

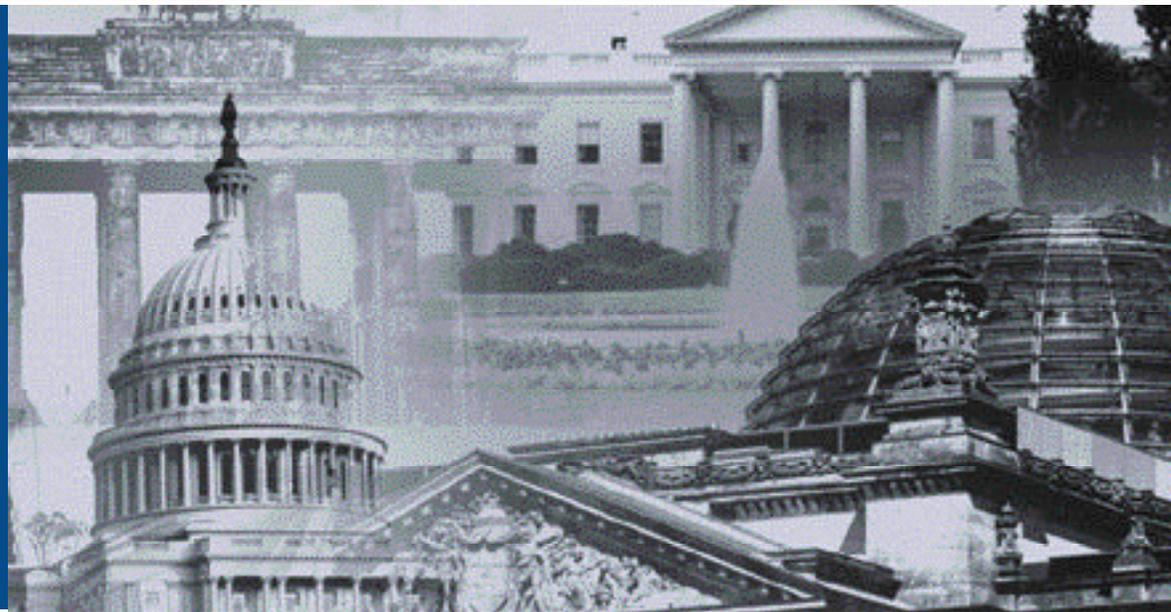


EU ENLARGEMENT AND TRANSATLANTIC RELATIONS: BACKGROUND ANALYSES

Michael Baun, Keith Crane, Lily Gardner Feldman,
Ulrike Guérot, and Kai-Olaf Lang

The American Institute for Contemporary German Studies

The Johns Hopkins University



AICGS POLICY REPORT #7



**EU ENLARGEMENT AND
TRANSATLANTIC RELATIONS:
BACKGROUND ANALYSES**

*Prepared for the AICGS Study Group
on the “Changing Face of Europe.”*

**Edited by
Cathleen S. Fisher**

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FOREWORD

The enlargement of the European Union marks a historic turning point in the evolution of Europe. The incorporation of ten new states in an expanded and reformed EU beginning in 2004 also will have far-reaching implications for relations between Europe and the United States and for U.S. interests and foreign policy. As the Iraq crisis aptly demonstrated, an expanded EU will be both more diverse in perspective and complex. The concomitant processes of reform and expansion now underway will alter significantly the balance of political influence within the EU as well as the decision-shaping dynamics and culture of the institution. The result could be an EU that is stronger, more efficient, and increasingly coherent; alternatively, the outcome could be a more fractious and weak Union that is increasingly absorbed with the internal challenge of monitoring and managing its twenty-five or more members. Either outcome would have important implications for the EU's ability to fulfill its aspirations to play a more prominent role internationally as well as for its ability to serve as an effective partner for the United States.

The background papers in this volume examine the internal and external dimensions of EU enlargement as it relates to the EU's future relations with the United States and U.S. interests and policies. The papers were prepared under the auspices of the AICGS Study Group on "The Changing Face of Europe: EU Enlargement and Implications for Transatlantic Relations," a multi-year project headed by Dr. John Van Oudenaren, Chief of the European Division of the Library of Congress in Washington, D.C. In the course of the project, the authors were asked to explore the implications of an enlarged and reformed EU for the United States and for economic, political, and security cooperation between the EU and the United States. A companion policy report authored by Dr. Van Oudenaren describes the challenges and opportunities for the United States that EU enlargement will entail and proposes specific policy recommendations for the United States in dealing with an enlarged EU.

The papers examine two broad sets of issues related to the expansion of the EU and U.S. interests and policy. The first three papers focus primarily on the internal mechanisms and processes of the European Union as it tackles the dual challenges of enlargement and institutional reform. The remaining papers address the various external aspects of EU enlargement, including the financial and economic impact of EU enlargement on the United States and the ability of the EU to act as a unified and influential actor in the international system.

A critical challenge facing the EU as it prepares to expand its ranks is the impact of greater numbers on the Union's internal decision-making processes and its ability to ensure conformity with the totality of treaty obligations, regulations, and decisions in various policy areas—the *acquis communautaire*. To assess the impact of expansion on the EU's ability to function effectively and efficiently, Professor Michael Baun analyzes the process and outcome of accession negotiations as well as the transitional arrangements that have been agreed upon with specific candidate countries. Baun concludes that some of these arrangements have the potential to impair the effective functioning of the EU significantly. Decision-making within an expanded EU, Baun notes, will be more complex and difficult, whatever the outcome of the Constitutional Convention and subsequent Intergovernmental Conference. The difficulties that accession countries are likely to have in implementing the *acquis* internally will also force the Commission to spend more time and energy on monitoring and enforcing compliance with EU rules, regulations, and decisions in the accession countries, perhaps resulting in a more inward-focused Commission and diverting attention and resources from other issues.

The effectiveness of the European Union will depend critically as well on the outcome of the Constitutional Convention and efforts to achieve institutional reform of the EU, which are examined in Dr. Ulrike Guérot's paper. The Convention offers the European Union a valuable opportunity to address a long-standing issue cited by critics of EU integration, the so-called "democratic deficit" of the EU and the weak legitimacy of its institutions among European citizens. The relative success or failure of the European constitutional experiment, Guérot concludes, could be decisive in determining whether a future EU is weak and ineffective or strong and united. Either outcome would have important implications for relations with the United States and for U.S. policy.

Whatever the outcome of the Convention, the political dynamics and balance of influence within the EU will be affected significantly by the addition of ten new members with interests and experiences that are distinctly different from those of the existing member states. Dr. Kai-Olaf Lang's examination of the orientation and priorities of the central and eastern European accession states belies simplistic predictions regarding the orientation of "new" Europe. Lang argues that the accession states from central and eastern Europe

are likely to demonstrate a significant degree of solidarity within an enlarged EU. They are also likely to share a strong desire to avoid marginalization if Europe evolves at multiple speeds, with a “core” group of EU member countries attempting to deepen their cooperation to the exclusion of the new member states. Although these candidate countries in the short run are likely to assign a high priority to relations with the United States, Lang cautions that over time the new central and eastern European member states are likely to be increasingly European in outlook, as the pro-American predilections of these states are tempered through the process of EU socialization and acculturation.

The economic and financial impact of EU expansion on the United States must also be seen in a more differentiated light, as seen in Dr. Keith Crane’s detailed examination of the impact of expansion on U.S.-European trade and monetary relations. While some U.S. exporters will benefit from the reduction of tariffs and the elimination of other non-tariff trade barriers such as re-certification requirements, enlargement is also likely to exacerbate existing U.S.-European trade disputes over steel and agriculture and involve the new EU members in other ongoing disputes over such issues as genetically modified products and U.S. exports of beef raised with growth hormones. Additionally, the eventual expansion of the Eurozone to the accession countries upon fulfillment of the EMU criteria over time could also affect transaction demand for dollars.

Whether an economically more unified Europe will also achieve enhanced influence in the international system is more uncertain, as Lily Gardner Feldman’s examination of the EU’s future as an international political actor demonstrates. Although enlargement could provide new impetus for the creation of partially or fully supranational structures for the EU’s Common Foreign and Security Policy (CFSP), the accession of new members will also introduce greater complexity into EU calculations of interest, perhaps resulting in reduced effectiveness, greater incoherence, and increased pressure to accept lowest common denominator decisions. The picture with regard to ESDP is also mixed; the central and eastern European countries will bring to the EU valuable experience in peace operations, but they could also view threats differently or retain greater enthusiasm for NATO membership, which in turn could lead to new divergences within the EU.

The analyses contained in this volume illuminate the challenges, risks, and opportunities that enlargement poses, both for the EU and the United States. If the EU successfully integrates the accession states and pushes ahead with reforms that enhance the EU's legitimacy and effectiveness, the result could be a stronger, cohesive, and more powerful European Union with expanded international influence and stature. Such an EU could be more assertive or even competitive in defending its interests vis-à-vis Washington. But other outcomes are also possible. The debate over war with Iraq revealed deep fissures, not only across the Atlantic but within Europe as well. Unless these intra-European differences can be bridged, efforts to forge a common international position and role for the EU could falter. A divided and fractured EU would be a less reliable partner for the United States and other nations.

With the publication of this volume of background papers as well as the companion policy report, the Institute seeks to illuminate the nature of EU enlargement and inform debate on both sides of the Atlantic about the consequences of this process for U.S.-European relations. Our hope is that these volumes will help move us beyond the simplistic and misleading nomenclature of "old" and "new" Europe to a better understanding of the more complex, yet unified Europe that is likely to emerge from this process.

The Institute is grateful both to the German Marshall Fund of the United States and to the *Bundesministerium für Wirtschaft und Technologie, Bereich ERP-Sondervermögen*, for their generous support of this project. Special thanks are also due to Ilonka Oszvald and Karin Johnston for their editing and preparation of this publication.

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April 2003

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**EU ENLARGEMENT AND THE
ACQUIS COMMUNAUTAIRE:
THE CONSEQUENCES FOR
TRANSATLANTIC RELATIONS**

Michael J. Baun¹

INTRODUCTION

At its December 12-13, 2002 Copenhagen summit, the European Union (EU) concluded accession negotiations with ten candidate countries.² As a consequence, and assuming that the Accession Treaty (to be officially signed on April 16, 2003 in Athens) is ratified by each of the ten candidate countries and the fifteen current member states, the new member states will officially join the EU on May 1, 2004.

The accession negotiations, which lasted nearly four years for some of the candidate countries, focused primarily on what is termed the *acquis communautaire* (hereafter simply the *acquis*). This is the totality of treaty obligations and legislation in various policy areas that the EU has accumulated over more than fifty years, stretching back to the beginnings of the European Coal and Steel Community in 1951. This body of rules, regulations, and decisions currently runs to some 80,000 pages, and is growing. For the purpose of the accession negotiations, the *acquis* has been organized into thirty-one chapters (see Annex I; although only the first twenty-nine are strictly speaking *acquis*-related), each of which is the focus of intensive screening and negotiations between the EU and each of the candidate countries.

The term negotiations is a bit of a misnomer, however, since a basic requirement of EU membership is that candidate countries accept and apply all of the *acquis* as it stands at the point of accession. Only certain “transitional arrangements” are permitted, but these must be limited in number and scope, of a limited duration, and accompanied by detailed plans with firm deadlines for fully implementing the *acquis*.³ Thus, not much real bargaining occurs in the accession negotiations: the final outcome is pre-determined—full and complete acceptance of the *acquis*—and whatever bargaining there is focuses on these limited transitional arrangements. This is the “classical method” of enlargement that the EU

has utilized in all previous enlargements.⁴ Although one could argue that the current enlargement to include mostly poor and transitional post-communist countries is in many ways different from previous enlargements, and thus requires a novel and more differentiated approach, the EU has chosen to apply this accession model once again.⁵

However, despite the pre-determined final outcome of the accession negotiations, the transitional arrangements that are agreed between the EU and the candidate countries may not be insignificant. Their significance—meaning their impact on the *acquis* and the effective functioning of the EU—depends on the number and duration of such arrangements and the chapters or policy areas in which they occur. For instance, transitional arrangements in the core internal market chapters could have more of a disruptive impact because they undermine the coherence and impede the effective functioning of the very foundation of the EU—it's integrated single market. One also has to consider the effect of transitional arrangements granted to so many accession countries simultaneously. Transitional arrangements granted to new member states in certain chapters could end up applying to countries that account for 40 percent of the EU's total membership (ten out of twenty-five member states), thus giving them the potential to block certain Council decisions made by Qualified Majority Vote (QMV),⁶ although they would account for less than 10 percent of the EU's total GDP.⁷

Aside from the impact of transitional arrangements that have been agreed upon in the accession negotiations, the accession of so many countries (at once!) will affect the coherence and functioning of the EU in other ways. More member states means more actors in EU decision-making and a greater diversity of interests that are represented and must be accommodated. The process of decision-making will thus become more complex and difficult in an enlarged EU, regardless of the agreements on institutional reform that are reached at the upcoming (2003 or 2004) Intergovernmental Conference (IGC).

In addition, the relatively poor and transitional nature of most new member states will inevitably create difficulties for effectively implementing the *acquis* in these countries after accession. Low levels of economic development and high levels of unemployment, and the desire to achieve rapid catch-up with the current member states, will

undermine the enthusiasm of governments in the accession countries for faithfully applying the *acquis* in the many instances (e.g. environmental, labor, and state aid regulations) when this conflicts with the goals of economic growth. At the very least, it will often be politically difficult (domestically) for governments in the new member states to fulfill their EU obligations. What this means, among other things, is that the Commission's workload will be substantially increased in an enlarged EU. As the primary agency responsible for monitoring and enforcing compliance with EU rules and standards in the member states, the Commission will become increasingly absorbed with this task in an enlarged Europe. This could have significant consequences for the Commission's role in other areas—as the primary motor or driving force of integration, for instance, or as an external actor—diminishing the time and resources that it has for these activities.

Since it affects the nature of the EU as both a “community of values and action” (WRR, Scientific Council for Government Policy, 2001), but probably mostly the latter, enlargement necessarily has important implications for transatlantic relations, and thus consequences for U.S. policy towards the EU. Beyond the potential trade diverting effects of enlargement, the impact of enlargement on the effectiveness and functioning of the *acquis* could affect the ability of American corporations, investors, and other economic actors to conduct business in the EU. It could also affect the external stance of the EU on a broad array of issues of interest to the United States, particularly in the trade and economic arenas. More generally, to the extent that enlargement affects the internal cohesion and functioning of the EU, and its decision-making effectiveness and coherence, it could also have a large impact on the EU's capacity to be an effective external actor and reliable partner (or competitor) of the United States.

The consequences of EU enlargement for the *acquis* and for transatlantic relations is the focus of this paper. In the next section, the outcome of accession negotiations between the EU and the ten candidate countries that were concluded in Copenhagen is examined, with a focus on the transitional arrangements that have been agreed in key chapters of the *acquis*: those concerning the internal market, the environment, agriculture, structural and cohesion policy, and Justice and Home Affairs (JHA). Not all chapters are

covered, including some important ones. The most notable absences are Economic and Monetary Union (EMU), because most of the new member states will probably not join the Eurozone until quite some time after accession, and external relations and Common Foreign and Security Policy (CFSP), because these issues will be addressed by a separate paper of this study group project.⁸ Section three addresses the consequences of the accession negotiations, and enlargement more generally, for the *acquis* and for U.S.-EU relations.

THE ACCESSION NEGOTIATIONS AND THE *ACQUIS COMMUNAUTAIRE*

Before analyzing the outcome of the accession negotiations, a brief primer on how the negotiations were structured and conducted, as well as some historical background, is in order.⁹ The accession negotiations formally take place between the individual candidate countries and the EU member states, represented as the EU Council. The Commission also plays a very important role in these negotiations, providing strategy or issue papers, drafting common positions on specific chapters, serving as interlocutor of the candidate countries, and facilitating compromises between the Council and candidate countries and between the member states in achieving common positions.

Negotiation sessions take place on a regular basis at both deputy (permanent representatives for the member states, and ambassadors or chief negotiators for the candidate countries) and (less frequently) ministerial levels. Before the negotiations for each chapter can begin, the candidate countries must first submit a “position paper” on the chapter. This contains a report on the progress made in transposing the relevant *acquis* into national legislation and applying it, as well as any requests for transitional arrangements or, more rarely, permanent derogations or exemptions from EU rules (in practice, these are granted only in very exceptional circumstances¹⁰). Once its position paper is submitted, the negotiations on a chapter can be formally “opened” for a particular candidate country. Final negotiations cannot begin, however, until the EU approves its own “common negotiating position” on the chapter. This is based on a Draft Common Position (DCP) presented by the

Commission, which then must be approved unanimously by the Council. In these common negotiating positions, the EU can propose its own transitional arrangements, delaying full implementation of the *acquis* in particular chapters, for reasons of economic interest or the political sensitivity of certain issues within the EU.

Once basic agreement on the chapter, including any transitional arrangements, is achieved, the chapter is declared “provisionally closed.” The term “provisional” is key here, for the EU has made clear that no deal on any specific chapter is finally closed until all chapters are closed and the accession negotiations have been concluded with the signing of an Accession Treaty between the member states and the candidate country. Even after a chapter has been provisionally closed, it can be re-opened upon request of either the EU—in the event, for instance, of new changes or additions to the *acquis*—or the candidate country. As for the transitional arrangements agreed upon in the negotiations for specific chapters, it has already been mentioned, but deserves repeating, that the EU insists these must be limited in number and scope, of a limited duration, and accompanied by detailed plans with firm deadlines for fully implementing the *acquis*.

Once the negotiations for all chapters have been concluded and the draft Accession Treaty agreed, the Commission must give its final opinion, the Council its approval (by unanimous consent), and the European Parliament its “assent” (by an absolute majority vote) before the treaty can be formally signed by the candidate states and each of the member states. It must then be ratified by each of the fifteen member states (usually a legislative procedure) and each of the candidate countries that have signed it (probably involving a popular referendum) before it can take effect and the new member states are formally admitted on a specified accession date. The EU has determined that there will be a single Accession Treaty for all of the candidate states joining in the next wave, but that it will be written in such a way that the failure of any one of them to ratify it will not prevent the treaty from coming into effect for the others that do ratify it. The Accession Treaty must be ratified by each of the current member states for it to come into effect, however.

The current accession negotiations were formally launched in March 1998 with the so-called “Luxembourg group” of the six most advanced applicant

countries, deemed by the EU to be best prepared for membership: Cyprus, the Czech Republic, Estonia, Hungary, Poland, and Slovenia. Actual negotiations did not begin until November 1998, however. The remaining six candidates—Bulgaria, Latvia, Lithuania, Malta, Slovakia, and Romania—were admitted to the negotiations by a decision of the Helsinki European Council in December 1999—hence they are referred to as the “Helsinki group”—and actually began negotiations in February 2000.¹¹ The Nice summit of December 2000 agreed in principle that enlargement could occur as early as 2004, once the Nice Treaty on institutional reform (2001) had been finally ratified and the Accession Treaty approved by the member states and the candidate states that had concluded negotiations. The Gothenburg summit of June 2001 approved a “road map” for concluding the accession negotiations under the Belgian (July-December 2001), Spanish (January-June 2002), and Danish (July-December 2002) EU presidencies, and the Laeken summit of December 2001 approved the scenario of a “big bang” enlargement that could see the entry of up to ten new member states in the first half of 2004, in time for them to participate in the next European Parliament elections scheduled for June of that year. This “big bang” scenario was eventually realized with the Copenhagen summit decision to conclude accession negotiations with the “Laeken ten” and admit the new member states on May 1, 2004.

Even after Copenhagen, accession negotiations continue with Bulgaria and Romania. The Greek EU presidency has scheduled negotiating rounds at the deputy level in early April and early June, and a ministerial-level meeting on June 17-18, 2003. Updated information on the chapter-by-chapter outcomes or progress of the accession negotiations with each of the twelve candidate countries is provided by the Commission’s Directorate-General (DG) for Enlargement and is available on the DG Enlargement web-site.¹²

The Accession Negotiations: Key Chapters and Transitional Arrangements

The remainder of this section examines the outcome of the accession negotiations that were concluded in Copenhagen with the “Laeken ten.”¹³ The focus is on key chapters of the *acquis* and the transitional arrangements that have been agreed to in each chapter. These key chapters include: 1) the main chapters concerning the internal market, and the chapters

on 2) the environment, 3) agriculture, 4) structural and cohesion policy, and 5) Justice and Home Affairs, including the so-called Schengen *acquis*. These chapters were selected for examination because of their importance for the EU and its effective functioning. The internal market is the bedrock foundation of the EU. Environmental policy is important for its impact on the functioning of the internal market, as well as the costs it imposes on the candidate countries/new member states as they seek to meet high EU standards. The Common Agricultural Policy (CAP) and structural and cohesion policy together account for nearly 80 percent of the EU's total budget, and negotiations on these chapters thus have major implications for the EU's financial situation. Finally, the chapter on JHA, and especially the Schengen *acquis*, affects the internal free movement of persons so necessary for the effective functioning of the single market, while also dealing with highly-sensitive issues of internal security (crime, immigration, drug-smuggling, and terrorism) that are of tremendous concern to EU popular opinion as it contemplates enlargement.

For reasons of space and time not all of the twenty-nine *acquis*-related chapters can be considered, and some important ones have been left out. As previously mentioned, these include the chapters on EMU—because most of the new member states will probably not join the Eurozone until quite some time after accession—and external relations and CFSP—because these issues will be addressed separately in another paper of this study group project.

For each of the selected chapters, a brief summary will be given of the outcome or state of accession negotiations and the major transitional arrangements that have been agreed to. For a more complete and detailed listing of the transitional arrangements for these chapters, as well as a brief description of the main content of the *acquis* in each chapter, see Commission (2002a).¹⁴

The Internal Market

This is the essential bedrock foundation of the EU and the cornerstone of EMU. If it was necessary to divide the *acquis* into “core” and “residual” components, as indeed some have suggested (cf. WRR 2001), with the objective of determining which elements of the *acquis* are absolutely essential to preserving the achievements of the EU and the effective functioning of the *acquis*, the internal market chapters would constitute the bulk of this core. This understanding was behind the Commission's May 1995 “White Paper,”

which identified the main internal market legislation that the candidate countries would have to adopt and implement if they wanted to join the EU and provided a road map for doing so (Commission 1995).

The core chapters of the internal market *acquis* are the “four freedom” chapters: free movement of goods (chapter no. 1), persons (2), services (3), capital (4). Other key internal market chapters include: company law (5), competition policy (6), transport (9), taxation (10), energy (14), telecommunications (19), environment (22) and social policy (13)—insofar as they affect the internal market—and consumer and health protection (23). Additional chapters could be mentioned. Altogether, probably more than two-thirds of the twenty-nine *acquis*-related chapters affect in some way, either directly or indirectly, the operation of the internal market.

