

**‘ENSURING EU ENLARGEMENT IS
A SUCCESS’**

UNICE POSITION

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Executive Summary

European business is a strong supporter of enlargement. However, it considers enlargement can only be successful if certain conditions are met. To become a reality, enlargement needs to be widely understood and supported.

WHY SUPPORT ENLARGEMENT?

UNICE considers the enlargement process irreversible and a unique opportunity to spread stability and sustained economic growth and welfare across Europe. While preparation for accession and liberalisation of trade have already improved economic growth across Europe, candidate countries and EU Member States will both benefit from the additional economic growth and social welfare generated by an enlarged Internal Market, increased trade and rising FDI flows to candidate countries thanks to an improved investment climate.

HOW TO ENSURE ENLARGEMENT IS A SUCCESS?

UNICE considers that the following conditions need to be met:

- Candidate countries should join the EU as soon as they are ready in political, economic and administrative terms. The differentiation principle, by which candidate countries are judged on their own merits, must be strictly applied. While there is a cost of delaying enlargement for frontrunners, accession of those countries, which are not fully ready, should not be precipitated.
- At the time of accession, candidate countries must have adopted all Community legislation and reached a satisfactory level of implementation and enforcement of EU rules and standards. As completion of negotiations is often connected with commitments, the latter need to be realistic and enforceable: adequate provision must be made in the Accession Treaty (or Treaties) to monitor and enforce these commitments prior to accession. Decisions regarding the preparedness of candidate countries must be assessed in an accurate, factual and transparent manner.
- The Member States should agree rapidly on a clear and viable financial framework for enlargement covering the period 2004-2006. The final financial framework must neither delay the necessary and significant reforms of the Common Agricultural Policy and Cohesion Policies nor pre-empt the 2007-2013 (or other pluriannual period – see Art. 161 Nice Treaty) financial perspective. High priority must now be given to reforming key policies at EU level.
- Reforms of EU institutions and decision-making procedures to pave the way for an enlarged Europe must be carried out in a timely, efficient and “results-driven” way. The European Council in Seville must set a firm deadline for completing institutional reforms and the Intergovernmental Conference (IGC) on institutional reform must commence as early as the second half of 2003. UNICE is actively participating in the work of the Convention, considering the implications for European business and European integration of inefficient or delayed reform.

- In order to fill the existing gaps in administrative and judicial capacity, candidate countries must step up measures and make good use of the additional action plan proposed by the Commission. All progress made must be transparently and efficiently monitored and evaluated, as must technical assistance measures. UNICE will attentively analyse the Commission's report on the implementation of the action plan for strengthening the candidates' institutions, to be presented at the European Council of Seville in June. It will also continue monitoring progress subsequently to ensure administrative capacity is sufficiently developed in candidate countries to avoid disruption in the functioning of the Internal Market. The Commission should enhance support to honour the important role that business and employers' organisations play in transposing and implementing part of the Acquis and as interface for the proper application of EU rules and standards by companies.
- The EU must make a greater commitment to the promotion of political and economic co-operation and association with neighbouring countries in East and South East Europe, and provide adequate and efficient financial and technical assistance without reducing support currently provided to other regions outside of the Union such as the Mediterranean.
- European Economic Area (EEA) participating states need to ensure a simultaneous enlargement of the EEA with EU enlargement.

HOW TO MAKE SURE ENLARGEMENT IS WIDELY UNDERSTOOD AND SUPPORTED?

UNICE urges Member States and candidate countries alike to step up their efforts to communicate the scope and benefits of enlargement without hiding the inevitable adjustments needed in some areas. The European Commission should actively pursue the European campaign and provide information and support national campaigns with the same determination and vision that it manifested in the 'Euro' campaign, duly taking account of the various situations and debates in the Member States and candidate countries.

UNICE and its member federations are helping to communicate the benefits and challenges of enlargement and to highlight the remaining efforts needed to ensure it is a success.

1. Introduction

Enlargement of the European Union to Central and Eastern Europe and several Mediterranean countries is one of the biggest challenges and tasks the Union faces now and will be for many years to come. Challenges are notably of a political and institutional nature but the tasks are important and many also in economic terms.

Enlargement requires a lot of efforts from all relevant and concerned political, social and economic actors both in the candidate countries and Member States as well as from the EU institutions.

But benefits of enlargement also promise to be significant and broadly spread. Enlargement will provide a major contribution to spreading stability and security throughout Europe. An enlarged Union will bring economic benefits and, as a result, contributes to social welfare.

By and large, however, benefits will only materialise and be sustainable if enlargement is completed successfully. In UNICE's view, this requires that certain conditions are fulfilled.

