

INT/133
Impact of EU enlargement
on the single market

Brussels, 12 December 2002

OPINION
of the
European Economic and Social Committee
on
The impact of the enlargement of the European Union on the single market
(Additional Opinion)
Single Market Observatory

On 17 January 2002 the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an additional, own-initiative opinion on:

The impact of the enlargement of the European Union on the single market
(Single Market Observatory).

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 6 November 2002. The rapporteur was **Mrs Belabed**.

At its 395th plenary session (meeting of 12th December 2002), the European Economic and Social Committee adopted the following opinion by 77 votes to 12, with 7 abstentions:

Summary:

A. The enlargement of the European Union is an issue of major political, social and economic importance to the future of the EU. It provides a unique opportunity of ensuring lasting peace and stability in Europe.

B. Although the process of transformation has required large sections of the population to make considerable sacrifices and has led to major economic and social upheavals, the negotiations on the enlargement process are now in the final stages.

C. The EESC shares the view of the Danish presidency that the timetable for EU enlargement should be respected, bearing in mind the progress which has been achieved in the individual states concerned.

D. The enlarged single market will bring many economic advantages and will strengthen the competitiveness of the EU in the global market, provided that the Union manages to exploit its existing potential rather than allowing it to go unused. One of the key elements concerned here is the utilisation of the existing workforce.

E. A factor of decisive importance to public acceptance of EU enlargement will be the way in which the benefits of enlargement are distributed throughout the population.

F. There is a need to continue to press ahead with and support efforts to develop the capacity of the systems of administration and judiciaries in order to ensure that EU legal provisions do not simply exist on paper but are also applied and complied with in practice.

G. The adoption of the existing body of EU laws and economic integration are bringing about economic and social upheavals; a number of measures are being taken to overcome these problems, including the proposal by both sides of transitional provisions. Whilst these measures are facilitating a more readily acceptable form of integration, they are also at the same time bringing about a division of the single market; transitional provisions should therefore be used sparingly.

H. Effective support for the restructuring process and the removal of economic and social discrepancies between the existing Member States and the future Member States – also after their accession – are key prerequisites for a coherent economic and social development of the new EU as a whole, in line with the Lisbon objectives. Efforts need to be made in all areas of EU policy in order to remove, as quickly as possible, the differences between the existing regions of the EU and the new EU regions.

I. Special measures need to be taken in respect of border regions. It is essential to develop cross-border policies and cooperation if the potential available to border regions is to be utilised and also in order to protect these regions against detrimental development.

J. A large number of specific programmes have been introduced in order to prepare the candidate states for EU accession; the candidate states are also participating in some of the programmes and measures for the EU-15. These measures are providing the support for the accession measures. Some of the former programmes do, however, involve such a high degree of bureaucracy that it is scarcely possible for the candidate states to make use of them. It would be advisable to review these programmes with a view to simplifying them.

K. The EESC is lending its support to the enlargement process by organising hearings of the Single Market Observatory (SMO) in the candidate states and by cooperating with the social partners in these states. The EESC has also set up the PRISM (Progress Report on Initiatives in the Single Market) database, an information tool which documents measures of importance to the development of the single market. The EESC has put forward a number of proposals for developing the single market, including the proposal that single market coordination centres be set up in the candidate states.

1. Introduction

1.1 The enlargement of the Community is a matter of major importance for the future of the European Union since it provides a unique opportunity of ensuring lasting peace and stability in Europe and it offers an historic opportunity to unite the European states on the basis of common democratic values. In addition to the long-term safeguarding of peace and political stability in Europe – which is clearly the number one consideration – the process of EU enlargement also brings with it a large number of economic and social opportunities and challenges.

1.2 The transformation process will require considerable sacrifices to be made by large sections of the population of the candidate states and will, in many cases, involve major economic and social upheavals. The accession negotiations with the ten candidate states (Slovenia, Hungary, Slovakia, the Czech Republic, Poland, Lithuania, Estonia, Latvia, Cyprus and Malta) have already made progress and are now close to achieving a final outcome. The situation in Cyprus and Malta has to be looked at in a rather different historical light since these two states did not have to undergo a change of system. Bulgaria and Romania have to complete a longer catching-up process and have set

themselves a later date for EU accession. The EESC has already adopted an opinion covering the geographical and political situation of Kaliningrad¹.