Reflecting the vital importance of the internal market, and hence the EU’s reluctance to consider even temporary deviations from its rules, the transitional arrangements agreed to in the negotiations on these chapters are fairly limited, especially when one takes into consideration the sheer size and scope of the combined *acquis* in this area. Nonetheless, some notable transitional arrangements stand out. These include:

Movement of Labor

The transitional arrangement on the free movement of labor (chapter 2) was proposed (imposed) by the EU, to the great consternation of the candidate countries, especially those bordering the current EU. These restrictions on the movement of labor from new member states into the EU, lasting possibly up to seven years, were necessary because of popular and political concerns in Germany and Austria, the two countries which form most of the current eastern border of the EU. The fear is that enlargement will generate a dramatic upsurge of inward labor migration from the new member states, including an influx of day-laborers in the border areas. The restrictions are not as bad as may appear at first glance, however, because they allow individual member states to make their own decisions, with the possibility that some may not apply any restrictions at all from the date of accession. Indeed, several member states (including Ireland, Denmark, Sweden, and the Netherlands) have already indicated that they will impose no restrictions. Among countries that do, the arrangement allows for

the possibility of relaxing or dropping these at various times within the maximum seven-year transitional period.

Movement of Capital

Transitional arrangements have also been agreed to on the free movement of capital (chapter 4). In this case, the EU responded to fears in the candidate states that relatively cheap real estate, especially farmland, forest land, and land for secondary residences, would be bought up by wealthier foreigners, or that the purchase of land for speculative purposes by foreign investors would drive up land costs beyond the reach of most citizens of the new member states.¹⁵ This issue is an especially sensitive political one in Poland and the Czech Republic, where some fear that wealthier Germans and Austrians, including the descendants of families that were expelled after the Second World War, will return to buy up their old property, or, more extremely, that Germany will now attempt to accomplish economically the permanent occupation and domination that it was unable to achieve militarily under Hitler. As a consequence, the EU has agreed to transitional restrictions of five to seven years after accession on the purchase of real estate by EU nationals for most candidate countries. For Poland, however, the EU has accepted a twelve-year ban on the purchase of agricultural and forest land with exceptions for EU nationals already leasing land in specific parts of the country.

Competition

There were tough negotiations in this chapter (chapter 6) on the subject of certain types of fiscal aid that have been granted by some candidate countries to attract foreign investment (i.e., “Special Economic Zones”) that are not compatible with EU rules, as well as state aid to declining sectors such as steel. Regarding the former, candidate country governments claimed that they will be in legal violation of agreements made with foreign investors if they are forced to rescind fiscal incentives, and the result of doing so could be a loss of highly needed investment. The EU promised to consider the issue of investment in Special Economic Zones on a case-by-case (firm-by-firm) basis.¹⁶ The latter issue is very politically sensitive in some candidate countries because of the impact on core labor constituencies in high unemployment conditions. In the end, the EU accepted transitional periods for the phasing out of incompatible state aids, extending as far as 2011 in the case of fiscal aid to small and medium-sized companies for Hungary and Poland. It also granted the Czech Republic

and Poland a deadline of December 31, 2006 for restructuring their steel industries.

Transport

In the negotiations on transport (chapter 9), the transitional agreement limits access to the EU road transport market for truckers from the new member states for up to six years. This arrangement was proposed by the EU due to both social (the loss of market share for EU operators due to lower-priced competition) and environmental concerns. The cabotage restrictions will apply to all candidate countries except Slovenia (where cabotage price levels are already similar to those of EU operators) and the island countries of Malta and Cyprus, for whom it is not an issue.

Taxation

The transitional arrangements in chapter 10 on taxation allow reduced levels of Value Added Tax (VAT) rates for certain services (i.e., construction, restaurants and catering, and heating) for a limited period after accession and temporarily lower excise taxes on sensitive products such as cigarettes and small-volume distilled spirits. The cigarette excise tax issue was particularly difficult to resolve, with the EU attempting to strike a balance between its concern over the illegal smuggling of cut-rate cigarettes and the interests of the candidate countries in avoiding a (surely politically unpopular) sudden increase in the price of such a widely consumed good.

Social Policy and Enlargement

The numerous transitional arrangements in this chapter (13) mostly concern delays in the implementation of workplace health and safety directives. These transitional periods are generally of a very short duration, however, with most expiring by the end of 2004 or 2005.

Energy

The transitional arrangements granted most candidate countries in negotiations on energy (chapter 14) give them a longer period of time (up to 2009 for the three Baltic states) to build up their emergency oil stocks to the required EU level.

Environment

The environmental *acquis*, covered in chapter 22, is rapidly expanding and evolving. It presented a real problem area for accession negotiations for several reasons. To begin with, it will take many years and considerable

investment before the candidate countries, burdened with the environmental legacy of communism, are able to fully adhere to EU standards in such areas as air and water quality, waste management, industrial pollution control, and nature protection.¹⁷ At the same time, trying to apply EU standards too quickly could limit the economic growth that is so necessary for these countries to improve their economic situation, generate employment, and catch up to EU levels of development. Without such a convergence, the single market will not be able to function efficiently, and political problems and fissures within the EU could emerge. Nevertheless, adherence to the environmental *acquis* is also necessary for an effectively functioning single market and to prevent the accumulation by the candidate countries of unfair competitive advantages vis-à-vis their more developed EU partners.

Faced with this dilemma, the EU pursued a more differentiated strategy in accession negotiations on the environment chapter. At the outset of negotiations, the EU emphasized that transitional arrangements would not be granted on: the transposition of EU law (as opposed to its implementation); framework legislation (e.g., on air, waste, and water quality, as well as impact assessment and access to information); nature protection; aspects of the environmental *acquis* that are essential to the internal market (e.g., all product-related legislation); and new installations. However, transitional arrangements would be considered “where substantial adaptation of infrastructure is required which needs to be spread over time,” due to the need for large-scale investments. Such requests for transitional measures would “need to be justified by detailed implementation plans ensuring that compliance with the *acquis* will be reached over time.” “These plans also allow candidate countries to define intermediate targets which will be legally binding” (Commission 2002a, 67-68).

Under these “rules of the game,” the EU agreed to a number of transitional arrangements in the environmental chapter. These deal mostly with the delayed implementation of Directives on waste management, water quality, and industrial pollution control, many of short-term duration (2004-2007), but extending in one case as far as 2017 (for Poland on the control air pollution from large combustion plants). The number and duration of the transitional arrangements granted in this chapter indicate that full application of the environmental *acquis* and compliance with EU standards in this area will be a major headache for

both the new member states and the EU (especially the Commission) for a long time to come.

Agriculture

Agriculture is the largest and probably the most difficult of the negotiation chapters. However, with the exception of the field of veterinary and phytosanitary legislation, which consists mostly of Directives, the *acquis* in this chapter consists mostly of regulations. This means that most agricultural policy legislation will be directly applicable at the date of accession and does not call for transposition on the part of the candidate countries. Nevertheless, in their negotiating positions the candidate countries requested a considerable number of transitional arrangements for the application of EU legislation in this chapter. At the end of 2000 these stood at over 340, more than two-thirds of all requests for transitional measures made by the candidate countries for all chapters combined (Commission 2000, 26).

The main focus of attention in this chapter is the CAP, which utilizes both internal (price supports with production quotas, direct payments, structural development assistance) and external measures (tariffs and import quotas, and export subsidies) to protect and subsidize EU agriculture. CAP is the EU's most expensive policy sector, absorbing more than 40 percent of the total budget.

Because of the financial implications of the CAP and its political sensitivity, final negotiations on the agriculture chapter did not take place until the Copenhagen summit. As a basis for its DCPs on the agriculture chapter, the Commission submitted an "issues paper" on "Enlargement and Agriculture: Successfully Integrating the New Member States into the CAP" at the end of January 2002. This paper stated that: "In general, the EU positions [on the CAP] should make clear both within the EU and to the candidate countries that in a longer term perspective there will be no two-tier agricultural policy in the EU but one Common Agricultural Policy for all member states" (Commission 2002b, 4).

The Commission paper contained suggestions for the introduction of direct payments to farmers in the new member states (not foreseen in the March 1999 European Council agreement on "Agenda 2000," the EU's budgetary perspective for 2000-2006). These would begin at 25 percent of the level for current member states in 2004 (the prospective first year of

membership) and then be gradually increased in percentage steps to ensure that the new member states reached in 2013 the same level of support received by all member states. The Commission paper also proposed production quotas for new member states in areas such as milk and sugar, and other supply management instruments (ceilings and base areas) for products such as beef and arable crops. It also proposed measures for rural development, primarily through spending under European Agricultural Guarantee and Guidance Fund (EAGGF) "Guidance" section. Altogether, the Commission proposals for direct payments, market organization measures, and rural development aid for the new member states amount to a total of EUR 9.577 billion for the three-year period 2004-2006 (the remaining years of the budgetary framework agreed in Berlin).

These proposals were heavily criticized by the candidate countries, which sought equal treatment from the date of membership and complained about the methods used by the Commission in calculating production quotas. They were also criticized by some member states, including net contributors to the EU budget and reform-minded member states such as Germany, the Netherlands, Sweden, the UK, and Austria. The governments of these countries complained that direct payments were not called for in the March 1999 Berlin agreement, and promising them to the candidate countries beyond 2006 (as suggested by the Commission) could prejudice the discussions of CAP reform due to begin in 2003. They also argued that the proposed amount of spending on agriculture for the new member states was simply too much. Other member states, such as France, agreed that the proposals were too expensive, even as they supported the continued use of direct payments in EU agricultural policy.

Real negotiations on the agriculture chapter did not begin until after the federal elections in Germany in September, to avoid this becoming a campaign issue in the EU's largest net contributor country. At the Brussels summit on October 24-25, 2002, on the basis of a French-German deal on the future of CAP spending beyond 2006, EU leaders agreed to a financing framework for enlargement that allowed the finalization of a common negotiating position on agriculture. This meant the acceptance of the Commission's proposal for phased in direct subsidies beginning at 25 percent in 2004 and reaching parity with current member states in 2013.

In late November, acting without first consulting other member states, the Danish EU presidency presented its proposed final packages for the negotiations. These would allow the new member states to “top up” EU farm subsidies with national funds (or re-directed EU funds for rural development) to a level of 40 percent of the direct aid paid to farmers in current member states. The Danish proposals also increased quotas for some agricultural products, the size of the increases varying by country and product category. While welcoming it as a step in the right direction, the candidate states—led by Poland—nevertheless rejected the improved Danish offer, which was also viewed as too expensive by some member states.

Final negotiations on the financial and market related aspects of the agriculture chapter thus awaited the Copenhagen summit and negotiations at the highest political level. The deal that emerged kept the Commission’s proposed phasing-in arrangement for direct subsidies, but raised the top-up level to 55 percent of the EU level in 2004, 60 percent in 2005, and 65 percent in 2006. According to the agreement, from 2007 on new member states “may top-up EU direct payments by 30 percentage points above the applicable phasing-in level in the relevant year.” The candidate countries were also granted increased production quotas for certain farm products, varying by country and product category (Commission 2002a, 21-22).

Negotiations on the agriculture chapter’s provisions for veterinary and phytosanitary standards led to the EU’s granting of certain limited transitional periods, for instance, for certain food establishments to fully meet EU requirements. These are coupled with special labeling requirements and a ban on marketing products from these establishments in other EU countries. The EU also promised to closely monitor the application of such standards in the candidate countries up to and after accession (Commission 2002a, 22).

Structural and Cohesion Policy

After the CAP, structural and cohesion policy is the second largest EU policy sector in terms of spending (roughly 35 percent of the total EU budget). It concerns mainly the Structural Funds, which consist of the European Social Fund (ESF), the EAGGF “Guidance” section, the European Regional Development Fund (ERDF), and the European Fisheries Fund. There are also a number of “Community Initiative” programs

managed by the Commission, the most notable of which is INTERREG, the Commission's program to promote cross-border development cooperation between regions of the member states and between regions of the member states and neighboring non-member countries.

The Structural Funds (more than 90 percent of all structural operations spending) is assistance given to regions of the member states. It is guided by the key principles of: 1) "concentration" on three "Objectives,"¹⁸ and 2) "additionality" (Structural Funds assistance must not replace planned national structural development assistance, but be in addition to it). The Cohesion Fund is money given to member states with a per capita income less than 90 percent of the EU average for investment in environmental and transport infrastructure improvements. Since the creation of the Cohesion Fund in 1992, all assistance has gone to the "poor four" member states: Spain, Portugal, Greece, and Ireland.

The Structural Funds are governed by a framework regulation setting down general provisions (Council Regulation (EC) 1260/1999) and a series of implementing regulations and decisions. Thus, similar to the situation with the CAP, much of the legislation in this chapter is directly applicable upon accession and does not require transposition into national legislation. The accession process has instead focused on the ability of the candidate countries to effectively and properly administer the Structural Funds. These administrative requirements are detailed in Commission (2002a, 65).

As with the CAP, the main focus of accession negotiations on this chapter was money: How much will the new member states receive under the EU's structural and cohesion policy, and how will it be given? In late January 2002, the Commission presented its "Common Financial Framework for the Accession Negotiations," which provides the basis for concluding the negotiations on this chapter. The Commission's proposal called for total spending on structural and cohesion aid to the new member states of EUR 25.567 billion for the 2004-2006 period. According to the Commission, this would amount to EUR 137 per capita of structural aid for the new member states (2.5 percent of the total GDP of the new member states) compared to EUR 231 per capita for the existing four "cohesion countries" of the EU (Spain, Portugal, Greece, and Ireland), or 1.6 percent of their total GDP. According to the Commission proposal, for reasons of limited absorptive capacity—mainly insufficient

administrative capacity—spending on structural actions in the new member states for the 2004-2006 period would be weighted toward the Cohesion Fund, with this accounting for one-third of total structural assistance to the new member states, compared with only 18 percent for the four current cohesion countries (Commission 2002c, 5-6 and Annex).

The Commission's proposals for structural and cohesion spending in the new member states did not arouse anywhere near the animosity generated by the agricultural proposals among the candidate countries, or the same extent of opposition among the member states. Nonetheless, the financial aspects and impact of this chapter tied it to the negotiations on the CAP and the financial and budgetary provisions for enlargement, and the final settlement of these chapters were thus closely linked. As with the CAP, therefore, final negotiations on the structural and cohesion policy chapter did not take place until the Copenhagen summit.

At Copenhagen, the EU agreed to a total of EUR 21.85 billion for structural and cohesion funds spending in the new member states in the 2004-2006 period. This was somewhat less than the amount originally proposed by the Commission, which clearly disappointed the candidate states. However, the reduced figure was justified by the EU in terms of additional money granted the candidate countries to top up farm payments and for improving nuclear safety and Schengen border controls. The EU also created special cash flow and budgetary compensation facilities for 2004-2006 to ensure that no new member state would be any worse off in budgetary terms after joining the EU (European Council 2002a, 11-12).

Justice and Home Affairs/Schengen

The *acquis* in this chapter is relatively new and expanding rapidly, much of it being shifted from the intergovernmental Pillar Three of the EU to its supranational Pillar One under provisions of the 1999 Amsterdam Treaty. The chapter deals with cooperation on immigration, visa and asylum policies, as well as police and judicial cooperation. It also deals with issues of internal security such as illegal immigration, drug trafficking, money laundering, and transborder organized crime. Thus, negotiations on this chapter concern some of the most sensitive topics for European public opinion regarding enlargement.

Perhaps the most prominent component of the EU's JHA policies is the Schengen *acquis* (named after the original 1985 "Schengen Agreement")

between Germany, France, and the Benelux countries), which resulted in the lifting of internal EU border controls. However, the EU has made it clear that “accession will not immediately lead to the lifting of border controls between the old and new member states; as with previous enlargements, this will be the subject of a separate Council unanimous decision, some time after accession, and after a careful examination of the legal and practical readiness of the new member states.” In preparation for admission to the Schengen area, each candidate country must develop and submit a “Schengen Implementation Action Plan.” This plan must “demonstrate full awareness of the ramifications of the Schengen *acquis*, and present a credible schedule for the introduction of its provisions.” The EU requires that most of the Schengen rules be applied ahead of accession (Commission 2002a, 73).

Because of the nature of the JHA/Schengen *acquis* and its political sensitivity, the EU has ruled out any transitional arrangements in this chapter (other than the period between accession and joining the Schengen area). Thus, negotiations for this chapter focused on finding ways to build confidence among the member states in the candidate countries’ capacity to implement the *acquis*. This is to be done primarily through strengthening their administrative capacity, which should be up to EU standards by the date of accession, and by ensuring the existence of independent, reliable, and efficient judiciary and police organizations.

The Consequences of Enlargement for the *Acquis*

The consequences of the accession negotiations and enlargement for the *acquis* can be considered from two perspectives: 1) the coherence of the *acquis*; and 2) its effectiveness.

The coherence of the *acquis* concerns primarily the uniformity of its legal application within the EU and among the member states. Since the beginning of serious discussion of eastern enlargement in the early 1990s, and actually well before then, there has been much talk of the emergence of a more differentiated or multi-tiered EU (or one of multiple speeds, defined in terms of progress towards greater integration). Such concepts were actually favored by member states that feared either a more centralized and federalist EU (i.e., the UK) or its dilution into a simple free trade area (i.e., some of the founding member states). The models advanced by each camp were quite different, however, reflecting divergent ultimate goals and objectives. While the UK

government of Prime Minister John Major favored a “Europe of multiple clubs” or an “à la carte Europe,” allowing member states to pick and choose what aspects of cooperation they wanted to be a part of without there being any consistent core group of countries, France, Germany, and other member states favored the possibility of creating just such a core, allowing it to move ahead with further integration while leaving behind member states that were either economically unable or politically unwilling to follow. Indeed, multiple-speed elements of the EU have emerged (EMU; Schengen; the opt-outs on social policy granted the UK at Maastricht in 1991, and on defense and other issues to Denmark at Edinburgh in 1992), and new mechanisms for “enhanced cooperation” among smaller groups of member states were approved as part of the Nice Treaty agreement in December 2000. Through it all, however, the Commission and its supporters have battled to preserve as much uniformity as possible in the *acquis*, and to date it must be said that, on the whole, a multiple speed or multi-tiered EU has not emerged.

Nor does it appear that enlargement will lead to this, at least judging by the outcome of the accession negotiations to date. Certainly, transitional arrangements have been granted in many chapters, but these are fairly few in view of the immensity of the *acquis*. They are also of a generally short duration (one to three years). Some notable exceptions are the longer (medium-term) transitional periods granted candidate countries on the sale of agricultural land to foreigners (five to seven years, but twelve for Poland), and the possibility of up to a seven-year transitional period for the free movement of labor from the new member states into the EU. A number of medium-longer term transitional periods have been agreed to in the problematic environmental chapter. It will also be a number of years, at least until 2007 and the beginning of the next multi-annual budgetary period, before the EU’s structural and cohesion policy is applied on the same terms to both the new and current member states.¹⁹ And, of course, the new member states will not be fully incorporated into the Schengen area or the Eurozone until some time after accession. In addition to the imposed restrictions on the free movement of labor, however, the greatest cries of unfair treatment by the candidate countries have come over agriculture and the CAP. Although the Commission explicitly stated in its January 2002 proposal that, “in a longer term perspective there will be no two-tier agricultural policy in the EU but one Common Agricultural Policy for all member states,”

the candidate countries claim that just such a permanent second-class status has been created by the accession treaty agreement.

Such claims are probably exaggerated, both for bargaining purposes and reasons of domestic political consumption. Such complaints also reflect, no doubt, considerable frustration on the part of the candidate countries over what has been for them an excruciatingly slow and occasionally humiliating accession process. In fact, if one looks at the larger picture, it is remarkable to what extent the EU (read the Commission) has stuck to its original plan of applying the “classical method” of enlargement, based on the uniform (as realistically possible) adherence of the new member states to the entire *acquis*. This has been at the cost of a more rapid enlargement, which could have occurred using a more differentiated model or by granting applicant countries some type of special status or “virtual” membership. As a consequence of adhering to the classical method, however, it appears that the fundamental coherence and uniformity of the *acquis* has been preserved.

This is only on the surface, however; when it comes to the second perspective for viewing the *acquis* after enlargement, its effectiveness, some potential problems emerge. These include the problems of actually applying and enforcing EU rules and standards on a consistent and effective basis in the new member states. As the EU itself has repeatedly emphasized in its discussions with the candidate countries, there is a world of difference between simply accepting the *acquis* and transposing it into national legislation (relatively easy or painless), and effectively applying and enforcing it (much more difficult, costly, and politically painful).

There are two main reasons why implementation of the *acquis* will be problematic for the new member states. First is the lack of political will to fully apply and enforce EU rules, especially when these conflict with other important goals of public policy in the new member states, such as promoting economic growth and employment. There is a real potential conflict between the goals of faithfully applying the *acquis* (from the EU’s perspective necessary for preserving its uniformity and coherence) and achieving the high rates of growth necessary for rapid catch-up with the current member states (from the EU’s perspective also necessary to ensure smooth functioning of the integrated single market). Diligently pursuing the former goal may undermine chances of achieving the latter.²⁰ In the new member states, short-term political pressures and

electoral calculations may tip the balance in favor of pursuing growth and employment.

The second reason why effective implementation of the *acquis* will be problematic in the new member states is the lack of sufficient administrative capacity, including adequate institutional structures, resources, and experience. Also lacking in some cases are adequate and efficiently (independently) functioning legal and judicial systems. The EU is well aware of this problem. Indeed, the Commission has pounded on this theme in all of its Regular Reports on the progress of individual candidate countries that have been issued annually since 1998, and the European Council has stressed this issue in its recent summit conclusions.²¹ This theme was also emphasized in the Commission's November 2001 enlargement "Strategy Paper," which contained the proposal for an "Action Plan" for assessing, monitoring, and upgrading the administrative and judicial capacity of the candidate countries in the run-up to accession. To assist the upgrading of administrative capacity in these countries, the EU has made available additional funds under its PHARE²² program (a "supplementary institution building facility"), to augment the shift of pre-accession aid towards the goal of institution building that had already occurred in recent years (Commission 2001b, 22-25).

In its 2001 "Strategy Paper," the Commission identified several key areas of the *acquis* in which the lack of sufficient administrative and judicial capacity posed special challenges. These were: 1) the smooth functioning of the internal market, including the existence of competent regulatory authorities in such areas as competition policy, energy, telecommunications, and transport; 2) the application of environmental standards and standards for workplace health and safety and transport; 3) the protection of EU citizens through the stricter enforcement of border controls, consumer protection laws, and food safety standards; and 4) the proper management of EU funds to ensure against fraud, corruption, and misuse, including in the administration of structural and cohesion policy. Of great significance, the Commission indicated in its paper that the task of improving administrative and judicial capacity in the new member states was one that would continue after the date of accession and well beyond (Commission 2001b, 23-25).

To ensure the full application and enforcement of the *acquis* after accession, and to help convince the skeptical publics of current member states that enlargement will not harm their interests, the EU included in

the Accession Treaty several “safeguard clauses.” In addition to a general economic clause applicable to all member states (similar to the clauses included in previous accession treaties), there are two specific safeguard clauses targeted at the new member states. These allow the Commission to take restrictive measures against new member states: 1) in the event of significant disruptions of the single market (broadly defined, to include cross-border effects on health and safety, the environment, etc.) following from the failure to honor commitments made in the accession negotiations; or 2) in the area of JHA (free movement of people) in the event of a serious breach of EU rules. Such measures can be taken for up to three years after accession, and their duration may extend beyond this three-year period. The EU will also continue to carefully monitor the progress of the candidate states in implementing the *acquis* up to the date of accession, and provide additional money to help them with building necessary administrative and judicial capacity.²³

All this means two things. First, the *acquis*, especially the vital internal market, may not function effectively and efficiently after enlargement, but will be hindered by numerous deviations from EU rules and “implementation gaps” and by the failure of governments in the new member states to adequately enforce EU standards. This is nothing particularly new. Indeed, the problem of implementation gaps and non-compliance is already prevalent in the current EU. However, enlargement, both by virtue of the sheer number of new member states it will add, and the enhanced challenge of “problematic diversity”²⁴ it introduces through the addition of mainly poor and transitional countries, will increase this problem exponentially.

