Head of Delegation to Foreign Ministers, 21 April 1956.

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Germany

Elmar Brok / Frank Sauer

1. Challenging Europe

Following the defeats in the referenda on the Constitution for Europe in France and the Netherlands, the European Union has suffered a setback. Yet contrary to initial fears, this has not plunged Europe into a "state of shock". With the help of the compromise brokered by Angela Merkel at the summit in December, the EU Member States were able to reach a deal on the EU draft budget despite the strains on public coffers everywhere. Nonetheless, the debate about Europe's political course continues. In Germany, too, the issue of the costs and benefits of the EU is being raised more and more frequently. So is Europe "worth it" for Germany?

- Against this background, one increasingly frequent question is what purpose EU enlargement serves, especially given the growing concern within the EU-15 about competition from cheaper labour from the newly acceded countries.

- The euro has also come under fire. The single currency – dubbed the "teuro" (a play on the German word "teuer", meaning "expensive") even before it was introduced – is again being called into question by many Germans.

- Germany's much-cited role as the largest net contributor to the EU is also causing upset.

This paper presents various arguments to remind us that "Project Europe" is vital for Germany. It makes one thing clear: Europe is worth it for Germany!

So what does the EU actually cost us, and how much benefit do we derive from Europe? Where money is involved, a straightforward calculation in euros and cents can answer this question. But some of Europe's greatest achievements which are enjoyed and taken for granted by Germans every day are almost impossible to quantify in financial terms: they include lasting peace in Europe, a strong partnership with our neighbours, and the preservation of our values in a globalised world. These successes, achieved by the EU, must not be forgotten when we ask how much Europe costs.

2. Europe Is Worth It in Economic and Financial Terms

From an economic perspective, Europe is vital for Germany. For Germany as an export nation, it is not only the euro but also, and above all, the internal market, especially post-enlargement, which offers advantages that cannot be overrated. Populist debates about the immigration of cheap labour from the newly acceded countries and Germany's role as a net contributor to the EU budget often ignore the crucial details.

Finance: Confidence in the Euro Is Worth It

The introduction of the euro was an historic step which brings enormous benefits. It has brought the Member States of the European Union even closer together. The turbulence on the currency markets, once dreaded by companies even at the start of the 1990s, has now become an alien concept in Europe. From the individual citizen's perspective, the benefits of the euro can be illustrated using three simple examples:

More transparency: With the euro, everyone can compare prices of goods across national boundaries throughout Europe. This saves time and money.

Fairness: The introduction of the single currency means that individual countries can no longer tighten the monetary screws (in a bid to achieve short-term competitive advantages for their exports by voluntarily devaluing their own currency). In line with this model, the Italian lira was artificially devalued by 30% between 1992 and 1995 at the expense of Italy's neighbours.

Low transaction costs: For German companies and tourists, the different European currencies meant that on the way from, say, Portugal to Greece, not much was left of a deutschmark after all the exchange commission had been paid. The introduction of the euro has eliminated these transaction costs. A study by the European Commission estimates that this now saves the Eurozone countries around 0.4% of EU gross domestic product – more than … €30 billion in 2004.

By contrast, claims that the euro has resulted in dramatic price increases are incorrect. It has been calculated that the price rise in the two years after the introduction of the euro was actually one percentage point lower than in the last two years of the deutschmark's existence. The fact that some products are more expensive than before is not due to the euro in most cases, but to various influences such as tax increases (e.g. on tobacco products) or even inclement weather (foods). Nonetheless, the monitoring of the new currency's development has been especially critical and mistrustful – even more than while the deutschmark still existed.

On the share and financial markets, too, the euro fulfilled the trust invested in it long ago. Countries around the world are building up their currency reserves – not in US dollars, but in euros. Euroland funds are climbing from one record high to another, and rates on the bond and share markets are rising. In 2005 alone, European shares increased in value by an average of 10%, whereas US shares lost value slightly.

It is the companies within the euro-zone which are mainly benefiting from the single currency as they no longer have to insure themselves against exchange rate risks. For Germany's export-friendly companies, e.g. in the automobile industry, which is so important for Germany, this means massive savings. The Federation of German Industries estimates that thanks to the euro, German companies are saving around €10 billion a year.

Trade and Enlargement: Germany's Great Opportunity

For German companies, Europe is the main commercial centre, and in the wake of enlargement, rapidly growing future markets are opening up right on their doorstep.

More than half of Germany's exports go to its partner countries in the EU, with more than three-quarters of this figure going to the Eurozone. Ten of Germany's 15 principal trade partners are EU countries. For example, according to the European Commission, in 2004, sales of German goods abroad totalled €731.5 billion; of this figure, goods with a value of €404.80

billion were sold to EU countries. Compared with the previous year, Germany achieved a 10.1% increase in its exports to EU countries. Looking back, it is clear that the additional trade surplus generated by EU membership offset the costs of EU membership long ago. In 2004 alone, this surplus totalled €123.7 billion.

Moreover, there is no disputing that of all the EU-15 countries, it is Europe's largest economy – i.e. Germany – which is benefiting the most, by a clear margin in fact, from the economic upturn in the new Member States. According to the Federal Ministry of Finance, the resulting growth spurt amounts to as much as half a percentage point of German GDP (i.e. around €109 billion in 2004). Overall, more than 40% of the EU-15's exports to the new Member States originated in Germany. German exports to these countries increased by 8.5% the same year, helping to safeguard valuable jobs in Germany.

As regards the immigration of cheap labour from the new "low-wage countries", it is often forgotten that the free movement of workers from most of the new EU Member States will continue to be restricted for many years to come. Agreements have been reached on upper limits on the number of immigrant workers, preventing wage dumping and excessive strain on the EU-15's labour markets. It is up to Germany to utilise these opportunities and monitor them carefully, rather than distracting attention from its problems at home.

The EU Budget: All the Benefits of Europe for Just €87 a Year

The EU budget for 2004 amounts to just 0.98% of the enlarged EU's gross national income. Germany's contribution to the EU budget has been steadily decreasing for years. For example, Germany's contributions have fallen from around 31% of the total budget in 1995 to roughly 21% in 2005. Admittedly, the latest EU budget deal reached in December 2005 had to allow for an increase in the total budget as a result of the accession of the 10 new Members in 2004, so the figures are likely to be higher in the coming years. Nonetheless, due to the German Government's skilful handling of the negotiations, the overall burden on the German budget was kept well below the level proposed by the European Commission and the Council presidency chairing the negotiations.

Germany's future net contributions to the EU budget cannot be calculated in detail yet, as neither the rate of absorption of EU funding nor the funds flowing back, especially to the East German regions, can be predicted at this stage. It is certainly true that in absolute figures, Germany will continue to make the largest contribution. However, if we compare the contributions of the net contributors on a per capita annual basis, we see that not the Germans but the Dutch paid most in 2004, i.e. €126 per capita. Ranking second were the Swedes (€119 per capita) and then Germany (€87 per capita).

However, even the absolute figures reveal that Germany's EU contributions are relatively low compared with other federal spending: its annual net contribution to the EU, amounting to around €6-8 billion, is equivalent to just one-third of Germany's defence budget. An excellent investment, when we consider the EU's "peace dividend" for our continent!

And then, of course, there are the vast amounts of money flowing back from the Community funds to Germany. Admittedly, these mainly benefit the agricultural sector or are destined for structural policy measures, but assistance is also provided in emergencies, such as the devastating floods that occurred four years ago. The European Union Solidarity Fund provided swift and uncomplicated assistance totalling €444 million to those affected in Germany in 2002. Farmers in the affected regions also received advance payments from funds scheduled for 2003, amounting to €550 million in direct aid.

Funding from the European Structural Funds is also being used to benefit Germany's new *Länder* and the Ruhr, for example, with the aim of dismantling locational disadvantages through co-financed projects. These regions are eligible for the highest rates of aid. Of the €195 billion earmarked for the 2002-2006 period, Germany receives a total of €30 billion. In other words, every year since 2000, around 15% of EU structural funding has flowed to Germany, making Germany the second-largest recipient from the Structural Funds after Spain.

Cohesion and cooperation between the European Union countries makes Europe strong. Above all, however, the EU safeguards peace and prosperity – a bargain at €87 a head! In the age of globalisation, Germany would barely be able to survive as an individual economy. A strong Europe is worth it for Germany in both economic and political terms.

3. Europe Is Worth It in Political Terms

European policy and the transatlantic partnership are traditionally the key pillars of German foreign policy. Indeed, German foreign policy is no longer viable without the European context today. For Germany, Europe is of vital political importance: in our increasingly complex world, no country can deal successfully with the "classic" foreign and security policy challenges on its own, or withdraw from them all together.

Strength and Security – Together

Germany faces a number of threats – notably crime, terrorism, environmental impacts or humanitarian disasters – which it can only respond to effectively in cooperation with its European and transatlantic partners. The attacks on London and Madrid demonstrate very painfully that in the age of globalisation, it is not only the markets but also phenomena such as terrorism which are becoming internationalised. Germany benefits from security policies that are coordinated within the European framework, and which offer a joint response to the numerous challenges arising in the 21st century, its anti-terrorism measures being a case in point.

The European Union began to respond as early as the 1970s to national terrorist threats and cross-border activities by the Red Army Faction (RAF) and ETA, for example. The EU also reacted promptly and comprehensively to the attacks of 11 September 2001. It introduced a package of around 70 measures, including new aviation security standards and a European terrorism list which allows the assets of terrorist organisations to be frozen and facilitates police and judicial cooperation. The European Police Office (Europol) pools information from all the Member States and can thus gain an overview of possible threat scenarios; it also provides the responsible authorities in the Member States with information and assists them in adopting preventive measures and bringing prosecutions. Naturally, none of this offers a 100% guarantee of security, but it would be negligent to dispense with these measures.

Globalisation: Europe Guards Against Risks

It is not just terrorism which has emerged as a worldwide problem. Areas as diverse as environmental pollution or research are increasingly becoming networked worldwide. The globalisation of the world economy, in particular, presents challenges to Germany in this respect. A comparison with booming threshold countries, notably India and China, makes this clear. In 2003, these two countries each had a population of more than one billion and achieved economic growth of 9.3% and 8.6% respectively. On that basis, it is extremely debatable whether Germany, with its 83 million people and stagnating economic growth, will be able to assert its economic and political interests on its own in the international arena over the long term. That is why it is important for us, together with the other EU Member States, to be able to capitalise on the benefits afforded by the internal market, which, after all, has a population of 450 million consumers. Through close cooperation on economic and other political issues, Germany's influence in international politics can thus be safeguarded over the long term.

Foreign and Security Policy:
Europe Stands for Peace and Freedom Worldwide

In the "classic" fields of foreign and security policy, too, Germany can count on its European partners and work with them to create synergies and shoulder its international responsibilities.

The negotiations with Iran on its nuclear programme have shown how much weight Europe can bring to bear. Acting together as the EU-3, Germany, France and the United Kingdom were able to exert a level of diplomatic pressure which none of these countries could have wielded alone. Iran was thus confronted with a clear choice: either to suspend its nuclear programme, thereby continuing to enjoy the prospect of positive economic, political and cultural relations with Europe, or to maintain its nuclear option and thus endure painful isolation from its largest trade partner. A further example was the pressure brought to bear by the EU on Russia to permit the peaceful revolution in Ukraine in 2004. This success impressed the US as well.

US President George W. Bush's visit to Europe, which included a visit to Brussels at the start of last year, sent out a clear signal that a strong Europe is also in the US's interests. There is agreement on both sides of the Atlantic that Europe and the US can only confront the threats posed to both partners by international terrorism or failing states by working closely together. Cooperation between NATO and the EU will be further deepened now and in future, making the strategic partnership a reality. The enlargements of both the EU and NATO, with the accession of the Central and Eastern European Countries have not only opened up future markets for Germany, but have also completely redefined Europe's security situation. The accession of the new Member States has increased not only Europe's economic vibrancy but also Germany's security. Peace, freedom and democracy throughout Europe are flourishing as a result.

Europe with German Values – Germany with European Values

Moreover, Europe – in the shape of the EU – has created far more than a system of political cooperation or a free trade area. The European principle of peaceful coexistence committed to human rights and democracy can serve as a model for the world – a model which is open to development and capable of adaptation, but which flatly rejects extremism, hatred and violence.

Our common values are directly reflected in the draft of the Constitutional Treaty. The Charter of Fundamental Rights – part of the constitutional text – is based on the values which apply throughout the EU and which are rooted in history and religion. They protect the dignity of the individual and therefore prohibit the death penalty and reproductive cloning, for example. These values are expressed most clearly in the Preamble, which enshrines the "cultural, religious and humanist inheritance of Europe" and the "inviolable and inalienable rights" of the human person, as well as the universal values of freedom and equality and the principles of democracy and the rule of law.

4. Europe Is Vital for Germany

Only in Europe will Germany find prosperity and security in the future. With the European Union's recent enlargement, Europe's heart is now intact after decades of division between east and west. Germany, Europe's most populous country as well as its largest economy, lies in the heart of Europe. It has the good fortune to enjoy peaceful and positive relations with the new Member States and with its old partners and friends. The fact that after centuries of warfare, Germany can now live in peace with its European neighbours and friends in a Union of 450 million people is a unique and historic situation.

Without the EU

- wars in our neighbourhood would be much more likely,
- each country would be left to itself to combat terrorism, environmental pollution and poverty,
- our values would be worth nothing outside Germany,
- young and old could not travel freely to 25 countries and use the euro in 12 countries today,
- more than half our exports would not flow, as they currently do, to the EU, thus safeguarding our prosperity.

This Union is vital for Germany, and for peace, freedom and prosperity. For just €87 per head per year, Europe really is worthwhile! ■

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Italy

Stefan von Kempis

1. Background

The commitment to Europe runs continuously through Italy's post-war history; according to statistics produced by the European Commission in 2005, the Italians' support for membership of the EC/EU has remained constant at around 70-75% in the last 30 years, although the figure has steadily dropped since the 1990s (from 75% in 1985 to 69% last year) and the number of negative responses is increasing (from 4% in 1985 to the current figure of 9%). It appears that the large majority of Italians agree that the EU is essentially a good thing.

However, there is a clear decline in this consensus (to a current figure of 63%) in response to the question whether EU membership brings tangible benefits for Italy: 60% of Italians believe that the introduction of the euro has damaged their country and 50% say that the EU's agricultural policy has negative impacts on Italy. Italians really only believe that EU membership is good for their country in the political sphere: in legal and consumer policy (51%), the free movement of persons (49%) and environmental policy (41%).

This skewed picture can be explained by Italy's recent history. Italians across all parties, including the Communists since the 1970s, were very well aware during the Cold War that Europe was the only guarantor of peace, security and stability for their country. That is why Italy has participated in all the major integration projects, often, indeed, as a pioneer: from the Treaty of Rome to the Messina Conference in 1955 and the signing of the EU's Constitutional Treaty at the Campidoglio in Rome in October 2004. Yet above all, since the days of Alcide de Gasperi, one of the Christian Democratic founding fathers of the European communities, Italy has always felt at home in the EU as a community based on a shared culture and values, and rooted in Christian principles and solidarity.

Nonetheless, many Italians still have not realised that EU membership is worthwhile for Italy in economic and financial terms as well. Like Germany, the country is a net contributor to the Union, and politicians in the present government are happy to lay the blame for economic problems at the door of Brussels and the euro. It takes occasional crises such as the recent scandal in the banking sector (Fazio, Unipol, etc.) to make it clear to Italians that their main problems are home-grown.

2. Economic and Financial Benefits of EU Membership

Italy is a net contributor to the EU, but until a few years ago there was never any discussion of the costs and benefits of EU membership in line with the debate that is familiar to us in Germany. The country's participation in the emerging common market in Europe and the structural assistance from Brussels have been a driving force behind Italy's progress in many areas: for example, Italian per capita income has more than tripled in 50 years, the country has embarked on a modernisation process, and businesses have been able to access new markets. Today, for the Italians, Europe means support for their infrastructure and industry, environmental protection and agriculture, frequent boosts for research and innovation, the modernisation of the economy, the simplification and liberalisation of the markets, and administrative reform. In a national economy such as Italy's, these are important parameters; for Italian businesses, the fact that common rules apply in the EU market – so they don't have to contend with 25 separate sets of national legislation – is especially important.

Euro-Discipline Is Good for Italy

European control and the threat of sanctions force Italy to apply strict budget discipline; this may cause groans among politicians, but without it, in times of high deficits and public debt, Italy's prospect of future growth would be stifled. Membership of the euro zone – for which Italy fought hard in the 1990s with an austerity programme amounting to around €120 billion and a "Europe tax" – guarantees a level of currency stability unheard of in Italy in previous decades.