1.3 According to the estimates made by the European Commission, all of the above-mentioned states, with the exception of Bulgaria and Romania, will shortly be in a position to withstand the competitive pressure in the single market of the EU. These eight states have a viable market economy. Considerable efforts have also been made in the fields of administration and justice in order to ensure that the necessary general conditions are in place to enable the economies of these states to integrate into an extensive single market. In this context we should not overlook the fact that the very prospect of joining the EU speeds up the process of transformation. Unnecessary prevarication and the attendant disappointments for the candidate states therefore need to be resolutely opposed.

1.4 The EESC shares the view of the Danish presidency² that the timetable for EU enlargement should be observed. The individual states have, however, made varying levels of progress. Those candidate states which meet the criteria set out at Copenhagen could, following the conclusion of the negotiations, become members of the EU at the scheduled time.

1.5 The tremendous mass of legal provisions, requirements and rules generated by the economic integration of the candidate states with the existing EU Member States makes higher demands on the candidate states than occurred in the case of the earlier accessions to the EU. Unlike what happened in the case of the earlier enlargements, these new requirements have a bearing on:

- (i) the size (as regards population and surface areas of the candidate states),
- (ii) the development of the EU itself and the deeper level of integration which has taken place since the earlier accessions, and
- (iii) the relatively weak economic power (above all as measured by per capita GDP) of the candidate states.

1.6 The enlarged EU will differ markedly from the existing EU-15. Enlargement to EU-27 will bring a 34% increase in the surface area of the EU and a 28% increase in its population. GDP, however, will increase by only 5%. This will mean a consequent drop in per capita GDP of 18% in statistical terms. The differences in income levels between states, regions and individuals will increase tremendously. It will take between 10 and 30 years to achieve real convergence in levels of GDP between the existing Member States and the candidate states. Economic convergence alone (both nominal and real) will, moreover, not be sufficient in itself; it will have to be backed up by ongoing convergence in the social field³.

¹ See the EESC opinion on Latvia and Lithuania on the road to accession (CES 556/2002); opinion not yet published.

² As expressed by the Danish Minister for Employment at the EESC plenary session on 18.7.2002

³ High-level Group on industrial relations and change in the EU. Draft Interim Report, 16 November 2001

1.7 The EESC maintains its belief that the enlarged single market will bring many economic benefits⁴. Adjustments made by both sides will bring about an integrated single market. The fields of trade and marketing, in particular, will be strengthened by the increased number of producers, suppliers and consumers. Completely new opportunities present themselves for (cross-border) cooperation and other forms of collaboration. The recruitment of suppliers, the achievement of benefits linked to scale, closer links to customers, etc. The simplified administrative procedures and improvements in service brought about by the modernisation of public authorities have also triggered incentives for growth and produced improved access to law (in particular company law, taxation law and administrative law). The establishment of an appeals system and a trusteeship system together with the development of a network of independent tax consultants and economic advisers will also help to ensure that the economies of the candidate states are successfully brought into line with the single market.

1.8 The enlargement of the EU will make it possible to trigger a dynamic process of economic growth and to strengthen the competitiveness of the EU in the global economy. It is very likely that the overall benefits of the enlargement process will easily outweigh its costs. If public approval is to be secured, however, the way in which both the benefits and costs of enlargement are distributed is also of decisive importance. The impact of enlargement may differ tremendously as regards the various sectors of the economy, the various regions and also as regards timing. The EESC welcomes the efforts made by the Commission to inform people more clearly of the opportunities linked to enlargement. At the same time, it is, however, of decisive importance to the success of enlargement that the attendant risks and challenges be addressed openly. This is the only way to help cope with these issues.

2. The existing body of EU law ("acquis")

2.1 As part of the enlargement process, the candidate states have to incorporate into their own national law the existing body of EU law and consequently also apply and enforce the requisite provisions. This represents a major challenge for the candidate states. A number of candidate states have expressed reservations over this issue in the negotiations, not least because of the high cost to be met.

2.2 The existence of modern state administrations and modern states based on the rule of law, backed up by appropriate service orientation, is clearly extremely beneficial, both in respect of the transposition and implementation of the existing body of EU law. The EESC therefore agrees with the Commission that it is of the utmost importance to strengthen the administrative capacities and the judiciaries in the candidate states in the run up to their accession to the EU, in order to ensure that EU legal provisions do not exist merely on paper but are also implemented and observed in practice.