This brings us to the second point. In the EU the primary body charged with acting as “guardian” of the EU treaties and the *acquis* is the Commission, which is responsible for monitoring and enforcing compliance with EU rules, if necessary by initiating infringement proceeds against the offending member state that could end up before the European Court of Justice (ECJ) and result in the imposition of fines and penalties. In an enlarged EU, the workload for the Commission in this regard will be much greater.²⁵ This would be so in any case, but doubly or triply so given the economic and administrative/judicial situation of the countries that are joining. As will be discussed in the next section, this increased preoccupation of the

Commission with its internal monitoring and enforcement duties could have significant implications for the Commission's performance of its other key roles, including its external and political leadership functions, and hence for the balance of power among the EU's governing institutions. The Commission's main partner in enforcing compliance with EU law, the ECJ, will also face a greatly increased workload as a result of enlargement. Currently, the Court has some 900 cases pending, and the number of new cases before the ECJ has grown by more than a third over the past decade (Dombey 2002, 17). It does not take much imagination to grasp the idea that in an enlarged EU, this caseload will grow tremendously. Thus, institutional overload and breakdown, not just paralysis of decision-making in the Council, is a serious potential consequence of EU enlargement.

IMPLICATIONS FOR THE UNITED STATES AND TRANSATLANTIC RELATIONS

As one prominent analyst of European politics has put it, "Whether Europe's states do succeed with their union is scarcely less important to others than to the Europeans themselves" (Calleo 2001, 10). Of course, it is relevant not only whether the EU succeeds, but also, if it does, just how it does so—in other words, what form and approach future EU integration takes. Among the significant "others" who have a stake in the outcome of Europe's grand integrationist experiment is the United States.

Enlargement will no doubt have many important consequences for transatlantic relations, the result of an EU that is becoming larger, will have new external borders, and will incorporate new actors and interests. An enlarged EU could find it more difficult to achieve a policy consensus on key issues, and its decision-making system could become more complex and inefficient, thus leading it to become a more difficult or problematic partner for the United States in many policy areas. The addition of new member states and interests could also affect the substance of EU policy positions in areas of concern to the United States, including agriculture, trade, the environment, economic and monetary policy, and security and defense.²⁶

Enlargement could also affect transatlantic relations through its direct impact on American economic interests. Accession to the EU requires full and immediate acceptance of its common commercial policies towards non-member countries and the abrogation of existing third country trade agreements. As was the case with previous enlargements, therefore, the U.S. government will seek to ensure that U.S. companies receive adequate protection from the trade-diverting effects of enlargement, possibly through the imposition of tariffs or granting of other forms of compensation.

The main U.S. concern in this regard has been the period *before* accession, but following implementation of the trade liberalizing “Europe Agreements” (EAs) between the EU and the individual candidate countries that were signed beginning in the early 1990s. In this intermediate period, the U.S. government has been concerned about discriminatory treatment of American companies and investors, in comparison with more favored treatment of EU companies that is mandated by the EAs or is the result of agreements made in the accession negotiations. Issues that have been the subject of intense U.S.-EU discussions include: 1) the consequences for American companies of implementation by the candidate states of EU quality control standards; 2) trade agreements and tariffs; and 3) investment incentives (i.e., “Special Economic Zones”) for U.S. companies provided by some candidate countries.²⁷ After accession, of course, U.S. economic relations with the new member states will be folded into broader relations with the EU, and common EU rules and policies will be applied to U.S. companies and investors in these countries.

While the short-term effects of enlargement for U.S. economic interests is indeed an important issue, this paper is more concerned with the longer-term implications of enlargement for U.S.-EU relations via its impact on the functioning and effectiveness of the EU *acquis*. The remainder of this section, therefore, focuses on this specific issue. I argue that, through its impact on the *acquis*, enlargement will affect transatlantic relations in two key ways: 1) through its consequences for the coherence and effectiveness of the *acquis* and deriving from this, 2) its consequences for the institutional functioning and balance of the EU.

Enlargement by itself will not change the *acquis*; this must be accepted as is by the candidate countries, with the possibility of only limited (in number and duration) transitional arrangements before its full implementation. In the medium and longer term, however, enlargement could well lead to substantial

alterations in the *acquis*, once the candidate countries are member states with full voting rights and the ability to press their own particular interests and agendas within the EU. However, while enlargement will not automatically lead to changes in the *acquis*, it could result in it being applied less uniformly and functioning less effectively. This could be the consequence of negotiated transitional arrangements (which could result, in the near term at least, in the greater complexity of EU rules, thus creating confusion and difficulties for market actors and resulting in some distortions of competition), as well as the problems in fully applying and enforcing EU rules in the new member states that were discussed at the end of the previous section.

The diminished coherence and effectiveness of the *acquis* as a result of enlargement could have potentially significant consequences for transatlantic relations. These include problems for U.S. companies and investors stemming from the post-enlargement complexity of EU rules (due, for example, to the proliferation of transitional arrangements in such areas as social and employment policy, the environment, and taxation) and the failure or inability to enforce uniformly EU rules and standards in the new member states. To be sure, enlargement will create many new opportunities for American companies and investors. It will create a more unified market in Europe and eliminate many current discriminatory rules that disadvantage U.S. businesses in relation to their EU competitors in the candidate countries, making it much easier for U.S. companies to operate in central and eastern Europe than at present (Crane 2002). However, U.S. companies will also face problems stemming from the complexity of EU rules and non-compliance in the new member states. The Commission itself has warned that problems are to be expected in the application and enforcement of EU rules in such areas as intellectual property rights, state aids to industry, regulation of the telecommunications, energy, and transport sectors, and money laundering, mainly due to the lack of sufficient administrative and judicial capacity in the candidate countries (Commission 2001a, 9-10; 2001b, 23). Such non-implementation or lack of compliance will also create problems for EU companies and governments, of course. The extent to which such problems can be avoided will depend largely on the ability of the Commission to effectively monitor and enforce EU law, a task that is sure to absorb an increasing amount of its time and resources in the future enlarged EU.

The increased preoccupation of the Commission with its tasks of monitoring and enforcing compliance with EU law could be yet another way in which enlargement affects transatlantic relations. Aside from the question of whether the Commission will even have the necessary capacity to effectively perform this role, its increased focus on issues of monitoring and compliance will leave less time and fewer resources available for its other key roles as the primary “motor” or driving force of EU integration, and as an aspiring (more autonomous) external actor. Thus, enlargement could reinforce current tendencies within the EU, which favor the Commission becoming more of a technocratic or regulatory actor (i.e., a “secretariat”) with less of a political leadership role and political and decision-making power shifting decisively towards the more intergovernmental mechanisms of the Council. Such a development is supported by some larger member states within the ongoing Convention on the Future of Europe, while smaller member states, who tend to view the Commission as their protector against the dominance of the larger countries, prefer to see the Commission’s executive powers expanded.

The implications of an internally preoccupied and overburdened Commission for the United States and transatlantic relations are potentially bad or good, depending upon one’s perspective. On the one hand, an EU without strong external leadership (assuming this void isn’t filled in some other way, for instance by a new Council President, as proposed by France and Germany²⁸) could become a less coherent and effective actor, and a thus more problematic partner to deal with. On the other hand, some U.S. policymakers would no doubt welcome a weaker and less coherent EU, along with the renewed importance of traditional bilateralism in U.S.-Europe relations. This would allow the United States to bypass the messy and complex institutions of the EU and deal more directly with specific national governments and leaders (and sometimes play them off against each other). This is an approach that, in fact, has long characterized transatlantic relations in certain key areas, such as defense and security policy.

A reduced external or political leadership role for the Commission, however, may not automatically translate into more intergovernmentalism. It may also open the door for a greater role and powers for the European Parliament, traditionally the weakest branch of the EU’s governing institutions but today a more dynamic and increasingly self-confident

body about which there is a certain sense of “movement.” Using its claims to democratic legitimacy based on its status as the EU’s only directly elected institution as leverage, the European Parliament could push for and achieve a significant enhancement of its role in EU decision-making in the future. An EU with a stronger European Parliament would be more democratic, perhaps, but it would also be even “messier” and more difficult for the United States and others to deal with than one dominated by a detached council of national leaders or an overly bureaucratic Commission.

In conclusion, enlargement, because of the terms of accession imposed on the new member states, will not immediately alter the substance of the *acquis communautaire*, although it may lead to longer-term changes in EU rules and policies because of the influence of new member state actors and interests. Enlargement might, however, threaten the coherence and effective functioning of the *acquis*, which could have economic and political consequences for the United States. By increasing the regulatory and enforcement burdens placed on the Commission, enlargement could also undermine this agency’s external and political leadership functions (to the extent that these remain after the Convention and next IGC), and thus affect the way in which the EU is governed. This development would also have implications for U.S. interests. Ultimately, an enlarged EU that functions less effectively will be a weaker and less reliable partner for the United States, with all of the potential consequences this entails. Thus, through its potential impact on the coherence and functioning of the *acquis communautaire*, and the institutional ramifications of this, EU enlargement has significant implications for the United States and transatlantic relations.

ENDNOTES

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² Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. Accession negotiations continue with Bulgaria and Romania, with the Copenhagen summit endorsing the objective of admitting these two countries in 2007. The EU has also designated Turkey an official candidate for membership, but mainly due to its poor record on democracy and human rights, Turkey has not yet been permitted to begin accession negotiations. At Copenhagen, the European Council

promised to review Turkey's progress towards meeting the EU's political and human rights pre-conditions (the so-called Copenhagen criteria) in December 2004, and to open accession negotiations "without delay" if Turkey was deemed to meet them. For the "Presidency Conclusions" of the Copenhagen summit regarding enlargement, see European Council (2002a, 1-6).

³The Commission's formal position on transitional arrangements was set down in its November 2000 "Enlargement Strategy Paper" (Commission 2000, 26-27), and is fully quoted in Annex II.

⁴There have been four "official" enlargements: the UK, Ireland, and Denmark in 1973; Greece in 1981; Spain and Portugal in 1986; and Austria, Sweden, and Finland in 1995. An "unofficial" enlargement occurred in 1990 with the unification of Germany and the entry of the five *Länder* of the German Democratic Republic into the EU. On the "classical method" of enlargement, see Preston (1997).

⁵Mainly out of fear of unraveling past, often painfully achieved compromises, as well as an unwillingness to give new member states permanent competitive advantages.

⁶According to the "Declaration on the Enlargement of the European Union" attached to the *Treaty of Nice* (2001, 82), the ten candidate countries would have a total weighted vote amounting to 26 percent of the total votes in the Council for a Europe of twenty-five member states, assuming the Nice weighting of Council votes, designed for an EU of twenty-seven, is applied in the Accession Treaty. This would likely be short of a "blocking minority," depending on what QMV threshold is agreed upon in the Accession Treaty for an EU of twenty-five [The Nice Treaty ("Declaration on the QMV Threshold," p. 85) specifies a maximum QMV threshold of 73.4 percent for an EU of 27; the threshold for an EU of twenty-five would likely be lower than this.] However, the Nice Treaty's "Protocol on the Institutions" also specifies that as of January 1, 2005, to be approved certain types decisions (those not requiring a Commission proposal) will require the votes of two-thirds of the member states (*Treaty of Nice* 2001, 51). The numbers assigned by the Nice Treaty to the candidate countries for representation in the European Parliament and weighted votes in the Council are subject to change and can be re-negotiated as part of the Accession Treaty. At the time of writing (late January 2003), technical negotiations on certain institutional aspects of the treaty continued, and a draft Accession Treaty had not yet been released.

⁷In 2000, the ten candidate countries expected to join in the first wave of enlargement had a combined GDP of EUR 749.3 billion (PPP), compared to an EU GDP of approximately EUR 8.6 trillion, or just under 9 percent of total EU GDP. Source: Commission (2001b, 66) for candidate countries' GDP, and EUROSTAT for EU GDP.

⁸This paper is part of a study group on "The Changing Face of Europe: EU Enlargement and Transatlantic Relations," sponsored by AICGS. The study group's final report, including its composite papers, was published in March 2003.

⁹For an excellent summary of the accession negotiation process, see Avery and Cameron (1998). For a discussion of the enlargement process and accession negotiations up through early 2000, see Baun (2000).

¹⁰ As an example, due to its unusual status as a small Mediterranean island state, in negotiations on the free movement of capital (chapter 4) Malta was granted a special arrangement for the purchase of secondary residences, restricting the purchase of such property for all EU nationals that have not been resident on the island for at least five years.

¹¹ On the politics of these EU decisions, see Baun (2000).

¹² <<http://europa.eu.int/comm/enlargement/negotiations/chapters/index.htm>>. A printed summary of this information in pdf format is also available and can be downloaded from the DG Enlargement web-site.

¹³ In actuality, these negotiations continued after Copenhagen, with a deputy-level meeting on December 20, 2003. Final details of the “Institutions” chapter (30) are also still being hammered out at the time of writing.

¹⁴ This information is also available on the DG Enlargement web-site: <<http://europa.eu.int/comm/enlargement/negotiations/chapters/index.htm>>. At the end of this section, an assessment is made of the impact of these transitional arrangements on the cohesiveness and functioning of the *acquis*.

¹⁵ Land prices in Poland, for instance, are estimated to be up to 30 times cheaper than elsewhere in the EU (BBC News Online, 20 March 2002).

¹⁶ See the comments of Enlargement Commissioner Günter Verheugen’s spokesman, Jean-Christophe Filori, cited in Wylot (2002).

¹⁷ Estimates range as high as EUR 121 billion for the ten Central and Eastern European (CEE) candidate countries combined, amounting to an expenditure of 3-5 percent of their GDP for a period of fifteen to twenty years (WRR 2001, 164-65).

¹⁸ The three objectives are: aid to economically lagging regions, defined as having a per capita income of less than 75 percent of the EU average (by far the largest objective); “programming” (multi-annual and integrated, multi-sectoral); and “partnership” (the full involvement of sub-national governmental actors, the social partners, and appropriate NGOs in all phases of Structural Funds administration).

¹⁹ The transitional period could be extended until 2014, since Spain ensured at Nice that voting on structural and cohesion policy for the 2007-2013 financial perspective will be on a unanimity basis.

²⁰ This dilemma is highlighted in WRR (2001).

²¹ The Commission’s Regular Reports are available online at <<http://www.europa.eu.int/comm/enlargement/overview.htm>>. In the “Presidency Conclusions” of the December 2001 Laeken summit, the European Council declared: “The candidate countries must continue their efforts energetically, in particular to bring their administrative and judicial capabilities up to the required level (European Council 2001, 3).

²² “Poland, Hungary: Aid for Economic Reconstruction,” the EU’s primary mechanism for providing pre-accession aid to the candidate states since the early 1990s,

²³ The safeguard clauses were initially proposed by the Commission in its October 2002 “Strategy Paper” (Commission 2002e, 24-27), and were later endorsed by the

European Council at its October 24-25 Brussels meeting (European Council 2002b, 3-4).

²⁴The concept of “problematic diversity” is discussed in WRR (2001).

²⁵The Commission has stated that to carry out its role of ensuring the application of EU legislation in an enlarged EU (assuming ten new member states join in 2004) it will need an additional 3,800 staff posts between 2003 and 2008 (Commission 2002d).

²⁶The implications of these and other aspects of enlargement for transatlantic relations are considered more directly in other papers in this study group project.

²⁷On these points, the United States wants equal acceptance of American standards, immediate reduction of candidate country trade barriers and tariff levels for U.S. companies to post-accession levels, and the maintenance of investment incentives for a period of time after accession, in order to honor previously made agreements. Informal discussion with a State Department official, Miami, FL, November 14, 2002.

²⁸ See the French-German proposal submitted to the Convention on January 14, 2003, reprinted in both French and German in Agence Europe (2003).

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ANNEX I

The Chapters of the *Acquis Communautaire*

- Chapter 1: Free Movement of Goods
- Chapter 2: Free Movement for Persons
- Chapter 3: Freedom to Provide Services
- Chapter 4: Free Movement of Capital
- Chapter 5: Company Law
- Chapter 6: Competition Policy
- Chapter 7: Agriculture
- Chapter 8: Fisheries
- Chapter 9: Transport Policy
- Chapter 10: Taxation
- Chapter 11: EMU
- Chapter 12: Statistics
- Chapter 13: Social
- Chapter 14: Energy
- Chapter 15: Industrial Policy
- Chapter 16: SMEs
- Chapter 17: Science and Research
- Chapter 18: Education and Training
- Chapter 19: Telecommunications and Information
- Chapter 20: Culture and Audivisual Policy
- Chapter 21: Regional Policy and Co-ordination
- Chapter 22: Environment
- Chapter 23: Consumers and Health Protection
- Chapter 24: Justice and Home Affairs
- Chapter 25: Customs Union
- Chapter 26: External Relations
- Chapter 27: CFSP
- Chapter 28: Financial Control
- Chapter 29: Finance and Budgetary Provisions
- Chapter 30: Institutions
- Chapter 31: Other

ANNEX II

Commission Position on Transitional Measures for the Accession Negotiations¹

a) Transitional measures

Accession negotiations are based on the principle that candidates accept the acquis and apply it effectively upon accession. Transitional measures, whereby the application of part of the acquis is delayed for a specified period, are accepted only in well-justified cases. The Commission has registered, up to now, over 170 requests for transitional measures from candidates in fields other than agriculture, and over 340 requests in agriculture.

The general position, which the Union presented to the candidates at the outset of the negotiations, stated that their acceptance of the acquis ‘may give rise to technical adjustments, and exceptionally to transitional measures. Such transitional measures shall be limited in time and scope, and accompanied by a plan with clearly defined stages for application of the acquis. They must not involve amendments to the rules or policies of the Union, disrupt their proper functioning, or lead to significant distortions of competition. In this connection, account must be taken of the interests of the Union, the applicant country and the other applicant states.’

The Commission expressed the view in last year’s Composite Paper that “for the areas linked to the extension of the single market, regulatory measures could be implemented quickly. Any transition periods should therefore be few and short. For those areas of the acquis where considerable adaptations are necessary and which require substantial effort, including important financial outlays in areas such as environment, energy and infrastructure, transition arrangements could be spread over a definite period of time, provided candidates can demonstrate that alignment is under way and that they are committed to detailed and realistic plans for alignment, including the necessary investments.”

The Commission will base its assessment of the candidate’s requests on these criteria. The analysis will be made on a case-by-case basis, taking into account the country’s interests and the likely impact of each

request on the functioning of the Union and the interests of the other applicant states. The acceptance of a transitional measure in one case will not constitute a precedent for others. Similarly, transitional measures granted in previous accessions do not necessarily create a precedent for the present negotiations.

In preparing common positions, in response to the candidate's requests, the Commission will distinguish between three cases:

1) Acceptable. This category includes transitional measures of a technical nature that pose no significant problems. The Commission has, since September 2000, been examining favourably requests for transitional measures that are limited in time and scope, and are considered not to have a significant impact on competition or the functioning of the internal market. Acceptance of this type of request has already advanced negotiations in certain chapters, and will continue to do so.

2) Negotiable. This category includes those requests with a more significant impact, in terms of competition or the internal market, or in time and scope. The Commission may recommend that transitional measures can be accepted in this category, under certain conditions and within a certain time horizon. Acceptance may be conditional on the implementation of other parts of the *acquis* without transitional measures or on commitment to well-defined plans for implementation and investment. Requests in this category will be examined taking into account not only competition and the single market, but also, as appropriate, effects on the economy, health, safety, the environment, consumers, citizens, other common policies and the Community budget.

3) Unacceptable. Requests for transitional measures posing fundamental problems will not be accepted.

By classifying certain requests as "negotiable," the Commission does not imply that it will recommend their acceptance, in whole or part, but, rather, that a solution may be found under certain conditions.

The Commission reserves the possibility, where appropriate, to propose transitional measures in the interest of the Union.

NOTE

¹ From the Commission's "Enlargement Strategy Paper," November 8, 2000, 26-27.

CONSTITUTIONALIZATION IN AN ENLARGING EUROPE

Ulrike Guérot

The European constitutional debate entered a new phase with the Declaration of the EU-Summit in Laeken. Since the Treaty of Maastricht in 1992 that led Europe into Monetary Union, the question of political union has been on the agenda but has remained unsolved. From Maastricht to Amsterdam in 1997, and from Amsterdam to the Nice Treaty in 2000, the EU failed to work out appropriate political structures to flank Monetary Union in order to enhance efficiency and to improve institutional legitimacy. Although it is clear that an enlarged Europe will need an in-depth reform of its institutions, the successive Intergovernmental Conferences (IGCs) did not produce satisfactory answers to three major problems: reducing the number of commissioners, extending qualified majority voting (QMV) in the Council, and reweighting the votes in the Council.

At Laeken, the EU changed its method of proceeding to institutional reform. On February 28, 2002 a Constitutional Convention was convened. One hundred and five delegates—government and parliamentary representatives—from the EU-15 and the candidate countries set out to create a blueprint for a European constitution, a document that must be adopted by the next IGC in 2004. The Convention has two major goals: to involve civil society in the process of constitutionalization; and to circumvent national resistance, such as the Irish referendum on the Nice Treaty. The hope is to draft a coherent and consensual document that the governments of the member states will take into consideration in 2004.

The first part of this paper will deal with the institutional problems faced by the Convention, particularly the question of the division of competences and the shape of a clear European executive and legislative branch. One main challenge for the Convention is the insufficient politicization of the Union. If in the future the president of the Commission were elected by the European Parliament (EP), ideological rather than national cleavages would structure the European political debate. The decisions of the Commission would be perceived as less technical and more political, and voters would feel more able to sanction decisions through EP elections. Such a Commission would be the answer to

problems of a democratic deficit and legitimacy gap in the EU that many have criticized.

The second part of the paper will then focus on the impact of Europe's constitutionalization on the United States. The political shape of an enlarged EU with a constitution will matter to the United States and will affect transatlantic relations. EU enlargement is a strategic concern for the United States; first, because the recently accomplished NATO enlargement has to be seen in parallel with EU enlargement; and second, because the overall economic, strategic, and political stabilization of contemporary Europe and its post-Cold War environment will depend on a strong EU. Washington has repeatedly shown an emphatic interest in the effectiveness and success of Brussels' policies. The future of the EU is a key element for the whole re-organization of the "western" world. Last but not least, the ability of the EU to be a potential counterpart and partner for the United States in world affairs will largely depend on how strong a player the EU will be in the international institutions that shape globalization, whether it is the International Monetary Fund (IMF), the World Bank, the World Trade Organization (WTO), or the North Atlantic Treaty Organization (NATO), and how the external representation in those institutions will be designed.