Admittedly, in Italy too, the euro might be dubbed the "teuro" (a play on the German word *teuer*, meaning expensive), but this is due to reasons beyond Europe's control, and which are Rome's responsibility. The country was not adequately prepared for the introduction of the single currency: Finance Minister Tremonti recently bemoaned the fact that his country "switched within just two years from a devalued lira to an overvalued euro". All in all, however, the introduction of the euro – as Italy's President Carlo Azeglio Ciampi, a former Governor of the Banca d'Italia, recently remarked – brings far more benefits than disadvantages. "How could we ever forget the inflation which consumed our salaries and savings? Or the currency fluctuations? And all the costs of bank transfers or foreign exchange? How can we fail to recognise the benefits of a single currency in view of the price increases for crude oil and other natural resources? Think for a moment how high interest rates used to be in Italy and how that affected the state, industry, small borrowers and potential home owners!" Of course, Italy was always able to devalue the lira every so often – this was still happening in the 1990s – but this simply created short-term benefits for exports, which were soon swallowed up by the rising costs of imports. When it joined the monetary union, Italy had one of the highest levels of public debt in Europe; no other country has benefited to the same extent from the low interest rates which have resulted from the stability of the euro.

Making Life Easier

Let us think back: it was not all that long ago that exporting goods valued above €600 involved an awful lot of red tape; indeed, across the "old" EU, export-related bureaucracy generated a mountain of 60 million customs forms a year. By contrast, since the abolition of customs barriers and the introduction of the euro, the EU's gross domestic product has risen more rapidly than before, creating millions of new jobs, strengthening the competitiveness of European companies in the world markets and attracting around twice as much external investment into Europe than before.

Indeed, ordinary Italians are noticing the difference: the opening of the markets, for example in the telecommunications sector and air travel, has pushed down costs and tariffs and increased the range of products and services, thus enhancing quality of life. Simplified norms for justice and administration make dealing with the banking sector – which, traditionally, has not been a very customer-friendly industry in Italy – easier. Businesses and service providers save time and money thanks to uniform rules across the EU, and they often pass these savings on to customers, and low interest rates make it easier for people to take out a loan – known as the "mutuo" and very popular in Italy – to buy their own homes, for example.

All of Europe – For Just €52 a Head

Based on the compromise reached in Brussels at the end of December, the EU's budget for the period 2007-2013 will be €862 billion, equivalent to 1.045% of EU GDP. During this period, Italy will make a net contribution of around 0.34%. Admittedly, the country's net contribution in 2004 was only 0.22%, so this has increased noticeably (by around 60%), but by comparison, the Netherlands (0.43%), Germany and Austria (both 0.40%), Sweden (0.39%) and Denmark (0.35%) pay far more per capita per year, so Rome can live with this result. So far, Italy has paid Brussels €52 net per capita per year (according to the most recent calculations) – a bargain when we consider all the benefits which the European Union offers in return.

In the future too, i.e. in the period 2007-2013, the hefty payments from Brussels will primarily consist of money from the Structural Funds, i.e. the European Regional Development Fund and the European Social Fund, which over the past decades has done much to boost development in the neglected south of Italy ("Mezzogiorno"). Overall, Italy has been able to access almost €30 billion of this funding for the period 2000-2006, according to the European Commission's figures – 32% more than in the previous six years.

Southern Italy Needs Europe's Help

If we take a closer look at these figures, we see that money from the Structural Funds for regional development goes to Sicily, Calabria, Apulia, Campania, Sardinia and Basilicata – in other words, areas with a per capita gross domestic product (GDP) lower than 75% of the Community average.

Overall, these Mezzogiorno regions have received €22 billion between 2000 and 2006 – €6 billion more than in 1994-1999. The EU does not get involved in the distribution of these funds; this is the responsibility of the Italian authorities.

The EU also pumps money into Italian regions experiencing structural difficulties; up to 7.4 million Italians, i.e. 13% of the total population, are benefiting from this funding. From 2000 to the end of this year, Italian municipalities and regions will have accessed a total of €2.5 billion from this funding programme for structurally weak urban and rural regions, and for regions dependent on industry or fishing. Further Community funding is provided to Italy for education, training and employment (a total of €3.7 billion for the period 2000-2006 – twice as much as the country received for this purpose during the previous seven-year financial period). Italian fishermen can count on a total of €96 million in support from 2000 to the end of 2006, and in addition to this funding from the Structural Funds, Italy receives support from the Community initiatives (around €1.1 billion from 2000 to 2006 for projects to promote trans-national cooperation and urban development, to facilitate labour market access, and for rural regions, which also receive separate agricultural funding of almost €600 million a year).

Admittedly, it is apparent that despite all the EU funding, the Italian infrastructure still leaves a lot to be desired. Its telecommunications and railway networks are poorly developed, especially in the south – for example, for every 5.5 tonnes of road freight, just one tonne is transported by rail – but without the funding from Brussels, Italy would lag even further behind in this area. On the other hand, the EU funding has visibly contributed to establishing Italy as the Union's leading exporter of fruit and vegetables. To assess the financial benefits accruing to Italy as a result of its EU membership, we need only imagine for a moment what the country, and especially the south, would be like without the steady influx of funding from Brussels. It is true that other countries such as Spain have done more with the money, but the EU cannot be blamed for the fact that Italy is still lagging behind; the fault lies in the blockades within the Italian system itself.

3. Political Benefits of EU Membership

Europe is worth it for Italy – also in political terms. It is obvious that a united Europe with 453 million citizens carries greater political weight than if Italy were to attempt, on its own, to assert its interests on the world stage. The trans-national challenges of terrorism, crime or environmental degradation, but also the globalisation of the economy, are overwhelming for any country on its own: it can only find solutions to its problems by working with others. "China has a population of 1.3 billion, India's is 1.1 billion", warns Italian President Ciampi. "Europe – with 25 EU countries – has around 450 million citizens. This means that we can only achieve the numbers to match up to the new global players if we work together."

Protection from the Chill Winds of the World Market

Italy – a country with high labour costs and very little in the way of high-tech, but a great deal of low-tech industry – would be utterly defenceless against economic globalisation without Europe's backing. The European edition of *Time* magazine calculated the costs to Italy in its December issue last year, citing the example of Northern Italy's chair-making region. This area around the small town of Manzano close to the Slovenian border was 'Europe's China' for almost 50 years and produced almost one-third of the entire world market in chairs. *Tempi passati*: under pressure from Chinese competitors, who are able to produce far more cheaply, around 200 firms have been forced to close in Manzano, the remaining 900 are fighting for survival, and pre-production is increasingly being shifted to Croatia, Poland or Romania. In happier times, Italy's gross domestic product was once seven times higher than Chinese GDP, nine times higher than India's and almost twice that of the US; in 1987, the country even announced that its GDP had overtaken Great Britain's. But times have changed radically, and in the last six years alone, Italy's economy (adjusted for inflation) has shrunk by around 4%. The country is coming to the painful realisation that its numerous small and medium-sized enterprises which manufacture chairs, textiles or furniture are no longer viable in the world market. That is why Italy needs close economic and political cooperation with its European neighbours to make the country part of a dynamic common economic area.

A Community of Security and Values

Because terrorism and crime are trans-national activities today, the process of guaranteeing security also cannot stop at national borders. The measures adopted by the EU countries after the attacks on Madrid and London, and the work of Europol, greatly enhance Italy's security as well, even though it has yet to transpose the European arrest warrant into national law. Former Foreign Minister Frattini, now a European Commissioner, is also convinced that "the transfer of Italian sovereignty to the EU in various areas has enabled the country to bring its weight to bear more effectively at international level." Italy is involved, for example, in the development of the Common Foreign and Security Policy and the EU's stabilisation measures in the Balkans.

From the Italian perspective, however, the EU is far more than a political and economic marriage of convenience. For a population in which, according to recent surveys, up to 88% of people consider themselves to be Roman Catholic, the EU is primarily a community of values: a "Christian club" that holds together as a tangible cultural entity. Since the days of antiquity, Italy has been the object of pilgrimage, pillage and admiration; it thus feels a deep cultural bond with its neighbours, with whom it shares the Christian emphasis on social welfare – in line with the Church's teachings on the alleviation of poverty which, through the principles of solidarity and subsidiarity, have become the EU's social model. The importance of the EU as a community of values and solidarity was demonstrated recently by the Italians' insistence on a reference to God and Christianity in the European Constitution (which they otherwise wholeheartedly endorsed). In order to defend Italy's classical and Christian legacy in the present day, the country needs the EU as a sounding board.

Practical Benefits for Citizens

So far, we have only talked about the major political issues, but Europe is worth it for individuals as well, in very practical ways: Italians can travel freely within the EU and are spared the lengthy waits at passport control, they can study, set up businesses, work, engage in commerce and vote in local or European elections wherever they wish. They thus benefit from a common area of freedom, security and justice. To cite just one example: since 1987, around 100,000 students and 123 universities and study centres from Italy have participated in the EU's Erasmus programme, which funds periods of study or training abroad. The programme has enabled students to study in 30 countries. The European University Institute in Florence – the precursor, perhaps, of a fully-fledged European University in future – attracts researchers from all over Europe.

Even if they remain in their own country, Italians benefit from the EU every step of the way. For example, thanks to pressure form Brussels, the efficiency of the country's creaking judicial system is being improved; the creation of new forms of justice, such as the introduction of justices of the peace and fast-track mediation processes, enables small claims to be resolved out of court for the first time in Italy. In employment, criteria for new types of contract and the ban on specific types of clauses in work contracts have improved workers' rights, while EU efforts to protect beaches and coastlines have ensured that tourists continue to flock to Italy, a popular holiday destination, thereby safeguarding tens of thousands of jobs. The liberalisation of services such as banking and insurance means that Italians can choose between an increasing number of suppliers and more and more tailor-made products. Brussels' "regulatory zeal" – criticised by some politicians and businesses – is having a positive impact on many people's lives.

In a country known for "la dolce vita" and "la buona cucina", another aspect is especially important too: consumers in Italy – as in other southern European countries – once had no lobby organisation to represent them. Now, however, with support from Brussels, consumer organisations have been set up and national food safety standards are being enforced. In the field of consumer protection – an area which simply did not exist in Italy a few decades ago – the country is now close to reaching northern European standards: a National Consumer Council has existed since 1973, for example. The fact that throughout the EU, including Italy, food products must now be labelled with their country of origin, and other essential information, did not happen of its own accord; it was one of the EU's major achievements which directly benefits consumers. The European Food Safety Authority, based in Parma, has for some years guaranteed minimum quality standards throughout the EU; in response to the threat posed by bird flu, it carried out spot checks in all 25 Member States.

4. Summary

Without the EU

- Italy's small and medium-sized enterprises would be utterly defenceless against the chill winds of the world market.
- Italy would not have lived in peace and security for more than half a century.

- The infrastructure in Italy's regions would be hopelessly underdeveloped.
- Italy's students would find it much more difficult to study abroad for a year.
- Consumers could not switch to a cheaper telecoms supplier so easily.
- "Consumer protection" would be an alien concept in Italy.
- Tourists in Italy would have to change their money before being able to spend it there.
- Many southern Italians would still be living like their forefathers in the 19th century.
- Italy, with its concept of culture, solidarity and Christian values, would be relatively isolated. ■

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Latvia

Andreas von Below

1. Background

As a result of the Hitler-Stalin Pact, Latvia – along with Estonia and Lithuania – disappeared from the map as an independent state for more than half a century. Annexation by the Soviet Union robbed the country of its identity and every opportunity for self-determined development. Many thousands of Latvians were killed or deported by the Nazis or the Soviet regime or were forced into exile. There was barely a single family which did not lose at least one member. Latvia's economic, social and cultural development – on a level with Western Europe before 1939 – was severely damaged and impeded for five decades.

After Latvia regained its independence almost 15 years ago, it faced a massive challenge: overcoming the political, economic and cultural devastation wrought by the long period under Soviet rule and regaining its own identity. Besides reviving and cultivating its language and cultural traditions, building closer links with "core Europe" was a crucial reference point in this context.

Soon after the formation of a freely elected government, Latvia's new political leaders established wide-ranging contacts with Western Europe. They made tireless efforts to build Latvia's relations with European institutions, first the Council of Europe and then the European Union, in order to free their country from the all-pervasive dependency on the East. In doing so, they were driven primarily by a fear of possible "great power" claims that might still be harboured by their over-mighty neighbour Russia. They have looked to the West for security guarantees for their new-found independence and are eager to benefit from the opportunities afforded by a Community that holds out the promise of high living standards and the free movement of persons, ideas and economic goods.

In the referendum on accession to the European Union in September 2003, more than two-thirds of Latvia's electorate voted in favour of accession. In other words, a clear majority of Latvians supported the course towards the European Union.

Latvia has been a member of the European Union since 1 May 2004 and – like all the newly acceded countries – can now benefit from the great opportunities and prospects afforded by the EU.

2. Economic and Financial Benefits of EU Membership

As one of the poorest countries in the European Union, with a gross average monthly income of €316 (2004), Latvia is heavily dependent on EU funding in order to improve its people's living standards and make its economy competitive.

During the period 2004-2006, the country will receive a total of €1.2 billion in Community funds. Latvia's financial contribution to the EU is relatively low by comparison, amounting to €126 million in 2005. For the period 2007-2013, Latvia is very likely to receive a further €5.7 billion.

These few statistics make it clear that Latvia can count on substantial financial support from the EU. The country's accession to the EU is already bearing fruit in the Latvian economy, which is experiencing dynamic growth. Wages are also rising dramatically. In 2005, for example, average wage growth exceeded 16%, albeit accompanied by a high inflation rate of more than 7%.

Latvia's external trade is now intermeshed with the EU. Exports to the EU represent more than 75% of Latvia's total exports, and the EU supplies 75% of Latvia's imports. Although EU norms cannot yet be applied across the board in practice, foreign investors generally enjoy a high level of security for their capital nonetheless. Investors face relatively low bureaucratic obstacles, and Latvia's tax rates are favourable for investment. Foreign direct investment totalled €3.45 billion (cumulative) in 2004.

With Latvia's accession to the EU, its labour market has been opened completely to all the EU Member States. This measure was particularly important to attract foreign investment. Bureaucratic obstacles in the issuing of residence permits could thus be dismantled. By contrast, only Great Britain and Ireland opened their labour markets to Latvian citizens straight away. Many Western European countries have introduced transition periods. Germany is a case in point: it has introduced a seven-year transition period on the free movement of labour from Latvia.

Due to EU accession and easier conditions of travel, tourist figures have reached record levels, with the result that this year alone, more than 40 new hotels are opening in Latvia. The number of airline passengers flying into Riga Airport has more than doubled within a year. Tourism is thus emerging as a new key pillar of the Latvian economy. The expansion of the tourism industry offers further major economic potential. Latvia has the densest forest stocks in Europe. Its intact natural environment and numerous national parks will undoubtedly attract increasing numbers of holiday-makers to Latvia in the coming years.

The country's geographical position and demographic structure will also be of economic benefit to Latvia itself, and to the EU overall, in their relations with the CIS states. For example, many companies seeking to gain a foothold in the Russian market are opening branches in Latvia in order to benefit from the secure conditions there. The volume of trade with the CIS countries has already increased substantially since EU accession, growing by 45.4% during 2003 and 2004.

Accession to the Eurozone and the Schengen Agreement

The Latvian government is keen to introduce the euro as the country's means of payment as soon as possible and to accede to the Schengen Agreement. Experts believe that these two measures will further boost the Latvian economy and noticeably improve the Latvian people's identification with the EU. However, the parameters necessary to achieve these two objectives still need to be put in place.

Latvia's official currency, the lats (LVL), was only introduced in 1993, replacing the Latvian rouble. Since 1 January 2005[1], the lats has been pegged to the euro. The Bank of Latvia has limited the lats' fluctuation rate against the euro to +/-1%, and has set itself the goal of introducing the euro as Latvia's national currency as of 2008/2009. Experts believe that this step will further strengthen the domestic economy. Complicated conversion rates for the business sector and travellers will thus fall away, and the Latvian people's confidence in, and identification with, the EU would thus increase. In order to achieve this goal, the government must first fulfil stringent criteria and, in particular, bring inflation under control.

For accession to the Schengen Agreement, major security measures must first be adopted at the EU's external border. Latvia's Interior Minister was forced to resign due to his failure to respond adequately to this need. The government is now working intensively to put in place the conditions necessary for accession to the Schengen Agreement, which is scheduled for 2007.

3. Political Benefits

Security and Stability

The accession of Latvia and its two neighbours Estonia and Lithuania to the European Union has created more security and stability throughout the Baltic region and substantially reinforced these countries' positions in their relations with the countries beyond the EU's borders. Since 1 May 2004, Latvia's eastern border, i.e. with Russia and Belarus, has constituted the EU's external border as well. This offers immeasurable benefits for the further development of Latvia's relations with its eastern neighbours, which inevitably have implications for relations between the entire European Union and its eastern neighbours too. Latvia can count on support from the CFSP in improving relations with Russia. The border question, i.e. the territorial delimitation of Latvia vis-à-vis Russia, has yet to be resolved once and for all. The CFSP can strengthen Latvia's position and help to settle the conflict with Russia, with the aim of achieving a solution to the border question once and for all.