2.3 With this aim in view it is essential to establish the necessary administrative and legal structures and capacities and to introduce appropriate measures in the field of qualifications and

⁴ See "The impact of the enlargement of the European Union on the Single Market (SMO)" opinion of the EESC, OJ C 329 of 17.11.1999.

remunerations. Appropriate information bodies and initial assistance bodies should also be set up to enable people to find out about and make use of the existing legal provisions, standards, complaints procedures and possibilities of bringing legal action. The EESC welcomes the action plans and programmes which have been introduced to strengthen the administrative and judicial capacities of the candidate states.

2.4 In this context, the question of the increase in the number of official languages in the future EU has scarcely been discussed. The EESC draws attention to the fact that this increase will place an additional burden on the EU in terms of funding and human resources, for which provision will have to be made. The EESC urges the Council to set out its views on this issue.

2.5 In view of technical, economic or political reservations, both sides have asked for transitional periods to be introduced in sensitive areas of EU legislation prior to the complete adoption of the existing body of EU legislation. The EESC is confident that the candidate states will be able to overcome the other challenges arising in the course of the accession process, just as they have managed to carry out the earlier transformation of their economies. The EESC would, at the same time, express its understanding over the fact that in many fields the switchover to the single market rules will require a certain amount of time, which will extend beyond the date of accession.

2.6 This being the case, the practice of granting transitional periods provides a helpful alternative which benefits both the present and the future member states. As they have the effect of restricting the single market, however, such transitional measures should be confined to what is required to implement an adjustment process which is socially and economically acceptable; they should also continue to be of the shortest possible duration. In the period of application of the transitional measures, targeted measures should be taken or supported to ensure that the necessary adjustments can be carried out. Sensitive areas of the single market in this respect include:

2.6.1 **Free movement of capital:** transitional periods have been granted in the case of all candidate states with regard to the purchase of agricultural land by foreigners. Agreement was also reached on the granting of a five-year transitional period in respect of the purchase of second residences. Transitional periods are important in both of these areas as they are sensitive issues for many of the candidate states and in all probability prices will rise anyway in these fields in the candidate states after a certain delay.

2.6.2 **Free movement of workers:** views differ very considerably on this issue. The EESC has already noted that measures in respect of timing and area and sectoral provisions have already been introduced to address the expected movements of the migrants and the EESC has further highlighted the need for regional and sectoral distinctions to be introduced in respect of the transitional measures for limiting the free movement of workers and freedom to provide services and for these measures to be regularly reviewed and administered in a flexible way⁵. In its common position the EU has taken account of the fact that free movement of workers is a highly sensitive issue and it has already reached agreement on transitional provisions with almost all of the candidate states.

⁵

See "Freedom of movement for workers in the single market", opinion of the EESC, OJ C 155 of 29 May 2001

The EESC welcomes this and expresses its hope that in the course of these transitional periods every effort will be made to press ahead with the introduction of the necessary preparatory measures in order to ensure that the EU provides an effective common labour market for all future EU Member States.

2.6.3 Mutual recognition of vocational qualifications and the removal of discrimination and restrictions with regard to access to careers: these fields continue to pose a challenge. The coordination of social security systems, together with coordination and cooperation in the field of income tax, are also key issues in this context.

2.6.4 **Frontier checks on individuals:** these checks will be retained for a certain period following accession. If they are to secure the removal of the internal borders the candidate states will have to fulfil all the prerequisites for the entry into force of the existing Schengen provisions. These prerequisites include, in particular, the introduction of an operational national section of the Schengen Information System (SIS). Full implementation of the Schengen provisions by the date of accession to the EU will, in all probability, not yet be possible for technical and operational reasons. Bearing in mind the timetable for the introduction of the second generation Schengen Information System (SIS II) which, on current estimates is not likely to be operational before the end of 2005 at the earliest, it will probably not be possible for a decision to be taken before this time on the removal of checks at the internal borders. Time will also be required to carry out the Schengen evaluation process. The continued application of border controls is however necessary in view of the transitional provisions relating to tobacco tax (see point 3.3.2.5 below).