THE CONVENTION: CHALLENGES AND RISKS

When exploring the risks and the challenges of the Convention, we first have to define the term constitution in the European context. The Convention does not aim to establish a constitution in the classical "state" sense of a constitution. Europe will not be a "superstate" and probably not a new type of (federal) Westphalian state with a central government in charge of a given territory with clear-cut borders. For the moment, European integration is about a public authority *beyond* the nation-state. This fact has to be matched by a truly democratic, transparent, and efficient system of governance that needs to be multi-level in order to retain the role of nation-states and, sometimes, sub-state entities. The setting for European integration is what Jürgen Habermas has called "the post-national constellation." Thus, conceptualizing European constitutionalism is, to a great extent, about considering how a "post-national constitution"

could be defined. Overcoming the traditional state-based concept of a constitution opens the way to a multi-level constitutionalism, a more functionalist idea. The fact that this functional approach might be more adequate in providing an overlap between the functional and geographic borders (traditionally a key element of a state-building process) of the EU is unlikely, given the huge degree of divergence that will result from the upcoming enlargement. The political structure of the EU may proceed in the direction of a neo-medieval empire characterized by overlapping authorities, divided sovereignty, diversified institutional arrangements, and multiple identities. The task, then, is to work out a transparent and efficient vertical (between the Union and the member states) and horizontal (between the EU institutions) structure for power sharing in such a neo-medieval setting. Such power sharing will necessarily involve trade-offs between participation and transparency, both requirements for the future EU political system. The more the system is based on multi-level participation, the less transparent it will be.

The Division of Competencies (or the Question of Vertical Power Sharing)

The question of vertical power sharing in the EU refers to a more precise delimitation of competences between the European Union and the member states and is one of the most important items of the post-Nice declaration. The Convention had already begun work on vertical power sharing and devoted its third session on April 15-16, 2002 to this issue. The matter has been brought into the debate mainly by the German *Bundesländer*, who complained about the “creeping erosion” of national and sub-national competences throughout the EU. This is not astonishing, for it is large sub-national (regional) entities in larger member states that are structurally the most vulnerable to the current institutional system, which, to some extent, enhances national segregation. With ten relatively small countries joining the EU—most of them are smaller in population, size, and GDP than Bavaria or North Rhine-Westphalia—there will be an institutional disequilibrium between the candidate countries directly represented on the level of the EU institutions (the EP, Council, and Commission) and those regional entities that are not. The desire of the

latter to withdraw competences from the EU level mirrors the very fact that they only have an indirect say in EU politics.

There are two inherent risks with this tactic, however. First, the question of the delimitation of competences is, to some extent, a hidden discussion about the financial constitution of the EU. If the management of the structural funds were to be given back to the regional level or if CAP were to be co-financed nationally, the net-contributor/net-receiver balance of the EU budget would change completely. Second, the demarcation of competences has to do with the competition policy of the EU. The ability of the (regional) public authorities to act freely is constrained by the state aid regime as well as by measures of deregulation and liberalization. Opening the markets and introducing competition, e.g. in the telecommunications or energy sectors, however, touches considerably on the vested interests of local and regional bodies. The question of competences has to be seen in this broader context, for a new division should neither threaten the application of EU competition law nor undermine the common policies in place.

The Convention has handled this issue very carefully. The Convention's working group on competences, which presented its report in October 2002, refused a "clear catalogue of competences," simply because it is not feasible in the outlined multi-governance approach. In addition, the creation of a second chamber composed of national representatives was rejected, as it would further complicate the institutional system of the EU. Instead, delegates requested instruments to scrutinize the application of the principle of subsidiarity, either through the European Court of Justice (ECJ), or through a special "committee for subsidiarity," which could be composed of delegates from the member states. The majority of the Convention was against the freezing of the competences of the EU (negative delimitation clauses), which should remain flexible and open to acquire additional competences in order to cope with new political challenges in the future. With regard to the representation of national deputies within the future political system of the EU, the president of the Convention, Valéry Giscard d'Estaing, suggested in his constitutional draft presented to the public on October 28, 2002 the establishment of biannual meetings of an ad hoc assembly of national parliamentarians that would supervise the Commission's work

program. As of this writing, however, no decision on this issue has been taken. As recent developments show, Giscard also intends to freeze competences at the constitutional level. In a second blueprint for the Constitution, he stipulated that the Commission should never be given the power to harmonize national legislation in policy fields such as health, education, and research. Giscard's proposal of mid-January 2003 surprised many, but the Convention does not seem likely to follow his lead on this issue. Most members of the Convention believe that the constitutional treaty should keep the EU open for future common developments in all policy areas.

As the discussion in early 2003 proceeded, the real problem seems to lie not in the current delimitation of competences, for the existing treaties are quite clear about this issue, but in their implementation. The provisions do not lack determination and legal certainty, but they show a degree of differentiation and complexity, making it difficult to gain a clear picture. General clauses, e.g. Art. 95 ECT, aimed at the functioning of the internal market, are at the center of critique, since literally all of the major policy issues can be related to the single market and, thus, constitute a competence for the EU. The solution may lie in correlating specific legislative instruments to the different levels of EU competences, which may be divided into five areas: 1) constitutional issues; 2) exclusive competences for the EU (i.e. Euro, CFSP); 3) shared competences (single market); 4) supplementary competences (social policy); and 5) areas of coordination (tourism etc.).

The Political System of the EU (or the Question of Horizontal Power Sharing)

The other important question for the Convention is the shaping of the political system of the EU, namely the clarification of the powers and role of the legislative and the executive branches of the EU. Part of the perceived democratic deficit and legitimacy gap is due to the fact that the current institutional system of the EU does not have a clear executive (Commission/Council), nor a clear legislative (Council/Parliament) body. Such a "politicization" of the EU would turn the Union into a fully-fledged "federation of nation-states" that achieves two things: 1) a break-up of the principle of national representation in the institutions; and 2)

the establishment of a system that allows trans-European political dialogue along partisan or ideological lines rather than national borders.

One proposal, supported by Germany and the smaller EU member states, is to elect the president of the Commission through the European Parliament. This would result in the emergence of trans-European parties that would run on the basis of political programs (left-wing, right-wing, liberal, green etc.), a development that could begin to disconnect the constituencies for the European Parliament from their national borders. Under this system, the majority party would elect a president of the Commission of its political color, conducting policies for which the people had voted. This process would give power back to the people to sanction or re-direct policy. In short, EP elections would become political rather than national elections, and EU politics would follow a left-wing/right-wing policy scheme. There is a risk that such a structure would call into question the unique triangular equilibrium of the three EU institutions. Moreover, the Commission could not, in this system, maintain its role as a neutral “guardian of the treaties.” The most important Directorate Generals (DGs) would have to be outsourced and turned into European Agencies, like the Directorate General for Competition. This might, in the end, weaken rather than strengthen the Commission, because the Commission would be deprived of its most important and influential courses of action.

Yet, the political malaise of the EU system is due to the fact that citizens feel they are governed by the Commission on the basis of technical criteria. If the EU is the level where the most important decisions about the relationship between state and market are taken (liberalization policies etc.)—policies that impact directly on people’s lives—then a political discourse on this state-market relationship and the subsequent policy needs to be organized within the EP. The fundamental question for the Convention will be to decide which body will become the European executive—the Commission or the Council—or, more precisely, which role should the Council should adopt if the Commission becomes a fully-fledged European executive.

The reform of the Council is another key element. The proposals are already on the table: extending qualified majority voting (QMV) (and co-decision of the EP in all policy areas where QMV applies); abandoning

the rotation principle; introducing a Council of European Ministers as a clearing entity for the EU Council; restricting the General Council to CFSP matters; and reducing the number of Council bodies.

The debate about Council reform has built up an enormous dynamic since the British-Spanish proposals of February 2002, in which Tony Blair suggested the election of a president of the European Council for a period of either two and a half or even five years, giving the EU a single voice at the highest level. The president of the Council would set the agenda for the annual working program of the EU, supervise the Commission, and prepare the strategic decisions of the EU. Under this proposal, a distinction would be preserved between the Minister Councils and the European Council, which could either continue with rotation or work on the basis of “team-presidencies” (three countries sharing the presidency for eighteen months). However, the members of the Convention as well as the governments of the majority of the member countries of the EU are divided over this plan, and the question of whether or not the EU should have a president of the European Council is still pending.

The issue of Council reform gained significant momentum with the January 16, 2003 Franco-German proposal on an elected president of the Council, and it is now likely that the Convention will move forward in this direction, although the Commission and EU member states remain significantly divided, as seen in the evolution of the discussion in later 2002 and early 2003. While Giscard d’Estaing pronounced himself in favor of this idea in his own constitutional draft presented at end of October 2002, the president of the Commission, Romano Prodi, who issued another constitutional draft on behalf of the Commission on December 4, 2002, argued strongly against this outcome. In the opinion of the Commission, the election of a permanent president of the European Council would shift the entire institutional system of the EU much too strongly in an intergovernmental direction. Prodi, not astonishingly, wants the Commission to be strengthened through the election of the Commission’s president by the European Parliament. The smaller EU member states as well as the newcomers are also vehemently against a permanent European president. They fear that the center of power within the EU would shift into a *Directoire* of the larger countries. Indeed, it is

not surprising that nearly all of the larger member states—the United Kingdom, Spain, France, and Italy—are in favor of such a proposal supporting a European president, with Germany being the only exception. The German position was split, however. Although Chancellor Gerhard Schröder openly flirted with this pro-Council proposal, Foreign Minister Joschka Fischer, the current representative of the German government in the Convention, seems to be more in favor of a strong Commission. Germany, which is likely to tip the balance on this question, might try in the decisive phase the Convention is now entering to pursue a strategy of damage control for the Commission, with the goal of strengthening the Council without weakening the Commission. In his most recent and important speech of November 28, 2002 Tony Blair argued for a new form of “partnership” between the Council and the Commission, which, to some extent, changed the tone of the British institutional approach.

Meanwhile, the discussion moved further ahead with the surprising proposal of France and Germany on the dual presidency of January 16, 2003. Decisive for this agreement was the speech on December 2, 2002 of French Foreign Minister Dominique de Villepin, in which he signaled France’s openness to the German proposals. Dominique de Villepin’s speech was historic in that, for the first time, a French high official was calling for more power for the Commission *and* the European Parliament. This was obviously the first attempt to overcome the Franco-German disagreement about which institution should become the European executive.

In their subsequent joint proposal France and Germany agreed to do both—to elect a president of the European Council who would represent the EU with a single voice at the highest level for a period of two and a half years *and* to elect a president of the Commission through the European Parliament. Under the Franco-German plan, which would eliminate rotations, the Council would probably be more efficient and the Commission would be legitimized by the EP elections. In the end, both pillars of the EU’s institutional system would be equally strengthened, and the system would shift neither in a more federal nor a more intergovernmental direction. It is likely that most of the other EU member states will follow the Franco-German proposal. Sweden, Spain, Italy, and Denmark, a smaller member state, have already signaled support.

However, the question is whether the Franco-German proposal is more “window-dressing” than anything else.

Furthermore, it remains to be seen whether the establishment of a dual presidency will really solve the EU’s institutional problems. The problem is that the British-Spanish proposal largely hijacked the debate on institutional reform, and it now appears to many as if an elected president of the European Council would solve the institutional problems of the EU altogether. Yet, an elected president could raise more problems than it would solve. The question is whether the Council would have a strong president, modeled after the French President in the Fifth Republic, or a rather weak president with only more or less representative tasks, like the German *Bundespräsident*.

The debate about an eventual President of the European Council has also triggered a complex debate on “double-headed” structures for the EU. While many German and some French voices favor a system with a strong and legitimate president of the Commission *and* a president of the European Council, British voices suggest merging the two positions. The Commission could adopt the British view on the dual-presidency system. The risk of this solution is that, with a strong person as president of the European Council, the Commission would turn into a kind of “secretariat” of the Council and lose its capacity to initiate legislation. In addition, no convincing proposals on how a dual presidency would function in the day-to-day business of the EU are on the table. At the very least, some “creative tension” between both persons would need to be overcome if the EU does not wish to find itself engaged in permanent internal turf battles. One solution could be that the president of the Council would focus on second pillar issues (CSFP/ ESDP), while the president of the Commission would assume ultimate responsibility in the first pillar structure (the single market and the euro). Still unresolved is the place and competence of the “foreign minister” that the EU is now planning to create. He/She will be in competition with the future president of the European Council, and much will now depend on the personalities and personal capacities of the individuals chosen for these three positions.

More importantly, the decision on a European president alone will not solve the real institutional questions of the EU, which have not been tackled since the Maastricht Treaty. Above all, the extension of QMV will be central in overcoming the intergovernmental structure of the EU and turning it into a “federation of nation-states,” in order to provide effective leadership for the

EU. In addition, the number of commissioners will also need to be reduced. Both of these essential questions were not addressed by the Franco-German initiative.

The future role of the Minister Council and its transparency when exercising its legislative function also has not been settled with the Franco-German proposal. Although a clear-cut bicameral system cannot be the blueprint for the EU, the relationship between the executive and legislative structures needs to be significantly changed. The EU definitely needs a system that clarifies the political responsibilities of various EU bodies to its citizens. Thus, Prodi's proposal requesting that the Commission be politically responsible to the European Parliament *and* the European Council is moving in the right direction. The European Council itself probably cannot be reduced to a "chamber of states"; however, the legislative role of the Council can be made more transparent in a new institutional structure.

The most realistic outcome of the Convention is that, following the Franco-German proposal, both pillars of the EU will be maintained and rendered more efficient, with the third pillar (Justice and Home Affairs) probably being merged into the first. Far too much energy and ink have been wasted on this theological battle between intergovernmentalists and advocates of the Community-method. No plan for reforming the institutions will be viable if it seeks to tilt the balance strongly in one direction or another. Instead, the very specific triangular equilibrium of the EU institutions needs to be polished and strengthened. The Franco-German proposal is designed to preserve this necessity. But, again, it does not solve all the institutional questions the enlarged EU will have.

The Convention and Progress in the Field of CFSP

The field of CFSP is probably one of the most difficult policy fields for the Convention. On the one hand, European expectations and ambitions in this field are very high. On the other hand, there is no indication for the moment that the Convention will overcome the current CFSP intergovernmental structure. The Convention's working group on CFSP/ESDP gave a very poor report in November 2002. Although the merger of the positions of the EU Commissioner for Foreign Policy (Christopher Patten) with the High Representative for ESDP (Javier Solana) appears to have been decided (and

is also part of the recent Franco-German initiative), no other innovative idea has emerged.

The boldest plea in the Convention for reforming CFSP has come from France and Germany, which in early December 2002 handed over to the Convention a far-reaching common document on ESDP. They propose to turn ESDP into a “European Security and Defense *Union*.” This is a highly symbolic notion and the idea of opening ESDP to the possibility of “enhanced cooperation” is certainly a good one. Such a step would—in opposition to the current stipulations of the Nice Treaty—enable some EU member states to proceed with limited military action within the EU framework, without a blocking capacity by the other members. If the Convention embraces the Franco-German proposals, it would indeed be a revolutionary step forward.

In addition, France and Germany have laid out far-reaching goals as regards their military training, common command structures, and common acquisition of military equipment, and the idea of creating a European defense procurement agency has again been evoked. But without a credible effort to improve military capabilities and raise defense spending, this common Franco-German proposal may remain pure rhetoric. Doubts also persist since France and Germany have not been able to work out most of the details of a European defense agency, including common military programs such as the Airbus A400M transport aircraft. Further, on the issue of Iraq, France has placed itself squarely among the global players and, apart from some soothing rhetoric, has let Berlin know that Germany exercises global influence and power on an entirely different, and lower, level. Any common Franco-German proposal on ESDP for the Convention would be immediately meaningless if France and Germany were to vote differently in the UN Security Council on the Iraq question. Differences among the EU member states with regard to the transatlantic relationship will, therefore, continue to have an impact on the development of ESDP.

Progress in the field of CFSP also is linked to the overall institutional outcome of the Convention, especially the question of a permanent president for the European Council. If this president were to represent the EU on the highest political level—being on the same level, for example, as U.S. President George W. Bush or Russian President Vladimir Putin—this

would immediately raise the question of the tasks for the “merged” EU Commissioner/High Representative position. Although the latter could take care of day-to-day business while the former exercised more representative functions, the problem of the “single European phone number” would remain unsolved.

In all likelihood, the institutional development of the EU will, through the Convention, shift further toward a clear double structure: intergovernmental rules for the second pillar (CFSP/ESDP); and federal rules for the first pillar containing the single market and the euro, with the current third pillar (Justice and Home Affairs) subsequently being merged into the first. The crucial point will be to intelligently link the two remaining pillars. Creative ideas to achieve this aim are already on the table: either the future commissioner for foreign policy will lead the EU Council on Foreign Affairs (“Relax,” the former General Affairs Council), which could then turn into a “super-council”; or, the high representative for CFSP/ESDP could, at the same time, be vice president of the EU Commission. However, no precise solution is evident at the moment, and one thing remains clear: if the future commissioner for foreign policy is just one person, he or she will only be able to sit in *one* office. And whether that would then be the office in the Commission building in Brussels or the building of the Council would make *the* decisive difference.

In the end, there is probably no other policy field in the EU in which the gap between ambition and reality is larger than in the field of CFSP/ESDP. The second pillar therefore will probably not see any momentum toward a more communitarian structure; countries such as France and Great Britain are unlikely to renounce their sovereignty in the field of foreign policy. Perhaps signaling the future direction of CFSP, the Convention working group on CFSP/ESDP has dropped all ambitious ideas about a common foreign service at the EU-level, common representations in third countries, etc.

STRUCTURAL PROBLEMS OF THE CONVENTION

It will not be easy for the Convention to reshape the vertical and horizontal distribution of power in the EU. At least three structural problems constitute a serious burden for the Convention's work.

- *No EU Constitution without a budgetary constitution.* Without securing the goals and the extent of EU policies (e.g. CAP, structural policies), it will be difficult to mend the institutional structure. The question of competences, in particular, is nothing less than the question of the budgetary constitution of the EU. No state will agree to a federal system with QMV in all policy domains without knowing whether its own budgetary interests will be taken into account. Despite these linkages, financial issues will be in the hands not of the Convention but in the hands of the (enlarged) EU Council, which will not reconsider the budgetary framework of Agenda 2000 until 2006. By mid-2003, however, the Convention will have already finished its work. The European constitutionalization process therefore might suffer from the fact that the reform and budgetary processes described above are disconnected. The October 24, 2002 agreement of the EU Council in Brussels—on the basis of a Franco-German proposal—to introduce a ceiling for CAP expenditures without serious steps for CAP reform shows quite well that the best institutional frame of the EU will not be sufficient if the budgetary framework for the enlarged EU is not fixed.
- *No Constitution without clear territorial borders.* The deepening and widening of the EU are closely linked. Agreement on common rules is difficult if one does not know the final territorial context in which the rules will apply. Working out clear rules for functional policies, whether it is in the field of Justice and Home Affairs, taxation, asylum policies, or the single market, is difficult when territorial and functional borders do not overlap. The EU is only beginning to enlarge eastwards. A second wave (Romania and Bulgaria) will surely follow around 2007. Turkey is already on the candidate list and will, after the most recent decision of the EU Council in Copenhagen of December 2002, probably begin negotiations on accession around

2005. Other countries such as Ukraine and Moldova have signaled an interest in EU membership, although their chances of joining the EU are slim in the near future. The EU is likely to intensify the development of its proximity policy toward the non-member states on its borders. There is, on the one hand, a need to keep all these borders permeable in order to enhance trade and political and economic stability in these regions; however, on the other hand, there is also a need to define the territory of the EU so that the constitutionalized policy rules of multi-level governance can apply. The open neighborhood approach might, therefore, be detrimental to the deepening of the EU.

- *The Convention does not have the final say over the Constitution.* The Convention is merely preparing a blueprint that will be submitted to the IGC in 2004. The decision about the constitutional document prepared by the Convention therefore must be capable of winning unanimous support in the EU Council. This creates the following dilemma: either the Convention's document is close to consensual, backed by a large majority of the delegates, or the document is coherent and far-reaching in the sense of serving a "functional federation." In the first instance—a broadly consensual document—the Council will have problems circumventing the Convention's proposals. However, in this case, the document will probably not meet the expectations of the in-depth reform that the EU needs to become a functional federation. In the second instance—a coherent and bold blueprint for functional federalism—some countries might refuse its adoption in the EU Council. In that case, the EU would once again face the problem of national minorities blocking a constitutional jump, as in the case of the Irish referendum on the Treaty of Nice. The nub is that no constitution in history has ever been adopted with unanimity. The only way to break up national resistance would be to adopt the European Constitution through a (federal) Europe-wide referendum, in which the votes would be counted on a cross-national basis. This solution, too, would first have to be decided unanimously by the EU Council, however. The logical consequence of a referendum would be that those countries in which the result is a negative majority would be able to leave the EU. To address this contingency, Valéry Giscard d'Estaing already has come up with the idea of an "exit-clause" for the EU.

Given the possibility of an “exit-clause,” old ideas of a “core-Europe” might see a renaissance in the following months, even though all conceptual blueprints for a core Europe fail to present convincing proposals on how such a solution would work in day-to-day business. Would the Commission be responsible for the core *and* the larger Union? Would there be a need for another Commission, which would mean the doubling of institutions? Which voting rights would European deputies in the EP have to distinguish them from countries that are not in the core-group? More basically, what sense would a core group smaller than the Euro zone make given the belief that political union should flank the euro, and, thus, should apply for all euro-members? In which policy fields within the first pillar would this solution make any sense?

THE IMPACT OF A CONSTITUTIONALIZED AND ENLARGED EU FOR THE UNITED STATES AND TRANSATLANTIC RELATIONS

Economic and Political Stabilization

EU enlargement has become a cornerstone of U.S.-European policy. First, the EU is perceived in the United States as an important base of solidarity. Second, with regard to the candidate countries and the other eastern neighbors, the EU is expected to work as a magnet and model for the transformation countries. The Balkans and Turkey, through the prospect of future membership in the EU, are especially likely to be subjected to a process of “Europeanization.” Third, all across eastern Europe, the EU is the largest provider of assistance and long-term aid programs. These aspects fit neatly into the U.S. aim of overall political and economic stabilization of the post-Cold War environment, extending from eastern Europe to the Caucasus and even the Middle East. Turkey, if it gains EU membership, would be the most prominent interface country in this new geo-political construction.

In addition, the economic and political stability of Russia depends, to a large extent, on the EU. With regard to trade and in the energy market, the EU is the most important partner for Russia. A European-Russian free-trade zone (economic space) is the only credible option in order for Russia to emerge from the economic doldrums. It is, therefore, essential that the EU and Russia significantly intensify cooperation beyond the association agreements of 1997.

The United States needs to rely on the EU to stabilize Russia and integrate it into the northern hemisphere.

The importance of the EU also applies in the field of security policy. Since the 9/11 terrorist attacks a new triangular relationship among the United States, the EU, and Russia within a NATO framework has emerged. From a pragmatic point of view, the United States expects that the EU is increasingly “the other power” on the continent. This may also mean that the partnership with the EU will become less comfortable for the United States, and cooperation and competition will coexist and intermingle, resulting in the emergence of a relationship that can be called “*transatlantic competition*.” In this new relationship, the United States and the EU are bound to remain “best friends” in the field of security policy (with Europe being a free rider), but fierce financial and monetary competitors in the economics field. With NATO ties weakening as NATO reshapes its global function, the economic dimension could become more prominent in the transatlantic relationship, and trade battles may frame the relationship as much as common security initiatives. It is also likely that the constitutionalization of the enlarged Europe will foster the EU’s external representation in international institutions like the IMF or the WTO.