In view of the possible completion of negotiations with up to ten candidate countriesⁱ at the end of this year, a decision to be taken by the European Council of Copenhagen in December on the first countries to join the EU and the prospect of the opening of accession negotiations with Turkey, UNICE is updating its position on enlargement. This position builds on previous UNICE papersⁱⁱ and takes account of recent developments and progress made at candidate-country and EU level. It also considers new proposals and strategic considerations and the preliminary results of the on-going debate on enlargement.

In view of completion of negotiations with up to ten countries at the end of 2002, UNICE is updating its position on enlargement.

2. Positive economic impact of enlargement

European business expects, as widely supported by experts' opinion, that EU enlargement to Central and Eastern Europe, Malta, Cyprus and Turkey will be largely beneficial to both current and future EU member states.

Positive effects will be triggered through:

- Removal of the remaining non-tariff barriersⁱⁱⁱ, such as physical border controls and country-specific standardisation and certification requirements, and
- Approximation of the candidate countries' laws to Community legislation ('Acquis Communautaire'), including notably complying with EU antitrust and state aid legislation, EU legislation on industrial and intellectual property rights as well as standards and certification, EU company law and consistent, international accounting standards.

Enlargement is a win-win situation. Candidate countries are likely to gain even more than EU member states.

The potential impact for **enterprises**, which is largely expected to be positive, includes:

- Access to a larger Internal/Single Market, increased by 22% to an overall of 482 million consumers with 12 new Member States^{iv} (by 31% to 547 million consumers including Turkey), leading to significant economies of scale and potential cost reductions for companies.
- Increased competition as more companies exploit the opportunities of the wider internal market. This will trigger the necessary restructuring of companies and opportunities in tandem with the reorganisation of supply chains taking account of cheaper inputs/resources and increased opportunities for economies of scale.
- Improved investment climate in the candidate countries, triggered by an improved regulatory business environment, macro-economic stability and strong growth rates of GDP (initially as a result of trade effects). This, in turn,

creates a virtuous circle of growing inflows of Foreign Direct Investments (as a result of new investment opportunities for companies), bringing new technologies and know-how into the country, and increasing economic growth.

While joining the EU and taking part in the Internal Market will generate clear and tangible benefits for companies in the candidate countries, notably in the short run, they will however also have to bear the adjustment costs of getting in line with the Acquis, including as regards the labour law, health and safety regulations, environment and food-related issues. SMEs in particular may have difficulties in quickly absorbing these costs.

Economies in both the EU and the candidate countries will generally benefit from positive integration effects enabled through EU enlargement leading to increased economic growth and social welfare, including:

- Increased trade, due to the removal of non-tariff trade barriers and a larger Internal Market (approximation of rules and standards, etc.);
- Rising FDI flows to candidate countries, notably due to an improved investment climate in these countries;
- Movement of workers within the widened Union: this will be beneficial to current Member States, notably those not applying any restrictions to the free movement of labour from the new Member States, as it adds to their labour force growth and increases their long-term growth potential;
- Positive medium- to long-term effects linked to an enlarged Internal Market, such as economies of scale, productivity gains, cost reductions resulting from increased competition, restructuring and a more efficient organisation of supply chains.

Increased trade, growing FDI and dynamic effects of a growing Internal Market will generate additional economic growth.

Candidate-country economies will also benefit from additional income transfers from the EU budget (reaching almost € 12 bn in 2006 for ten countries under current proposals), assisting in the structural reform process and leading to positive income effects.

As far as the **sectoral consequences** of enlargement are concerned, although adaptation and restructuring is inevitable in some sectors in the candidate countries and the EU, it appears that these will not be excessive in that there is only a relatively small overlap in comparative advantages between the EU and the candidate countries.^v A number of candidate countries may gain in those sectors they have already gradually expanded exports in, i.e. labour-intensive production (textiles, clothing and footwear), basic and energy-intensive goods (chemicals, rubber, plastics) and goods where scale matters (iron, steel, shipbuilding). Current Member States and to some extent some of the most advanced candidate countries may benefit more in knowledge-intensive products.

The **EU** as a whole will further benefit from its reinforced ability to **assert its position** at global level and in trade negotiations as a result of enlargement.

Box 1: Estimates of economic growth effects of enlargement

All in all, enlargement is considered a win-win situation for the economies involved. Enlargement is expected to boost economic growth in both the candidate countries and the EU, although to a different extent.

According to recent studies, enlargement is likely to boost **economic growth** and income substantially in the **candidate countries** over the period 2000-2009. According to one study^{vi}, for example, overall economic growth in eight CEEC (excluding Bulgaria and Romania) may be between 1.3 and 2.1 % higher per year than in a situation without enlargement, depending on the intensity of structural reforms undertaken. Other studies^{vii} project additional growth rates of up to 1 % per annum, over and above the growth rate without enlargement, only for the most open CEE economies such as Hungary and Poland. However, all candidate countries will benefit from dynamic long-term growth prospects by joining the EU and notably the Internal Market.