2.6.5 Free movement of goods

2.6.5.1 Turning to the field of agriculture and the issues in this sector which are of relevance to the internal market, a series of transitional periods have been requested by the candidate states in respect of the EU's planned health and veterinary provisions; some of these requests have been accepted on a temporary basis. Almost all of the candidate states have requested transitional periods representing, on average, three years with effect from their date of accession, in order to enable them to convert their food-processing plants. If the transitional periods are accepted, the marketing of products produced by these plants in the transitional period will, however, have to be confined to the respective candidate states. Such products should not be marketed throughout the EU at this time.

2.6.5.2 Although it is at present not possible to carry out a detailed survey, since this chapter is, in part, still being negotiated on a bilateral basis, the transitional periods granted in respect of processed and unprocessed agricultural products could well jeopardise the **free movement of goods**. It will be necessary to carry out checks on goods at or beyond national frontiers in order to monitor compliance with these provisions. There is a risk that these transitional provisions and the border inspections made necessary because of these provisions will trigger delays at the borders between the old and the new member states. Whilst recognising the need for border inspections, the EESC nonetheless points out that considerable delays may also entail corresponding economic costs.

2.6.5.3 In this context the EESC calls for all the necessary measures to be taken in order to comply with the high standards of **food safety** in the EU. The following issues have yet to be resolved: assurances that adequate checks are carried out at the external borders; compliance with the

EU's strict health-protection provisions with regard to BSE; safeguarding the quality of drinking water; bringing food processing plants into line with EU standards; and observance of the EU's animal welfare provisions. It will only be possible to set up inspection posts to carry out veterinary and other checks at the external borders of the EU on condition that the requisite buildings, equipment and personnel are available.

2.6.5.4 **Certification systems:** in this field the EESC supports the proposal put forward by the European Commission⁶ that the candidate states should become active, full members of CEN and CENELEC by December 2003 at the latest. The aim is to introduce a uniform system for certification in order to simplify procedures and avoid the additional expenditure caused by the use of different systems; such additional costs would represent an insuperable burden, particularly for SMEs.

2.6.6 **Freedom to provide services:** the majority of the candidate states have been promised transitional periods in respect of financial services, relating to: restrictions applying in the case of small cooperative banks; low minimum capital-cover requirements in the case of cooperative banks, pensions funds, etc. The deadline for removing restrictions on the movement of capital between EU Member States and third countries was set at 31 December 1999. Prior to this target date, all restrictions on the movement of capital between the new member states and third countries were the subject of long-term derogations.

2.7 In order to ensure that the future single internal market operates effectively, it will be necessary to step up frontier checks. Uniform standards will have to be applied throughout the EU when carrying out these checks. With this aim in view, measures will need to be taken in the following fields: training; remuneration; application of the common rules; and monitoring compliance with these rules.

2.8 Implementation of the existing body of EU law in the enlarged Union represents a historic challenge. Even in the EU-15 and ten years after the completion of the single market, major sections of the provisions have yet to be implemented. Against this background, **further development** in accordance with the objectives of the Lisbon process, of single market law which has already been harmonised or standardised will constitute a special challenge. It is of critical importance to the future of the EU and the Union's objective of improving living and working conditions, that Community law and policies are adjusted to bring them into line with new developments, thereby ensuring the ongoing modernisation of the existing body of EU law. We must ensure this process does not grind to a halt.

2.9 The EESC shares the Commission's view that the **administrative capacities** of the new Member States will have to be regularly adjusted – even after the states concerned have joined the EU – to keep pace with the changing requirements of Community law. In order to enable the benefits of the transition from a closed system to a system based on a social market economy to be fully utilised, ongoing improvements will have to be made to the legal framework in respect of competition law, consumer protection law, labour law, social law, etc. The establishment of an adequate administrative capacity is therefore not a process which comes to an end once the candidate

⁶ European Commission: 2002 Review of the internal market strategy (COM(2002) 171 final)

states have actually joined the EU. The EESC welcomes the Commission's plan to provide a special transitional facility to assist the new Member States also after they have joined the EU⁷.