Additionally, the arrival of the euro is, in the mid-term, a challenge for the United States, given the huge deficit in its external balance of payments. The spillover effects of the new dynamics in the field of currency policy are already tangible. In early 2003, with a war in the Persian Gulf appearing more and more likely, the euro was already establishing itself as a reserve currency against the dollar. In the future, the United States might have increasing difficulties lending money and decreasing its external account deficit. The euro, with a constituted Europe thus could change the whole geo-political structure in international affairs. The acute Iraq crisis has shown that even though the United States is still the only superpower and possesses sufficient military means on its own, it cannot act alone. The European position matters.

It is true that there is an enormous gap between the pronounced EU ambitions and the reality in terms of the EU’s international engagement and, more precisely, military capacities. In the inauguration speeches of the Convention in February 2002, no major EU politician neglected to demand

more international engagement on the part of the EU. Clearly, most favor a global power projection for the EU and want the EU to be an important actor when it comes to influencing and determining international regulations in the most important policy fields of the future: environmental policy, trade agreements, migration, and international crime. Only an enlarged and powerful EU that builds up a geo-strategic dimension can cope with this challenge. Turkish membership in the EU, a partnership with Russia, and an intensified proximity policy with the Mediterranean are basic conditions for a global power projection of the EU. Only then can the EU could become an important player in strategic areas such as the Middle East. The question is whether in 2010 we will be confronted by two superpowers—the United States and China—or three: the United States, China, *and* the EU.

The New European Security Architecture

The U.S. challenge to the EU to become more outward-looking and to develop global and strategic instincts is definitely linked to the enlargement issue. An enlarged EU will strengthen the political component in transatlantic relations, and it is already accumulating collective security capacities (Headline Goals 2003). The development of a distinct European pillar inside NATO with its own capacities for power projection will be a defining issue for future transatlantic relations. This could lead to a balancing of U.S. power and help build a more symmetrical relationship. However, as the EU broadens, the CFSP profile of the EU may become even more diffuse than today. The new entrants will probably want to strengthen the role of the United States as a European (balancing) power and also remain skeptical about EU security ambitions. However, the Nice Treaty has brought a revolutionary achievement in the institutional infrastructure of CFSP, and the idea of merging the positions currently occupied by Javier Solana and Christopher Patten is very likely to be realized by the Convention, bringing the EU close to having its own foreign minister. Furthermore, there is a large majority in the Convention that supports CFSP becoming an exclusive competence of the EU, which, in institutional terms, would mean overcoming the Maastricht pillar structure and integrating CFSP into the already federated structure of the euro and the single market and its policy mechanisms.

The options for future transatlantic relations cover a broad spectrum. The events of 9/11 have exacerbated tensions in the transatlantic relationship and

have created some confusion about the EU and the United States' partnership in world affairs. Given the lack of any grand designs—especially post-9/11—the most likely outcome for transatlantic relations is a continuation of the politics of fine-tuning and a gradual renewal of the security relationship. In this case, the importance of the EU as a foreign policy partner will increase for the United States, but in the foreseeable future the enlarged EU will focus on European and domestic problems and will thus remain a reluctant junior partner for U.S. global policy.

The Domestic Dimension of the Constitutionalization of the EU

Since the United States focuses most of its time on the European security dimension—e.g. as when pushing the EU to accept Turkey as a candidate—the United States tends to overlook the domestic and institutional dimension of the EU. This is not surprising, since the United States has no say in the process of constitutionalization and, thus, focuses exclusively on the geo-political and geo-strategic dimension of the EU. Yet domestic problems do matter, and in order to guarantee that the EU remains a strong and increasingly strategic partner, the United States has a strong interest in the enlargement process that is pursued carefully and patiently so as to ensure that the process is both successful and sustainable. For example, bringing Turkey into the current CAP system would cost EUR 20 billion. There is no way that Turkey could join the EU under the current conditions. The EU budget would be unable to withstand it. So the EU needs to bridge the gap between the domestic requisites and the geo-strategic necessities associated with enlargement and reform.

The majority of U.S. political analysts tend to believe that the EU has already reached a degree of integration that is sufficient (for U.S. purposes). This is not true, however. The current challenge of the EU is to secure the achievements of integration (the euro, the single market, etc.) through flanking policies on the political side (economic and social policies, tax harmonization). The status quo of the institutional system is no longer sufficient. The ongoing debate on the revision of the stability pact and the fulfillment of its requirements, which impacts national budgetary planning—the heart of government—are proof that the EU political system has a legitimacy gap, because European stipulations constrain national parliaments without giving them any national say. A political system on the EU level that allows legitimate,

competent, and transparent decision-making is badly needed, especially if one wants to stop anti-European movements, including rising right-wing populism, in the EU member states. The reason for this strong support of anti-Europeanism is that most citizens feel they have no influence on policies that deeply impact their lives.

These tendencies are of some concern to the United States, because the more Europe remains absorbed with its domestic concerns the less it will be an effective partner for the United States. Much is at stake for the United States in the outcome of the convention.

There will not be another opportunity anytime soon to secure the Constitution of an enlarged Europe. If the Convention does not produce a satisfactory result, enlargement will happen in 2004 without effective structures to govern the EU. This outcome, in turn, might create a downsizing spiral—the less the EU seems to be capable of dealing with important domestic and international issues, the greater the tendency of member states to consider national withdrawal. All this will not lead to war, but an enlarged and disorganized Europe that is unable to produce a grand design for the reform of its economic policies and social systems on the European level, nor to match its ambitions in security policy with appropriate means, will not only not be incapable of being a strong partner of the United States, but it will also burden it. A diluted, disorganized, and politically deadlocked EU would be a poor return on the U.S. investment of support for Europe in the last fifty years.

THE ROLE OF THE NEW MEMBERS IN AN ENLARGED EU

Kai Olaf Lang

There is no doubt that the European Union is currently undergoing unprecedented and fundamental changes. The incorporation of ten new members, mainly from central and eastern Europe by 2004, is one of the processes that will have a great impact on the capabilities, modes, and spheres of activity of the European Union. Today, the main challenge for the candidate countries is to do their “homework”—to prepare well, to negotiate efficiently, and to bring their ships as soon as possible into the safe haven in Brussels. With enlargement becoming increasingly “real,” more and more people—both in the “old” EU and in the candidate countries—are beginning to ponder the nature of an enlarged Union.

A particularly important question is what role the new members will play in the future EU. Will they be obstacles in the EU’s process of internal transformation and adaptation to a new global environment? Or will they be assets in the process of building a more efficient and coherent Europe? Will their presence in the EU strengthen cohesion, or will it produce more divergence? The purpose of this paper is to provide some answers to these questions.

To begin, I assess the possible positions of the future members concerning the structural dimension of the future EU. I then examine the probable behavior of the new members with regard to the EU’s position in a changing international environment, focusing first on the future neighborhood to the East of the enlarged EU’s borders, then turning to the newcomers’ stance on the EU’s role as a foreign and security policy actor in the world. In this context, special emphasis is put on the alleged “Atlanticism” of the candidate countries from central and eastern Europe. I conclude by considering whether the future members will apply the brakes or set the pace of reform in the enlarged EU.

The analysis is based on the attitudes and positions of the future members from central and eastern Europe (the Laeken group without Malta and Cyprus).

STRUCTURES: THE FUTURE SHAPE OF THE EU

What shape and what type of EU will the new members prefer? Will they favor a more tightly knit or even “federal” Union, or will they support looser forms of cooperation with an emphasis on intergovernmental decision-making? What are their proposals for the institutional scaffolding of the EU? What sort of *finalité politique* will they articulate?

First of all, it must be stated that the discussion about the future shape of the Union has not yet begun in the candidate countries. Although they have their representatives in the Convention, and national debates on this topic have been inaugurated in many of the candidate countries, it is accession and the conditions of accession that continue to dominate the discourse about the EU in all applicant countries. It is only the Czech Republic where—driven by the Euro-skepticism of Václav Klaus and his Democratic Civic Party (ODS)—the future direction of European integration has acquired some weight in the political debate. Generally speaking, however, the discussions about the future EU are rather meager. Moreover, in their declarations on the future character of European integration, politicians from most of the candidate countries have been quite cautious. As they are not yet in the club, their profile on *finalité* is low in order not to antagonize one or the other European capital that could represent different views.

Despite such low-key discussions, some tendencies in the behavior of the future candidates can be identified.

First, for the time being, none of the new members will be a net contributor to the EU budget. This means that for all of these countries the idea of “*solidarity*” (which is understood above all as financial solidarity on a relatively high level) will represent one of the fundamental principles they will try to preserve.

Second, in many candidate countries there is a fear of being granted a second-class membership due to the various transitional periods accorded the accession countries. Although these transitional periods will end, some observers from these countries fear there is a more serious threat of being structurally excluded and ending up with a long-term second-class membership, namely, through the dynamization of enhanced cooperation the possible emergence of an *avant garde* or a center of gravity, from which the candidate

countries would be excluded. For this reason, the candidate countries are likely to have an aversion against all projects that form a hard core Europe, especially if such projects are perceived as discriminating against weaker countries that might be ready to join, but are unable to do so. Moreover, there is a fear—especially on the part of the smaller countries—that enhanced cooperation could contribute to the emergence of an EU directorate.

Third, the political and public discussions in many candidate countries have revealed that there is some fear about the loss of national sovereignty because of EU membership. This argument is especially highlighted by Euro-skeptic and anti-European groups and politicians for whom “Brussels is a Second Moscow,” which will once again take away the sovereignty (re-)gained in 1989 or 1991. Anxiety about being deprived of national self-determination can be observed everywhere: in smaller countries and in those countries that gained independence after 1989 (the Baltics, Slovakia, and Slovenia), but also in countries like Poland, Hungary or the Czech Republic, where some factions on the political right have taken a reluctant stance towards integration.

Does this imply that the new EU-members will be against a further extension of supranationalist elements in the EU’s decision-making framework? Not necessarily. There is a growing awareness that accession also will give the candidate countries additional “power” by providing the possibility of exerting influence in and via the EU. Moreover, in many of the major political groups (e.g. among social democrats and liberals) there are genuine supranationalists or at least advocates of advancing European integration. Looking at the contributions to the *finalité* debate by leading political representatives from the candidate countries, in many cases we can even observe clear support for an enhancement of supranationality. Finally, as one Czech observer emphasized, “a viable solidarity mechanism presupposes a strengthening of supranational elements.”

Fourth, with regard to the structural dimension of the decision-making process, two factors will be relevant. On the one hand, there is recognition that the institutional design of the EU will prove decisive to realize the candidate countries’ above-mentioned interests. At the moment, the considerations on this issue seem completely open, since in small states as well as in a country like Poland there are supporters of both reform directions

(supranational versus intergovernmental). On the other hand, much will depend on the relative weight and the programmatic profiling of ideological “supranationalists” and “intergovernmentalists” on the domestic political landscape in the countries concerned. In some countries, relatively broad distances between both options could emerge (as in the Czech Republic). This would make it difficult for those countries to develop a uniform national consensus on the direction of European integration. The picture here is still vague, however. Further development of this question notwithstanding, what we know already is that enlargement will imply the accession of many small countries. Due to the current allocation of voting rights, these countries will have disproportionate voting power that could make it more difficult to reach settlements or majorities in an enlarged EU. In any case, the caucus of the smaller states will be strengthened and the great majority of the new members will be interested in maintaining a “privileged” position.

All in all, solidarity, fear about being relegated to the fringes of integration, openness to a more supranational Europe, and a relatively conservative approach to redefining the relationship between smaller and bigger countries could constitute primary principles and features of the behavior of the new EU members.

THE IMMEDIATE ENVIRONMENT: THE ENLARGED EU AND ITS NEW NEIGHBORHOOD

The entry of the central and eastern European candidate countries into the EU will move the borders of the EU further eastward. The EU will have direct contact with Russia and other members of the Commonwealth of Independent States not only in the far north, but also alongside Europe’s new eastern flank. After joining the EU, the new member states of the region will be in an ambiguous geopolitical and geo-economic position. On the one hand, they will have overcome their status as “in-between Europe” and become part of the central political-economic integration framework of the continent. In this sense, the central and eastern European countries will form the “East of the West.” On the other hand, the new members are not interested in losing their status as the “West of the East,” that is, becoming a periphery isolated from the region beyond the EU frontiers. Their objective is to become an active interface between western Europe and the East.

Reaching this goal requires the fulfillment of a least three preconditions:

1. The candidate countries sharing direct borders with the “East” will stress the need for stability and reforms in their eastern neighborhood. This is a common interest with the partners of the old EU.
2. There must be support for the future EU “eastern left-outs” in the form of cooperation along and across the EU future external borders. Creating stable but permeable borders necessitates an efficient and flexible border regime in line with EU standards. It is unlikely that there will be any fundamental divergences between the new and old members on this issue. The candidate countries have signaled that they are ready to implement all requirements soon after accession and that they would not take a “softer” stance in Justice and Home Affairs matters than most of the other EU capitals. There is growing readiness among the present member states to share the burden of protecting the external borders with the new members.
3. The new member states must be able to play an important role in the process of forming the *Ostpolitik* of the EU. This means that they have to express their ideas, develop concepts, and harmonize them with the goals and expectations of their EU partners.

Although there is broad consensus regarding the main principles and directions of the EU’s relations with the East, friction between the old and new EU members cannot be ruled out. Differences could emerge about the scope of support, especially regarding financial assistance. The future member countries will have to use “European” money to realize their ideas and projects with their eastern neighbors. The East is not the EU’s only neighborhood, however, and influential members from other parts of the continent will be reluctant to back aid for the eastern countries. The Mediterranean and North Africa are likely to receive additional attention, which could work to the detriment of the East.

Other discrepancies could arise from different strategic approaches towards the eastern neighbors. While Poland (a country that will be the cornerstone of any EU Eastern policy) emphasizes the importance of Ukraine for the West and remains cautious about developments in Russia, a “Russia first” attitude seems to prevail in many western capitals.

Moreover, Warsaw will continue to offer Kiev a long-term perspective for EU membership or some other form of close association with the EU.

In general, enlargement can be expected to increase the pressure at least to discuss the eastern dimension of the EU. It is not yet clear what institutional face the candidate countries are going to prefer. In any case, they will accentuate the differences and peculiarities of their individual neighbors. More attention will be paid to Ukraine—to Kiev’s relations with the EU and with Moscow, and to the country’s economic and political orientation.

In short, the role the candidate countries want to play is that of an *advocate* for their neighbors, a realistic *mediator* with special expertise on Russia, an *exporter* of prosperity and democracy, and a *bridge* between East and West. The latter may be the most important role. The development and realization of cooperative East-West projects can be seen as very promising though also slightly controversial steps in this direction. Projects have been agreed in the fields of cross-border and interregional cooperation (the Polish government recently has presented a “Package for Kaliningrad”); energy transit (after de facto backing the possibility of constructing a gas pipeline bypassing Ukraine, Warsaw has repeatedly expressed support for an oil-pipeline project linking Odessa, Brody, and Gdansk); or transport and infrastructure (there will be a joint Polish-Czech project in Silesia in the cities of Slawkow and Bohumin where huge railway terminals are to transfer cargo from the Russian wide-gauge rail system onto western systems, resulting in a direct railway link between the Pacific and western Europe).

THE EU AND THE UNITED STATES

A third area where the new members could bring a breath of fresh air is Europe’s relationship with the United States. At the very least, eastward enlargement raises critical questions regarding the future of U.S.-EU relations. What will be the repercussions of the Union’s enlargement for transatlantic relations? Will the accession of countries from central and eastern and southeastern Europe give a fresh transatlantic impetus to the larger EU? In other words, will enlargement bolster the “Atlanticist” caucus in Europe?

America's Trojan Horses?

It is true that there are clear pro-American tendencies in many candidate countries—both at the level of the political elites and at the societal level. There are many reasons for this sentiment among others:

- The existence of large groups of American citizens with personal roots in eastern Europe has brought about strong ties between the United States, these communities, and their former homeland.
- The United States has symbolized for many people in eastern Europe the realities, principles, and values for which they have been striving over many decades. Among other things, the United States embodies freedom, democracy, and wealth.
- In some countries the United States has a historical bonus. Whereas the behavior of western European powers during the Sudeten Crisis or the French “Mourir pour Gdansk” has caused long-lasting bitterness, the United States has not prompted similar disappointment, at least in the public’s perception. On the contrary, America has been perceived as the standard-bearer of the free world and as the triumphant victor of the Cold War.

Thus, in many countries of central and southeastern Europe, a positive attitude towards the United States has emerged. One of the implications of this pro-American view was the push for NATO membership, i.e., the wish to participate in the American security guarantee for Europe.

In the United States as well as in Europe, the idea of the eastern European countries acting as Washington’s model pupils or even as the “trojan horses” of the United States has emerged. Of course, this image is not just mere fantasy. Some candidate countries have voiced reluctance to follow the European lead, especially given Europe’s rising profile in security matters. For example, during the EU’s Helsinki summit in December 1999, Poland raised doubts about the usefulness of the newly emerging European Security and Defense Policy, expressing concern that ESDP might drive a wedge between the United States and Europe.

Additional sympathy for the United States has come from the feeling that—in the eyes of many eastern Europeans—Europe’s posture towards Moscow

is too soft, while Washington, during the last decade, has taken a tougher stance and has displayed better understanding of the importance of the other post-Soviet states (especially Ukraine) for the West.

Clear signals in favor of Washington were also sent in the discussion about U.S. missile defense plans. Some Polish politicians, and even Poland's chief of staff, announced that their country was ready to actively take part in the implementation of a European component of a U.S. missile defense system. Similar voices could be heard in the Czech Republic.

Clear signs of a different attitude toward the United States were also sent in advance of the U.S.-led military operation against Iraq. In early 2003, all of the accession countries declared far-reaching support for U.S. policy. Poland announced its intention to stand by the United States even without a second UN Security Council resolution approving a military operation against Iraq. The famous letter of the European "Eight" was signed by prime ministers from Poland and Hungary and the Czech president and backed by Slovakia, Slovenia, and Latvia. In a special declaration, the countries of the so-called Vilnius group (ten NATO applicant countries including the Baltic states, Slovakia, Slovenia, Romania, and Bulgaria) expressed their endorsement of Washington's policies. Poland, the Czech Republic, and Slovakia have sent troops to the Gulf region. Most CEE countries have given overflight rights to U.S. aircraft on their way to the crisis region.

Limiting Factors

The assumption of an unlimited pro-Americanism in the candidate countries is untenable. Despite the generally pro-American sentiment of these candidate countries, EU enlargement does not imply the incorporation of a group of unquestioning Atlanticists. An enlarged EU is, therefore, unlikely to be substantially more pro-Atlanticist than the old EU. The reorientation of the EU will be limited by several factors:

- The applicant countries are a diverse group. They vary in their socio-economic, domestic, cultural, and historic conditions, but also with regard to their orientation in foreign affairs. Although there are countries with a clear societal and political leaning towards the United States (Poland and the Baltic countries), there are in many places historical,

cultural or emotional references to European partners like France or Germany. Moreover, there are also substantial parts of society and political life in many of the candidate countries that are openly opposed to the United States and its policies.

- The debates surrounding a possible U.S.-led military operation against Iraq have shown that—just as in the pro-U.S. western European countries—there is a huge gap between government support for American policy and a reluctant public. In some accession countries, important political forces have criticized official statements backing the U.S. stance toward Iraq.¹
- Although there is consensus in most of the candidate countries on the basic direction of foreign policy, there are still questions about the details and implications of these fundamental objectives. Thus, there is still ample space for maneuver to balance the European and the Atlanticist options in the foreign policy of these countries.
- There will be a rising awareness of the fact that the best possibility to shape Europe's relations with the United States is by getting actively involved in Europe. This awareness already exists and can be observed in relation to various questions. One example is Poland's rising support for the ESDP, which has resulted in a clear endorsement of Europe's defense dimension by Polish politicians and the generous pledging of troops and equipment for future European missions.
- In the future, the foreign policy establishment and the security communities in the new member countries will see that their interests are "located" mainly in Europe, which means that these interests will have to be realized mainly in Europe and together with their European partners.

Pro-American attitudes will continue to prevail in the short run, however. The candidate countries are interested in building and maintaining a close relationship with the United States, ensuring that the U.S. remains committed to Europe, and maintaining an effective NATO that will not lose its attraction for Washington. To a great extent, this posture results from a threat perception rooted in memories of the Cold War and a

possible “Russian threat.” This perception is changing, but (especially in the case of Poland and the Baltic countries) the possibilities of “instability crises” or “traffic accidents” in the East (including possible provocation on the part of the authoritarian Lukashenko regime in Belarus) is very much alive.

In short, “saving NATO” as a U.S.-led defense alliance is one of the top foreign and security policy priorities in many of the candidate countries. The principle of “saving NATO” means maintaining the basic elements of “old NATO,” particularly a high level of solidarity in security and functioning mutual security guarantees. That is why the CEE countries have shown support for the U.S. war on terrorism and its policy on Iraq—they wanted to send a signal that security is not a one-way street. Suspecting that a larger NATO will be more heterogeneous and more susceptible to political blockades (directed against U.S. initiatives), some observers from central Europe have supported the idea of reforming NATO’s decision-making process by abandoning consensus voting in the Council.

Consequently, the CEE countries will follow U.S. plans for creating a new NATO. Interested in “keeping America in,” they will likely endorse U.S. initiatives aiming at transforming the alliance. For example, the project of forming a NATO Response Force (NRF) is viewed very positively in the candidate countries. They see the NRF as one of the last chances to give the United States the possibility of turning to relevant military instruments in the framework of NATO. Moreover, for most of the accession countries, the NRF is viewed as competition for Europe’s “Helsinki army” (the fact that NATO and EU officially intend to build two completely compatible structures notwithstanding).

For the near future, these elements will assure a relatively pro-American mainstream attitude among the new EU member states. The European discussions on Washington’s approach on the issue of Iraq have revealed that, if given a choice between an American and a “Gaullist” position, most of the accession countries will support the United States. At the moment, this suggests that after accession, the group of countries in the EU with clear sympathies for the United States will be strengthened. It could thus become more difficult for countries like France and Germany to give the EU’s Common Foreign and Security Policy a more “European” profile. Central European politicians and security experts have indicated that the Visegrád group (possibly reinforced by the Baltic countries) could become a regional counterweight to tendencies aimed at Europe’s “emancipation” from the United States.

This picture could change in the long run, however. After some time, there will be a tendency towards pragmatism and towards a moderate “Europeanization” of the Atlanticist ideas in the candidate countries. Presumably, the developments following September 11 and the growing necessity for a reassessment and redefinition of the Euro-Atlantic relationship will reinforce this tendency towards a “moderate Atlanticism.” The new “honeymoon” between the United States and Russia has caused astonishment and even unease in some applicant countries. According to some observers, there is a risk that Washington might go over the heads of the Europeans in order to reach agreement with Moscow. These same observers believe that U.S. policy toward Russia is not in line with their expectations in a number of issue areas. One example is Washington’s alleged neglect of Russian policy toward Chechnya. If the U.S.-Russian rapprochement goes too far, and if NATO simultaneously allows Russia closer involvement in NATO affairs (including involvement in core sectors of the decision-making process)—turning NATO into a “second OSCE,”—the CEE countries could perhaps see the EU as an alternative to NATO. Of course, this would require the emergence of a firm European security guarantee, including mutual military assistance. At the same time, the EU would have to keep some distance from Russia by not integrating it too deeply into CFSP. But these are areas on which the future members will have some influence, and all this will push mainstream opinion on foreign policy in most of the applicant countries into giving the European option in their hierarchy of goals at least the status of the American option. In the end, hesitation about ESDP will give way to an increasing endorsement of Europe becoming a powerful and efficient, but not autonomous and independent political actor with global reach. What might emerge could be what Jan Maria Rokita, a Polish parliamentarian, has defined as the role of his country: Poland and the other new members playing the role of the “most pro-American member of the European Union and the most pro-European ally of the United States.”