The economic impact of EU enlargement on **current Member States** will be less pronounced^{viii}, with additional economic growth generated by enlargement reaching up to 0.1% per year.^{ix}

This is not surprising considering the overall comparably small size of the candidate countries' economies and the current low level of income: the size of the GDP of the candidate countries amounted to less than 5% (just over 7% Turkey included) of the EU's GDP in 2000 and the average per capita GDP of the candidate countries stood in 2000 at only 39.2% (35.1% Turkey included) of the level in the current EU.

As in the candidate countries, there will also be differences between the Member States in terms of benefits from enlargement. Those countries which already have the biggest trade links with the candidate countries will benefit most, notably Austria and Germany (Austria's GDP growth may for example be boosted by an annual 0.15% through enlargement^x).

Additional annual economic growth could be 1% or more in the candidate countries and 0.1% in EU member states.

The total GDP of the 13 candidate countries is only just over 7% of the EU's GDP.

3. Let candidate countries join the EU as soon as they are ready

UNICE supports membership as soon as possible for those candidate countries which have completed negotiations and which are ready in political, economic and administrative terms to join the EU.

UNICE reiterates that the differentiation principle by which each candidate country progresses in negotiations according to its own merits and which will guide the final assessment and judgement of candidate countries must be strictly applied. Monitoring progress by candidate countries and assessing the level of fulfilment of the accession criteria (i.e. Copenhagen and Madrid criteria^{xi}) should not only concern achievements and commitments as regards the economic criteria (notably a sound macro-economic policy context) and with regard to complying with the Acquis but also fulfilling all commitments stated in the Association/Europe agreements well in advance of accession.

There are reasons to include a certain number^{xii} of candidate countries in one wave of enlargement and to group them under one Accession Treaty (e.g. avoiding cutting off countries from their neighbours, avoiding erecting temporary and costly external border controls, facilitating ratification and administrative procedures). However, UNICE insists that this should not diminish the application of the differentiation principle. It should not be an argument for significantly delaying the accession of the most advanced candidates, or, conversely, for precipitating the accession of candidates that are not ready. There are possible costs of precipitating enlargement (e.g. disruption of the Internal Market, EU decision-making more difficult) and of delaying enlargement (e.g. lack of public support/political disillusionment and worsened business climate in the candidate countries), which must be taken into account.

Candidate countries should be able to join the EU as soon as they fulfil the accession criteria.

Enlargement should neither be precipitated nor delayed.

4. Ensure realistic and enforceable commitments in negotiations and an accurate, factual and transparent assessment of the readiness of candidate countries

UNICE is convinced that enlargement will only be successful if candidate countries have adopted all the legislation related to the Acquis Communautaire in full (subject to negotiated transition periods and case specific derogations), and have reached a satisfactory level of implementation and enforcement of EU rules and standards upon accession.

Candidate countries must ensure proper implementation and enforcement of EU rules and standards.

UNICE recognises that transition periods (for implementing the Acquis) need to be accepted in some limited areas (largely because of lack of financial resources, e.g. in the field of environment). However, these should be limited in time and scope and not distort competition or disturb the functioning of the Internal Market.

As the completion of negotiations is often connected with commitments made by the candidate countries and not yet on the actual implementation and enforcement of EU rules and standards, those commitments should be realistic and enforceable. UNICE calls on the European Commission and the Member States to include in the Accession Treaty(ies) provisions for transparent and efficient monitoring and enforcement of these commitments.

The assessment of the candidate countries' readiness must be factual and transparent.

Equally, the assessment of candidate countries' progress towards accession (analysis of fulfilment of accession criteria in annual progress reports) should be accurate, factual and transparent. This is of even greater importance, as the judgement on the readiness of the ten most advanced countries and a decision on the timing of their accession will be primarily based on this year's progress reports.

European business is also assessing progress made by candidate countries from a business perspective, based on the experience and knowledge of businesses operating in and with candidate countries.^{xiii} Through the work of the UNICE Task Force on Enlargement (UTFE), European businessmen contribute to the process of identifying the main problems and difficulties encountered by companies in the candidate countries and making recommendations for action on how to overcome them. UNICE is in the process of updating its candidate country progress reports^{xiv} and calls on the Commission to take full account of these UTFE reports when preparing its annual reports.

The Commission should take account of UNICE's updated assessment of the candidate countries' progress towards accession.

Furthermore, the on-going monitoring of efforts of candidate countries should not only concern application of the Acquis but also fulfilment of all commitments set out in the Europe Agreements. This process should be sustained and further deepened.

UNICE is convinced that impartial and objective monitoring and assessment of progress made, linked with strict application of the principle of differentiation and of countries being able to catch up in negotiations has been a motivating and driving factor for increased efforts by candidate countries. The current high momentum in the preparation of candidate countries should not be put at risk.

Efficient monitoring and enforcement of commitments are essential for the proper functioning of the Internal Market.