Endorsing Common Values

The Latvian Parliament's position on the draft Constitution for Europe was especially noteworthy. Soon after the majority of French and Dutch voters rejected the Constitutional Treaty in their national referenda, it was endorsed and ratified by the overwhelming majority of members in the Latvian parliament. Latvia thus impressively demonstrated that the majority is clearly in favour of the European Union's values and principles – such as freedom, democracy and the rule of law – and supports this Community.

Admittedly, there are still shortcomings when it comes to implementing these values in practice. Latvia's ranking in the Transparency International Corruption Perceptions Index is poor, with only Poland and the Slovak Republic scoring even lower among the EU accession candidates. Deficits can also be observed in Latvia's justice system. That is why the further development of justice and anti-corruption measures are key tasks for Latvia. However, in these areas, too, major progress is being made, with Latvia moving closer to achieving European standards with support and encouragement from the EU funding programmes.

Peaceful democratic change in Latvia could have a positive impact in the long term by strengthening democratisation processes in the East. Latvia has been providing support for democratic factions in Belarus for some time. Relations with Russia could also be influenced in a positive way with support from Latvia's Russian community, which makes up 30% of its population. Ukraine, Georgia and Moldova are now seeking advice on their transformation programmes from Latvia, which they regard as a positive model for the restructuring of a former Soviet Republic.

4. Summary

- With Latvia's accession to the EU, a vision which many people thought impossible has become reality. The overwhelming majority of the population endorsed accession, prompted by a desire to belong to a Community that offers freedom, security and a higher standard of living;

- Latvia's economy is benefiting disproportionately from this accession. Latvia is the poorest country in the EU. It has good economic prospects, thanks to EU funding and the country's massive need for catch-up development;

- Foreign companies have recognised the locational advantages offered by the country's geographical position, low wage costs and good infrastructure, and are investing in Latvia;

- EU accession offers Latvia opportunities to bring influence to bear on Community policies. This applies especially to its relations with its largest neighbour, Russia;

- Latvia, as a democratic state under the rule of law, has recognised the deficits existing in some sectors (e.g. justice, corruption) and is addressing them effectively;

- Latvia's accession to the EU is helping to stabilise the Baltic region and will help to boost democratisation processes beyond the EU's external borders. ■

[1] 1 € = 0.702804 LVL

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Lithuania

Jurgis Vilčinskas

Introduction: The Boulevard to Membership

When these lines are being written Lithuania is finishing its second year as a full-fledged member at the table of the world's biggest economic and political club – the European Union. The first "shock" of EU membership has given way to daily practical issues of inter-ministerial coordination of EU affairs and representation of national interests in Brussels, the first and colourful impressions of Lithuanian Euro-parliamentarians and implementation of projects co-financed by the EU Structural and Cohesion funds in virtually every sphere of economic life. It seems that the general mood in political and business circles and the society at large is that there are a lot of new things to learn, in co-operation with the EU institutions in particular, but there is nothing of which to be afraid or ashamed.

Looking back, pursuit of the EU membership, which formally started on December 8, 1995, when the letter of application for EU membership was sent by the then prime minister of Lithuania, Algirdas Brazauskas, marked the beginning of probably the most consistent and coherent political project in the modern history of Lithuania. It culminated at the referendum on the accession of Lithuania to the EU on May 10-11, 2003. An astonishing 91.07% of Lithuanians voted in support of joining the EU, confirming the three-year accession negotiations between the governments of the European Union Member States and Lithuania, all of which was managed by a critical and eager "watchdog" – the European Commission.

One could compare the fervent support for EU membership, across party lines and throughout the citizenry, only to the restoration of Lithuanian independence on March 11, 1990. And one could highlight many political, economic and social reasons for such a high level of support. From a purely political perspective, the EU membership first of all was the homecoming of Lithuania, along with the two other Baltic States, to the family of European nations – their rightful return to the European identity and cultural roots that this country historically had always shared with the rest of the Old Continent (Western Europe). It was also a move to tear down the European divide into East and West that deprived countries like Lithuania of independence, security and the ability to build a democratic society. Therefore, during the 1990s, membership in the EU and NATO became universally shared foreign policy goals and, in a way, a geo-strategic imperative, that had to be implemented. Free market and regulatory reforms, the rule of law and institution building - all were focused on this new historical turn in country's life. And, to make a long story short, the "i's were dotted" in Athens on April 16, 2003, with the signing of the accession treaty.

EU Membership: the Goal, the Instrument and the Future?

To answer the question of whether EU membership is the right choice for the Lithuanian government, the people, and the individual, one has to understand that the EU is not a goal per se. In a way, it could be viewed rather as a tool, an instrument that could be used by skilled hands in order to generate political stability, accelerate economic growth and guarantee fair competition in the age of globalization and regional integration. In the past, the skilled hands would imply government control, but this is less and less true in a world where businesses, NGOs, and civil society are taking an increasingly active part in the multi-level governance process and all are enjoying the benefits of the Internal Market and of EU structural assistance.

Once Archimedes, the ancient Greek philosopher, said: “Give me a place to stand and I will move the earth.” Is EU membership a lever for creating a secure, stable and prosperous society? How could it become one? Today, the time is ripe to take a look at this and ask whether the sacrifices and efforts made to join the EU together with the other nine new Member States really paid off. We must consider whether the long-term strategy for future political and economic reforms in Lithuania is still closely aligned and coincides with Lithuania’s membership commitments and Lithuania as part of EU-25. We must contemplate whether the soft security and opportunities for trade and prosperity are intrinsically inter-linked with the benefits of EU membership. In doing this, it would also be wise to pay a close attention to future challenges that arise within the EU club and in the process of becoming an active Member State.

EU Membership: The Right Economic Formula?

Let us first turn to the economic arguments for Lithuania’s membership in the EU. The European Union can be criticized for the democratic deficit or lack of legitimacy in its actions, but European integration does deserve much credit for its contribution to the economic growth of Member States. By getting rid of barriers to free trade and investment and creating a single, internal market, as well as guaranteeing the four freedoms for movement of persons, goods, services and capital, Europe has taken key steps to encourage economic success.

Today, Lithuania is an integral part of the EU Internal Market, which embodies the most significant economic motive for and utility of the EU membership. To understand its significance for Lithuania, one must consider the fact that Lithuania is and will remain a small, open, and export-oriented economy. Economic development is therefore directly linked to Lithuania's integration in external markets. Without access to the neighbouring markets, with the EU Internal Market being the largest, it would hardly be possible to develop competitive industries and sustain economic growth.

Back in 1998, Lithuania learned its lessons the hard way when it was severely hit by the economic crisis in Russia. This marked the beginning of a major shift of Lithuania's exports from the unpredictable and insecure CIS economies (close to 40% at the time) to the present single EU market, which today accounts for more than 2/3 of Lithuanian exports and roughly 3/5 of its total imports. Today, membership in the Internal Market significantly contributes to annual economic growth of the country, which averaged 7.4% between 2000 and 2004. In fact, according to some reports, Lithuania's GDP would annually lose 1.18 billion euros were it not for the membership in the Internal Market. Indirectly, the Internal Market also contributes to the spread of know-how and best management practices, a steeper learning curve and, as such, to the competitiveness of the economy as a whole.

A sometimes forgotten, but nevertheless important aspect of the EU membership is that Lithuania, together with its European partners, can, on equal footing, decide on the broader EU trade and economic policy, e.g. economic regulation or, rather, deregulation, liberalisation of services across the EU, better law-making initiatives and simplification of the *Acquis*, etc. This, for the first time, gave our national interests a qualitatively new arena and tools for influencing the European economic agenda and the co-operation of the European Union with other trade partners around the world.

Down the Road: Benefits of the Eurozone

Lithuania, together with Estonia and Slovenia, seek to be the first new Member States to join the Eurozone. Although, as a result of the currency board arrangement, irrevocably pegging the national currency, Litas, to the euro, Lithuanians already enjoy most of the benefits offered by the euro. The country's expected membership in the Eurozone in 2007 will consolidate the benefits of a stable exchange rate and low interest rates. Combined with structural reforms and sound fiscal policy, it would also make the economy more attractive to foreign investors and lay the groundwork for an increase in trade and, in the long-term, economic competitiveness. Positive microeconomic benefits like eliminating currency exchange costs, better price comparability, and faster payments, should also be mentioned.

The most emphatic challenge for the introduction of euro is the expected rise in prices, or, rather, fears among the general public that it will bring higher living costs – inflation of prices for services, real estate and goods. Germany's experience and the neologism "teuro" (combining the German word for expensive, *"teuer"*, with euro), is usually taken for granted. The effects of applying the euro to Lithuania's economic structure have yet to be sufficiently investigated. The estimated effect of all euro-induced price changes in Germany in the first six months after the introduction of the single currency ranged between -0.9 and +2.2 percentage points.[1] Of course, the short-term effect of the Euro remains to be seen in each of the new

Eurozone economies. On the other hand, the track record of the European Central Bank lets us be assured that long-term price stability will be in tune with national growth and job creation policies.

EU Structural and Financial Assistance

Lithuania, like all new EU Member States, receives more from the annual EU budget than pays to it. This ratio for 2004 – 2006 is close to 1:5.05, in absolute terms meaning that Lithuania receives an average annual surplus of 791 million euros, or a total of 2,373 million euros during this three-year period. It is a significant financial injection that will contribute to more investment into research and innovations, transport and energy infrastructure, environmental protection, human resources and employment, rural development, fisheries and many other sectors, including internal policies, where issues specific to Lithuania, such as financing the Kaliningrad transit system and decommissioning the Ignalina Nuclear Power Plant are also included.

For the sake of objectivity, it is not only the amount that matters, but the purposeful use of Structural and Cohesion funds, taking into account regional development disparities and economic motivation for the businesses. Here, the challenge lies in giving priority to projects that will not distort economic and investment motivation, but, instead, will advance and create new positive externalities – better energy and transport infrastructure, development of science and research infrastructure or improvement of administrative capacities. Keeping in mind that the new Financial Perspective for 2007-2013 promises a dramatic increase of 1.8 times in structural assistance for Lithuania (from 503 to 946 million euro annually), the need for wise and efficient use of assistance will be of increasing importance.

In this context, better transportation connections with Western Europe are of utmost importance for Lithuania. The lack of westbound road, railroad or energy links remains the major obstacle for swift trade, tourism and interpersonal contacts. It also creates serious obstacles for the country to take advantage of liberalisation of European energy markets. Therefore, funding of these projects by the EU Cohesion Fund will significantly contribute to the growth of economy in the future.

Lastly, Lithuania belongs to the group of the new EU Member States that is characterised by relatively low redistribution level and low expenditure on welfare goods and services. This means that investment into social and welfare infrastructure is desirable and indeed highly needed. If the country takes advantage of the social component of the Lisbon Strategy in order to channel the EU structural assistance into development and reform of social infrastructure such as hospitals, schools, and the law enforcement system, it will furthermore accelerate its development. The prospects are good given that average annual funding from Structural and Cohesion funds will amount to 943 million euro between 2007 and 2013. To compare, this will nearly equal the Lithuanian government's average yearly expenditures of 1 billion euros over the next three years.

The challenge of effectively absorbing the massive influx of structural funds will continue to be a problem receiving much attention. The problem can partially be attributed to the lack of high-quality projects and partially to Lithuania's insufficient administrative capacity to manage them. This, however, does not detract from the overall positive effect of the EU structural assistance, which contribute around 840 million euros to Lithuania's GDP.

To summarise, the economic advantages of EU membership are obvious to Lithuania. But there is also a need to get rid of an obvious temptation to think of the European Union as a source of funding for Lithuania's economic development and agricultural community. EU funds today make up one fifth of Lithuania's annual budget. The idea that the EU is simply a large pool of money, a by-product of Lithuania's EU-membership referendum campaign that emphasized direct financial gains of the accession, is widely held in Lithuania. Some euro-sceptics have even been saying that Lithuania traded her independence for EU moneybags.

Lithuanian Foreign Policy after EU Membership

Although the economic benefits of the membership cannot be overestimated, Lithuania's gains in foreign policy and security may perhaps be of equal significance. By joining the Union of nearly half a billion people that generates over one fifth of global trade and nearly 30% of global GDP, Lithuania today is a member of a unique club representing nations in different stages of their economic and political development. From national security and foreign policy-making to interior and justice affairs, EU membership has a profoundly positive effect on national policy-making and outlook of the country internationally.

Probably the most important aspect of Lithuania's EU membership is the historic chance the small country now has to take part in crafting a vision of the European future. Lithuania envisions a transparent Union that respects its members' interests and views, maintains strong transatlantic relations, is open to its neighbours in the East, and remains flexible and dynamic in its economic choices and actions.

EU membership provides Lithuania with the necessary tools to become:

- A visible and active regional player, actively promoting its national interests and values and linking the European Union with its new-old neighbours in the East.
- An integral part of the Community that plays a major role in the world's trade, development and aid policy and as such provides Lithuania with much broader participation in international politics.

For a new actor on the international stage such as Lithuania, the EU commitments towards multilateral and peaceful conflict resolutions, active participation in international organizations and the search for collective solutions to global problems effectively coincides with Lithuania's own foreign policy vision:

- To promote Euro-Atlantic values by strengthening transatlantic relations.

- To use its good relations and to promote trade and cooperation between Eastern and Western Europe.

It is in the vital interest of Lithuania for the EU to have a strong and cohesive voice in its Common Foreign and Security Policy (CFSP). Lithuania would like to see an EU that puts European interests first in international trade, in security affairs, or in dealing with energy supply issues. The latter represent not just a threat to sustainable development, but to the region's political stability as well. All of these issues can be only be dealt with in partnership with other EU member states.

EU membership generates an outstanding synergy that is visible in Lithuania's regional outlook. Out of the ten new Member States, Lithuania has the second longest EU external border (after Poland) with its eastern neighbours – Belarus and Russia (Kaliningrad Oblast). Lithuania is therefore highly interested in developing instruments of common external border management and deepening the existing cooperation between EU Member States. Geography, coupled with common history with CIS states on the one hand, and EU membership on the other, gives Lithuania an advantageous position to become one of the leaders of the European Neighbourhood Policy (ENP). Lithuania thus might find itself engaged in assisting certain Black Sea states such as Ukraine, Moldova or Georgia, in their relations with the EU.

United in Diversity: Lithuanian Values and Interests in the EU

"United in diversity" is the motto of the EU stated in the Constitution for Europe that fire-started its yet unfinished ratification process at the Lithuanian Parliament, the Seimas, on November 11, 2004. This motto describes how Lithuanians feel about their language, traditions and lifestyle. In the course of European integration, small or medium countries have been able to maintain their cultural and linguistic distinction in the company of larger European states. The use of national languages in EU legislation combined with the promotion of cultural and linguistic differences has only served to strengthen the cultural identities of European Union Member States.

Paradoxically, it is not the EU institutions or legislation but emigration that poses the biggest challenge to Lithuania as a state and a cultural unit. The freedom to move and work within the borders of the EU means that a large part of the population, especially those younger, more educated and mobile, left the country in search of better economic opportunities elsewhere. This trend threatens to create structural problems given the fast-ageing population and, even worse, to undermine Lithuanian cultural and linguistic identity. Only sensible government policies that motivate young Lithuanians to stay in their country can give Lithuania the skills, optimism, and money it needs for success.

What Lithuania Needs: More Confidence, Partnerships and Experience

Having considered the substantial political and economic benefits of EU membership, the question arises whether Lithuanians are benefiting in other ways. In addition to being part of the community of European democracies and the opportunities offered by the Internal Market, there are several other benefits such as:

- Increased confidence.
- Learning about "best European practices" from European partners. Building a long-term, peaceful, and mutually beneficial relationship with other European nations.

The EU membership aids Lithuania on its path to restoring independence, rebuilding democracy and the rule of law, and, finally, returning to the European community. As a matter of fact, the EU Member States have always acted as our friends, advisors and sponsors during the difficult post-communist transition. Today, the confidence that being part of the EU brings is based on the fact that, for the first time in its modern history, Lithuania is able to discuss the future of Europe and to speak with one voice with the rest of Europe. This friendly "European rear" is also crucial in foreign policy-making and qualitatively new exposure of Lithuania's outlook to the truly international questions such as global warming, poverty, non-proliferation of weapons of mass destructions, international terrorism and cross-border crime.