2.10 Further development of the existing body of EU law is also influenced by the nature of the decision-making process. The current rather complicated form of **decision-making** which is based on, above all, the new provisions for weighted voting in the Council drawn up at the Nice Council in 2000, should be analysed to determine the scope for improving transparency and efficiency. Many surveys have shown that public dissatisfaction with the EU is very often attributed to the lack of transparency in the decision-making process. There is a danger that the problem of political processes which are perceived as opaque will be aggravated when EU membership is extended to comprise 27 Member States. Further improvements in this field would be beneficial with a view to promoting a citizen's Europe.

2.11 Modernisation of the existing body of EU law is being promoted above all by the alignment of **economic and social criteria** in the Member States and the candidate states. The sooner economic and social discrepancies are removed, the more readily it will be possible to achieve uniform further development and progress in the EU. All EU policies, including the Structural Funds⁸ have to make their contribution towards removing, as quickly as possible, existing discrepancies between the old and the new regions of the EU and facilitating coherent economic and social development in the new EU as a whole, in line with the goals set out at the Lisbon European Summit of making the EU, in the next decade, into the most competitive and dynamic knowledge-based economy in the world, whilst taking account of the Union's fundamental principles of ensuring social and territorial cohesion. This is the way to create the conditions necessary for the development of the EU in economic terms, in terms of the single market and in the fields of social policy, consumer protection and environmental conservation, which are now backing up the policy on the single market⁹.

3. The development of selected areas, opportunities and challenges

3.1 The core objectives of the single market policy such as: the achievement of a proper level of harmonisation; mutual recognition of legal provisions; the application, observance and implementation of EU law; problem-solving and the establishment of standards, are now backed up by social policy, consumer protection and environmental conservation measures. The interaction of the euro and EU-enlargement are also giving a new impetus to integration¹⁰. A number of fields relating to the way in which the benefits of EU enlargement are distributed and therefore of importance to the success of the single market are addressed in the paragraphs below. The enlarged single market must

⁷ See COM(2002) 700 final – Towards the enlarged Union – Strategy paper and report of the European Commission on the progress towards accession by each of the candidate countries.

⁸ See "Strategy for economic and social cohesion in the EU", opinion of the EESC, OJ C 241 of 7 October 2002

⁹ European Commission: 2002 Review of the internal market strategy (COM(2002) 171 final)

¹⁰ Ibid

bring tangible benefits to the public, both in their capacity as consumers and in their role of employees or entrepreneurs.

3.2 Structural change and economic development

3.2.1 In the course of the transformation process, the economies of the candidate states are undergoing considerable upheaval. In addition to the change-over from a controlled economy to a market economy, the structure of the economy measured by the relative importance of the agriculture, industry and service sectors, has to be modernised. Many old heavy industries and mono-industries, particularly in the coal and steel sectors, have shown themselves to be uncompetitive in the course of the transformation process. This is the case, in particular, with the steel industry in Poland, the Czech Republic, Slovakia and Hungary. In many cases the steel industry is concentrated in individual regions; this has had tremendous economic and social consequences in the course of the restructuring process, and these consequences, too, have been felt most strongly in these same regions.

3.2.2 Some enterprises in the existing EU Member States are also being exposed to a higher level of pressure of competition as a result of the enlargement of the single market. The single market, which is one of the key objectives of the EU, is facing a considerable challenge as a result of these developments. All available instruments will have to be used in order to cap the economic potential and to bolster economic growth. The EU must not leave this potential unused; it needs this potential if it intends to exploit the advantages of the single market and to become the most competitive economic area.

3.2.3 Economic policy measures and a targeted macro-economic policy (insofar as such a policy is possible at EU level) therefore need to be directed towards helping to exploit the economic potential of the EU – some of which has remained untapped – and thereby also taking advantage of the opportunities presented by the forthcoming enlargement of the single market. The economic policy measures involved here cover a range of fields, namely business-promotion, the promotion of entrepreneurship, support for SMEs, competition policy, technology policy, particularly in the field of information and communication technology (ICT), measures to promote a dynamic labour-market policy, employment policy and structural policy.

3.2.4 It is particularly important that specific measures be taken to prepare workers who have lost their jobs as a result of restructuring to take up new careers. Active participation in EU programmes, particularly re-training programmes, programmes for providing qualifications and life-long learning programmes, are vital pre-requisites for tackling the problem of structural change and achieving the objectives set out at the Lisbon European Council. The adoption of this course of action would also help to minimise the social impact of restructuring.