Being less stringent in relation to the assessment of candidate countries' readiness and the monitoring and enforcement of commitments would have negative effects on the functioning of the Single Market and further integration of the EU. This would be detrimental not only to the current but also future Member States.

5. Establish rapidly a clear and viable financial framework for enlargement and prevent delay in much needed policy reform

On 30 January 2002, the European Commission presented its proposals for a financial framework for enlargement^{xv} covering the period 2004-2006. UNICE considers that with its implications for the Community budget and the shape of key policies after 2007, proposed provisions should be considered transitional and strictly concern the period 2004-2006 only. The final financial framework for enlargement covering the period 2004-2006 must neither delay nor prevent necessary reforms of the Common Agricultural Policy and Cohesion Policies, nor pre-empt the financial perspective 2007-2013.

The difficulty of establishing a financial framework for enlargement does not so much lie in the level of total appropriations and net payments to candidate countries in 2004, 2005 and 2006 but in the financial consequences for the period 2007-2013 of proposed provisions as regards the Common Agricultural Policy (CAP) and Regional/Cohesion Policy (which together take up around 80% of total Community expenditures). While the amounts earmarked for new member states reach € 16 billion (€ 13.3 billion for CAP and Regional Policy) in 2006 according to the Commission proposal, the amount for CAP and Regional Policy alone could triple reaching up to € 43 billion in 2013 according to calculations^{xvi} made by the European Parliament. This would require raising the Community's own resources ceiling of 1.27% of GDP today to 1.4% in 2013.

UNICE underlines that these levels of expenditure would not be economically sustainable and viable. European business insists that EU budgetary discipline and far-reaching aims of the Lisbon process do not make it possible to increase the EU budgetary ceiling over and above the current limit of 1.27% of GDP. Moreover, it would also not be economically efficient to extend policies which have not consistently proved that they can improve productivity and regional competitiveness. Lack of absorption capacity of EU funding in candidate countries (although varying considerably between countries) also speaks against full extension of current key policies to candidate countries without gradual and thorough reform. Additional expenses for enlargement should be investments in the future and not lead to the expansion of EU policies which are in urgent need of reform.

UNICE therefore considers that the key Community policies, the CAP and Regional Policy, need to undergo significant reforms (see Box 2 and 3 for summary proposals by UNICE). This process should be given high priority at EU level, and concrete and workable proposals must be tabled and discussed at the highest political level as soon as possible.

In view of enlargement, the Common Agricultural Policy and Cohesion Policies need to undergo serious reforms.

Failing to reform the EU's key policies and raising the Community's own resources ceiling to 1.4% of EU GDP in 2013 in view of enlargement would not be economically sustainable.

Box 2: Extension of the Common Agricultural Policy (CAP) to future member states

The European Commission presented on 30 January 2002 its document 'Enlargement and Agriculture: Successfully integrating the new Member States into the CAP' providing comprehensive proposals for extension of the CAP.

In UNICE's view proposals made are only viable, economically sustainable and acceptable in the short run, i.e. until 2006. There is a risk of exploding expenditures for agricultural policy by 2013, reaching up to € 17 billion annually for the new Member States alone, unless the CAP is radically reformed^{xvii}.

The original objectives of the CAP are today largely irrelevant and need to be fundamentally overhauled to reflect current realities - a more demanding consumer, very concerned with food safety and less with quantities of food, and environmental challenges. The time has come to scale down the EU's budget dedicated to agriculture to more realistic levels and redirect funds to other areas, linked to the Lisbon agenda.

Proposals made by the Commission to extend the system of direct payments to future member states by phasing in payments over a ten-year period should be understood as temporary as the process does not guarantee that most farmers in these countries could ever compete at an international level. Although the proposed decoupling of direct payments from production levels does entail a welcome step towards reform, it does not as such provide a viable long-term perspective. Direct payments under the current system do not provide a sufficient incentive for agricultural restructuring and rural development. More adequate instruments therefore have to be found to support the agricultural sector in the candidate countries. Emphasis should for example be placed on the exchange of good environmental practices and support to less favoured areas. Enhanced financing to upgrade ancillary services and food safety standards/food quality across the entire agri-food chain should be considered.

UNICE calls on the Commission and the Member States to use the forthcoming Mid-Term Review of the CAP to advance significantly in the debate on a far-reaching and radical reform of the CAP.

The Common Agricultural Policy is in need of drastic reform as original objectives are today obsolete and expected levels of expenditures after enlargement are not viable.

Good use should be made of the CAP's mid-term review in order to progress significantly in the debate on drastic reform of the Union's Agricultural Policy.