To conclude, the EU faces important questions for the future: will this club stay strong, united and competitive? What can be done to boost growth and employment and to stimulate trade? Will the EU complement its economic power with adequate political weight in the world? Will it be able to advance creation of democracy and security areas in the European Neighbourhood as it did in the past EU enlargements? All these questions stand a better chance of being answered if Lithuania is a part of the community of European states that share the same values and economic interests. ■

[1] According to the survey of the German Federal Statistical Office at http://www.destatis.de/presse/englisch/

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Portugal

Michael Däumer / Stefan Reith

1. Background and Introduction

On 1 January 1986, in the third round of EU enlargement, Portugal joined the European Community along with its Iberian neighbour Spain. As early as March 1977 – even before Spain – the first freely elected government under Prime Minister Mário Alberto Nobre Lopes Soares had submitted a formal application for accession, three years after the Carnation Revolution, which marked the end of the 50-year rule by the authoritarian Salazar regime. At the opening of the Brussels European Council on 21 March 1983 the former German Chancellor Helmut Kohl affirmed the importance to Europe of the accession of the Iberian Peninsula: "The enlargement of the Community to include Spain and Portugal not only affects the Community's political weight in Europe, but also has great bearing on Europe's political and historical dimension and free democratic identity. It also involves economic and financial issues with very far-reaching implications – far-reaching both for the Community of Ten and for the two candidate countries."

Portugal had already joined the Council of Europe in 1976 and was a founding member of NATO, the EFTA and the OECD, and accession to the European Community signified its full and definitive reintegration into the family of Western European democracies. Its reasons for joining the EU were primarily political: it wished, on the one hand, to stabilise the democratic order, which was still in its infancy, and, on the other, to become properly integrated into the international community. Rapid decolonisation had brought Portugal's "imperial period" (1415 to 1975) to an abrupt end, and there was a need to redefine the country's international role. Its application for membership of the European Community also put a definite end to the ongoing deliberations on possible affiliation with the Socialist bloc or the non-aligned states. In the course of the seven-year accession negotiations, its political motives for applying for membership in a period still characterised by the repercussions of the 13-year colonial war, by economic crises and by severe political turmoil as a result of the revolution were increasingly joined by economic ones. The prospect of subsidies from EU coffers and an influx of foreign investment capital beckoned.

If we now make a provisional appraisal of Portugal's 20 years of EU membership, even the difficult economic situation it currently faces should not prevent us from seeing that initial expectations have been met in full. The development of the former "poor man of Europe" since EC accession is a real success story, not only in economic, but also in political and social terms. The Portugal of today is a stable democracy, which is fully integrated into the EU and – not least thanks to European solidarity – has been able to markedly reduce its disparity with the more prosperous EU Member States in terms of economic development, even though it has not yet quite managed to catch up with the rich Member States. The financial assistance from the EU Structural Funds was a key factor in setting this enormous catching-up process in motion. Consequently, Portuguese gross national product increased from 53% of the EU average in 1985 to 72% in 2004. Since EU accession, therefore, Portugal has developed into a modern, dynamic country. Its adaptation to the internal market and European competition has led to structural change in the Portuguese economy, which today is consistent with that of a highly developed industrialised country.

The services sector accounts for the largest proportion of the country's economic output (approximately 70%), followed by the industrial and construction sector (25.6%), and the agriculture and fisheries sector (3.5%). The years since EU accession have also seen a major modernisation boost to the country's transport infrastructure of a magnitude that would certainly not have been possible without EU funding. Transport infrastructure is particularly important to a country lying on the south-west periphery of the EU. In this regard, this important seafaring nation places special emphasis not only on the extension of its ports, but also on transport links with Spain. The cooperation between Portugal and Spain on the construction and extension of motorways and high-speed train lines is a product of European policy.

With around 10 million inhabitants, Portugal is one of the smaller EU Member States; moreover, it is situated on the western edge of the EU. These two factors have led to repeated discussions and fears – particularly during EU enlargement to the East – that the country could be sidelined and be marginalised by the larger Member States, but there is no question of that. By virtue of two excellently organised EU Council Presidencies – in

1992 and 2000 – the country has distinguished itself as a serious, reliable partner in the EU, whose voice is heard.

A number of important EU projects bear Portugal's imprint, such as the Lisbon strategy, which was adopted under the Portuguese Council Presidency in 2000 with the aim of making the EU the most competitive and dynamic knowledge-based economy in the world for the decade ahead. In this context it is no coincidence that Portuguese politicians hold key positions in the EU. António Vitorino, European Commissioner for Justice and Home Affairs from 1999 to 2004, drove forward key decisions on the fight against terrorism. Since 2004, the country's former Prime Minister José Manuel Durão Barroso has been President of the European Commission. Consequently, there are absolutely no grounds to fear that Portugal will be marginalised or its interests neglected within the EU. Quite the reverse: the country plays a leading role in the Community, despite its peripheral location and relatively small population.

2. Economic and Financial Benefits of EU Membership

From an economic point of view, Portuguese accession to the EU has been worthwhile in every respect. The years following its accession saw a remarkable economic upswing. Between 1987 and 2000, average growth was 3.5%; per capita income rose from 55% to 71% of the EU average. The late 1980s saw a full-blown economic boom as a result of capital imports in the form of foreign direct investment. Democratic consolidation, economic liberalisation and, above all, integration into the European Communities made Portugal extremely attractive to foreign investors. The economic growth set in motion by EU accession contributed significantly to better tackling the rising unemployment in Portugal during the adjustment years. For many years unemployment was below 5%; now, owing to economic problems, the unemployment rate is around 8%. Unemployment would undoubtedly be significantly higher if it were not for the euro, as the single currency has a stabilising effect on the economy.

The growth in foreign direct investment continued in the early 1990s. Record levels were reached in 1993-94, in particular, with the establishment of the VW Autoeuropa plant south of Lisbon – the largest foreign investment ever made in Portugal. The associated transfer of technology and know-how gave the Portuguese economy an additional modernisation impetus. VW Autoeuropa – which, in 2003 alone, accounted for 4.8% of total Portuguese exports and 1.2% of GDP – is also a good example of additional multiplier effects. A diverse supply industry developed around the plant, which brought benefits for small and medium-sized enterprises and the labour market. In addition, the EU is the main source of the capital imports so important for the development and modernisation of the country. From 1986 European partners have been responsible for well over two thirds of total investment. In 2004 the most important investors were Spain, the United Kingdom, Germany, the Netherlands and France. Besides the positive economic framework, the decisive factor in the decision to invest was often that investors also benefited from European Structural Funds and thus were indirectly subsidised. There is no doubt that a great deal of investment would not have been made if it were not for EU membership.

The role played by Portugal's EU partners in foreign investment is similarly strong in Portuguese external trade. In 2004 over 80% of Portuguese exports were destined for EU Member States, the most important customer being Spain, with 25.5% of total exports, followed by France (13.8%) and Germany (13.4%). The EU is also Portugal's most important partner as regards imports: 78% of total imports originate in the EU. With 30% of total Portuguese imports, Spain again takes first place, followed by Germany (13.4%) and France (9.3%).

Accounting for 8% of GDP and 10% of the workforce, tourism is one of the most important sectors of the Portuguese economy and one that offers the most promise for the future. In this field, too, Portugal draws particular benefit from its EU partners: well over two thirds of visitors come from the EU.

Besides the benefits of integration into European trade and capital flows, the country has also profited considerably from direct capital injections from Brussels – for example within the framework of the European Structural Funds or via loans from the European Investment Bank (EIB). In the late 1980s Portugal was the largest net recipient in the Community; its ratio of payments made to payments received was 1:8. By way of comparison, Spain's was 1:1.5 and Greece's 1:1.45. In the 2004 financial year, the country received an approximate net amount of € 3.1 billion from EU coffers; that is to say, per capita, each Portuguese citizen received € 302.44 from the EU. Only Greece and Ireland had a slightly higher per capita net disbursement.

Cohesion and Structural Funds

As one of the least developed countries of the EU of 15, Portugal received, and continues to receive, preferential access to EC/EU Cohesion and Structural Funds. From 1994 to 1999, EU subsidies constituted, on average, a generous 3.3% of Portuguese gross domestic product and 14% of investment. It is estimated that, for the 2000-2006 period, EU subsidies constitute 2.9% of Portuguese GDP. The Cohesion Fund, which was established in 1994 to enhance the economic and social cohesion of the Community by funding projects in the fields of the environment, transport and infrastructure, plays an important role in Portugal, as in Spain, Ireland and Greece, the other three Fund recipients. It has particularly benefited the poorest regions of the country and the most remote islands (the Azores and Madeira). Flying to the island of Madeira, far away from the mainland, gives a good idea of how European subsidies make it possible to construct the modern transport and infrastructure network that is of major importance to building up a lasting tourism industry. Portugal's share of the € 18 billion Cohesion Fund is 17% for the 2000-2006 financial period.

Further billions are available from the various Structural Funds for regional development, social cohesion, fisheries and agriculture, and the country profits just as greatly from these. In 2004 Portugal received around € 3.5 billion from EU coffers for structural operations. These subsidies enabled it to develop an efficient network of road, railway, aviation and maritime infrastructures and thus strengthen its own position as an interface of transcontinental trade.

Portugal is also receiving financial support from Brussels to modernise its seaports extensively, in order to integrate these into the trans-European transport networks and live up to its claim to be a logistics centre facilitating exchange between Europe and the United States. It has approximately € 3.8 billion in EU subsidies at its disposal for this purpose for the 2000-2006 period. The road and rail networks are also being extended using European support. The total length of the Portuguese motorway network is now around 1,800 kilometres, which is 25 times that of 1978. Thus, the country's motorway density – the length of its motorways divided by its surface area – exceeds even that of the United Kingdom. The main emphasis in the field of rail transport is on Portugal's integration into the European high-speed network, for example with the construction of the Lisbon-Madrid-Bordeaux high-speed line. The expansion of the modern industrial port of Sines is also receiving support.

The residents of the Portuguese capital have a prime example of the success of European structural policy right before their eyes. The Vasco da Gama Bridge, which was constructed in the run-up to the international exhibition EXPO 98 in Lisbon, has already become a national symbol. Its

17.2 km length makes the cable-stayed structure the longest bridge in Europe to date. The total cost of this impressive feat of engineering, which spans the Tagus delta, was approximately € 900 million. The European Cohesion Fund covered 35% of this, and the European Investment Bank a further 33%. The remaining funds came from the Portuguese-British-French consortium Lusoponte, which had won the contract for the construction and operation of the bridge.

Despite the fact that enlargement to the East has seen the accession to the European Community of countries whose need for EU subsidies is even more pressing than Portugal's, the influx of funds from Brussels will not be discontinued overnight or be diverted to Eastern Europe. Sensible solutions whereby the aid is gradually reduced, with the aim of precluding any negative economic consequences from a sudden loss of funds, were found during the negotiations on the EU budget for the 2007-2013 period. The country will continue to receive significant funding from the Cohesion and Structural Funds for the foreseeable future, even though the flow can no longer be as plentiful in the EU of 25 as it was in the EU of 15. In the light of this fact it is gratifying that Portugal does not view the new Member States as rivals in a tussle for a slice of the Brussels pie, but rather as partners deserving the same European solidarity they themselves have been shown for years, and indeed continue to be shown.

Common Agricultural and Fisheries Policies

The objective of the common agricultural policy is to promote a sustainable, competitive agricultural sector throughout Europe. A modern agricultural sector must be capable of preserving the countryside and natural areas and offering agricultural products for sale at competitive prices, whilst meeting consumer demands in terms of quality and food safety. In addition, the agricultural workforce must be able to make a secure living in spite of fluctuating world prices for agricultural products, vagaries of climate (storms, heavy rainfall, drought) and the pressure of international competition.

The demands of European agricultural policy for liberalisation of the Portuguese agricultural sector, which was previously strongly characterised by state intervention and protection, have not always been well received in Portugal. Given that the country's agriculture and fisheries sectors – which, after all, employ 12.1% of the workforce – account for only 3.5% of Portuguese gross national product (data from 2004), it is not surprising that the process of adjustment to the European internal market has entailed some painful sacrifices. Although the accusation has sometimes been heard from Portuguese quarters that EU policy fails to show sufficient consideration for specific national problems or particularly sensitive economic sectors – such as the agriculture and fisheries sectors in Portugal's case – it is reasonable to ask whether the situation would perhaps be even worse if Portugal had remained outside the EU. Yet no country can escape indefinitely the liberalisation of world markets and the international competition that go hand in hand with globalisation; the modernisation and liberalisation process may be difficult against this background, but there is no escaping it.

In 2004 the Portuguese agricultural sector received around € 830 million from Brussels, over half of which consisted in direct aid to farmers. The subsidies for set-aside often represent a necessary additional source of income for farmers and, in the long term, will have a positive impact on the environment, which has suffered as a result of intensive cultivation. In addition, EU direct aid contributed to alleviating the adverse effects of the drought in the first half of the 1990s. In this connection it is also worth mentioning that in 2003 Portugal was allocated almost € 50 million from the EU Solidarity Fund to help it tackle the effects of the drought and the devastating forest fires of recent years.

In the fisheries sector, the European Commission's statement of expenditure for the 2000-2006 period provides for a total sum of € 3.6 billion, the majority of which is earmarked for promoting aquaculture, for processing, and for modernising port facilities. The rest is channelled towards renewal and modernisation, on the one hand, and decommissioning the European fishing fleet, on the other. In the programming period, Portugal, with 7.7%, was the third-largest recipient of EU subsidies in this field, behind Spain (52.7%) and Italy (8.8%).

The Euro

Following the adoption of the Treaty on European Union in 1992, which provided for the establishment of economic and monetary union, with a single currency and a European Central Bank, Portugal did its utmost to meet the convergence criteria so that it could join the euro area from the outset. In 1997, the reference year, the country managed to satisfy the Maastricht criteria, and thus the former "poor man of Europe" rose to become a founding member of monetary union. Reference to the obligations of the EU Stability and Growth Pact helped to legitimise and drive forward the necessary modernisation processes and reforms. Once it had successfully joined the euro area, however, the country increasingly disregarded the strict requirements of the Stability and Growth Pact. The necessary structural reforms were delayed, and spending on administration, social systems and the health service rose sharply, which led to increasing budget deficits. In 2001 Portugal was the first country to breach the Stability and Growth Pact, and exceeded the budget deficit threshold of 3% of GDP by 1.1%. In the years that followed, the country slid into an economic crisis from which it is taking a long time to recover. Since the crisis occurred at nearly the same time as the euro coins went into circulation, Portugal sometimes wrongly attributes it to the single currency. Portuguese politicians occasionally hold the straitjacket of the Stability and Growth Pact responsible and call for it to be relaxed. The economic crisis was certainly not caused by the introduction of the euro, however, but by the failure to tackle urgently needed structural reforms with sufficient energy and to curb escalating government spending. Accordingly, the budget deficit is now around 6.5% of GDP.

Indeed, like all Member States, Portugal has derived definite benefit from the success of the single currency. The monetary turbulence feared by businesses and entrepreneurs even in the early 1990s is history; the new price stability has created planning security and lowered interest rates. The single currency has reduced transaction costs such as those for exchanging money and insurance against currency fluctuations, and thus promoted the exchange of goods, services and investment within Europe. Despite its location on the south-western edge of Europe and its traditionally close relations with Latin America and the Portuguese-speaking world, Portugal's most important trade and investment partners are by far the Member States of the EU – as has been mentioned above. The positive effect of the euro and the single market cannot be underestimated in this light. It is not just enterprises that have benefited, however, but also citizens, who can now compare prices across borders throughout Europe and pay with the same currency without conversions or exchange costs being necessary.

Portugal's entrepreneurs and citizens are also benefiting from the positive effects of the euro on the stock and financial markets. After all, the country now possesses a strong, competitive currency, which gives its economy a definite locational advantage in global competition. Portugal also derives clear advantages from its integration into the structures of the single currency. These structures force the Portuguese Government to make drastic savings and to undertake the necessary structural reforms in the face of its large budget deficit. In the medium and long term, this has the effect of consolidating the budget and stabilising the economy. It also has the potential to halt the rise in unemployment (currently around 8%).

3. Political Benefits

By opening negotiations for EC accession, Portugal broke free from its isolation from Europe after almost 50 years of military rule. Its integration into European structures consolidated the move towards democracy that had begun with the Carnation Revolution of 1974. The prospect of accession started a process of political stabilisation in the country, which formed the basis for economic and social progress. At the same time, Portugal – which, unlike neighbouring Spain, was already a member of international organisations such as the EFTA and NATO – rose to become a recognised member of the international democratic community. The initial fears on the part of some critics that Portugal's firm footing in Europe would mean the end of the traditional, multi-continental dimension of Portuguese foreign policy were unfounded, since it proved possible not only to maintain but also to further intensify relations with the Portuguese-speaking countries in Latin America, Africa and Asia. Accordingly, the "Community of Portuguese-Speaking Countries" (CPLP) was formed in 1996 with Angola, Brazil, Cape Verde, Guinea-Bissau, Mozambique, Portugal and São Tomé e Príncipe. The formation of the CPLP brought a substantial improvement as regards Portugal's peripheral status within the EU. In addition, Portugal succeeded in strengthening its "special relationship" with its former colonies. For the participating countries, the CPLP represents a kind of bridge between various regional economies. The EU draws particular benefit from this community. On the one hand, Portugal takes care of important external relations with the Portuguese-speaking developing countries for the EU and, on the other, it reinforces Europe's "southern flank" in the context of the common foreign and security policy (CFSP).