3.2.5 Border regions are facing particular challenges. The EESC therefore welcomes the EU measures for assisting border regions which are designed to underpin structural change in these areas through the development of infrastructure, targeted skills-training measures for workers and

measures to help SMEs¹¹. Neighbouring regions and the social partners have also already taken measures to promote cross-border cooperation. These measures should be extended and supported.

3.2.6 The introduction of cross-border policies for developing border regions and exploiting experience gained in EU-15 would appear to be a particularly positive step in this context. The experience concerned includes, for example, cooperation between regions, along the lines of that adopted in the Saar-Lor Lux Region in which permanent structures for regional cooperation and development have been set up, with the involvement of all the relevant players. A cross-border economic and social committee has also been set up in this region.

3.2.7 **Agriculture**

3.2.7.1 One of the most sensitive areas in connection with enlargement is that of **agriculture**. In some candidate states agriculture accounts for a far higher percentage of aggregate economic activity than is the case in EU-15. There are also tremendous discrepancies between the agricultural sectors of the EU and the candidate states, e.g. in connection with quality standards in the dairy industry, an issue which has implications in the fields of goods transport and food quality.

3.2.7.2 There are considerable differences of opinion over the procedures proposed by the European Commission with regard to the application of the Common Agricultural Policy (CAP) in the candidate states. Against this background, the reform proposals put forward by the Commission in July 2002 are of significant importance to future developments. The proposed changes to the CAP, which involve a switch from aid geared to levels of production towards an ecological approach involving the promotion of quality, and consequently smaller structures, the provision of guaranteed income payments for farmers and, above all, the move towards providing support for structural change and rural development are all steps in the right direction.

3.3 **Modernisation of markets and improved general conditions for enterprises**

3.3.1 **Privatisation and liberalisation**

3.3.1.1 Privatisations were an important tool in the transformation process. In cases where privatisations resulted in foreign enterprises investing in key economic sectors in the candidate states, thereby bringing both capital and expertise into these states, these measures helped to bring about rapid economic development. The success of these privatised enterprises, in particular the increase in their productivity, was, however, in many cases achieved at the cost of making workers redundant and increasing the level of unemployment, a situation which now has to be tackled using macro-economic resources and financial support from public funds.

3.3.1.2 In many cases privatisations were carried out very quickly and without having the requisite general legal and institutional conditions in place¹². These measures have had undesirable

¹¹ See "Freedom of movement for workers in the single market", opinion of the EESC, OJ C 155 of 29 May 2001

side effects, particularly in the field of services of general interest and related infrastructure. Services of general interest do not simply represent a key factor in bringing about an increase in the quality of life of the general public; they are also a critical factor in the location of investments and hence also of decisive importance to the development and competitiveness of whole regions. Investors prefer regions which offer a balanced supply of services of general interest.

3.3.1.3 Infrastructures are a decisive factor both with regard to the catching-up process and with regard to ensuring cohesion in the enlarged EU; this observation applies in particular in the case of peripheral areas which suffer from infrastructure weaknesses in the candidate states. The regions, cities and municipalities of eastern and central Europe face a most severe dilemma in reconciling, on the one hand, obligations in respect of the public economic interest and, on the other hand, the requirements attendant upon new forms of competition. They also have to contend with budgetary shortages, with the result that there is a trend, in many cases, to outsource services and deregulate these sectors.

3.3.1.4 This development coincides with political endeavours in the EU to open up services of general interest to competition and to deregulate traditional areas of infrastructure, such as transport, energy, telecommunications, watersupply, waste disposal and environmental services, in order to bring about the single market and to improve the benefits for consumers. There is, in this context, frequently a tendency to overlook the fact that there are certain features of services of general interest which render them unsuitable as services to be provided solely on the basis of market criteria. There is rather a need to spell out clear general conditions (public interest commitments and principles governing the operation of these services) in order to ensure that such services are provided in the requisite quantity, quality and the requisite continuity.

3.3.1.5 With this aim in view, the EESC "is in favour of achieving a balance between the general interest and competition"¹². As private suppliers are primarily interested in securing an appropriate return on their investment, rather than in bringing about the development of regions, the requisite conditions for the development of regions need to be set out in the form of general conditions or rules, in order to enable all suppliers, be they public or private suppliers, to operate under the same conditions within this framework.