**THE NEW MEMBERS:
APPLYING THE BRAKES OR SETTING THE PACE?**

The place and role the future members could play in an enlarged EU depends on several factors. On the one hand, the influence of the new members should not be overestimated. In many respects they will have a low political profile, their real power will be limited, and their structural heterogeneity (small vs. large countries, poor vs. very poor) will restrict their capability to act as a collective unit. The emergence of various ad hoc coalitions consisting of old and new members will further hamper the rise of cleavages between the old and new members.

Though the influence of the future members, the overall impression is that the new members will be limited, the new members will favor a moderate Atlanticism, ensure additional attention to their eastern neighbors and to the need for stabilizing Europe's backyard, and emphasize the need for mutual solidarity. They will also be rather reluctant to accept institutional solutions facilitating the emergence of an inner circle of integration.

What will be the implications of these perspectives and attitudes for the EU's future cohesion, its capability to act, and its ability to realize reforms? Will the presence of new members be conducive to finding solutions, or will it complicate the whole process of EU decision-making?

Presumably, in all questions related to financial issues there will be heavy resistance on the part of the new members to find solutions that would substantially reduce monetary transfers from "West to East." Although the emphasis will be put on different areas by different countries (e.g., agriculture is more important for Poland than for the Czech Republic), reforming and streamlining the EU financial framework will be an even more intricate endeavor than it has been so far.

A second factor that could impede the building of a more coherent Europe is something that could be called the "nationalist threat." One of the basic deficiencies on the political maps of many of the new members is the lack of center-right political parties with a strong pro-European orientation. Under certain circumstances these groups (or other populist parties) could be tempted to play the "European card" and obstruct attempts to create a strong and efficient EU.

Third, enlargement means that a number of countries with substantial ethnic minorities (inside and outside their territory, inside and outside the future borders of the Union) will enter the EU.² Some of these countries (e.g. Hungary) may try to put the minority issue on the EU agenda, while others (Hungary's neighbors and the Baltic countries) will be opposed. It is not yet clear how this question will be addressed, but it is likely that minority issues and conflicts will have a higher degree of importance in Europe than they do now. For example, a Hungarian representative to the EU Convention has proposed the establishment of an EU council for ethnic and national minorities. The incorporation of countries from central and southeastern Europe, however, does not equal the importation of new ethnic conflicts. In many respects, membership will mitigate potential friction, since borders (with the future EU-neighbors) will not be dividing lines but zones of regional cooperation. After accession, however, the EU's leverage on the future members will be limited because "[m]inority rights have become an important item on the EU's external policy agenda in its relations with the new democracies of central and eastern Europe, but have not hitherto featured in internal policy" (Giuliano Amato and July Blatt).

In contrast to these matters, the new members could play an active role in advancing cooperation in the field of European security. External and internal security are spheres in which most new members are willing and able to contribute. Playing an active role in intensifying cooperation in second and third pillar issues gives the future members the possibility to participate as driving forces of European integration in important projects. The new members could apply the brakes in financial affairs and set the pace in bringing forward Europe's security dimensions.

ENDNOTES

¹ The prime minister of the Czech Republic, for example, refused to sign the letter of the "Eight," and the foreign ministry emphasized that the president's signature was solely an expression of his private opinion. In Slovakia the leader of the Christian Democrats (who are part of the ruling coalition) blamed their prime minister for not having coordinated his steps with his partners. In Slovakia and Hungary most opposition forces were critical.

² Just to mention the most important cases: there are about 4-5 million Roma in central and southeastern Europe; approximately 2.5-3 million ethnic Hungarians in the states bordering Hungary; and about 1.5 million Russians in the Baltic states. Regarding the possible effects of EU enlargement, their individual situations could differ considerably. The Roma (the only major ethnic group in the region without a kin-state) could benefit from EU aid schemes, anti-discrimination guidelines, and increased

attention. Hungarian minorities (with their kin-state becoming a member of the EU) will live inside (Slovakia and Slovenia) and outside the EU (Romania, a candidate for the 2007 round of enlargement, and Ukraine). Members of Polish and Hungarian minorities in Belarus or Ukraine could have problems visiting their kin-state due to visa requirements imposed on non-EU states. “Euro-Russians” in the Baltics will continue their campaign for more minority protection and simplified naturalization procedures (Latvian and Estonian ethnic Russians are not granted citizenship automatically). Their kin-state Russia will likely try to exert pressure on the EU on the issue of minorities.

**EUROPEAN UNION ENLARGEMENT:
ECONOMIC AND FINANCIAL IMPLICATIONS
FOR THE UNITED STATES¹**

Keith Crane

The purpose of this paper is to discuss the implications for the United States of changes in tariffs and other barriers to trade, the resulting potential future shifts in trade, and changes in international financial flows likely to be precipitated by the enlargement of the European Union (EU). Enlargement, now scheduled to take place in May 2004, will involve the addition of ten more states to the EU: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. This chapter highlights potential benefits and future areas of contention for the United States stemming from the enlargement process; however, it does not provide quantitative assessments of the costs and benefits of enlargement to the United States.

ENLARGEMENT AND U.S. TRADE

By and large, enlargement will benefit U.S. exporters because tariffs against U.S. products in a number of accession countries will fall sharply after they join the EU. After enlargement, average tariff rates in all the applicant countries will immediately drop to EU levels, an average rate of 4 percent, which will be, on balance, less than the average tariffs currently imposed on U.S. products by the applicant countries. For example, Hungary, the United States' third most important export market among the ten, currently imposes average tariff rates of 13 percent on goods imported from countries like the United States that have most-favored nation status, but are not party to preferential trade agreements with Hungary. Poland, the United States' largest trading partner in the region, also imposes relatively high tariffs. In some instances, however, average tariffs will remain the same or even rise. The Czech Ministry of Industry and Trade claims that average tariffs on manufactured products are lower in the Czech Republic than in the EU. Estonia eliminated tariffs for a period after independence, but under pressure from the European Commission, imposed tariffs similar to those levied by the EU. Thus,

the adoption of EU tariffs by these two countries will provide no benefit to U.S. exporters.

The reduction in tariff rates in the other accession countries will make it possible for U.S. products to be sold more cheaply on accession country markets. It will also make U.S. products more competitive vis-à-vis competing products from countries benefiting from free trade and other favorable trade agreements with these countries. Under the various pre-accession agreements, such as the Europe Agreements with the central and eastern European states that had been signed by the EU and the applicant countries, manufactured products from the EU currently enter all the applicant countries duty-free. The accession countries also provide duty-free access to their markets to a number of non-EU states under a variety of other free trade agreements. For example, the central and eastern European states have signed the Central European Free Trade Agreement (CEFTA), which provides for duty-free trade among the member states in the same products included under the Europe Agreements.² The Baltic states have created a Baltic free trade area. Bulgaria has signed free trade agreements with Macedonia and Turkey. A number of applicant countries have signed free trade agreements with Israel.

Differential tariff treatment stemming from these free trade agreements has put U.S. exporters at a competitive disadvantage. For example, until granted a temporary exclusion, John Deere, the U.S. farm equipment manufacturer, faced being locked out of the Polish market because of very high Polish tariffs on tractors and farm equipment, tariffs that EU and central European competitors did not have to pay. Unfortunately, this exclusion was temporary and had to be renegotiated. Differential tariff rates on automobiles, especially on vehicles with higher capacity engines characteristic of U.S.-manufactured vehicles such as sports utility vehicles and minivans, have effectively precluded significant sales of these vehicles in most central European markets.

In the case of the central and eastern European accession countries, the advantage accruing to U.S. competitors from countries with preferential market access has increased over the last ten years. Initially, the EU provided the central and eastern European states with asymmetric tariff reductions: tariffs on most products exported from central and eastern Europe to the EU were eliminated immediately upon signing the

agreements, while tariffs on a number of products imported by the central and eastern Europeans from the EU were reduced only gradually over the course of the past decade. For example, at the beginning of the 1990s, Poland's tariffs on trucks and cars ran 30 percent. These tariffs were levied on all imported cars and trucks, including those from the EU. They were gradually reduced for EU and central European manufacturers until they were finally eliminated in 2002. As tariffs imposed by accession countries on imports from EU and CEFTA countries fell, the disadvantage to U.S. exporters from the differential tariffs widened. For example, while U.S. truck exporters continued to face 30 percent tariffs in Poland, their EU competitors enjoyed tariff reductions year after year. The disadvantages faced by U.S. exporters will fall, once central and eastern European tariffs against U.S. goods drop to EU levels after enlargement.

After enlargement, U.S. exporters to the accession countries will benefit from forthcoming tariff reductions agreed upon by the EU in the Uruguay Round. Although in percentage terms, the negotiated reductions in EU tariffs are generally less than those negotiated with the applicant countries, actual average future tariff rates facing U.S. exports to the accession countries will be substantially lower than they would be, if enlargement were not to happen.

Accession will also reduce non-tariff barriers. Although all the accession countries accept EU standards, and goods manufactured in the EU and certified by EU agencies are accepted in the applicant countries without re-certification, U.S. exporters sometimes must re-certify goods in the accession countries that have already been certified in the EU or contend with local standards that differ from EU standards. Adapting products to meet local standards in small markets such as those of the accession countries is often prohibitively expensive for U.S. exporters because potential export volumes to these markets are generally quite small. Consequently, the requirement to re-certify a product may effectively bar sales of that product in an accession country. This problem will disappear after enlargement.

Enlargement should also serve to improve market access for U.S. exports of pharmaceuticals. Enforcement of intellectual property rights, including patents on pharmaceuticals, has not been as strict in some of the accession countries as in the EU. The health authorities in some

accession countries have favored domestically produced pharmaceuticals over imports, including U.S. imports. Enforcement of competition policy in this area is likely to be more rigorous after these countries join the EU.

Lower tariffs and lower non-tariffs barriers to trade will serve to reduce the overall cost of doing business in the accession countries. U.S. companies will find it easier to consolidate their sales organizations. In some instances, they will be able to liquidate subsidiaries set up to serve individual country markets, thereby simplifying their corporate structures. U.S. businesses will also no longer have to engage staff in resolving individual country tariff and certification issues.

The downside to these changes will probably be a lower profile in central and eastern Europe for U.S. businesses. The gravitation of trade and investment issues to Brussels is likely to lead to the closure of representative offices; U.S. business associations located in these countries may also close due to falling membership. EU membership will also reduce or eliminate incentives for U.S. companies to invest in manufacturing operations targeted at the domestic markets of the applicant countries. Central and eastern Europe will become part of European or global supply chains. Consequently, some marginal operations, for example, the production of household products in smaller or older plants, are likely to be closed and consolidated into plants servicing an entire region, not just a single country. On the other hand, investment designed to take advantage of the lower labor costs and other competitive advantages of the central and eastern European applicants compared to current EU members is likely to rise.

Enlargement will introduce some additional irritants into U.S.-EU trade and economic relations. Historically, the United States has asked for compensation in the form of lower EU tariffs or enlarged quotas for U.S. exports after new entrants have been accepted into the EU, when prior to membership the new entrants had provided better market access for U.S. products than the EU itself. For example, when Portugal and Spain joined the EU, the EU enlarged its import quotas for corn and soybeans because Spain had provided better access to U.S. exports of these products than the EU. Although U.S. exporters generally face higher tariffs in the largest accession country markets than to the EU, some U.S. agricultural exports enjoy better access to some accession country markets

than they do to the EU. Although the U.S. government in March 2003 had not yet formulated a detailed list of demands for compensation stemming from enlargement, it is clear that it will request some form of compensation, probably in the area of U.S. agricultural exports. The EU, in turn, is likely to argue that the reduction in average tariff rates to accession country markets should be adequate compensation and that no additional measures are needed.

In addition to issues of compensation, enlargement is likely to exacerbate trade frictions in steel and agricultural products, the last a major issue in the Doha trade round. Over the last three decades, the steel industries in the current EU member states have undergone a long period of contraction, consolidation and privatization. During this period, steel capacity has been sharply reduced and employment cut, and the major producers have moved up market into higher value-added products. Although the U.S. steel industry faces competition on all fronts, the EU has become a less important supplier in the lower value-added segments of slabs, bars, etc.

After enlargement, the EU will be saddled with substantial additions to its steel-making capacity, much of which is uneconomic. The Czech Republic, Poland, Slovakia, and to a lesser extent Hungary all have relatively large steel industries in relation to their economies. The Czech Republic and Poland, in particular, still have several million tons of steel-making capacity. Although both countries have been attempting to downsize their industries so as to reduce losses, their industries continue to produce large amounts of lower quality steel and will add substantial capacity to the EU industry in this segment. Hungary and Slovakia also will add capacity to the EU industry but do not pose as difficult problems for U.S.-EU trade. Slovakia has a more modern steel complex, in which a U.S. producer, U.S. Steel, has acquired a controlling stake. Hungary has permitted two out of its three steel complexes to go bankrupt, leaving just one significant producer. The additional capacity for the production of lower cost steel in the central European countries could potentially lead to more EU exports of lower quality steels to the U.S. market. The central European producers will also likely pressure the EU to keep out steel imports from producers in developing countries, Russia, and Ukraine, potentially diverting some of this steel to U.S. markets.

In the long term, agriculture will be the most contentious issue between the EU and the United States following enlargement. Farmers in the accession countries will not receive massive subsidies to increase production immediately after enlargement. In fact, the initial EU offer on agriculture was greeted coldly by the applicant countries and was the last issue to be concluded in the enlargement negotiations. Since payments must fit into the current overall EU budget plans that extend through 2006, payments to the accession countries under the Common Agricultural Policy (CAP) have to be limited. To keep within the budget, the EU offered just 25 percent of payments to applicant country farmers that they would be entitled to if they were to be treated in the same manner as farmers in the current member states. Under this proposal, payments were not to rise to 100 percent of EU levels until 2014. Accession country farmers argued that they would have been put at an unfair competitive advantage vis-à-vis farmers in current EU member states during this period as western European farmers will receive much higher subsidies while receiving unrestricted access to accession country markets. Ultimately, the EU agreed to permit accession country governments to “top up” payments using their own or other EU support funds. Under the final agreement, accession country farmers may receive 55 percent of EU levels in 2004, rising to 100 percent towards the end of the decade.

Although the EU has shifted away from production and export subsidies and towards income supports over the past decade, export subsidies continue to play an important, if reduced, role in the sale of surplus EU products abroad. Export subsidies have been a very contentious issue in U.S.-EU trade relations. At the Doha meetings that launched a new round of world trade negotiations, the EU made a commitment to negotiate the end of or at least additional reductions in export subsidies.

Despite less favorable treatment in terms of subsidies, the extension of CAP to the accession countries will exacerbate problems of overproduction, making the elimination of export subsidies less attractive to EU policymakers. Even the limited package of subsidies currently offered by the EU to the accession countries will boost farm incomes and provide incentives for more people to stay on the farm and for higher agricultural output. Declines in output of some agricultural products

during the transition have hidden some of the incipient problems. In Hungary, meat output fell from 2.4 million metric tons (mmt) in 1984 to 1.4 mmt in 1997. At one time, Hungary produced more meat than Denmark and almost as much as Holland. In Poland, beef production has halved over the course of the transition. Given the “right” subsidy structure, all of the central and eastern European accession countries could easily increase production of beef, pork, and grain. As a number of these agricultural products are also important U.S. agricultural products and exports, the additional supply stresses generated by enlargement are going to make agricultural trade negotiations very contentious, especially after the passage of the new farm bill in the United States, which included large increases in subsidies for U.S. farmers with all the attendant implications for U.S. production.

U.S. agricultural exporters are already beginning to complain about these potential problems. Former Senate Majority Leader Trent Lott and former Senate Finance Committee Chairman Max Baucus in 2002 asked the Bush administration to ensure that enlargement does not damage U.S. agricultural interests. Senators have suggested that the administration increase tariffs or expand tariff coverage on EU goods in retaliation for the loss of markets stemming from the EU’s embargo on U.S. exports of beef raised with growth hormones. Once the applicant countries join the EU, the United States will lose these markets as well. U.S. agriculture trade groups have also complained to the U.S. Trade Representative about the impending loss of central European markets for U.S. fruits and vegetables, the extension of de facto EU bans on genetically modified products to the accession countries, and increased production of sensitive key agricultural products that compete with U.S. products. U.S. chicken and turkey exports to central Europe are also likely to be lost upon accession because of disputes with the EU.³

Enlargement is likely to introduce some irritants into U.S. commercial relations with the accession countries. All of the applicant countries have qualified for participation in the General System of Preferences (GSP) for at least some products. Accession countries are almost certain to lose GSP status upon entry; current EU member states do not qualify for this program. The sudden loss of these facilities will result in some reductions

in accession country exports to the United States and probably some hard feelings on the part of accession country exporters.

The accession countries will also become involved in EU-U.S. trade disputes. WTO dispute mechanisms permit the aggrieved party to impose temporary discretionary tariffs on imports from the offending party. In the case of disputes between the United States and the EU, the United States imposes temporary duties on all imports from the EU, and the EU imposes tariffs on U.S. exports that importers in all EU member countries have to pay. These stipulations virtually ensure that the accession countries will be dragged into EU-U.S. trade disputes no matter what the wishes of their governments.

Enlargement will also have repercussions for U.S. businesses that have benefited from financial incentives for foreign investment and free trade zones in the accession countries. The European Commission has informed applicant countries that they will have to phase out programs that provide preferential treatment for foreign investment; many of these programs have been used by U.S. corporations. Hungary and Slovakia will both have to change legislation. Incentives provided by the Slovak government to U.S. Steel connected with its acquisition of a stake in the East Slovakian Steelworks may be at risk. Hungary will have to reduce the number of free trade zones in the country from 95. In most cases, investors, including U.S. corporations, are likely to ask for some sort of compensation. The negotiation of appropriate transition measures may be quite contentious. The process of resolving these issues will not be helped by the abrogation of the bilateral investment treaties that the United States negotiated and signed with each of the accession countries. U.S. businesses have found these treaties very useful for dispute settlement and as a legal assurance for their investments. The European Commission insisted that the applicant countries abrogate these treaties by the end of 2002.

ENLARGEMENT AND THE EURO

The accession countries will become members in Economic and Monetary Union (EMU) at the time of accession. Currently, all appear to be planning on immediately entering the EU's exchange rate mechanism

(ERM) upon entry, although none will be permitted to immediately adopt the euro. Eventually they will all have to join ERM and adopt the euro; none of the applicants has been given an opt-out clause along the lines of Great Britain's. However, the date of adoption will be decided after enlargement. The earliest date for adoption is two years after entering ERM, i.e., two years after the date of accession.

Before adopting the euro, the Commission has stated that the "...candidate countries will have to conform to the convergence criteria for participation in the euro." These criteria, known as the Maastricht criteria, had to be satisfied by the initial members in EMU. They include the following:

1. Gross public debt may not exceed 60 percent of GDP (although progress in reducing debt towards this level has been considered adequate to satisfy this condition);
2. Inflation must fall to within 1.5 percentage points of the average rate of inflation of the three current EMU members that have the lowest rates of inflation;
3. Interest rates on public debt must be within 1.5 percentage points of the average of the three EMU member that have the lowest rates of inflation;
4. Government budget deficits must be less than 3 percent of GDP;
5. Members must be in compliance with the conditions of ERM II for at least two years prior to the adoption of the euro. ERM II stipulates the use of a pegged exchange rate regime against the euro with a maximum fluctuation band of 15 percent.

Even prior to adoption of the euro, membership in ERM II will place strictures on exchange rate regimes for accession countries. They will be forbidden to use free floats, pegs to currencies other than the euro, or crawling pegs. Of the eight accession countries from central and eastern Europe, only Estonia, Hungary, and Lithuania currently have currency regimes that are consistent with ERM II: Estonia has a currency board that pegs its currency, the kroon, to the euro. Lithuania recently shifted its currency board from the use of the dollar to the euro. Hungary has pegged the forint to the euro within a 15 percent band, consistent with

ERM II. On the other hand, Latvia is in the process of shifting its peg of the lats from the SDR to the euro. The Czech Republic, Poland, Slovakia, and Slovenia use floating rates, although only Poland gives its currency much room to fluctuate. These countries will have to change their exchange rate regimes to enter ERM II, but some of the central banks are debating whether to continue with floating rates even after admission to the EU.

The European Commission's and European Central Bank's insistence that the candidate countries adhere to the same Maastricht conditions on consumer price inflation as western European countries before adoption of the euro will impose substantial economic costs on the accession countries. The countries would be much better off if they were permitted to adopt the euro now without satisfying the inflation criterion.

The argument is the following: At market exchange rates, per capita GDP in the central and eastern European accession countries, even in the wealthiest, is substantially below the EU average. For example, in the Czech Republic, which has the second highest per capita GDP among the group, per capita GDP at market exchange rates was only EUR 5,850 in 2001, less than a third of the EU average. In contrast, at purchasing power parity exchange rates, a measure of the purchasing power of local incomes compared to the purchasing power of western European incomes, per capita GDP in the Czech Republic in 2000 was 60 percent of the EU average. The discrepancy between per capita GDP at purchasing power parity exchange rates and market exchange rates stems from the relatively lower cost of non-tradable goods in economies with lower incomes. For example, the cost of services such as haircuts, repair work, and even construction are much less in central and eastern Europe than in western Europe because of lower wages. Costs of tradable goods, however, are virtually the same because of the absence of tariffs and other barriers to trade and the very open nature of the accession countries' economies. Market exchange rates also remain below purchasing power parity exchange rates because of financial market forces. In the past decade, the central and eastern European currencies have been less attractive assets for investors, domestic and foreign, than the euro or dollar, because domestic inflation has been higher and the value of the currencies has tended to decline over time, sometimes sharply.

This gap between the two types of exchange rates has been narrowing through the appreciation of the exchange rates in real effective terms. Real effective appreciation against the euro occurs when exchange rate movements, up or down, fail to counteract differences in domestic inflation rates and Eurozone rates. For example, if domestic inflation is higher than Eurozone inflation, but the domestic currency appreciates or fails to depreciate enough against the euro to compensate for the difference in inflation rates, the currency appreciates in real effective terms. Since the first years of the transition, central and eastern European currencies have appreciated sharply in real effective terms, narrowing the gap between purchasing power parity and market exchange rates. In the case of the Czech Republic, the ratio between the two fell from 4.06 in 1993 to 2.38 in 2001, i.e. the gap has almost halved. This real effective appreciation of the currencies shows itself in increases in local wages in euro terms. Monthly euro wages in Poland have risen 3.5 times, from a notional EUR 169 per month in 1992 to EUR 589 per month in 2001.