Not only did the EU not come into conflict with the other fundamental objectives of Portuguese foreign policy, but it even brought important benefits for Portugal's external relations. Accession facilitated the establishment of normal neighbourly relations between the two Iberian neighbours, both of them fledgling democracies, which had lived "back to back" for centuries. The degree of economic interdependence now achieved and the joint extension of transnational road and rail networks on the Iberian Peninsula are clear evidence of this new degree of understanding. Furthermore, the EU's Mediterranean policy – the so-called Barcelona process – in which Portugal is actively involved, has strengthened the country's economic and political relations with the Maghreb countries.

Strong, reliable partners are particularly vital to relatively small countries such as Portugal, which have limited political, economic and military power resources of their own for use in foreign policy. Indeed, in a globalised, transnational world, individual countries in general are no longer in a position to successfully overcome the foreign and security policy challenges by themselves. The devastating terrorist attacks of 11 September 2001 in New York and Washington were the latest demonstration of this. In this context the EU constitutes a cornerstone of Portuguese foreign and security policy and is also indispensable in terms of internal security. As a nation with a European character and an Atlantic orientation, Portugal has a strong interest in developing and extending European structures in line with the transatlantic security architecture.

Internal and External Security

In common with its European and transatlantic partners, Portugal is under threat from phenomena such as organised crime, terrorism, migration and environmental disasters, which can be tackled only in close cooperation with its partners. Although, unlike its neighbour Spain, Portugal does not have to contend with domestic terrorism, nor has it thus far been the focus of international, radical Islamic terrorism, it nevertheless shares in the potential risk as part of the "West". For this reason, it benefits from the common European strategies in the fight against terrorism that have been developed within the framework of EU police and judicial cooperation. These include the drawing up of a Europe-wide list of terrorist organisations, the exchange of data and information within the framework of Europol, and the European arrest warrant.

The erstwhile country of emigration has now become a destination for immigration and attracts tens of thousands of guest workers from Eastern Europe, Latin America and North Africa every year. At the same time, however, this presents the country with a new problem with regard to internal security, one which particularly affects Portugal in its location bordering the southern Mediterranean: illegal immigration. Although it is not affected nearly as much as Spain, which is making headlines throughout Europe on account of the rising tide of boat people pouring onto the beaches of the Canary Islands or onto the Andalusian coast via the Strait of Gibraltar, Portugal, too, is seeing the issue of illegal immigration and associated phenomena such as human trafficking, organised crime and drug smuggling become a serious concern. In the light of this, the country has a strong interest in coordinated action within the EU. Particularly relevant in this regard is the Euro-Mediterranean dialogue, which is intended to contribute to stabilising the North African Mediterranean countries both politically and economically and to developing the Mediterranean region into an area of prosperity, peace and the rule of law. Portugal, for whom the above issues are a particular problem owing to its location on the southern edge of the EU, derives particular benefit from the EU's common Mediterranean policy.

Globalisation and Foreign Policy

Talk of globalisation usually focuses on the economic dimension, although this is only one of its many facets. The globalisation of the world economy and of the financial markets, the increasing pressure of international competition and the emergence of new economic powers such as China and India present Portugal, and Europe as a whole, with new challenges. A single country with a relatively small, domestic market has only a limited advantage in the global struggle for attractiveness as a business location and risks losing its ties with international financial, investment and trade flows and consequently its economic and political influence. The importance of the European internal market, with its 450 million consumers, cannot be underestimated in this light.

Unlike other regional cooperation communities being formed around the world (NAFTA, Mercosur, ASEAN, APEC, etc.), the EU has a viable political base in addition to its economic dimension, and constitutes a fixed community of values. This puts it in a position to present a united front in international politics and multilateral forums and thus, as a global player, to exert considerable influence on world affairs and to shape international negotiations, for example within the framework of the United Nations or the World Trade Organisation. The Kyoto process serves as another good example of such multilateral negotiations. If it were to go it alone, a small country such as Portugal, despite its wide-ranging international relations, would have no chance of exerting any significant influence on major international political issues.

The same principle applies to traditional foreign and security policy. A country such as Portugal does not itself possess the necessary resources – political, economic or military – to champion its interests on the world stage and assert them if necessary. The most recent example of this is the issue of the Iranian nuclear programme. If anyone, only the EU as a whole, together with its transatlantic allies, is in a position to mount the diplomatic pressure needed to induce Iran to abandon its nuclear programme. In addition, Portugal can guarantee its external security only by working together with its European and transatlantic partners within the framework of the European Security and Defence Policy and NATO. This approach not only protects the country against attacks on its own territory from outside – as unlikely as these may be – but also puts it in a position to defend its security interests at global level by participating, together with its partners, in multilateral peacekeeping missions such as those in the Balkans and East Timor.

Portugal has succeeded not only in aligning its traditional foreign policy with that of the EU, but also in defining its own priorities for this in the context of its Council Presidencies. Examples are its significant contribution, together with Spain, to strengthening the EU's relations with Latin America, and its pioneering initiatives, for example in connection with the first Euro-African Summit, and in finding a solution to the issue of East Timor. The latter is a particularly good example of how a small country can succeed in steering the focus of EU foreign policy towards a particular international issue of national interest – East Timor is a former Portuguese colony – and skilfully bringing the international influence and prestige of the Community to bear. The fact that a Portuguese national, José Manuel Durão Barroso, formerly a long-standing Secretary of State for Foreign Affairs and Prime Minister of his country, is at the head of the European Commission will certainly not harm Portugal's influence on EU external relations.

4. Summary and Appraisal

Whilst Euroscepticism is gaining ground in many European countries, as the defeats in the referendums on the European Constitutional Treaty in France and the Netherlands have shown, European integration enjoys continuing strong support in Portugal. According to Eurobarometer No 64 of December 2005, 58% of Portuguese citizens rate membership of the EU positively (EU average: 50%), whilst 65% believe that their country benefits from EU membership. Even the European Constitutional Treaty could have achieved a large majority in Portugal (65% for, 13% against) if the referendum had not been postponed indefinitely in the course of the stalled ratification process. However, the Portuguese Government has already announced its intention to work to promote the ratification of the Constitutional Treaty in the second half of 2007, when the country assumes the EU Council Presidency for the third time.

The fundamental support of the Portuguese for European integration comes as no surprise given the now 20-year-long success story of Portugal in the European family.

There is a consensus that accession to the European Community in 1986 not only brought the country out of decades of political isolation in Europe, but also made a major contribution to stabilising the still fledgling democracy. At the same time, accession to the Community gave the Portuguese economy a kick-start, as it were. Without the solidarity of its European partners, which manifested itself – not exclusively, but partly – in the Structural and Cohesion Fund resources and net inflows to the tune of billions of euros, it would have been inconceivable for Portugal to catch up so remarkably. The difficult economic situation the country faces at present should not prevent us from seeing that, during its now 20-year-long membership, it has gone a long way towards catching up with other Western European Member States, even if it will take some time before it achieves economic convergence.

Like Spain, Portugal fears losing importance within the Community and being sidelined as a result of the enlargement to the East. The future will see the subsidies from Brussels and capital injections from European investors that are required for the process of modernising and restructuring the Portuguese economy increasingly flowing into Central and Eastern European countries. Since these countries' need for the solidarity of their European partners is even greater than Portugal's, the country must prepare itself to stand on its own feet to an increasing degree. Portugal is fully aware of this challenge. Nevertheless, the Government and politicians have supported EU enlargement to the East, in order to give these countries the same opportunities that they themselves were given. According to Eurobarometer No 64, 55% of Portuguese citizens would be in favour of a further enlargement in the next 10 years.

The challenge to Portugal posed by enlargement to the East also represents an opportunity. The country will learn to cope with less assistance from Brussels. Since the negotiations on the EU budget for 2007-2013 averted the abrupt loss of EU subsidies, Portugal can continue to count on the support of its European partners when it comes to introducing the necessary economic and social reforms and overcoming its current economic plight. If it succeeds in this, Portugal is sure to put its stamp on the EU again in 2007 with a successful third Council Presidency. ■

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Slovakia

Stefan Gehrold

1. Utilising the Opportunities Afforded by Europe

Of all the Central and Eastern European transition countries with links to the EU, Slovakia – during the 1990s – was generally given a wide berth. Between 1994 and 1998, President Vladimír Mečiar's Government came close to making the country a pariah state within Europe by orchestrating dubious privatisation deals. With the old familiar "oligarch mechanisms", Mečiar obscured the divisions between the State, society and criminality. The Slovaks' fitness for EU membership was called into question more and more vocally by the European side.

Slovakia also had to contend with its existence in the constant shadow of its Western "sister nation", the Czech Republic. Prague was at the heart of Europe; Bratislava, by contrast, was far away in the backwaters.

However, the Slovaks have caught up; indeed, thanks to radical reform programmes, they have left some of the other transition countries behind. Once the “Cinderella” of EU enlargement, Slovakia quickly became a model candidate, continuing its structural reforms even after acceding to the EU in 2004.

Mindful of the EU’s criteria and aware that it must not let the opportunity for EU membership slip away, the country embarked on a radical transformation process which now serves as a model of best practice for many Western countries faced with paralysis. Under Mikuláš Dzurinda’s Government, and with support from a coalition cobbled together from 11 different parties – united primarily by “anti-Mečiar” sentiment rather than by any shared views on how to restructure the country – the most comprehensive package of reforms to be adopted by any EU accession candidate was put together, and ultimately continued far beyond the first legislative term (1998-2002).

As a result, Slovakia is now one of the front-runners among the new Member States which joined the EU in May 2004.

Yet as in many of the Central and Eastern European Countries which only gained their independence in the 1990s, anti-European arguments have frequently been heard, with many voices calling for Slovakia to go its own way. They say that its new-found national sovereignty should not be handed over to a far-away capital – this time the “colossus” in Brussels – without a second thought.

Nonetheless, almost 20 months into its membership, it is apparent that the EU is worth it for Slovakia.

2. Europe Is Worth It in Economic and Financial Terms

EU accession has substantially boosted Slovakia's economic growth. According to the Slovak Statistical Office in Bratislava, Slovakia achieved a GDP growth rate of 5.5% in 2004, after achieving economic growth of 4.5% in 2003. This made Slovakia the most buoyant economy in Central and Eastern Europe, outstripping the Czech Republic (4.0%), Hungary (4.0%) and Poland (5.4%).

The reforms introduced since 2002 in taxation (a flat rate of tax – 19% – for VAT, income and corporate tax), pensions (three-pillar system), the liberalisation of the labour market, and the restructuring of the health and education sectors have consolidated the budget and greatly increased the country's appeal to foreign direct investors. This is linked with many of the benefits of EU membership:

- Free movement of goods, services, capital and labour facilitates investment in Slovakia and makes it easier to export Slovak products to other EU countries.

- The absence of limits on quantity and anti-dumping measures in intra-Community trade further increases the appeal of investing in Slovakia.

- The abolition of border procedures for the movement of goods within the Schengen area has reduced transaction costs in both financial and time terms.

- European customs law applies in all EU countries; customs documents are not required.

- A common external tariff for the EU-25 makes Slovakia part of the largest contiguous economic area in the world, with 480 million consumers.

Admittedly, the introduction of cost-intensive EU standards acted as something of a brake on Slovakia's economic development at first, but a legitimate argument in favour of this measure – which is in the long-term interest of all EU Member States – was found, namely that it was aimed at gradual convergence between West and East and the safeguarding of common environmental standards.

The economic sector which has benefited most from EU membership is Slovakia's automobile industry. Back in the 1990s, Volkswagen – one of the foremost companies in this sector – opened a factory near Bratislava. In 2004, Peugeot-Citroen (in Trnava) and Kia-Hyundai (in Zilina) followed suit, proving that as a location for industry, Slovakia – due to its integration into the European internal market and its adoption of the associated legal standards – is a worthwhile investment. Substantial additional foreign direct investment and around 10,000 new jobs are expected in the automobile industry up to 2010. Now that it has become much easier to export from Slovakia to the rest of the EU, and in light of the well-established car industry in this Danube country, Slovakia has rightly been dubbed "the Detroit of the East".

So it is hardly surprising that vehicles, machinery and equipment are Slovakia's main exports to the EU. The total volume of exports within the EU amounted to €22.4 billion in 2004, an increase of almost 27% compared with 2003.

Direct investments from the EU totalled around €1.3 billion in 2004. Slovakia's most important investment partners within the EU are Germany, the Netherlands and Austria. An investment framework of up to €1.8 billion is calculated for 2005. These figures would be almost impossible to achieve without the benefits of the single market and the unified legal framework.

However, in the competition with its neighbours to become the most attractive location for investment in Eastern Europe, Slovakia cannot simply remain on its current course. The poor infrastructure in Central and Eastern Slovakia is a constant point of criticism among foreign entrepreneurs. With an unemployment rate of around 18%, workforce mobility is still key in maintaining Slovakia's attractiveness as a business location. Here, the EU is worth it for Slovakia as it supports the development of the structurally weak regions in the east of the country.

As a result of EU enlargement, the European Union has 10 new Member States and an additional 75 million inhabitants. However, its GDP has grown by just 5%. The substantial gap between the core EU and the new Member States which acceded on 1 May 2004 is revealed by the new demands on Community funding. Slovakia is a contributor to the EU budget, as are all the other Member States: its contributions in 2005 amounted to €350 million. This will rise to around €359 million in 2006, and is likely to increase somewhat in future years as well. The Slovak Government has yet to approve the financial perspective for the period 2007-2013, but Slovakia is also benefiting from the EU.

Like all the other transition countries among the EU's new members, Slovakia – despite its clear economic growth – is one of the net recipients of EU funding. Bratislava will receive €1.5 billion from the Structural Funds, as well as €300 million from the Cohesion Fund. The Agricultural Fund has also granted €85.7 million to Slovakia. This money will promote the further restructuring of the country and drive forward the harmonisation of domestic structures and capacities with western EU standards. The net transfer amounted to €297 million in 2005, and will amount to €361 million in 2006.

Admittedly, Slovakia will continue to be a net recipient indefinitely, but as it continues unswervingly along its reform course, this small Danube country is blazing a trail for the other transition countries, clearly demonstrating how – with a measure of courage – corrupt and obsolete structures, a lack of infrastructure and a defunct economy can be transformed within a matter of years into a model for the EU. Seen in this light, Slovakia is making a contribution to the EU which – although not quantifiable in euros – may actually be one of the most valuable contributions a country can make.

3. Europe Is Worth It in Political Terms

At the end of the 1980s, Slovakia still belonged to the alliance which kept Europe and the entire world in a state of tension and suspense during the Cold War. Yet within just a few years, a former enemy has become a good friend and neighbour. The accession of the Central and Eastern European Countries – the Soviet Union's former satellites – exemplifies, yet again, the core idea of a united Europe: to create a zone of security and peace that leads to stability, prosperity and welfare.

The integration of the new Member States means that political stability, democracy, human rights and the protection of minorities are being extended into Eastern and Southern Europe. The peaceful and voluntary integration of sovereign nations in Europe offers a guarantee of stability across the entire continent.

Through its membership of the European Union, Slovakia is experiencing an affirmation of its national significance, not the loss of its identity, as many populist circles have repeatedly claimed. It is entirely due to Slovakia's ultimate accession to the EU that its own borders have been consolidated in de facto terms and are thus protected from the type of incursions that beset Slovakia during the 20th century. As a result of its accession to the EU, Slovakia – like all the other Central and Eastern Europe transition countries – now also enjoys some measure of protection from the all too familiar claims from Moscow, which should not be underestimated, especially at present, in light of the events in Ukraine. As a member of the European Union, Slovakia is also better equipped in the event of crises in the post-Soviet region in Central Asia and the Caucasus.

As a result of the EU's enlargement into Eastern Europe, the fight against organised crime and international terrorism can now be driven forward on the basis of joint measures. The individual security agencies are becoming increasingly interlinked. Through cooperation and comparison of their data, they are able to combat financial flows and human and drug trafficking more effectively. In this context, Slovakia can build on the EU's support to restructure and modernise its police force and, through intra-Community officer exchange, can share its own expertise with Europe while benefiting from European experience. In this context, the moves towards harmonisation of immigration and asylum policy will also boost domestic security.

In the field of the common foreign and security policy, Slovakia is assuming a new and more authoritative role. Slovakia is located on the EU's external perimeter and shares a border with Ukraine. It thus bears a particular responsibility in relation to border controls and internal security. The modernisation of the border guard service and police force, mentioned above, plays a key role in this context, and the EU is providing targeted support to drive forward this process. As one of the EU's border countries, Slovakia must perform the difficult role of mediator between the European values of stability and democracy and the interests, constraints and needs of non-EU countries in Eastern Europe. As was once the case for the countries of the core EU during the first rounds of enlargement, one of Slovakia's tasks now is to integrate the regions on the EU's borders by seeking dialogue, promoting development and preventing deadlocks. This responsibility testifies to the important role of Slovakia – although a small and economically weak country – within the EU.