3.3.1.6 The whole of the general interest services sector in the EU is undergoing a constant process of adjustment and modernisation. With a view to maintaining security of supply in this field and safeguarding the public interest, Member States have set up regulatory authorities which, acting under accompanying legislation, are to back up the drive to achieve liberalisation, remove monopolies and denationalise services. Liberalisation has far-reaching consequences with regard to benefits for the consumer, the availability of price and services and accounting procedures.

¹² See **John Nellis**: "Time to rethink Privatisation in Transition Economies", World Bank, 1999 and **Joseph Stiglitz**: "Die Schatten der Globalisierung"

¹³ See "Services of general interest", opinion of the EESC, OJ C 241 of 7 October 2002

3.3.1.7 The candidate states have yet to carry out some of these liberalisation measures. Because of outdated generating facilities and pricing systems geared to energy-intensive industrial users of energy, the candidate states continue to be at a disadvantage when it comes to establishing regulatory bodies and adjusting their markets to bring them into line with the international energy market. These states have therefore asked for transitional periods. The progressive opening up of the previously protected markets of the applicant states will only bring the desired positive results if these states manage to utilise the transitional periods in order to develop national regulatory authorities. These authorities must be given sufficient legislative, technical and financial support to enable them to accept equal responsibility for defending the interests of consumers, owners and staff.

3.3.2 **Taxation**

3.3.2.1 Taxation systems in the EU have not yet been brought into line with developments such as globalisation, economic integration in the single market and the monetary union. EU enlargement will also make new demands on the tax systems, the first priority being the adoption of existing EU Directives.

3.3.2.2 As is also the case in other fields, transitional provisions relating to taxation systems may help to cushion obvious negative economic and social consequences for society in the candidate states. They may likewise help to bring about a "soft" integration of the candidate states into the single market. Extremely limited use should, however, be made of these transitional and exceptional rules so as to avoid exacerbating the danger of tax competition within the EU, which would be damaging to public budgets, and to preclude distortions in competition.

3.3.2.3 The EESC draws attention to the fact that an erosion of the tax base in both the candidate states and the existing EU Member States would not be expedient, particularly in the course of the enlargement process. It would jeopardise the scope for action on the part of the states, which is a factor of considerable importance, particularly in the context of such a comprehensive reform process. This situation could also have a damaging effect on political acceptance of EU enlargement within the current Member States.

3.3.2.4 In this context, the EESC advocates that tax systems be developed in such a way as to overcome the existing obstacles to the single market and prevent tax competition, particularly in the field of corporation tax, whilst, at the same time, providing funding required to cope with the tasks and challenges facing the enlarged EU and to address the issue of economic and social cohesion. These efforts could also be continued in the course of the enlargement process. Exceptional rules, such as the tax treatment of multinationals customarily applied in some states, could endanger these efforts; such exceptional rules are also not compatible with existing EU law and should therefore be rejected.

3.3.2.5 A further matter of concern is the exceptional provisions or generous transitional provisions in the field of VAT and excise duty; in these two fields, the combination of the geographical proximity of the countries concerned and/or the fact that the goods in question can be readily transported mean that a low level of taxation, compounded by low price levels, could lead to distortions in competition and also increase the risk of smuggling and black-market operations. By

way of example, transitional provisions were agreed with all of the candidate states in respect of tobacco taxes. The EESC welcomes the associated conditions to be introduced by the candidate states with regard to checks on the tobacco sector and the possibility for the existing EU Member States to introduce quantitative restrictions. Whilst the border controls which are necessary in this context in respect of passenger traffic may have a detrimental effect on the free movement of persons, these checks are essential in order to prevent smuggling.

3.3.2.6 The Commission's endeavours to prevent the establishment of special economic zones in the candidate states should be supported. In this context, the EESC highlights the example of Latvia, which has declared its readiness to seek to comply with the existing body of EU law. Such steps will also have to be taken in other states. The Commission will monitor these efforts. The Commission's activities with a view to preventing the establishment of special economic zones are highly conducive to the development of an enlarged single market as this approach represents the only way to counter the risk of distortions in competition. Rather than setting up special economic zones, candidate states should promote regional development by introducing appropriate measures in the regional policy and structural policy fields.