Box 3: Extension of Structural Funding to new Member States and reform of Regional and Cohesion Policy

The recent Commission information note on the 'Common Financial Framework 2004-2006 for the Accession Negotiations' provides promising and acceptable elements as regards the extension of Structural Funding to the new member states from 2004. UNICE welcomes the fact that it takes account of currently limited administrative capacity and absorption capacity by proposing a phasing-in of funding over a three-year period and by confirming the ceiling for overall structural financial support of 4% of GDP of the beneficiary countries. The increased share of the Cohesion Fund in overall Structural Funding from 18% to 33% is also welcome in the light of the need for substantial improvements of infrastructure in the candidate countries and the need for more efficient use of funding.

But as in the case of the CAP, proposals made should not stand in the way of further reform of Regional Policy. UNICE is participating in the debate on the reform of Community Regional and Cohesion Policy and has recently responded to the ten questions raised by Commissioner Barnier in the second cohesion report^{xviii}. UNICE's main recommendations on reforming cohesion/regional policy can be summarised as follows:

(1) Regional and Cohesion Policy should be refocused to contribute to its essential objective of increasing regional competitiveness. It should be remembered that Regional/Cohesion Policy is not a policy for permanent redistribution but for results-oriented structural change and innovation. Rather than maintain the 'only' final objective of reaching a given per capita GDP as compared with the average of the EU, it should be considered also with reference to the objectives set out in the Lisbon process and, in this context, to set the values to be achieved within specified successive periods (with interim evaluations) for meeting the desired ultimate objectives as compared with the EU average. Reform of cohesion policies as well as adjustments linked to the integration of new member states should take account of the need for adequate transition periods for the phasing out of aid to regions (as done already for Obj. 2 regions), which no longer qualify for EU regional policy support in subsequent programming periods.

Cohesion Policy is not a policy for permanent redistribution but for results-oriented structural change and innovation.

(2) Effective implementation of structural funding is based on coherent regional programmes elaborated by real partnerships, with companies in the front rank. The latter will then be able to participate in public-private financing actions in whose design, and subsequent implementation, they are fully involved. Within programmes, it is essential to give priority to major and clearly identified projects for tangible and intangible investment in transport infrastructure, environment (water supply, rehabilitation and waste), energy, research and high-level training, etc., in order to render assisted territories competitive and thereby improve business competitiveness through an environment favourable to their development.

Priority should be given to major projects with clear and tangible results.

(3) Given the scarcity of resources and the need for more efficient and effective use of Structural Funds, the principle of conditionality for measures and the concept of value-for-money should be given more importance. It is important to recall, in this context, the growing need for transparent and efficient programme evaluation, detection of fraud or non-conformity with financial rules, and harmonised application of sanctions in the different Member States in the case of shortcomings. More effective use of Structural Funding also requires ensuring greater complementarity and synergy with other Community policies including from the areas of RTD, innovation, information society and lifelong training.

Conditionality for measures and the concept of value-for-money should be given more importance.

6. Reform EU institutions and decision-making procedures quickly and efficiently

UNICE urges EU Member States, EU institutions and candidate countries to complete the work of the Convention on the future of the Union in an efficient, timely and results-driven way. UNICE calls on the European Council in Seville to set a firm deadline for completing reforms and to commence the intergovernmental conference (IGC) on institutional reform as early as the second half of 2003.

UNICE believes that business needs an enlarged and strong European Union, with powerful institutions capable of rapid and efficient decision-making. A quasi-paralysed Council of Ministers due to a substantial increase in the number of its members and lack of clear and efficient rules and procedures would be a major strain on the proper functioning of the EU and a drawback for further EU integration as a whole, and more specifically for important policy issues relevant to business. It will therefore be critical to go further than the minimum institutional requirements for an enlarged Union as agreed at the Nice European Council and substantially to improve the current functioning of institutions taking account of increasing EU membership and evolving policy priorities.

UNICE considers the Convention on the future of Europe an ideal opportunity to press ahead with much needed reform at EU level. More specifically, the Convention will need to find answers to the most pressing questions such as the:

- Effectiveness of the decision-making process in an enlarged EU;
- Relationship between the EU and its citizens;
- Nature of the economic and political role of the EU on the international stage.

UNICE, as an observer, is closely following the Convention's work and is playing an active role in it. UNICE will submit its comments and additional recommendations on issues which interest business as ideas and proposals are further developed.

The efficient reform of EU institutions and decision-making procedures is crucial for the proper functioning of the EU and further integration post enlargement.

Box 4: Summary of selected past UNICE recommendations regarding EU institutional reform and good governance^{xix}

UNICE insists that the Union's institutions must be effective, capable of resolute action, well positioned to exploit the Union's great potential and to protect its legitimate interests. In addition, these institutions must develop a philosophy geared to competitiveness, administrative simplification and deregulation.

Accordingly, Europe needs a:

- Commission with a strong right of initiative, which bases proposals on broad consultations and which has an enhanced duty to enforce its decisions,
- Council which is more transparent and in which unanimity is the exception, and
- Parliament with simplified procedures, armed with greater powers of budget control and the fight against fraud.