Integrated into the European security structures, Slovakia benefits externally as well as internally from its membership of the European Union, due to its appeal as a business location, its role as an increasingly sought-after advocate within the EU (one example being Croatia and the Slovak support for the opening of accession negotiations with Zagreb), and mutual military safeguards within the EU against external threats. Slovakia – a country of just 5.5 million people – has tended to play a subordinate role in foreign policy until now. Today, however, it is finding that within the European Union it is able to take on a direct share of responsibility for globally relevant decisions as a result of its opportunities and commitments within the European bodies. In the EU-25, Slovakia can address the problems and challenges of globalisation with more optimism and self-confidence, backed by an internal market with 480 million people.

However, Slovakia does not just benefit from its EU membership in a European or global context; it does so at the domestic level, too. The numerous instabilities in the post-Soviet region and the transition countries of Central and Eastern Europe have shown that in this region, the newly adopted principles of democracy, human rights, minority protection and press freedom are not yet firmly established and are vulnerable to numerous threats. The lively exchange of cultural values that is associated with membership of the European Union has created a space in which old prejudices and enmities can be overcome and new friendships forged. Through economic links, easier travel and the abolition of labour market restrictions, nations are moving ever closer together and are ensuring that new wars and conflicts – often the fatal starting point for Europe's relations in the past – can no longer occur. The partnerships between cities and municipalities, schools and sports clubs, political parties and associations establish a basis of trust which guarantees a secure future and leaves no room for the emergence of populism and radicalism. Europe will only continue to enjoy the peace and security from which it has jointly benefited since 1945 through an exchange of values and the ability to learn from others.

In this respect, Slovakia derived a major benefit from the prospect of EU membership in the past: it was entirely due to the powerful desire of the Slovak people to live together with the other Member States in a democratic Europe that democratisation was successfully completed in the 1990s despite strong trends towards a new autocracy. The identification with the values of the European Union and the assistance afforded by the European side – motivated by the desire to create a zone of security and democracy in Eastern Europe – helped this newly independent country to complete its rightful course and join the European Union in 2004.

4. Europe Is Vital for Slovakia

With its peaceful separation from the Czech Republic, its resolute reform course and its awareness of its special responsibility as a border nation within the EU, Slovakia has proved that it is fully committed to the European values of peace, security and prosperity.

Without EU membership, Slovakia would be a small Eastern European country with a weak economy, quite alone and isolated, with no prospect of lucrative partnerships, and easy prey for resurgent “great power” ambitions in Eastern Europe.

Without the EU, Slovakia would stand alone in the fight against organised crime, human trafficking and international terrorism. It would have to shoulder all the burdens of internal and external security itself.

Without the EU, Slovakia would certainly not be such an attractive location for investment; customs duties would be imposed on its imports and increase the price of its exports, and there would be numerous barriers to trade. The opportunities for investment, growth and, therefore, long-term prosperity would be limited.

Without the EU, Slovakia would not be entitled to any funding for the development of its structurally weak regions or its transport and education systems, for the adoption of environmental standards, or for internal and external security.

Without the EU, Slovak schoolchildren, students, trainees and officials, etc. would have no opportunity to take part in European exchange and education/training programmes. Without the financial support from these programmes, young Slovaks would have no prospect of learning languages elsewhere in Europe, undertaking further training and professional development, and thus helping to build their country’s future. What is more, no Slovaks would be able to share their knowledge of their own culture and history by spending time in other EU countries. Europe’s values would become amorphous, and in the face of the country’s economic problems, the door to populism and radicalism would soon open.

A glance back at European history shows that Slovakia has always been part of Europe. Now that it has been integrated into the community of European nations, Slovakia has the opportunity to make its own region the core of the European continent once more. Membership in the EU provides it with all the support it needs as it progresses along this course. ■

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Slovenia

Zoran Potić

1. Introduction

Slovenia, with nine other countries, joined the European Union on 1 May 2004. It had already applied for an Association Agreement in 1992. This was signed four years later, on 10 June 1996, and came into force on 1 February 1999. At that point Slovenia also made a formal application for membership. Accession negotiations began on 31 March 1998. Slovenia was one of the *"Luxembourg Group Candidate Countries"* (together with the Czech Republic, Estonia, Hungary, Poland and Cyprus).

Slovenia has a population of about two million, 0.5% of the total population of the EU, including 88% Slovenes, 0.2% ethnic Italians and 0.5% ethnic Hungarians. The rest are divided between the nationalities of the

Former Yugoslav Republic (Croatians, Serbians, Bosnians, Macedonians, Montenegrans and Albanians). Slovenia is characterised by what is already known as “the European disease”, an ageing population. The increase in its population is due to immigration. The country covers an area of 20 273 square kilometres and has 1 382 kilometres of external borders with the four neighbouring countries, Austria (330 kilometres), Italy (280 kilometres), Hungary (102 kilometres) and Croatia (670 kilometres).

At the start of the EU accession negotiations, Slovenia had the strongest economy of any of the former Eastern Bloc countries. That lead was maintained when it became a member. Cyprus and Malta were on an equal footing with Slovenia in terms of GNP. Now, on the basis of real gross national per capita income in purchasing power parity, Slovenia is on a par with Greece and ahead of Portugal (per capita GNP in PPP) in the EU-25 rankings.

The following table shows inflation, GNP and real per capita GNP in PPP:

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Inflation	8.3	7.9	6.1	8.9	8.6	7.5	5.7	3.6	2.5
GDP growth	4.8	3.9	5.4	4.1	2.7	3.5	2.7	4.2	3.8
GDP and PPS	70.6	71.6	73.9	73	74.0	74.6	76.1	79.2	81.2

(Source: European Commission)

Slovenia is represented in all the EU institutions and participates in all decisions taken in those institutions. It has one member of the European Commission, seven Members of the European Parliament (EP) and a vote in European Council decisions. Thus it has the same rights as other Member States. Like all the other Member States, Slovenia is represented by one judge in the Court of Justice of the European Communities and one in the Court of First Instance. The Committee of the Regions and the Economic and Financial Committee both have seven Slovenian members.

For the purposes of cohesion policy, Slovenia is treated as a region (NUTS-2). At NUTS-3 level, Slovenia is divided into 12 statistical regions. That will not change until 2013. About two thirds of Slovenia's trade was with the EU even in the pre-accession phase. The proportion of imports, at almost 70%, was even higher. Slovenia has made good use of the PHARE, SAPARD and ISPA pre-accession support funds; for instance, more than 96% of the available resources under the PHARE Programme have actually been used. The poor economic forecasts by some pessimists proved unjustified after entry into the European club.

The results of the negotiations on the new EU financial perspective are positive for Slovenia. In the next seven years it will pay € 2 500 million into the European budget and receive € 4 500 million. Thus Slovenia will be a net beneficiary, gaining € 2 000 million.

2. Economic and Financial Benefits of EU Membership

The figures for trade between Slovenia and the EU show that since Slovenia joined its trade with the old Member States has increased, but its trade with the new Member States has fallen. In the first year there was a marked rise in Slovenian exports to countries with which it had had no appreciable trade relations before accession: Belgium, Greece, Sweden, Denmark, Ireland and Portugal. However, imports from other Member States also increased after Slovenia joined the EU. As expected, the adoption of the EU foreign trade system had an adverse effect on trade with the countries of the Western Balkans, since the free trade agreement with Macedonia, Bosnia-Herzegovina and Croatia lapsed on 1 May 2004. Whilst Slovenia's accession to the EU did not stop trade with Croatia, the situation with Macedonia and Bosnia-Herzegovina is quite different. The food industry is experiencing the biggest problems: food imports have increased, while food exports have declined. In 2004 total imports of food products rose by 12.1%, whilst exports fell by 12.3%. Another significant effect of Slovenia's accession is the faster growth in consumer credits, particularly in view of the lower interest rates resulting from preparations for the introduction of the euro. Private consumption has increased as a result of the optimistic mood following EU accession and lower interest rates. In 2004 15.6% more new consumer loans were taken out than in the previous year.

Exports in sectors of the processing industry: High- or medium-technology undertakings were able to increase production and exports to the European market during the pre-accession phase. That trend has continued after accession. Fibre and paper manufacturing, publishing, non-metallic and mineral product manufacturing, machinery and plant production and land vehicles and water-craft manufacturing are notable for the fact that the level of production and export activities also fell after accession, which has led analysts at UMAR, the government's macroeconomic analysis and development office, to conclude that the increase was not solely due to accession to the EU, but also to the improved international environment and growth in domestic consumption. The group also includes the labour-intensive industries that have suffered most from EU accession, particularly because of the lack of structural adjustment (textile, leather and furniture industries). The adverse effects on the economic activity of firms manufacturing food, drinks and tobacco products have been particularly marked.

Employment: So far it has been difficult to assess whether the slight increase in unemployment can be considered a direct consequence of EU accession. The figures for the third quarter of 2005 show a steady rise, with unemployment at 6.3% (according to the ILO calculation method). In the second quarter of 2005 the figure was 5.8%; in the third quarter of 2004, for instance, 6%. The main reason for the growing unemployment in the period following EU accession is the increase in the number of firms that had to declare themselves bankrupt. Despite the growing unemployment trend, the Slovenian Central Bank (Banka Slovenija) estimates that relatively few people are unemployed in Slovenia, since in October 2005 the Republic of Slovenia had the seventh lowest unemployment rate in the EU and it has the lowest unemployment rate of the new EU Member States.

Agriculture: The situation in Slovenia's agricultural sector has not been drastically altered by EU accession, for two reasons. The first steps to bring national agricultural policy into line with the EU's common agricultural policy were already being taken at the end of the 20th century, with a gradual shift from official fixing of agricultural product prices to the introduction of market economy price measures on the common agricultural policy model, or direct payments per area or per head of livestock. Each year new agricultural measures have been transposed and at the same time subsidies have been increased. When Slovenia joined the EU, subsidies were 85% of the average subsidy paid to farmers in the EU 15. This essentially recognises that the decline in the income of farmers could be cushioned by higher subsidies. Thus the situation of farmers has not deteriorated since Slovenia's accession, although growth in agricultural product prices was below the rate of inflation (real loss). The rural development programme is also important for Slovenia, since € 250 million was available from those support funds in the period 2004-2006. Slovenia is planning to join the reformed common agricultural policy (CAP) in 2007, the annual national subsidy framework in the first CAP pillar being € 141 million. The relatively favourable situation of agriculture in Slovenia is undoubtedly due to the European common agricultural policy.

Transport: The predictions that transport would be particularly affected by the single internal market have proved true. Since 1 May 2004 transport and goods processing firms have suffered a significant loss of revenue on services relating to customs clearance. Between January and April 2004 their revenue rose by 10%; after EU accession, however, it fell by 21%. On the other hand, road goods traffic has increased considerably since the middle of 2003. The availability of the first low-cost flights is also a direct consequence of EU membership.

Tourism: In a comparison of all sectors of the economy, EU accession has had a particularly positive effect on tourism. With entry into the EU, interest in Slovenia as a new Member State can be said to have increased. Now, at last, it is part of the "central European map" (and no longer in that "trouble spot", the Balkans) and can compare with the other EU Member States. The trend in the tourist markets in which Slovenia was previously little known has been particularly positive, whilst Slovenia's traditional tourist markets (Austria, Italy, Germany, Croatia) have conformed to expectations or shown a slight increase. The place with the largest increase in visitor numbers was the capital, Ljubljana, which was visited by 26.4% more people in 2004 than in the previous year. With the availability of low-cost flights between London and Ljubljana there has been a remarkable rise in the number of British tourists. In May 2004, 64.3% more British people came to Ljubljana than in the same month the previous year. It should also be mentioned that the tourist industry in particular offers a wide range of opportunities to use structural funds to co-finance projects.

Adoption of the euro: Soon after joining the EU, Slovenia decided to join EEA II, which is also considered a preliminary to adoption of the euro. The Slovenian Government made all economic and tax measures subject to the strategic decision to adopt the euro. The Slovenian Central Bank (Banka Slovenije) acted on the Government's decision and changed its monetary policy, stabilising the exchange rate for the euro and the Slovenian tolar (SIT 239.64 = € 1) and abandoning the reduction of minimum lending rates. This June, Slovenia will have been a member of the EEA II exchange rate mechanism for two years and in that time it has been able to comply with all the Maastricht criteria: low interest rates, control of public finances, a stable foreign exchange rate and stable inflation (2.5% in December).

	Inflation in the last 12 months (%)	Long-term interest rates in the last 12 months (%)	Deficit in 2004 (% GDP)	Public debts in 2004 (% GDP)
Euro zone	2.2	3.53	-2.7	70.8
Convergence criteria	2.4	5.52	-3.0	60.0
Slovenia	**2.7**	**3.97**	**-2.1**	**29.8**

(Source: Slovenian Central Bank (Banka Slovenije), September 2005)

On 23 January 2006 the Austrian Finance Minister, Karl-Heinz Grasser, said that the prospects for the introduction of the common currency in Slovenia in 2007 were good.

Budget: In regard to the agreement signed on accession, Slovenia has remained a net beneficiary of the EU budget in 2004-2006. In that period it has had to pay SIT 201 000 million into the joint budget, whilst up to SIT 343 000 million could be drawn from common funds. The positive net situation has allowed Slovenia a flat-rate payment totalling € 224 million for the period 2004-2006; Slovenia's positive net budget situation improved from € 45 million in 2003 to around € 85 million in 2006. In the first year of membership, Slovenia's net financial position was not particularly good, since it was unable to make proper use of the opportunities available in structural, cohesion and domestic policy. The plan was for Slovenia's 2004 budget to show a positive net financial situation of SIT 35 000 million, but at the end of the year the budget surplus, at SIT 3 400 million, was only 10% of the projected sum. In December 2005 the Slovenian Central Bank (Banka Slovenije) noted that revenue in the national budget from the EU budget was considerably lower than expected. The reduction in national budget revenue from value added tax and a reduction in revenue from customs duties was another indirect effect of EU membership (about SIT 15 000 million in 2004).

Funds: € 458 million or SIT 110 000 million were available to Slovenia in the period 2004 to 2006 under the heading of cohesion policy. Of this, € 238 million (SIT 57 000 million) is earmarked for the structural funds. The arrangements for its use are set out in the Single Programming Document. Four priorities have been identified: promotion of industry and competitiveness (ERDF), knowledge, development of human resources and employment (ESF), restructuring of agriculture, forestry and fisheries (EAGGF) and fisheries development (FIFG). € 190 million (SIT 53 000 million) are available under the Cohesion Fund. As is to be expected for a new Member State, Slovenia was unable to make maximum use of those resources in the first year, but in 2005 there was a marked improvement. At the end of the year, invitations to tender had been issued for a total of 86% of all money from the structural funds. The Slovenian Government expects the last contracts to have been signed by March 2006, which will allow maximum use to be made of the funds available, in view of the fact that the rule for the use of cohesion money is N+2. The European Commission recently announced that a total of € 59.38 million, 13% of the money available, had been paid to Slovenia in 2005 from all four structural funds and from the Cohesion Fund.

Foreign direct investment: At the end of 2004 foreign direct investment totalled € 5 556.7 million, 8.3% more than in the previous year. On an annual basis, foreign direct investments of € 421.6 million were recorded in 2004, considerably more than in the previous year, which had proved disappointing by comparison with the record year 2002. This year the Belgian bank (KBC) has bought a one-third share in the NLB, the largest Slovenian bank, and the giant Swiss pharmaceutical company Novartis has bought up the Slovenian pharmaceutical firm Lek. The view at UMAR, the government macroanalysis office, is that the increase in foreign direct investment is not directly attributable to EU accession, but that, even before EU enlargement, foreign investors anticipated that the candidate states would become EU members and took appropriate action. In any event, in view of the decreased risk and the internal market and as a consequence of the common economic area, the amount of foreign direct investment can be expected to increase in the long term.

3. Political Benefits

In joining the EU and NATO, Slovenia achieved two of the main national strategic goals that the young state, recognised internationally only in 1991, had set itself. Those two achievements are not simply dry records on international documents and in the history books. For Slovenia, joining the EU and the transatlantic club confirms that it is part of Western civilisation and democracy. Almost a year before it joined the EU, as Foreign Minister Dimitrij Rupel said, it seemed as if Slovenia had basically solved all its own problems and the time had come to concentrate on the difficulties of others. The future of Slovenia is now bound up with the future of the EU, its parliament has ratified the Constitutional Treaty for Europe and the Slovenian Government is busily preparing to take over the Council Presidency in the first half of 2008. As Foreign Minister Rupel has said, “for Slovenia life in the EU is a great relief, but also an enormous challenge”.

That comment is an accurate reflection of the attitudes and ideas prevalent in Slovenia.