This appreciation of real effective exchange rates has been driven by different economic forces. Tradable goods sectors such as manufacturing have been enjoying double-digit increases in productivity growth in the eastern and central European states as a result of the combination of high quality local labor forces, the spread of market forces, and inflows of western investment and technology. Rising productivity has made it possible for manufacturers to increase sales domestically and on export markets because of improved price competitiveness. Increased sales have triggered increased output and induced increases in the demand for labor in manufacturing and associated sectors. Wages in the tradable goods sectors have had to rise to attract labor, but the increases in productivity have made substantial wage increases affordable for manufacturers. However, increases in wages in manufacturing have spilled over into the rest of the economy, forcing wages in non-tradable good sectors to rise as well. Many of these sectors have not registered the same sharp increases in labor productivity enjoyed by manufacturing. Large wage increases in sectors with slower productivity growth have contributed to consumer price inflation. Government controls on rents, utilities, and transportation have also had to be relaxed, pushing up consumer prices. However, the competitiveness of manufacturing has not necessitated an offsetting

depreciation of the domestic currency exchange rates. Consequently, currencies have appreciated in real effective terms. Contributing to this process of real effective appreciation, as the central and eastern European economies have grown and inflation has fallen, the domestic currencies have become more attractive assets, drawing in foreign portfolio investment.

If the central and eastern European accession countries are to substantially narrow the gap in per capita incomes at market exchange rates with the current members of the EU, this process of real effective appreciation will have to continue. Growth in per capita GDP and real wages alone will be inadequate to rapidly close the gap. To illustrate, if the real effective exchange rate of the Czech koruna were to remain stable, and growth in per capita GDP in the Eurozone were to average 2 percent per year, the Czech Republic would have to enjoy GDP growth averaging 8.2 percent per year for 20 years to catch up with the EU average. If the exchange rate of the Czech koruna were to continue to appreciate in real effective terms so that the market and purchasing power parity rates were to equalize in twenty years, the Czech Republic could close the gap with the EU in that period of time by growing at an average annual rate of growth of just 4.6 percent. The latter is much more feasible. Although the central European states have been able to register solid rates of GDP growth averaging 3 to 5 percent per annum, they have not been able to generate sustained rates of growth above 6 percent per year, let alone 8 percent. Sectors such as health care and education that tend to have relatively low rates of growth in productivity account for appreciable shares of GDP in central Europe, tending to retard overall rates of economic growth.

As noted above, the exchange rates of the accession countries will have to be pegged to the euro once they enter ERM II. If the economies are enjoying solid growth, nominal wage growth will run at fairly high levels. In addition, prices of non-tradables such as rents, public transport charges, and utilities will have to be raised towards cost-recovery levels to meet EU stipulations on competition policy. These forces will generate more rapid consumer price inflation in the central and eastern European countries than in the Eurozone, leading to the real effective appreciation of the local currencies and a narrowing of euro wage gaps. However,

these same forces will make it very difficult for the central and eastern European accession countries to meet the Maastricht criterion on consumer price inflation. To force inflation down to Eurozone rates, the central banks will need to keep monetary policy very tight, resulting in high real interest rates. Such monetary policies have already served to halt or dramatically slow growth in the Czech and Polish economies during various periods.

While consumer price inflation and nominal wage growth are likely to exceed Eurozone rates by a substantial margin in the central and eastern European accession countries, once the exchange rates are pegged to the euro, producer price inflation will near Eurozone rates. In fact, this is already transpiring. Because the central and eastern European applicant countries' economies are completely open to trade with the EU in manufacturing, producer prices are already being driven by producer price developments in the EU and the exchange rates of the domestic currencies against the euro.

The other Maastricht criteria should be easier to meet. In the context of no capital controls and a pegged exchange rate regime, interest rates will fall towards average EU rates as investors purchase government bonds in accession countries to take advantage of higher interest rates and expected capital gains in the expectation that bond prices will rise as accession nears. These financial forces should make it possible for the applicant countries to meet the interest rate criteria for membership in EMU. In the case of the Czech Republic, interest rates already meet the Maastricht criterion. All the applicant countries currently have levels of public debt below or near 60 percent of GDP; they should all be able to maintain them there.

The target for government budget deficits is becoming more challenging, however. All of the central European states currently are running budget deficits that exceed 3 percent of GDP. Over the last few years, budget deficits have widened in all four central European states. Given the political will, these countries should be able to reduce these deficits to meet this target after accession. However, some governments, most notably the Czech and Hungarian, will have to take a much more disciplined approach to their public finances to reach this target. This said, if governments become more disciplined, the accession countries

should be able to meet all the Maastricht criteria except the inflation target. Unfortunately, pursuit of the inflation target is likely to slow economic growth in these countries or even drive them into recession.

The EC's and ECB's insistence on the Maastricht criterion on inflation for the applicant countries is unfortunate. A more appropriate policy response would be to permit the applicant countries to adopt the euro now; membership in the ECB could be delayed until or after accession. The immediate adoption of the euro by the accession countries would eliminate exchange rate risk and the transaction costs associated with exchanging domestic currencies for the euro, immediately contributing to faster growth, lower inflation, and lower capital costs for the central and eastern European accession countries.

The EC and the ECB have adamantly opposed early adoption of the euro, however. The EC responded very sharply to an Estonian suggestion to replace the kroon with the euro with the advent of euro currency in 2002. Opposition has been driven by concerns about expansion of the Eurozone monetary base, thereby threatening higher rates of inflation, and investor perceptions of the euro that could drive down its value against the dollar and yen.

Neither of these concerns seems warranted. Immediate adoption of the euro by the applicant countries would have very little impact on the Eurozone monetary base. Three applicant countries already have currency boards (Bulgaria, Estonia, and Lithuania). For all intents and purposes, euro holdings in these countries match the domestic money supply, making them de facto Eurozone members. In the other central and eastern European states, households and businesses already have substantial holdings of euro. The replacement of domestic currencies with the euro would add little to the Eurozone money supply. In 2001, aggregate M1 in all eight likely central and eastern European accession countries ran only EUR 67.2 billion, of which EUR 3.5 billion consisted of the money issued by the currency boards of Estonia and Lithuania. This sum is substantially less than 1 percent of M1 in the Eurozone. Even in Poland, which has the largest money supply, M1 ran just EUR 22.4 billion. Adding these countries to EMU will only generate a blip in the Eurozone money supply figures.

Some have argued that the accession countries need to preserve their own currencies and the freedom to change exchange rates against the euro in order to provide an additional policy instrument to cushion shocks to the domestic economy. However, a review of recent currency crises or adjustments in the region suggests that the existence of domestic currencies is as much a hindrance as a help to adjustment. In the case of the Czech Republic, large, abrupt outflows of short-term capital forced the central bank to devalue in 1997. More recently, inflows of short-term capital have pushed up exchange rates across the region. Over the next few years, these flows are likely to grow in size. Since the adoption of the euro by the current EMU members, currency traders have had a smaller universe of currencies in which to trade. The accession country currencies have been quite attractive to these traders, providing them with “convergence” plays: if domestic bond yields fall towards western European levels as accession nears, bond holders will enjoy very substantial capital gains. Currency traders have been playing on these expectations. These currency flows have introduced more volatility into foreign exchange markets. Abrupt shifts in domestic currency exchange rates have made life more difficult for manufacturers, especially smaller domestic firms that compete on price. Replacing domestic currencies with the euro would help these companies by reducing exchange rate risk.

ENLARGEMENT, THE EURO, INTERNATIONAL FINANCIAL FLOWS AND IMPLICATIONS FOR THE UNITED STATES

The dollar has been depreciating against the euro over the last two years; a number of bank economists project the dollar will continue to fall. The large U.S. current account deficit and expectations that U.S. financial assets will become less attractive to foreign investors are the primary motivations for these forecasts. If the forecasters are right, the fall in the dollar against the euro may be quite abrupt and quite large, i.e., the euro may “overshoot.” The question in the context of EU enlargement is whether the adoption of the euro by the accession countries could trigger or contribute to a sharp shift in the euro/dollar exchange rate.

The expansion of the Eurozone to the accession countries may affect the dollar/euro exchange rate through:

- Shifts in transaction demand for the two currencies;
- Through shifts in demand for assets denominated in the two currencies; or
- Through changes in perceptions of likely future exchange rate trends by market participants.

The additional demand for euros generated by adding the accession countries to the Eurozone will be relatively small. As noted above, monetary aggregates in the accession countries are tiny in relation to those in the Eurozone, in part because the accession countries have small economies and in part because financial intermediation in these economies is relatively underdeveloped. Moreover, the accession countries already hold substantial euro reserves, which will be used to convert local currencies to euros, and households and businesses already hold substantial portions of their financial assets in euros. Consequently, the addition of these countries to the Eurozone will have very modest effects on Eurozone monetary aggregates.

Externally, the enlargement of the Eurozone is unlikely to have much effect on transaction demand for dollars. None of the accession countries conducts international trade in domestic currencies: exports and imports are almost exclusively invoiced in dollars or euros. Invoicing is usually dictated by the foreign buyer and seller. As the two invoice streams, dollars and euros, are already fairly well established, domestic adoption of the euro is unlikely to have much effect on the use of one or the other currency in foreign trade.

The addition of these countries to the Eurozone is likely to have a greater effect on asset demand for dollars. Many of the countries hold reserves and issue debt in dollars. After joining the Eurozone, the ECB is likely to increase its foreign exchange reserves (dollars) slightly to reflect the increase in the size of the monetary base, but by less than total dollar reserves of the accession countries. Cashing in accession country dollar reserves will have a very slight one-off-effect on demand for dollars. Accession countries' public foreign debt is already shifting from dollars

to euros; private debt is likely to be increasingly dominated in euros as well. These shifts will be permanent.

Although it is difficult to predict financial market perceptions of adoption of the euro by the accession countries, their inclusion in the Eurozone does not necessarily mean that the euro will be perceived as a weaker currency. Over the past two years, the Czech koruna, Hungarian forint, and Polish zloty, among other accession country currencies, appreciated in nominal terms against both the dollar and the euro. If anything, the addition of the more rapidly growing accession country economies to the Eurozone and the higher volumes of transaction and asset demand for euros they will generate may serve to strengthen rather than weaken the euro.

In short, the adoption of the euro by the accession countries is likely to result in a modest increase in transaction demand for the euro, a larger increase in asset demand because of a shift away from the dollar toward the issuance of euro-denominated debt, and potentially a positive shift in financial market perceptions of the euro as the Eurozone becomes more dynamic economically. However, these shifts in demand will be modest and are unlikely to be so great that the adoption of the euro by the accession countries will trigger a sharp rise in the value of the euro against the dollar.

ENDNOTES

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² The original CEFTA members were Czechoslovakia, Hungary and Poland. After the breakup of Czechoslovakia, the Czech Republic and Slovakia enjoyed successor state status. Subsequently, Slovenia joined the group, followed by Bulgaria and Romania. Croatia has recently applied for membership.

³ U.S. Chamber of Commerce, *The Europe/Eurasia Business Dispatch*, September 9, 2002, p. 1.

**THE IMPLICATIONS OF ENLARGEMENT FOR THE EU AS
AN INTERNATIONAL POLITICAL ACTOR:
OPPORTUNITIES AND RISKS¹**

Lily Gardner Feldman

INTRODUCTION

The European Commission's 2001 annual evaluation of progress in the enlargement project elevated three external political goals by mentioning them first: (1) "peace, security, justice and well being throughout Europe;" (2) "conflict prevention and control in the wider world;" and (3) "[with] neighboring countries ... no new dividing lines ... across our continent" (European Commission 2001). In his October 2002 statement to the European Parliament, Romano Prodi reiterated the political character of enlargement: "But enlargement is not just about economics. It is important primarily for political and ethical reasons" (Prodi 2002). By contrast, many of the detailed studies of enlargement's impact on the EU (and the candidate countries) focus first on the EU's economic character and policies, whether internal or external, and render external political relations almost a non-subject.

This chapter tries to rectify the analytical imbalance and takes the Commission's rhetoric at face value. It addresses the international political character of the EU with enlargement through an examination of three policy arenas: Common Foreign and Security Policy (CFSP) and European Security and Defense Policy (ESDP); the external aspects of Justice and Home Affairs (JHA); and relations with new neighbors (Russia, Ukraine, Balkans, and the Mediterranean) or what the EU terms "proximity policy" (European Commission, 2001, p. 5).² The chapter focuses, then, on both "hard" and "soft" security, and on functional areas as well as geographic regions. It considers both general and specific effects of enlargement on the EU as an international political actor, as well as issues initiated by enlargement and those exacerbated by expansion.

Beyond filling an analytical gap, these three arenas are significant for two additional reasons: they are important for the United States, and for European citizens. The American ambivalence toward CFSP and ESDP—wanting Europeans to pick up the slack, but also to remain

subservient—means these issues are high on the transatlantic agenda. Since September 11, the United States is more attuned to transnational issues, including border security, illegal immigration, and the activities of organized crime. The “proximity” areas have been regions of intense American engagement, such that changes in EU policies will impact the United States directly.

At least since the mid-1990s, EU publics by substantial majorities have supported the goal of pursuing peace in Europe and beyond, and have been in favor of common foreign policy and common security and defense policy (Gardner Feldman 1999, pp. 70-71, 77). In the fall 2001 readings for Eurobarometer, 91 percent assign “maintaining peace and security in Europe” the highest priority for EU action. Another aspect of external relations related to enlargement—“fighting organized crime and drug trafficking”—stood in third position with 89 percent (European Commission 2002). If EU officials recognize this reservoir of citizens’ support, as they seem to do in the priorities assigned the Convention (Dinan 2003), then external political relations will be an important agenda item after enlargement.

The final section of the paper assesses the impact of an enlarged international political actor for transatlantic relations.

CFSP and ESDP

For a number of observers, this round of enlargement will impact the EU’s security character and policies more forcefully than any previous enlargement due to its size and the geopolitical changes it will engender (Villa Faber Group 2001, p. 24). The opportunities and risks with regard to CFSP and ESDP are discussed below.

CFSP

Opportunities

EU officialdom and observers of the EU identify opportunities in two main areas: status and stimulus, both with consequences for structure. Enlargement will enhance the status of the EU in the international arena through added numbers and experience (European Commission 2001, p. 2; 2002a, p. 5; Solana 2002, p. 5). A key example of the “strength in

numbers” argument is the candidate countries’ embrace of the EU’s condemnation of terrorism and the European Council’s September 21, 2001 Conclusions and Plan of Action (European Commission 2001, p. 2).

The recent association of candidate countries with the EU’s post-9/11 foreign policy activity builds on a decade long practice of their adopting EU joint actions and common positions, as well as declarations and statements, whether regarding third countries and regions or in multilateral fora (Ginsberg 2003, p. 6). The gradual process of alignment and the intergovernmental nature of the *acquis* eased the negotiation of the CFSP Chapter 27 (now closed with all 12 candidates), which has reinforced the idea that increased numbers can only improve the EU’s standing in the world.³

The stimulus argument—that the EU will be more dynamic as a result of enlargement as a defining and consolidating process—rests on Ginsberg’s evidence that “each enlargement causes a metamorphosis in the EU’s relationship with the outside world” (2001, p. 224). He argues that “there is good reason to think this next enlargement will strengthen CFSP/ESDP” (2003, p. 7). One of the Greek Presidency’s main priorities is to harness the “dynamism” that emanates from expansion: “It is up to us to make enlargement a catalyst for accelerating European integration; a force which will ensure that Europe is able to face the challenges of a new era in world affairs” (The Hellenic EU Presidency 2003, p. 2). The candidate countries’ particular interest in CFSP, more so than some current member states, will also propel the process (Villa Faber Group 2001, p. 24).

Enhanced status and a new stimulus could lead ultimately to a partially or fully supranationalized CFSP with new structures. Despite real differences over Iraq that could mean the absence of movement on CFSP, enlargement still provides momentum for reform of CFSP. Detailed proposals to the Convention by a variety of actors—the European Commission, the German and French Foreign Ministers, and the Working Group on External Action—are quite far-reaching: an augmentation of

the Commission's role, including the possibility of combining the positions of the High Representative for CFSP and the Commissioner for External Relations; an extension of Qualified Majority Voting; an increase of control for the European Parliament, on the assumption that it reflects the view of citizens for whom deepening in this arena is a priority; conversion of European Commission delegations abroad into European Union representations; and better financing (The European Convention 2002; 2002a; Europaeischer Konvent 2003; the European Commission 2002b). Even the British support serious efforts to improve the EU's capacity to act internationally, although not as far as the "communitisation of ... foreign policy" (Blair 2002). Such positive outcomes for integration from the opportunities presented by enlargement could also be generated by the challenges and risks of expansion.

Risks

Observations about the negative impact of enlargement center on status, process, and geographic orientation, and refer to the resulting potential for structural change. Rather than enhancing the EU's status in the world, enlargement will impair it by adding complexity. Rhein offers a graphic description of the numbers problem:

Jointly, the EU 25 dispose by far of the biggest foreign policy machinery on earth. Each of the Member States maintains between 40 and 220 diplomatic missions inside and outside the EU. In addition, the EU Commission runs 100 odd diplomatic missions. Jointly the EU 25 afford the luxury of almost 3000 diplomatic missions with a total number of close to 30,000 diplomats (Rhein, 2002a, p. 3).

Complexity (and the diversity of the candidates) brings with it four risks for the process of foreign policy making: increasing incoherence; greater difficulty in reconciling national interests, implying more use of the constructive abstention, lowest common denominator decisions, and a starker hybridization of bilateral (national) and EU policies; an exacerbation of the existing problem of the small states' capacity to assume the rotating presidency; and competition over funds.

Regarding geographic orientation, analysts anticipate divisions over relations with the United States and with the Russian Federation, with candidate countries being more positive than EU member states on the former, and less positive regarding the latter. Differences over relations with the United States have emerged already over Iraq, with the central and eastern European (CEE) candidate countries more eager to join a U.S.-led coalition than traditional member-states such as Germany and France (Kelley 2002). Secretary of Defense Rumsfeld's praise for CEE countries as pro-American "new Europeans" and disdain for France and Germany as part of anti-American "old Europe" suggests how politically explosive the differences over Iraq can be (Richburg 2003). In addition to differences regarding specific regions such as the Middle East, there will likely be divergences over where priorities should reside, with Africa and Latin America the likely victims for neglect.

The literature dealing with enlargement's negative impact as a source of reform subscribes to the changes mentioned above as solutions to the "absurdness of the present cumbersome [system]" (Rhein 2002; 2002a; European Parliament 2000; Villa Faber 2001, pp. 21-30; Dehaene and Krok-Paszowska 2001, pp. 73-93; Duke 2002; Ginsberg 2003).⁴

ESDP

Opportunities

According to a major study that addresses enlargement's effect on the EU as an international political actor, the candidate countries from central and eastern Europe will be "security providers" and not just "security gainers" because their peacekeeping experience is large (Villa Faber 2001, p. 24). In fact, all ten CEE candidates have some peacekeeping experience, with Poland, the Czech Republic, Hungary and Slovakia proffering the most experience (NATO 2002, 2002a, 2002b; United Nations 2002). Experience enables them to contribute significantly to fulfillment of the Petersberg Tasks (humanitarian activity, rescue, peacekeeping, and crisis management). Some countries have already been involved in EU activities, for example Slovakia's participation in the EU Monitoring Mission in the Balkans (Council of the European Union 2002). The Balkans peacekeeping experience of all ten CEE countries, while small in number, is particularly relevant in light of recent discussions of an EU military presence in FYROM and Bosnia (Schmemmann 2003). Given the challenges of preparation, training, and modernization for

the candidate countries, Schmidt emphasizes the “potential” growth of ESDP due to enlargement, but views it as significant given that the UK, Germany and France are being stretched to their limits (2002, pp. 186-87). Most of the candidate countries are participating in the European Union Police Mission in Bosnia-Herzegovina (Council of the European Union 2002a), itself a positive departure in the EU’s civilian crisis management capability and an indication of momentum in CFSP/ESDP.

On the non-peacekeeping military side, the Villa Faber authors argue that the contribution will be real, yet small. However, one should note that the engagement has been prompt—as in the thirteen candidate countries’ voluntary commitments at the EU’s November 2000 Capabilities Commitment Conference—and ongoing, as in their participation in the EU’s November 2001 Capabilities Improvement Conference (Western European Union 2001, pp. 18, 23; European Report 2001).

In a third area of security, military technology, some of the candidate countries will bring with them less sophisticated weaponry, which provides opportunities for the defense industries in current member states.

Risks

The chief risks cited are the difference between CEE candidates and current member states regarding threat perception, and the exacerbation of member-states’ capabilities gap due to the exigencies of enlargement. Regarding threat perception, the accession countries are more focused on real and potential military hot spots due to their geopolitical location, which makes them “front-line states on the border of instability” (Dehaene and Krok-Paszowska 2001, p. 73). The CEE countries’ enthusiasm for NATO membership may dilute their commitment to ESDP, whose evolution some deem challenging to NATO. The December 2002 “Berlin-Plus” agreement between NATO and the EU on the latter’s use of NATO assets reduces the dilemma, but does not remove it in two respects: in a time of crisis in which U.S. and EU positions diverge, candidate countries may feel particularly torn; and modalities are yet to be worked out between EU activities and the development of NATO’s planned Response Force.

Enlargement affects the capabilities issue by generating more financial demands on limited resources (both at the EU level and within new member-states) and by contributing to institutional messiness and

bureaucratic overload, further impeding the EU's capacity to meet the Helsinki European Council's Headline Goals for ESDP in 2003. Unlike NATO expansion, in which countries have entered a well-formed, routinized, experienced organization, EU enlargement in the military field occurs in an entity as yet untested. Ginsberg warns that "even a larger union will be unable to use this weight to its advantage if it fails to do three things ahead of that enlargement: streamline and focus foreign policy decision-making, fund operational capabilities to strengthen diplomacy, and summon the political will to do each even under conditions of low economic growth." On the latter condition, divergences over whether to have a military dimension remain, expressed recently in Finnish and Swedish concerns that the war against terrorism could convert the EU's legitimate peacekeeping and conflict prevention activities into an undesirable military alliance (Helsingin Sanomat 2002). Enlargement magnifies the existing diversity between countries in size, structure of defense budgets, and nature of military capabilities already identified by the Convention's Working Group on Defence (The European Convention 2002b, pp. 10-13). Recognition of the capabilities deficit in institutional, financial and technological terms has prompted recommendations for repair on the part of the Convention's Working Group on Defence (The European Convention 2002b), and in the Council's operational program for 2003 submitted by the Greek and Italian presidencies (Council of the European Union 2002b).

JUSTICE AND HOME AFFAIRS

Justice and Home Affairs is considered one of the most dynamic areas of integration and communitarization and cover here the external dimensions: asylum, legal and illegal migration, border controls, trafficking in drugs and people, and money laundering.⁵ It has also been deemed a "troublesome" chapter due to the topic's sensitive nature in both the member states and the candidate countries (Scheltema 2001, p. 189). Unlike in any prior enlargement, candidates must fully adopt the Schengen agreements on accession (although the lifting of internal border controls will occur only after the new member states have achieved legal and practical readiness). Both the Commission and the Council deem the management of external borders one of the main priorities in preparation for enlargement

(Council of the European Union 2002b, pp. 8-9; European Commission 2002c, p. 5).

Opportunities

Enlargement will provide the EU with a greater opportunity than it currently possesses for managing JHA issues. Whereas the EU depended in the past on the good graces of candidates to help manage JHA problems that originated in or passed through them to the Community, with enlargement the EU will be in direct control. Tony Blair has emphasized the benefits: “We will also be safer and more secure through co-operation on border controls, asylum and immigration, [and] joint efforts to tackle border crime...” (Blair 2002, p. 2) The Commission’s 2002 Strategy Paper concludes that “most countries have made good progress in all areas of the *acquis*” (2002a, p 18). Just as they will be security gainers, new members can add new insights into the EU’s policy toward the east or what will become a new “Eastern Dimension,” (Villa Faber 2001, p. 26), as Javier Solana suggested explicitly for Poland in October 2002: “Your experience and outstanding credibility will help to build bridges from the European Union to the East” (Solana 2002).