In this context, UNICE supports extension of qualified majority voting (QMV) to certain important areas for business, notably in relation to the functioning of the single market and international trade.

In order to develop their business, companies need legal stability. EU institutions must therefore be stable, representative, transparent and credible, capable of framing and implementing the Union's policies in practice through the decisions taken in good time.

UNICE underlines that comprehensive, timely and structured consultation is a prerequisite for a satisfactory legislative process, for the evaluation of trade-offs involved in policy-making, and finally, for acceptability of rules and policies.

UNICE considers that besides respecting the principle of vertical subsidiarity (ensuring that decisions are taken as closely as possible to the citizen), the Union should make more use of the so-called principle of horizontal subsidiarity, i.e. planned EU action is achieved by other actors (e.g. public authorities, social partners), which are better placed to carry out the task effectively and efficiently.

UNICE reiterates that European business needs a regulatory framework that is simple, coherent and consistent across the Union. In this context, UNICE strongly supports the promotion of the use of alternative regulatory models and a new mix of available (regulatory and non-regulatory) instruments. It also reiterates the usefulness of instruments like self-regulation or voluntary agreements, which have proved to be effective and flexible mechanisms providing rapid assessment, decisions, and implementation.

UNICE also calls for a stronger emphasis on the global dimension in framing of EU policy and for a unified EU international representation to allow it to speak with one voice in the interest, inter alia, of European business.

NOTE: The above recommendations are part of past positions of UNICE. They are not reflecting the full and most updated statement of UNICE on EU institutional reform as this is currently being elaborated in a specific internal ad-hoc group preparing UNICE's input to the work of the convention.

The Union should extend qualified majority voting to certain important areas for business and make more use of alternative regulatory models and the so-called principle of horizontal subsidiarity.

7. Step up measures to strengthen administrative and judicial capacity and ensure efficient and transparent monitoring and evaluation of progress made

Building up administrative and judicial capacity in the candidate countries is the area where important gaps remain and where serious efforts are needed. Failing this, adopted legislation may not be implemented and enforced properly, leading notably to a disruption of the Internal Market and distortion of competition.

UNICE therefore welcomes the increased financial package and action plan for improving administrative capacity, which was agreed at the Laeken European Council. Results and success of the action plan will largely depend on the efficiency and effectiveness of measures taken. In the light of important improvements and developments still needed, UNICE calls on candidate countries to step up their efforts to strengthen administrative and judicial capacity and to fulfil all objectives established in the Accession Partnerships and the National Programmes for the Adoption of the Acquis.

UNICE will attentively analyse the Commission's report on the implementation of the action plan for strengthening the candidates' institutions, to be presented at the European Council of Seville in June. It will also continue monitoring progress subsequently to ensure administrative capacity is sufficiently developed in candidate countries to avoid disruption in the functioning of the Internal Market.

While UNICE is in favour of continuing administrative capacity-building action post accession, key institutions and administrative capacity relevant for the proper functioning of the Internal Market and the respect of competition rules must be in place in advance of accession. Extending capacity-building action beyond the date of accession should be limited to a few areas (e.g. programming of Structural Funding) and should not be accepted as a transition period for building up institutions and administrative capacity in key areas.

As regards the planning and implementation of adequate methods and instruments for capacity-building, UNICE wants to reiterate the importance of efficient and transparent monitoring and evaluation of measures undertaken and the benefits of taking account of good practice experiences. Results of monitoring and evaluation work have to feed rapidly through to decision-makers and should lead to efficient and speedy adaptation of measures undertaken.

UNICE welcomes the concerted action of the European Commission and Member States in the peer review of administrative capacity and compliance with the Acquis in the candidate countries. It underlines that the same attention and focus should be given to all the areas of the Acquis and that where capacity is limited, gaps should be filled by mobilising additional external resources.

UNICE also underlines the role that the business and employers' organisations are playing and should continue to play in the candidate countries in this context. Beside its role as a social partner in transposing and implementing parts of the Acquis, business and employers' organisations are the key interface for proper application of EU rules and standards by companies. The Commission should honour this role by providing opportunities to business and employers' organisations in taking up and developing this role in full.

8. Enhance cooperation and association with neighbouring countries and ensure adequate assistance

Enlarging the EU to Central and Eastern Europe will lead to a shift of the Union's external borders to the East. While this process will present new security challenges to the EU, internal security policies should not lead to cutting off commercial and cultural ties between the new Member States and their neighbours but on the contrary give new impetus to their development.

Furthermore, new Member States will benefit from substantial financial transfers in the framework of Community policies and from economic development opportunities, notably through taking part fully in the Internal Market. This may widen the gap between the new Member States and the neighbouring countries in East and South East Europe.

Candidate countries must ensure adequate administrative capacity in order to make sure they can respect EU rules and standards, notably as regards the Internal Market.