Political changes were made after the November 2004 elections, won by the centre-right coalition under Prime Minister Janez Janša (Democratic Party of Slovenia (SDS) 29%, New Slovenia Christian People's Party (Nsi) 9%, Slovenian People's Party (SLS) 6.8%, Democratic Party of Retired People of Slovenia (DeSUS) 4%). Before that, the centre-left coalition led by Liberal Democracy of Slovenia (LDS, 23%) had been in power continuously for nearly twelve years. The Social Democrats (ZLSD, 10%) were also part of the coalition. The change in the political arena cannot be directly attributed to Slovenia's EU accession, since it is logical to assume that it would be easier for the political option that had successfully implemented two of the most important national projects (on which, it must be remembered, all parties had always agreed) to win re-election. On the other hand, the political change was linked to EU accession, since the view had been that, when Slovenia finally became part of Western democracy, government could be entrusted to other political options without too much risk. It can therefore be concluded that to a certain extent the decision to make political changes was partly due to EU accession, as well as to many other important domestic considerations.

As a Member State, Slovenia is an active participant in all the EU institutions. Seven Slovenes are Members of the European Parliament, seven sit on the Committee of the Regions, and there are also Slovenes at the European Court of Justice and the Permanent Representation in Brussels, whose team plays an active part in the European Council and Commission working bodies. This is important because one of the most effective slogans in winning the Slovenian public over to EU membership was, *"Better to be inside and involved in decision-making than outside and waiting to see what the neighbours decide!"* In any case that is a principle to follow, regardless of whether one is inside or outside. Hence Slovenia is actively involved in current daily planning through a complex network of representations and working bodies. This generates numerous rules that affect the lives of every single EU citizen as well as global, neighbourhood, security and foreign policy ideas.

Joining the EU and NATO has also improved Slovenia's security situation. It is involved in the existing and future structures that have guaranteed peace, security and development in the world over the past sixty years. Slovenia believes that the Member States should help and support each other, as they have bound themselves to do by treaty, and combine forces at all levels in pursuit of their common aims and values. A year ago, the Slovenian Foreign Minister said that Slovenia would participate in European and global policy, in which the Slovenian contribution will be notable for its resourcefulness and persuasiveness. Slovenia is now contributing military and police resources for peace and stabilisation in the European police and NATO forces in Bosnia-Herzegovina, Kosovo, Cyprus, Jordan, Pakistan and Afghanistan. Slovenia was also instrumental in setting up the International Trust Fund for Demining and Mine Victims Assistance (ITF), which has developed satisfactorily and operates in south-east Europe as an internationally recognised landmine clearance fund. Slovenia is also taking on much greater responsibility in Iraq, to which the government has decided to send four military trainers as part of the NATO forces.

Slovenia was forced to introduce economic reforms more quickly than it would otherwise have done in the preparations for EU accession. The idea of EU membership was therefore a major spur to economic change. With common legislation, the EU contributed to improvements in legal provisions in many areas. As one of the strongest economic areas internationally, the EU is a safe haven for a small economy like Slovenia's in the increasingly turbulent seas of globalisation. Because of the democratic and consensual nature of the EU, the Community is also an important framework for Slovenia in strengthening national, cultural and linguistic identity. The Slovenian language, which 100 years ago was a marginal language of the Habsburg Empire, has become an equal language in the European family.

Because of the democratic deficit, in the late 1980s the EU set itself the goal of bringing Europe closer to the people. According to the Slovenian Government, the next phase will be characterised by European regional policy. In that respect, Slovenia will work towards creating a Euroregion that links the economies and transport systems of the countries and states of central Europe. The idea is that Slovenia itself should be at the centre of such a Euroregion. The positive effects would be felt in more intensive co-operation; other effects might be expected, such as positive examples for neighbouring countries, e.g. for the Western Balkans and the European Neighbourhood Policy countries.

As an EU member, Slovenia can do a great deal to help resolve the problems of the Western Balkans. In Slovenian foreign policy in the 1990s, most attention was typically focused on European integration and south-eastern Europe was then ignored, since Slovenia was doing everything it could not to remain on the fringe of the unstable Yugoslav region. When the European prospects for Slovenia and the guidelines were clearly enough defined, renewed efforts were made with the states with which Slovenia had once been federated. Having a relatively good knowledge of that part of Europe and finding it easier to communicate (since the language barriers are not all that great), Slovenia can play an appropriate role in that respect, as a bridge between the EU and the Western Balkans.

Although Slovenia is not yet in the Schengen area, that is expected to change in a year or two, which might cause further problems for the areas on the Croatian border. Attention therefore needs to be focused on those areas with various forms of aid (INTERREG). Freedom of movement for persons, capital, services and goods are the fundamental freedoms that allow the European Community and identity to be strengthened internally. According to the Eurobarometer study (autumn 2005), 95% of Slovenes feel attached to their country and 73% to the EU. The general view is that the EU is good for Slovenia. In the same study, 49% of those interviewed thought that the EU was a good thing, slightly less than the support for the EU in the comparative survey in 2004.

Is Slovenia's membership of the EU …

Percentage	Good	Bad	Neither good nor bad	Don't know
Slovenia (spring 2005)	49	9	41	1
Slovenia (autumn 2004)	52	5	38	4
EU-25	54	15	27	4

(Source: Eurobarometer, autumn 2005)

So, a good year after Slovenia joined the EU, there was a slight decline in support for the EU or a slight increase in euroscepticism, as is to be expected. The question, "what does the EU mean to you personally?" is interesting. Most of those asked (62%) said they saw personal benefit in the euro. After that came freedom to travel study and work (54%). In comparison with the other States, Slovenes generally seem to see more personal benefits in the EU than other Europeans.

EU membership can also make a decisive contribution to settling unresolved bilateral problems between Member States themselves and with the candidates for accession. An example is the Slovenian minority in Carinthia (Austria); while Slovenia was part of Yugoslavia and the Communist

Eastern Bloc, no one really wanted to become involved in the problems of the Slovenian minority with the implementation of the Austrian State Treaty, in particular Article 7 (relating to signposts in Slovenian). That problem has yet to be resolved in Austria, but all the steps taken so far are in the right direction, since both Austria and the EU recognise that nowadays neighbouring States that are both EU members cannot allow a policy of assimilation and discrimination against their minorities. The EU enables that and similar problems to be resolved through institutions at national and EU level. Public awareness has also increased, with a better flow of information and mutual knowledge. Just over a century ago, such problems were solved with wars in Europe; that was still the case ten years ago in the Balkans, with the divisive and nationalistic wars that were fought there. The EU is also a good framework for eliminating problems on the other side of Slovenia, with the neighbouring state of Croatia, which, as a candidate for accession, is being more closely monitored. Since the negotiations are being conducted with that State (technically the European Commission is conducting them on behalf of the Member States), there are many formal and informal opportunities to settle unresolved problems in relations with Slovenia, Italy and Austria.

What do Slovenes think of the EU? From the results of the latest Eurobarometer survey, it seems that their attitude is positive. 57% of those interviewed are in favour of the EU, 35% are neutral, and only 6% have a poor opinion of it, the lowest percentage amongst the EU-25. 62% of the Slovenes asked said that, for them personally, the EU meant the euro (EU average 37%), putting Slovenia in second place behind Luxemburg. 83% think the EU should have a common currency and 62% are not worried about giving up the national currency, the Slovenian tolar (SIT). For Slovenes, the EU's biggest role is in defence and security, foreign policy, environmental protection, training, the fight against crime and terrorism, and the economy. One of the EU's main tasks is to combat unemployment and social exclusion. 60% of those questioned thought that their situation would improve in the next five years, which suggests that they are fairly optimistic. The survey shows that Slovenes are pro-European, that they have above-average knowledge of the European institutions, support further integration and look forward to the future enlargement.

4. Conclusion

Is Europe paying off? Is it worthwhile? In Slovenia's case that is certainly not the best question to ask. It would be more appropriate to ask how useful Europe is. Even in the 1980s the EU was useful to Slovenia when the Communist Party of Slovenia (KPS) introduced reforms with the slogan "Europe now". The EU was useful to Slovenia in the first democratic elections in 1990, won by Demos, a coalition of democratic parties. Lastly, the EU was also useful to Slovenia in the preparations for sovereignty. After Slovenia became independent, the only question was WHEN it would become a member of the European Community; putting that into practice was really mainly a technical process.

Is the EU worthwhile? Certainly, because without the European idea, without the model for a better life, Slovenia's path would have been quite different now. Unfortunately some people in the former joint state (Yugoslavia) did not understand that and fifteen years later they are slowly realising what they have missed and what the EU actually is. The European perspective is the driving force, and the means for social change, when a society sets itself the goal of wanting to join the EU.

As a small central European state, Slovenia is also closely bound economically to the EU market. Before accession, it exported two thirds of its goods to that market. So after 1 May 2004 there was no major disruption of the Slovenian economy, let alone collapse. A year after entry, no sector of the economy has reported any major problems, apart from the food industry, which was always very closely tied to the markets of south-eastern Europe because the Slovenian brands were well established there and the favourable trade agreements gave that industry an advantage. The positive economic results, maintained economic growth at 4%, compliance with the Maastricht criteria (especially the curb on inflation) and the slight decline in the unemployment situation are all evidence that Slovenia has been in the EU successfully for more than a year. This is confirmed by the economic indicators. It is therefore increasingly likely that in the next few years the people of Slovenia will receive their salaries in euros and pay with the euro. Slovenia is becoming part of the relatively small core of countries that are signing up to European monetary policy and the Schengen system.

Internal competition between the States that set up the European single market and global pressure on the EU and the other global players are forcing the Community to reform. Even in 2004, Slovenia was formulating a development strategy for Slovenia (Strategie razvoja Slovenije), based on the Lisbon Strategy. The new Slovenian Government is devising a package of economic and social reforms and has appointed a development minister, in accordance with the proposals by the European Commission that each government should designate a "Mr Lisbon". Under the new financial perspective, Slovenia can expect substantial funding for development, as a net beneficiary of 0.88% of GDP. In seven years' time net revenue will be about € 2.000 million, obviously provided that Slovenia is actually able to use the funds available.

As a member of the EU, Slovenia has become an equal state in the EU-25, which gives it not only greater economic security but also more security in defence and home affairs. Slovenia is a small country that can take advantage of the complex network of EU diplomatic representations all over the world. It can actively and qualitatively pursue its interests in the Western

Balkans and through the European Neighbourhood Policy. It is also using its own means to make an active contribution to peace and stability in the European Neighbourhood. When it takes over the Council Presidency in the first half of 2008, as the first of the new Member States to meet the challenge of leading the EU for six months, it will have a major opportunity to establish itself permanently on the European map.

The Eurobarometer surveys over a year after Slovenia joined the EU show that the Slovenes are still EU enthusiasts, since support for membership has declined only very slightly. Essentially the Slovenes have a positive attitude to the future and are eagerly looking forward to the introduction of the euro, with which the EU is particularly identified. ■

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Spain

Michael Däumer / Stefan Reith

1. Background and Introduction

On 1 January 1986, Spain and its neighbour Portugal joined the European Community. Some years earlier, Konrad Adenauer had called for Spain's accession in a speech which he delivered in Madrid on 16 February 1967: "Our goal cannot [...] remain a Europe of the Six. Spain must join, too. Spain must become an integral element of the future united Europe, on account of its geographical position, its history, its tradition, [and] its irreplaceable contribution to European culture". If we review Spain's progress today, on the 20th anniversary of its accession, it is clearly a resounding success, not only in economic but also in political and social terms. Who would have imagined in the 1970s, while Franco was still in power, that after almost 40 years of dictatorship, Spain would evolve – within just two decades – into a free and democratic member of the European integration project? Who would have thought at that time that Spain would reach the same level of income and prosperity as the Western European countries, closing the economic and social gap at breathtaking speed, and that it would today be achieving economic growth of 3.4% (2005) and have a budget surplus, making it a role model for the rest of Europe? Who would have thought it possible that Spaniards – Josep Borrell, the President of the European Parliament, Joaquín Almunía, the Commissioner for Economic and Monetary Affairs, and Javier Solana, the High Representative for the common foreign and security policy – would occupy three of the European Union's key positions at the same time, as is the case today, and that the country would thus play a leadership role within the Community?

Of course, Spain's very positive development since the end of the Franco dictatorship cannot be attributed solely to its accession to the European Community. Nonetheless, the key role played by EC membership in stabilising this young democracy and enabling it to close the economic gap is undisputed. In the speech he gave on receiving the International Charlemagne Prize in Aachen on 20 May 1993, the then Spanish Prime Minister, Felipe González, spoke about Spain's accession to the EU: "For the first time, Spanish citizens are, without exception, benefiting from the achievements that are essential for prosperity, such as education, health and social welfare. Our society can now be viewed as equal to the rest of Europe, sharing in its concerns and endeavours, and having similar prospects."

The European Structural Funds have helped the Spanish regions, especially the islands lying on Europe's periphery, to establish modern infrastructures and exploit their economic potential more effectively. Economic stability and competitiveness are the result. Spain's economic opening and its integration into the European internal market have attracted more investors and tourists into the country, yielding tangible economic benefits. Thanks to the euro, Spain now also has a strong and attractive currency and enjoys an unprecedented level of currency stability, creating a sound basis for the country's economic development.

At the international level, too, through its accession to the EC, Spain has gained in authority and influence in a globalised world. Spain has held the EU presidency on three separate occasions, representing the entire European Community in the international arena and enabling it to set its own priorities, notably in relation to Latin America and the Mediterranean.

What is more, Spain now also has reliable partners – the other EU Member States – to provide the support that is essential in tackling problems which have a significant impact on Spain. It can count on the solidarity and support of its EU partners, particularly in relation to the ongoing problems of ETA terrorism and illegal immigration on the coasts of Andalusia, the Canaries and the Spanish enclaves in Morocco, i.e. Ceuta and Melilla.

As the second largest country in terms of territory and with the fifth largest population in the EU-25, Spain is keen to play a major role in the EU in the future. Its geographical position on Europe's south-west periphery enables it to act as a bridge to the African countries around the Mediterranean and also to Latin America, but at the same time – in the wake of EU enlargement and the accession of 10 new Member States – there are also concerns that Spain will be marginalised within the EU. While countries such as Germany and Austria are already benefiting substantially from the eastward expansion of the single market, there is still considerable scope for Spain to develop its economic relations with the new Member States. This presents a challenge, but also a major opportunity, for Spain's future role within the EU.

2. Economic and Financial Benefits of EU Membership

Spain's integration into the European Community in 1986 was a key factor for the Spanish economy and its urgently needed reform and modernisation processes. These processes were initiated prior to accession, the precondition for accession being the adoption of the entire *acquis communautaire* (i.e. the body of Community legislation and regulations), especially in relation to the internal market. The incorporation of 60.000 pages of European legislation into national law radically altered economic life in Spain, ranging from reforms of the legal framework for the business sector to liberalisation and privatisation processes and, later, the adoption of the budget discipline that was a prerequisite for the introduction of the euro.

Today, it is apparent that the immense challenges and efforts associated with the integration and adaptation of the Spanish economy in and to the internal market have not been in vain. On the contrary, the Spanish economy has shown consistent and sustained growth above the European average for many years (3.4% in 2005). The country's public budget is in a healthy state: while other countries are battling their budget deficits, Spain actually achieved a budget surplus in 2005. This positive economic development has meant that since accession in 1986, Spain's per capita income has increased by 1 % per annum, thereby moving closer to the European average. Thanks to this catch-up process, Spain has almost achieved economic convergence. Whereas Spain's per capita income amounted to just 72.8% of the EC average in 1986, by 2004 it had reached 97.6% of the EU-25 level. Although part of this leap can be attributed to the statistical effect of enlargement – in the EU-15, Spain achieved 87% of average per capita income – its record in closing the gap is impressive. The European Structural Funds have played a key role in this process.

2.1. The Cohesion and Structural Funds

Spain is currently the EU's largest recipient of funding from the European Cohesion and Structural Funds. The Cohesion Fund, established in 1994 to strengthen the economic and social cohesion of the Community through the balanced financing of projects in the fields of the environment and trans-European transport and infrastructure networks, has played an especially important role in this context. It has particularly benefited Spain's poorest regions and the „ultra-peripheral" islands. In the period 2000-2006, Spain will have received more than €12.3 billion from this Fund. Further sums, amounting to billions of euros, are being granted to Spain from the various Structural Funds: the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Fund, and the European Fisheries Fund, to the country's great benefit.

Since 1986, the volume of European funding received by Spain annually has averaged 0.8% of its GDP; indeed, between 2001 and 2004, the figure exceeded 1%. This means that since 1986, Spain has received €129.9 per head of population per year from Community funds. Studies carried out in Spain indicate that this Community funding accounts for 5-6 of the 15 percentage points which have helped to close the gap with the EU average per capita income. According to the Spanish figures, the funding has also created or safeguarded around 300 000 jobs per annum and accounted for 40% of Spain's productivity growth and most of its public investment. The immense importance of this European funding can be demonstrated with specific examples of infrastructure measures: four out of every ten kilometres of motorway in Spain are built with European money. The developments at Madrid and Barcelona airports, the Seville metro and Las Palmas harbour are all major projects whose implementation has been made possible by funding from Europe and the support from the European Investment Bank.