Risks

In addition to the problems of complexity and diversity apparent in other policy areas, with enlargement risks related to administrative capacity, policy commitment, and ethnic minorities emerge in JHA. The task is immediate, for the EU insists that “by the date of accession, acceding countries will need to have achieved a high level of border control” and that “administrative and judicial capacity needs to be markedly reinforced, in particular in the context of border management, fight against fraud, corruption, money laundering and organized crime” (European Commission 2002a, p. 28).

Enlargement will reshape the political map for the EU by placing the EU’s eastern borders as far as Russia, Belarus, Ukraine, Moldova, the Baltic Sea and the Black Sea, and its southern borders even closer to the Balkans and deeper into the Mediterranean. Issues of length (long, but discontinuous), diversity (land and sea) and contiguity to zones of instability (domestic and international) render border management very difficult. In a field where the

acquis hurdles are extremely high, enlargement will shift the responsibility for hard borders to countries with relatively porous borders and with little administrative capacity to manage and police (Scheltema 2001, pp. 196-197; Villa Faber 2001, p. 31). Insufficient administrative mastery of borders will mean the importation of JHA problems directly into the EU. However, even more than in CFSP and ESDP, where action so far is relatively removed from the public, the fact that border management and cross border activity are the stuff of quotidian life may be an impetus to solving administrative deficiencies through greater integration.

The new tasks' complexity and depth initially may mean the new member states will not be fully committed to further policy integration in JHA, particularly as it could have deleterious effects for the candidate countries in their relations to the East. Against a background of the strictures of the communist bloc, the CEE candidates have prided themselves on open borders. The need to issue visas after the first and second rounds—for Poland with Ukraine, for Hungary with Serbia and Montenegro and Ukraine, and for Romania with Moldova—is seen as particularly onerous (Villa Faber 2001, p. 31). Analysts see a contradiction in the EU's purpose: "The hard external Schengen border regime is at odds with the undertaking that there would be no new divisions in Europe" (Dehaene and Krok-Paszkowska 2001, p.93). A disruption of cultural, commercial and ethnic links is anticipated, with the latter being potentially the most serious.

While the candidate countries, and therefore the EU, may lose some of the benefits of ethnic interaction, they may add some of its negative dimensions. The EU considers the integration of minorities (with the exception of Roma) satisfactory in the candidate countries. Yet, enlargement cannot guarantee good relations between new members where there are minorities and the ethnic homeland to the east; tensions will now affect the EU directly. Russian minorities are most abundant, amounting to 34 percent of the population in Latvia, 30 percent in Estonia, and 9 percent in Lithuania (European Commission 1997, p. 37).

The range of risks the EU could encounter with enlargement in the field of JHA suggests the need for well-calibrated strategies toward the new neighbors to the east and south.

**THE EU'S PROXIMITY POLICY:
LEFTOVERS AND LEFTOUTS**

Enlargement offers the EU an opportunity to stabilize its new “direct neighborhood,”⁶ considered an essential partner by the December 2002 Copenhagen summit and by the Council and Commission work programs for 2003. However, the expansion process is fraught with the risk of erecting new barriers through exclusion and with the reality of bringing EU borders to the edge of zones of instability. As a result of enlargement, the EU will face two categories of neighbors:

1. The leftouts who will likely never be members, but with whom the EU remains highly engaged (Russia, Ukraine, Mashreq and Mahgreb countries of the Mediterranean);⁷ and
2. The leftovers who will be excluded from the first two rounds of expansion, but to whom the EU has opened the promise of enlargement (Turkey and the Balkan states of Croatia, Macedonia, Bosnia-Herzegovina, Serbia and Montenegro, and Albania). The EU is intensifying structural relationships with both categories, and will have to do so with equal commitment, although the gargantuan agenda and costs may mean choices will have to be made.

The EU's activities combine external relations, CFSP/ESDP, and JHA tools by emphasizing trade, economic and technical assistance, diplomacy, military presence and border controls. Regarding the whole direct neighborhood, the EU identifies soft security threats and fears the spillover from hard security problems. For each area it has produced strategy papers (for Turkey the annual enlargement review), suggesting both a vision and an agenda, but developments in the regions may outpace the EU's ability to shape relations for the future. The papers contain diagnoses of the problems, short-term and long-term action plans, including financing, and operate on the assumption of interdependence. The quick fixes in the near term are accompanied, then, by longer-term efforts to create dense networks of governmental and societal networks between the EU and the partners in a range of functional areas. Even if countries never join, the EU is seeking to embed them systemically. Whether potential members or not, the EU is seeking to anchor countries into larger regional units.

The Leftouts

Russia

The EU's Partnership and Cooperation Agreement (PCA) with Russia and a CFSP Common Strategy provide the framework for relations. In the various dialogues occasioned by the PCA, such as the Tenth EU-Russia Summit in November 2002, there is increasing contemplation of the specific effects of enlargement on the relationship (European Commission 2003). The priority already accorded to Russia will climb with enlargement, given its new geopolitical location as bridge between the whole of Europe and Asia and the EU's greater dependence on Russian oil. The EU predicts large commercial opportunities, with its proportion of Russian trade rising from 33 percent to 50 percent. There are intensive discussions about an EU-Russia "common economic space" with a High-Level Group charged to define the concept and indicate the modalities by October 2003 (European Commission 2002d). Enlargement will allow the EU to increase Russia's current inclusion in some aspects of CFSP and ESDP, as foreshadowed in the joint statements on international terrorism and on the Middle East at the Tenth EU-Russia Summit. Expansion also gives new impetus to Russia's involvement in the EU's Northern Dimension, for four of the EU's current seven partners in that forum are accession countries, thereby augmenting the EU's structural embrace of Russia.

Yet, there are also risks attached to enlargement, such as the importation of social problems (AIDS, drugs, trafficking in people, organized crime, environmental pollution), and the festering of conflicts, such as Chechnya, which can divert Russia politically and economically and be a source of tension between EU member states and the CEE candidate countries (as can Russia itself, as noted above). Kaliningrad is seen as a microcosm of the social and economic problems Russia could export, and will now become "a small Russian enclave in the middle of the European Union ... sandwiched between Poland and Lithuania on the Baltic coast" (European Commission 2001e). The Tenth EU-Russia Summit in November 2002 acknowledged the new geographic reality by granting Lithuania flexibility in its implementation of national regulations for border control and by providing financial and infrastructural means to bolster human contacts in a managed fashion (e.g., the Facilitated Transit Document) (European Commission 2002f).

Ukraine

Following enlargement, the EU will have a long border with Ukraine, the second largest country in Europe in terms of land mass. Its relationship with Ukraine is based on both a Partnership and Cooperation Agreement and a Common Strategy of CFSP, which expires in December 2003 (European Commission 2003a). Like Russia, Ukraine can offer new commercial opportunities given its population (50 million), its modest trade with the EU (the EU represents only 20 percent of Ukrainian trade), and its existing ties to new members. However, Ukraine also shares many of Russia's risks with respect to social and economic ills impacting an expanded EU, with the added complication of constituting not only a source, but also a transit country for illegal migration to the EU. The EU has identified two immediate challenges: "co-operation on security threats, both in the context of terrorism and organized trans-border crime" (European Commission, 2003a, p. 8). Ukraine also serves as a conduit for Russian energy supplies. As it becomes contiguous with Ukraine, the EU will become even more sensitive to the safety of nuclear power plants. Border management will be the main focus of EU activity, including the embedding of Ukraine in regional projects, whether EU-inspired (INTERREG) or of broader expression (Black-Sea Economic Cooperation). Poland has promised Ukraine a simple and cheap system for visas that will go into effect in July 2003 (Agence France Presse 2003).

The Mediterranean

The Euro-Mediterranean Partnership is based on the Barcelona Process (1995) and a CFSP Common Strategy (2000) and involves engaging the members (Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey, and the Palestinian Authority) in cross-border cooperation among themselves, with the EU, and in smaller groupings along a range of functional areas. Part of the grouping—Turkey, Malta, and Cyprus—are candidates for EU membership. The Middle East Peace Process is connected to the Euro-Med Partnership, but separable. Given the region's strategic and economic importance, the EU has consistently characterized the Southern and Eastern Mediterranean and the Middle East as "a key external relations priority" for the Commission and the Council (European Commission 2002g; European Commission 2002c; Council of the European Union 2002b).

As Mediterranean countries, Greece and Italy have ranked the area as a top concern for their EU presidencies in 2003, and the Greek Presidency in the first half of 2003 focused on reviving the moribund Barcelona process. Commission President Prodi has linked the need for a new initiative with enlargement: “At a time when we are building a new Europe, a united European continent . . . when we are creating a new unity within diversity, when the EU’s borders are expanding, we must also develop our strategy towards the regions closest to Europe and, above all, we must be decisive in our Mediterranean policy” (Prodi 2002a).

The objectives of EU Mediterranean policy are threefold: peace and stability, shared prosperity, and mutual understanding; the EU believes there will be more opportunities to influence these goals as it comes closer to the region through enlargement. The April 2002 Euro-Mediterranean Conference of Foreign Ministers at the height of conflict between Israelis and Palestinians highlights the importance of the forum in bringing together the parties, for only Syria and Lebanon were absent. The Euro-Mediterranean Conference did result in the Valencia Action Plan, including more dialogue and projects on a host of issues: ESDP, conflict prevention and conflict management, implications of enlargement for the Euro-Med Partnership, terrorism, and the creation of a Euro-Mediterranean Free Trade Area (building on the EU’s bilateral Association Agreements). As with Russia and Ukraine, dialogue and further study on human rights and JHA issues such as drugs, organized crime, and migration indicate that the EU recognizes the scale of soft security risks, but whether action can follow quickly enough is an open question.

At the same time that enlargement acts as a stimulus to progress in the Euro-Med Partnership, it also involves risks. Persistent conflict in the Middle East between Israelis and Palestinians demonstrates that the prospect of enlargement and a rejuvenated EU has not substantially improved the EU’s chances to be a dominant player with respect to peace, and that economic progress is fragile. Enlargement means the risks of spillover from this region of chaos and instability are higher than ever before. The Greek Prime Minister’s trip to the Middle East in February 2003 was part of several European initiatives (for example, the London conference on reform of the Palestinian Authority; and the German Foreign Minister’s visit to the region in January 2003) to jump-start the Middle East peace process after the failure of a “road map” to

emerge from the Quartet in December 2002. The trip was also designed to find an alternative to war with Iraq. Greece recognized that it will immediately feel the brunt of a large refugee wave in the event of war and was urging burden-sharing by EU member-states (Castle 2003). If the war with Iraq were to be protracted, an enlarged EU would increase the access points for refugees.

The Leftovers

Turkey

Turkey's candidacy will not soon give way to membership due to major deficiencies in the areas of human rights and democracy (political criteria); it may never be transformed into an EU member given the reluctance by some member states, although the European Commission claims "Turkey is ... destined to join the European Union" (European Commission 2001a, p. 6), and Javier Solana insists that "Turkey has already booked its place in Europe" (2002a). Giscard d'Estaing's November 2002 negative assertion that Turkey is not a European country and the Belgian Prime Minister's counter claim that it "undisputedly" is a European country reveal the clear European divisions over Turkish accession to the EU (Turkish Daily News 2002). The December Copenhagen European Council failed to clarify the issue, but moved it forward by promising a date for accession negotiations to begin (December 2004 European Council) if Turkey has met the political criteria (Council of the European Union 2002c pp. 5-6). Even if the EU is completely well-intentioned, Turkey fears that "the newcomers will be most probably willing to delay as long as possible the other candidates' entry to the club" (Gultasli 2003a). In the meantime, the EU has provided a pre-accession strategy and road map to aid Turkey's movement toward meeting the Copenhagen criteria for membership and taking on the *acquis* (European Commission 2002h). The framework for the EU's relations with Turkey are the EC-Turkey Association Agreement, the Accession Partnership (2001), and the Enhanced Political Dialogue (following the 1999 Helsinki European Council).⁸

The EU's decision on Cyprus' membership has not been linked to a settlement between the Greek and Turkish Cypriot communities, a decoupling ill-appreciated in Ankara. The EU expected Turkey to make more vigorous efforts than in the past to resolve the Cyprus problem

before the UN's February 28, 2003 deadline set by the Annan Plan. The new Turkish government responded positively (Agence France Presse 2003a). Although the outcome of negotiations to resolve the dispute remains unclear at this writing, enlargement may provide an opening for dispute settlement, but it may run the risk of hardening Turkey's position, if a settlement cannot be reached before Cyprus signs the accession agreement in April and, consequently, of importing one of the international community's longest-standing disputes. The consequences of non-settlement before enlargement are dire, according to Gordon and Barkey: "[It] would be considered a slap in the face. It would be seen as an insulting rejoinder to their recent election of a moderate Islamic government. . . it would send a terrible message to the Islamic world, which is watching with great interest how the new government is received internationally"(2002).

Enlargement to include Bulgaria (the second round "whimper" following the "big bang") will place the EU next to Turkey, a major Muslim country in a pivotal geo-political location between the Balkans to the northwest and the Middle East to the southeast. The EU will use the first and second rounds of enlargement as an opportunity to increase Turkey's alignment with CFSP which is already quite "advanced," as demonstrated in its speedy endorsement of the conclusions of the September 2001 Extraordinary European Council to fight terrorism. Turkey's removal of its opposition to EU use of NATO assets in order to bolster its prospects of EU membership will aid the development of ESDP. As the EU creeps closer and closer to areas of conflict, it will rely even more on Turkey's regional role, for example in the Black Sea Economic Cooperation Council, the Group of Central Asian Turkic Countries, the D8 Muslim countries, and its balanced relationship with the chief adversaries in the Middle East. Some argue, however, that until the EU defines fully its own military security identity, it will not fully appreciate the benefits of Turkish membership (Oguzlu 2002).

Enlargement will bring the EU face-to-face with a range of JHA issues where Turkey has made mixed progress in the past year, the most important of which are migration and trafficking in people and goods. The number of illegal immigrants in Turkey has increased eight-fold in the last five years, reaching 95,000 in 2000, many of whom see Turkey as a transit country. As with the other neighbors to the EU, border management will be a major priority after enlargement.

The Balkans

The Greek Presidency of early 2003 identified the Balkans as “a key priority,” according to a strategy paper it issued soon after taking office, and underscored the context of enlargement: “Following the Copenhagen decisions on enlargement and considering progress made in the region, but also its fragility, it is important for the EU to keep the Balkans high on its agenda (The Hellenic EU Presidency 2003a, p. 1). The accession of Slovenia in the first round of enlargement is a demonstration of hope for the region but a simultaneous reminder of how far the region lags behind the rest. The Greek Foreign Minister has suggested that Croatia might be able to catch up with Romania and Bulgaria and join the second round of enlargement (European Report 2003), but the prospects for the rest of the western Balkans are bleak in the medium term. The EU will be an outpost (even if at the western tip) in an area in which war has dominated for the last decade and where latent and real tensions still remain high. The Stabilization and Association Process (SAP) governs the relationship between the EU and the “leftovers” (Croatia, Macedonia, Bosnia-Herzegovina, Serbia and Montenegro, and Albania) and is the EU’s main contribution to the Stability Pact for Southeastern Europe.

The SAP involves Stabilization and Association Agreements with individual countries covering asymmetric trade (leading to eventual free trade), economic and financial assistance, alignment with EU standards, help for building democracy and civil society, humanitarian aid for refugees and returnees, political dialogue, and cooperation in JHA. The SAP views the end goal as membership, and involves a highly structured set of relationships as a means to that terminus (European Commission 2002i). So far, the EU has signed Stabilization and Association Agreements with Croatia and Macedonia, but they have not been ratified; the EU is now committed to negotiations on a Stabilization and Association Agreement with Albania. The Greek Presidency committed to revamping the SAP framework, including the vivification of the Balkan European Integration Process, which will involve a new political dialogue and form the centerpiece of the special Thessaloniki Summit on the western Balkans scheduled for June 2003. The Greek Foreign Minister’s January 2003 visit to the region sought to demonstrate the EU’s political commitment to the region (European Report 2003). A key EU concern after the first round of enlargement is to ensure that

the Balkans do not drift from left-over to left-out status: “The European prospect is the most credible and attractive alternative for the region . . . This prospect is in no way adversely affected by the ongoing enlargement (The Hellenic EU Presidency 2003a, p. 9). The bilateralism of agreements is complemented by a regional approach in which the EU is attempting to convey to the Balkans its own positive experiences with regional conflict resolution.

The EU is also one of the main pillars of the UN Mission in Kosovo, and member states have troops in Bosnia-Herzegovina, Kosovo, and Macedonia. As a sign of the importance the EU attaches to stability in the region, on January 15, 2003 the EU inaugurated the European Union Police Mission in Bosnia-Herzegovina, its first civilian crisis management operation under CFSP/ESDP (European Commission 2003b). The EU is also willing to lead a military operation in Bosnia-Hezogovina following SFOR. Following Macedonia’s January 2003 request for the EU to take over the NATO role, and the earlier resolution of EU access to NATO assets, the EU was planning to deploy troops to Macedonia in March 2003 (Agence France Presse 2003b).

Problems of border management will dominate the agenda even more after enlargement, with illegal immigration of particular concern, for the Balkans are a source and a transit region (from the Middle East and Asia). The EU estimates an annual figure of over 100,000 illegal immigrants in the EU from and through the Balkans, identifies the Balkans as the origin of most of the heroin in the EU, and faces extensive smuggling (including weapons) (European Commission, 2001b, p. 8). The related issue of organized crime was the focus of the November 2002 London Conference on Organized Crime in South Eastern Europe, in which the EU has taken a leadership role.

IMPLICATIONS FOR THE UNITED STATES

Two scenarios emerge from this assessment of enlargement’s impact on the EU as an international political actor. The opportunity track suggests more integration and a more coherent EU, whereas the risk track implies the status quo in policies (or even renationalization) and a messier actor. At first glance, we might assume that the opportunity scenario is good for the United States and that the risk scenario is bad, but reality is more complicated with

each scenario carrying both advantages and disadvantages for the United States.

CFSP

On the opportunity side, greater weight and presence in the world with a renewed commitment to international action and more effective organization of foreign policy should mean more cooperation with the United States, but it could also entail more self-assertion and competition.

A more cumbersome, incoherent, and divided EU will be harder for the United States to calculate internationally and will make it a less reliable partner, yet it could also strengthen the U.S. practiced and successful strategy of picking off bilateral allies, for example on the Middle East. In a region where the EU may reduce its commitment, for example Africa, withdrawal would be a blow for the United States and its reliance on the EU's major commitment to financial, technical, and humanitarian assistance and on its attention to transnational issues such as AIDS. The EU would not see EU disengagement from Central and Latin America as a loss, for historically the United States has developed a much less benign attitude toward EU policy toward this region.

ESDP

An EU involvement in peacekeeping would be beneficial for the United States, particularly in the Balkans, the likely victim for American inattention if the war in Afghanistan continues and the war in Iraq commences. At the same time, the EU would be carving out a distinct role that could produce the necessary self-confidence for progress in the hard security arena with which the United States is much less enamored. Even without the evolution of ESDP, enlargement means more European security assets, which could re-ignite smoldering isolationist tendencies in the U.S. Congress. If enlargement does lead to more business for European defense industries, eventually the technology gap that has kept Europe a junior partner in war fighting, for example in Operation Allied Force, could lessen.

EU differences emanating from enlargement regarding perceptions of the Russian threat could bring new allies for the American view that Russia still needs to be approached with caution. In the short term, the related enthusiasm

of CEE countries for NATO is an advantage for the U.S. position, but in the long term could spell increasing divisions within NATO.

Justice and Home Affairs

JHA has constituted one of the main areas for cooperation within the New Transatlantic Agenda, so the prospect of greater EU control through formal inclusion of countries benefits the United States. Weakening of the commitment to JHA will make it harder for the United States to combat transnational challenges, including terrorism, as will a committed but overextended EU, unless the latter provokes the EU to involve the United States in training on its new borders. The Greek Presidency has emphasized cooperation with the United States on the new neighborhood and on illegal immigration on the agenda for the transatlantic dialogue.

Leftouts and Leftovers

Extending zones of stability is advantageous for the United States, but raises the question of whether the United States can really accept the European leadership role engendered by a successful stabilizing strategy. What does it mean for the United States if the EU moves from the rhetoric of community building to its realization in its own backyard? When the EU will have swept up most of Europe in its structural embrace, can the United States remain a "European power," even if Europe wants it to? And how will the United States react when the EU attempts to insinuate itself into regions now adjacent that traditionally have been areas of American leadership?

On the risk dimension, if the EU comes closer to areas of chaos and stability whose spillover it cannot manage, the burden for stability promotion will rest more on the United States. Regarding risks, here of non-enlargement, Turkey is of particular concern to the United States given its geostrategic importance and the role it plays in NATO; the United States exerted considerable pressure on the EU first to get Turkey on the candidate list and then to set a firm date for negotiations (Gordon 2002; Filkins 2002). It can be expected to continue its pressure, probably quietly, on both parties to make membership a reality.

The process of enlargement entails both opportunities and risks in abundance. Even though it may not always be in the immediate interest of the United States, it should promote those opportunities for the overall

project of integration on balance has been historically good for the United States. Likewise, even though there may be an American inclination to exploit, out of short-term interest, the problems accompanying enlargement, this could backfire by putting new demands on the United States or reinvigorating the EU whose new definition will be to challenge the United States in the international arena.

ENDNOTES

¹ The official and non-official literature on enlargement's impact on the EU tends to focus on dualities: opportunities, benefits, and advantages on the positive side and challenges, costs, and threats on the negative side (European Commission 1997; Scheltema 2001; Villa Faber Group 2001). Here the preference is for opportunities and risks, as both are dynamic. Moreover, while including difficulties, "risks" also incorporate the notion that risk-taking can have positive outcomes, unlike the negative terminology of "threats."

² Regarding CFSP and ESDP, their intergovernmental character probably accounts for the relative absence in studies. In the case of Justice and Home Affairs, their dynamic nature makes them hard to capture. For the recently communitarized JHA and the "new neighbors" topics, there is no real precedent (with the exception of the border between Finland and Russia) in other enlargements from which to draw experience.

³ For a country-by-country overview of status, transitional arrangements, and compliance with the *acquis*, see: European Commission 2002b.

⁴ Suggestions for reform along these lines also come from candidate countries. See, for example, the views of Slovakia's Foreign Minister (The European Policy Centre 2002).

⁵ The internal aspects of JHA, internal borders, police and judicial cooperation, data protection and the mutual recognition of court judgments, are related to the external character of the EU, but are separable and not treated here.

⁶ The term was coined by the Centre for Applied Policy Research, Munich (Kempe, van Meurs, Ow 1999) and has been applied in the Villa Faber Group report (2001).

⁷ Alternatively, one could suggest a more nuanced, three-pronged grouping: areas where there will probably never be membership (Russia and Ukraine); areas where there is limited membership potential (only for Turkey in the Mediterranean); and areas where there is greater membership growth, albeit slow (the Balkans).

⁸ For a detailed discussion of the most recent developments in Turkish-EU relations, including the December 2002 Copenhagen decision see the two-part series by Gultasli 2003.

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