The EU must focus on enhanced political and economic cooperation and association with countries in East and South-East Europe.

UNICE therefore urges the EU to build on current cooperation and association agreements and support measures, and to:

- Strengthen efforts and make commitments for enhanced political and economic cooperation and association with neighbouring countries and;
- Provide adequate and efficient financial and technical assistance in order to reduce the gap in economic performance between the neighbouring countries and the EU without reducing support currently provided to other regions outside of the Union.

Enlargement should not be realised at the cost of marginalizing other neighbouring regions, especially the politically volatile Mediterranean area. UNICE contends that there should be a more reinvigorated Barcelona strategy, which enhances the role of the southern Mediterranean countries as partners of an enlarged Union. This could be realised with more targeted financial support and more commitment on the political front. Progress must be made with regard to establishing the euro-Mediterranean free trade area, in assisting Mediterranean partner countries in their economic reform processes and in building up much needed infrastructure (notably in the area of transport). Only if efforts by all are strongly pursued can the goal of making the Mediterranean an “area of shared prosperity and peace” be achieved.

In view of the Danish Presidency in the second half of 2002, one of those areas, among others, that should receive attention is the Northern Dimension. It will be important for the new action programme 2003-2006 to emphasise the need to develop the best possible conditions for business in the region in order to facilitate increasing trade and cooperation between current EU Member States, new Member States and Russia. To this end, the Commission must strengthen its coordination role and make sure that the development of the Northern Dimension will be to the benefit of the whole of Europe.

A revised, realistic and encouraging roadmap for Bulgaria and Romania must be tabled at the end of the year.

UNICE also calls on the EU to agree at the end of this year on a revised, realistic and encouraging roadmap for those candidate countries, notably Romania and Bulgaria, which are unlikely to join the Union in 2004. Increased focus should also be put on Turkey and further support provided in order to start negotiations as early as possible subject to meeting the political criteria for accession.

Progress should be made with regard to the start of negotiations with Turkey.

These measures would contribute to enhancing political and economic stability and sustained economic growth as well as an improved credibility and understanding/acceptance of the Union in its neighbouring countries.

9. Ensure a simultaneous enlargement of the EEA

Membership of the EU will also require candidate countries to accede to the European Economic Area (EEA). The EFTA free-trade agreements with the candidate countries will no longer apply from the day of accession. Therefore, UNICE calls on the EEA participating states to rapidly address enlargement to the EU candidate countries. In order to avoid any uncertainty as to the rules regulating economic co-operation between the new member states and EFTA - EEA states it is necessary in good time, before January 2004, to have resolved how to ensure a simultaneous enlargement of the EU and the EEA.

Candidate countries should rapidly join the EEA in order to create a level-playing field throughout the Internal Market.

Only through simultaneous enlargement of the EU and the EEA will it be possible to ensure a fully extensive and level playing-field throughout the Internal Market from day one of enlargement.

10. Step up communication in favour of enlargement

Although public opinion in the different Member States and the candidate countries seems still largely in favour of enlargement^{xx}, awareness of enlargement by and large is still limited and there is a growing risk that the positive opinion may be reversed. As enlargement comes closer and becomes more tangible and concrete, some sections of public opinion may be influenced by concerns and worries expressed by individuals and members of smaller political groupings. There is a risk, although generally recognised as small, that some candidate countries may decide not to join the EU (as a majority of them will carry out referenda on EU accession) or that some EU Member States may jeopardise the enlargement process altogether by delaying the accession process.

Governments, in both the Member States and the candidate countries, have obtained a key role in implementation, on a decentralised basis, of the European-wide communication strategy initiated and supported by the Commission. In the framework of the different national campaigns, the business community has taken up its role and is contributing to communicating the benefits and challenges of enlargement and in outlining the main remaining gaps and where efforts are needed. Business and employers' organisations in some cases are also making proposals to co-operate directly with the Commission. Promising examples and good practice are found increasingly across Europe.

But the overall campaign can only be successful if in the context of individual national campaigns players/actors involved adopt a co-ordinated approach with joint objectives, consistent messages and equally strong determination.

UNICE deplores that national campaigns are not (yet) being pursued in all EU and candidate countries with the same vigour and visibility. UNICE also regrets that the European Commission is not yet pursuing the overall campaign at European level and support to national campaigns with the same determination and vision, as was the case for the 'Euro' campaign. While the role of the Commission is important, previous experience has demonstrated the need for national, and perhaps also regional and local adaptation of communication on EU matters. Therefore, when it comes to design, formulation and timing of communication on enlargement, a decentralised approach is pivotal. Furthermore, UNICE considers overall funding allocated to the campaign as limited given the massive communication exercise which needs to be stepped up in the coming months.