Yet despite the fact that as a result of enlargement, Spain is suddenly no longer one of the poorest EU Member States, the flow of funding from Brussels has not abruptly halted or been diverted to Eastern Europe. In order to cushion any negative economic impact that might be caused by an sudden drop in funding, the negotiations on the EU budget for the period 2007-2013 identified rational solutions to allow the funding to be phased out gradually. During this transitional period, it is calculated that Spain will still receive around €3.2 billion from the Cohesion Fund. Although this does entail a significant loss of funding, it also testifies to the country's remarkable success in closing the economic gap. Although the future cuts in European funding have unleashed heated debates in Spain itself, with the Spanish Government being accused of weakness in its handling of the negotiations, most politicians and experts agree that Spain is now able to pay back to the Community, and especially the poorer new Member States, some of the solidarity which it has received from its European partners for decades.

2.2. The Common Agricultural and Fisheries Policies

The common agricultural policy (CAP) aims to promote sustainable and competitive farming throughout the European Union. Modern agriculture must be able, on the one hand, to preserve the landscape and natural spaces, supply farm products at competitive prices, and meet consumers' demand for quality and food safety at the same time. On the other hand, workers in the farm sector must be able to earn a secure income despite fluctuating world market prices for agricultural products, the vagaries of the weather (storms, heavy rainfall, extreme aridity) and pressure from international competitors.

Against this background, Europe's agricultural policy is not only essential; it has also become an extremely positive policy for the Spanish farming sector, which has adapted successfully to European integration and the

CAP. In particular, the ensuing liberalisation of Spanish agriculture, previously heavily dependent on State intervention and protection, has resulted in increased output, improved competitiveness and higher incomes for agricultural workers. Spanish farmers' average income has doubled since EC accession. In many areas, subsidies for set-aside are an essential source of additional income for farmers and, over the long term, will have a positive impact by allowing the environment to recover from the adverse impacts of highly intensive farming. Furthermore, European direct aid has helped to ameliorate the negative effects of the extreme aridity in the first half of the 1990s. As regards the distribution of agricultural funding between the Member States, Spain currently receives 14.6%, i.e. around €6.5 billion (2003), and thus ranks in second place after France.

Spain occupies a similarly privileged position in relation to fisheries policy, thanks to its extensive Mediterranean and Atlantic coasts. For the period 2000-2006, Spain will have received 46% of European structural funding for the fisheries sector (around €1.7 billion out of a total of €3.7 billion). Spain also tops the table when it comes to the allocation of catch quotas. A further advantage for Spanish fishermen is that the major share of the costs of obtaining fishing rights in the waters of third countries is paid from the Community budget.

Since 2006, an EU agency – the new Community Fisheries Control Agency – has been based in Spain, with headquarters in Vigo. The Agency's mission includes harmonising the implementation of the common fisheries policy, providing training for fisheries inspectors, and organising the coordination of the Member States' inspection and surveillance activities.

2.3. The Euro

Since the adoption of the Maastricht Treaty in 1992, which provided for the establishment of an economic and monetary union with a single currency and a European Central Bank, Spain has done its utmost to fulfil the convergence criteria, so that it could join the euro zone from the outset. Indeed, the name “euro” was agreed at the European Council in Madrid in December 1995, during the Spanish Presidency. By achieving compliance with the Maastricht criteria on schedule, Spain – for the first time for many years in the history of European integration – had not fallen by the wayside, as the then Prime Minister José María Aznar emphasised with pride.

Like all the EU Member States, Spain has benefited considerably from the success of the single currency. The turbulence on the currency markets, still dreaded by companies and businesspeople at the start of the 1990s, has been consigned to history. The single currency has reduced transaction costs, such as commission on foreign exchange and the costs of insurance against currency fluctuations, and has thus promoted the exchange of goods, services and investments within Europe. Despite Spain’s location on Europe’s south-west periphery and its traditionally close links with Latin America, the European countries are by far its most important trading partners. Indeed, 90% of all foreign direct investment in Spain comes from the EU. The EU is also the destination for around 75% of Spanish exports, while 66% of its imports originate in other EU countries. In light of these figures, the positive impact of the euro on the Spanish economy cannot be rated highly enough.

However, it is not only the companies which have benefited; so too have the Spanish citizens, who can now compare prices of goods across national boundaries throughout Europe and use the same currency without having to work out exchange rates or pay commission on foreign exchange. As a result, Spaniards have become much more interested in foreign travel.

Spain, its business community and its citizens are also benefiting from the euro’s positive development in the share and financial markets. Finally, the country has a strong and competitive currency, a major advantage for Spain's economy in the context of global competition.

Budget: Contributions to, and Payments from, the Community Funds

During its first year of membership in 1986, Spain was still a net contributor to the Community. However, this situation changed in subsequent years, as the payments from the Community funds steadily increased, reaching an all-time high – €17.3 billion – in 2003. After deducting Spain's contributions to the EU for the same year, the country had a positive balance of €8.6 billion. As a result of its strong economic growth, Spain's contributions have also increased, doubling over the last five years to around €10 billion (2005).

By the end of 2006, after 20 years of membership with the European Union, Spain will have contributed €117.6 billion to the EU budget and received €211 billion from Brussels. This means that there is a positive balance of €93.3 billion in Spain's favour, or – as mentioned above – a net transfer of around 0.8% of GDP over a period of two decades. In other words, for every €1 that it has transferred to Brussels, Spain has received €1.85 back.

In view of the challenges and costs of enlargement, it was clear that the gap between Spain's contributions to, and receipts from, Brussels would have to close over the coming years. Under the initial proposals presented by the European Commission and the Luxembourg Presidency, this gap would have closed in the period 2007-2013, making Spain a net contributor. However, based on the deal reached in December 2005, the gap will close rather more slowly, with the result that Spain will still be a net recipient in 2013. While Spain had a net balance of around €47.5 billion during the period 2000-2006, this will fall to €5.5 billion during the next financial period. It is assumed, however, that by 2013, Spain will have long ago overtaken the average per capita income of the European Union, and will thus be in a position to become a net contributor to the EU budget in order to support the development of countries which are in more urgent need of solidarity from their European partners.

3. Political Benefits

With the opening of accession negotiations with the European Community, Spain emerged from almost 40 years of political isolation under Franco's dictatorship. Spain's integration into the European structures consolidated the path towards democracy which it had embarked upon in 1975. With the prospect of accession, the country's political stabilisation began, establishing the basis for economic and social progress. For Spain, accession itself offered a tremendous political advantage. The Spaniards were confident that their return to the community of respected European nations would secure them the recognition and solidarity of their European partners.

A medium-sized country like Spain, whose own foreign policy resources – political, economic and military – are limited, depends on strong and reliable partners. Indeed, in today's globalised and transnationalised world, no country can successfully master the challenges arising in foreign and security policy on its own. The devastating terrorist attacks of 11 September 2001 on New York and Washington made this only too clear. Against this background, the European Union is a cornerstone of Spanish foreign and security policy, and is also essential for internal security, especially in the context of illegal immigration and terrorism, both of which directly affect Spain.

External and Internal Security

Like its European and transatlantic partners, Spain is exposed to threats – such as organised crime, terrorism, migration, environmental disasters, etc.

– which can only be mastered in close cooperation with its partners. Although the country had been plagued by ETA terrorism for decades, the attacks by Islamic terrorists on 11 March 2004 shocked the country. Since then, Spain has regarded itself as a target of terrorist threats by Basque terrorists and by radical Islamists, so cooperation with its European partners in the field of anti-terrorism is especially important for Spain. This cooperation has already achieved some notable successes, especially the close and successful orchestration of measures with neighbouring France in the campaign against ETA. Although the French Basque country was viewed as a relatively safe haven for ETA members for a long time, increasingly effective cooperation between the two countries over recent years has resulted in numerous arrests of ETA terrorists. This is thought to have weakened ETA to such an extent that in the view of many experts, its demise appears to be simply a matter of time. Admittedly, ETA is still active, but its attacks have not claimed any lives for more than two years.

The close police and judicial cooperation within the EU, the production of a European terrorism list, which includes ETA and its political wing Batasuna, exchange of data and information within the Europol framework, the European arrest warrant and many other measures by the EU have achieved major successes in the fight against terrorism, with Spain – as one of the countries most affected by terrorism – benefiting substantially.

A further problem relating to internal security which particularly affects Spain is illegal immigration. This issue has come to the attention of the European public primarily as result of the large numbers of migrants in boats who aim for Andalusia's coast across the Straits of Gibraltar or land in the Canaries, and the dramatic storming of fences around the Spanish enclaves of Ceuta and Melilla on Morocco's Mediterranean coast. These events have frequently caused human tragedies and deaths, both at Ceuta and Melilla and among the migrants on the boats.

As the issue of illegal immigration is bound up with problems such as drug trafficking, organised crime and terrorism – many of the individuals involved in the Madrid attacks on 11 March 2004 were living in Spain illegally – combating illegal immigration is a priority in the interests of both Spanish and European security. Due to the open borders in the Schengen area, Spain's borders are also the external borders of the EU. The European Union therefore contributes – also in financial terms – to the Spanish measures to combat illegal immigration. The issue has now also been granted the highest priority at European level, so Spain can count on its European partners to support its endeavours. A key element is the European Union's Mediterranean policy, known as the Barcelona process, which is vigorously supported by Spain, one of its co-initiators. The Barcelona process is intended to help stabilise the North African countries around the Mediterranean in both political and economic terms, and make the Mediterranean an area of prosperity, peace and justice. The issues of terrorism, radical Islamism and illegal immigration are a key focus of attention in the Mediterranean policy, as Spain and Europe are reliant on the support and cooperation of the southern Mediterranean countries in this context. Spain, as a country on the EU's southern periphery, is particularly exposed to these problems, and therefore benefits in particular from the EU's common policies on the Mediterranean region.

Globalisation and Foreign Policy

The debate about globalisation generally focuses on the economic dimension, but this is just one of its many facets. Globalisation of the world economy and financial markets, the growing pressure of international competition and the emergence of new economic powers such as China and India present new challenges to Spain and Europe. An individual state with a relatively small domestic market has very little appeal in the global competition for locational advantages, and is at risk of being decoupled from international financial, investment and trade flows, thereby forfeiting economic and political influence. Against this background, the importance of the European internal market, with its 450 million consumers, cannot be rated highly enough.

Unlike other regional organisations emerging around the world (NAFTA, MERCOSUR, ASEAN, APEC, etc.), the EU transcends the purely economic level, as it also possesses a viable political basis and forms a solid community of values. This enables the EU to speak with one voice in international politics and multilateral forums. As a global player, it can thus exert considerable influence over world events and international negotiating processes, e.g. within the United Nations or the World Trade Organisation, and thus bring its interests to bear. The Kyoto process is another good example of these multilateral negotiations. As a sole player, Spain would have no chance of exerting any significant influence over the key issues on the international agenda.

The same principle applies to "classic" foreign and security policy. On its own, a country like Spain does not possess the necessary resources – political, economic or military – to assert and, if necessary, impose its interests on the global stage. The most recent example is the issue of Iran's nuclear programme. Only by acting in concert, in cooperation with its transatlantic allies, will the EU be able to build up enough diplomatic pressure to persuade Iran to abandon its nuclear programme, if, indeed, this is possible at all. Furthermore, Spain's external security can only be guaranteed within the framework of the European Security and Defence Policy (ESDP) and NATO, in cooperation with its European and transatlantic partners. In this way, Spain is not only protected from the – albeit unlikely – event of an external attack on its own territory, but is also in a position to defend its security interests on a global level through its participation, with its partners, in multilateral peace operations such as those taking place in Afghanistan or Bosnia. Spain in particular, having painful experience of the terrorism being inflicted on Europe by radical Islamists, has a keen interest in the democratisation and stabilisation of countries that export terrorism.

However, is adequate account taken of Spain's foreign policy interests in the framework of Europe's foreign policy? That is the critical question. Joint influence and strength within the EU are all very well, but can they be deployed in Spain's favour as well? Is Spain adequately represented in Europe's foreign policy? If we consider these questions, it becomes apparent that Spain plays a very privileged role within the EU's common foreign policy. On frequent occasions – notably during Spain's three Council presidencies (first half of 1989, second half of 1995, and first half of 2002) – Spain has successfully brought its interests to bear on Europe's foreign policy and has succeeded in engendering enthusiasm within the EU for projects of specific interest to Spain.

They include, in particular, the Barcelona process, which has already been mentioned and which is designed to stabilise the Mediterranean region in political and economic terms. Again, on account of its geographical location, this is very much in line with Spain's core interests. The Barcelona process was officially launched in December 1995 during the Spanish Presidency; its 10th anniversary was celebrated in Barcelona with a summit of heads of state and governments in late 2005. Another region with which Spain has close links due to its shared history, culture and language is Latin America, which – prior to Spain's accession – played a subordinate role in the context of the European Community. However, Spain has succeeded in directing its European partners' attention increasingly towards this region. Even during its accession negotiations, Spain sought assurances that the EC would increase its focus on Latin America. At Spain's behest, relations between the EU and Latin America were rapidly intensified, and have been institutionalised through the Summits of EU-Latin America Heads of State and Government which take place every two years in Europe and Latin America on an alternating basis. The second summit was held in Madrid in May 2002 under the Spanish Presidency.

Spain has thus been able to set its own emphases within the framework of the EU's foreign policy. The fact that Javier Solana, a Spaniard, has headed European diplomacy for many years has certainly been helpful in this context.

4. Summary and Conclusions

While Euro-scepticism is spreading in many European countries, as is evident from the failed French and Dutch referenda on the Constitution for Europe, the high level of support in Spain for the European integration process remains unbroken. This was reaffirmed by the resounding "yes" (77%) in Spain's referendum on the Constitution on 20 February 2005. Given that Spain's 20 years of membership of the European family have been a success story, this is hardly surprising.

There is a consensus among Spaniards that their country's accession to the European Community in 1986 not only ended decades of foreign policy isolation; it also made a substantial contribution to stabilising this young democracy. At the same time, accession was the initial trigger for Spain's economic development. Without the solidarity of the European partners – notably the funding provided from the Structural and Cohesion Funds and net payments running into billions – this level of economic and social development would have been inconceivable in Spain, which has closed the gap at breathtaking speed. Today, Spain has caught up with its Western European neighbours and is gradually developing the capacity to reciprocate these decades of solidarity.

Naturally, there are fears within Spain that the country may become less important within the Community and be marginalised in the wake of enlargement. Furthermore, funding from Brussels is increasingly being diverted to the new Member States, whereas Spain's funding from Europe is being radically reduced and its contributions to the EU are increasing. Nonetheless, Spain has always been a supporter of enlargement, recognising that these countries must be afforded the same opportunities which Spain itself has enjoyed.

At first sight, this presents an immense challenge for Spain, but it also opens up great opportunities. Spain will learn to cope with less support from Brussels. After the end of the next financial period, Spain is likely to be one of the net contributors to the EU. Although this may cause some unease at first, it is also a reason to be proud of what the country has achieved, for it shows that having once lagged behind the rest of Europe, Spain has succeeded in moving up to lead the field. It can now fulfil its responsibilities to those of its partners who have yet to close this gap. ■

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The Authors

Marion Abel, Research Assistant at the European Office of the Konrad Adenauer Foundation, Brussels

Canan Atilgan, Coordinator for European Policy, Konrad Adenauer Foundation, Berlin

Andreas von Below, Head of Konrad Adenauer Foundation's Riga Office, responsible for the Baltic Countries

Elmar Brok, Member of European Parliament, Chairman of the Foreign Affairs Committee

Michael Däumer, Head of the Konrad Adenauer Foundation's Madrid Office, responsible for Portugal and Spain

Barbara Einhäuser, Research Assistant at the European Office of the Konrad Adenauer Foundation, Brussels

Catja C. Gaebel, Research Assistant at the Konrad Adenauer Foundation's London Office

Stefan Gehrold, Head of the Konrad Adenauer Foundation's Prague Office, responsible for the Czech Republic and Slovakia.

Sylvie Goulard, Research Associate at the Centre for International Studies and Research (CERI), Paris

Stefan von Kempis, Editor, Vatican Radio, Rom

Veiko Lukmann, Adviser of Isamaaliit in Tartu City Council, Member of board of Tartu district of Isamaa and Res Publica Union, Member of board of Noor-Isamaa

Zoran Potić, Journalist, Newspaper Večer

Stefan Reith, Research Assistant at the Konrad Adenauer Foundation's Madrid Office

Frank Sauer, Political scientist, Member of the Young Foreign Policy Experts Group of the Konrad Adenauer Foundation

Jurgis Vilčinskas, Consultant to the President of the Republic of Lithuania on Foreign Policy Issues