UNICE therefore calls on the Member States and candidate countries alike to step up their efforts to communicate the scope and benefits of enlargement without hiding the inevitable adjustments needed in some areas. This should be done at the highest political level and should be well co-ordinated with messages and initiatives of all concerned actors if it is to be credible and successful. The European Commission must also fulfil effectively its important role of providing information and horizontal support to the campaign(s). Increasing the scope of the campaign by mobilising additional resources both at EU and national level should also be seriously considered.

Wide support for enlargement through a broad and efficient communication campaign is crucial to achieve the goal of EU enlargement.

Member states and candidate countries as well as the Commission must step up their efforts with regard to communicating the benefits and challenges of enlargement.

11. Conclusions

UNICE strongly supports enlargement and is strongly in favour of accession of those candidate countries that fulfil the accession criteria in order for them to be able to take part in European Parliament elections of 2004. EU enlargement is an irreversible process to create a pan-European Union of security, stability and sustained economic growth.

Preparations are complex and more efforts are needed by all concerned actors to make sure enlargement is successful.

There are benefits to be gained from enlargement across Europe including notably in social, economic and security terms. But there is also a cost linked with either precipitating enlargement with countries which are not ready or delaying accession of the most advanced countries.

Enlargement will only be successful if specific conditions are met and certain measures are taken or strengthened, including, among others, the effective preparation of candidate countries to meet the accession criteria and the strengthening of their administrative capacity, the carrying out as soon as possible of reforms of EU institutions and key policies and a well co-ordinated and effective European-wide communication campaign in favour of enlargement.

UNICE will continue playing an active role in the enlargement process and is committed to a continued and strong cooperation with relevant actors.

UNICE will continue playing an active role in the process to make sure enlargement is a success. It is convinced of the benefits of joint and co-ordinated efforts and is therefore committed to a continuing strong co-operation with European institutions and with relevant players in the candidate countries and the Member States.

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- i Including Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.
 - ii See UNICE Task Force on Enlargement: Candidate countries' progress towards EU accession, October 2002; UNICE Position Paper on Enlargement, 2 October 2000 and UNICE Statement in view of the Helsinki European Council – European Business supports Enlargement of the European Union, 3 December 1999.
 - iii Tariff barriers between the EU and the candidate countries have already largely been removed under the Europe agreements by 31.12.2001 and the customs union with Turkey of 1 January 1996, except notably in the field of agricultural products.
 - iv EU-27 (i.e. EU-15 and already negotiating candidate countries: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia).
 - v See Ruud de Mooij: Economic consequences of EU enlargement, in CPB Report 00/4, Autumn 2000.
 - vi European Commission: The economic impact of enlargement, Enlargement Papers N°4, June 2001.
 - vii See for instance CPB Netherlands Bureau for Economic Policy Analysis: EU Enlargement – Economic implications for countries and industries, CPB document N° 011, September 2001 or WIFO: Makroökonomische Auswirkungen der EU-Erweiterung auf alte und neue Mitglieder, study conducted in the context of Interreg Iic Preparity project, April 2001.
 - viii See for instance CPB Netherlands Bureau for Economic Policy Analysis: EU Enlargement – Economic implications for countries and industries, CPB document N° 011, September 2001 or European Commission: The economic impact of enlargement, Enlargement Papers N°4, June 2001.
 - ix Migration effects, which are taken into account in growth projections, may be lower or delayed as some EU member states are likely to take up the possibility of introducing transition periods of up to 7 years before the full opening of their economies and labour markets for workers/people from the candidate countries. UNICE considers that if transition periods for implementing free movement of labour are introduced, these transitional arrangements should be flexible and periods short.
 - x See WIFO: Makroökonomische Auswirkungen der EU-Erweiterung auf alte und neue Mitglieder, study conducted in the context of Interreg Iic Preparity project, April 2001.
 - xi (1) Political: stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; (2) Economic: the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union; (3) Acquis Communautaire: the ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union. (4) Administrative capacity: membership also requires that the candidate country has created the conditions for its integration through the adjustment of its administrative structures.
 - xii Up to 10 countries as suggested by the European Council of Laeken in December 2001.
 - xiii See UNICE Task Force on Enlargement: Candidate countries progress towards EU accession, October 2001.
 - xiv To be released at the European Business Summit in Brussels on 6 June 2002.
 - xv See European Commission: Communication from the Commission – Information Note 'Common Financial Framework 2004-2006 for the Accession Negotiations', Brussels 30.1.2002.
 - xvi See European Parliament working document on the financial implications of EU enlargement (11 April 2001)
 - xvii See European Parliament working document on the financial implications of EU enlargement (11 April 2001) or Dresdner Bank Economic Research, The cost of EU's eastward enlargement, May 2001
 - xviii See European Commission: Second Report on Economic and Social Cohesion, January 2001.
 - xix See for example UNICE position on the Commission White Paper on European Governance, February 2002.
 - xx See Eurobarometer results at <http://europa.eu.int/comm/enlargement/opinion/index.htm>