3.3.3 **Small and medium-sized enterprises**

3.3.3.1 In the future single market it is likely that large enterprises having a higher turnover will gain competitive advantages. Export-orientated enterprises which, against the background of the opening-up of the eastern European states, have already learnt how to gear their operations to export market conditions, have an advantage over enterprises which have hitherto confined their operations to their national markets.

3.3.3.2 The establishment of a SME structure in the candidate states was a fundamental prerequisite for improving the employment situation and attenuating the harmful consequences of plant closures and the necessary re-structuring of the oversized former main industries. As a result of the key role played by SMEs, the inevitable labour-force reductions have been offset, a fall in living standards has been prevented and efforts to avoid social tensions have been bolstered.

3.3.3.3 The difficult conditions under which SMEs operate have, however, resulted in the widespread occurrence of aspects of the black economy and precarious working conditions in some SMEs. In order to bring conditions in this sector up to the level of those applying in the EU with regard to the business activities of SMEs and working conditions for SME workforces, there is a need to strengthen the social partners – both those representing employers and those representing workers – and to introduce support measures and aid programmes. A number of measures are required: financial support; measures in the field of training and continuing training; and the establishment and simplification of administrative structures.

3.3.3.4 There is no adequate social dialogue either at plant level or at supra-plant level; industrial relations have been placed on a wholly individual level. Trade unions, women's organisations and church organisations have drawn attention to a number of problems, including the fact that commercial employees, in particular, are experiencing a deterioration in their working conditions (some employees, for example, have to work up to 16 hours per day without having

Sundays or public holidays off), with the attendant adverse effects on their family lives. The EESC expresses its concern over this development and calls for measures to be introduced to implement an effective social dialogue.

3.3.3.5 With particular reference to SMEs, in its opinions from 2000 and 2002¹⁴ on the European Charter for Small Enterprises the Committee has highlighted the major role they play in the economic and social development of the applicant countries, notably in the spheres of education and job creation. Steps should be taken to implement in the applicant countries the specific support measures advocated in the ten recommendations of the European Charter for Small Enterprises, which was signed by the applicant countries in their turn (Maribor, April 2002) and, for this purpose, to encourage cooperation between small business organisations in the applicant countries and the present Member States.

3.3.4 In the field of **transport policy**, road traffic in the EU is a sensitive topic – especially from the citizens' point of view. A single internal market inevitably means increased traffic volume. The challenges facing EU transport policy are all the greater for a number of reasons. It has to pursue the goal of establishing, for the necessary volume of transport, suitable basic conditions which are also environmentally and socially compatible and which ensure that there is a reasonable co-existence between the different modes of transport (rail, road, water ...). On the other hand, it has to introduce appropriate transport policy measures and suitable economic incentives to prevent unnecessary transport, whilst enabling the essential volume of transport to be carried out in the most cost-saving way possible and with the least possible damage to the environment. Furthermore, distortions and undesirable developments may be brought about in this sector because of the considerable differences in (labour) laws and economic conditions. Cooperation with the candidate states with regard to these issues should therefore be stepped up, even before accession.

3.3.5 In the field of **competition policy** the topic for discussion is above all the steel industry in Poland, the Czech Republic, Slovakia and Hungary. Steel production in central and eastern Europe is judged to be of only limited competitiveness. High state subsidies give grounds for concern with regard to competition policy, as does disregard for environmental measures, which impact upon prices. The candidate states argue that withdrawing subsidies would cause an enormous social problem, and that the steel is exported mainly to Russia. The EESC recognises this argument, but would point out that, for that very reason, restructuring of the steel industry is necessary right up to the moment of accession to the EU. It is important to act now, in order to avoid having to introduce transitional periods in this area – because of the problems unresolved by the time of accession - and to prevent the distortions of competition that would result.

3.3.6 In the medium term the future EU member states will also have to address the issue of their participation in **economic and monetary union** (EMU). Experience gained in the former East Germany indicates that the prerequisites for a successful adoption of the euro need to be thoroughly examined and that there should be no precipitate participation. As a first step, the future member states

¹⁴ EESC opinions on the charter, OJ C204 of 18.07.2000 (rapporteur **Mr Pezzini**), and OJ C48 of 21.02.2002 (rapporteur **Mr Giron**).

could join the exchange rate mechanism, under which the value of their currencies would be allowed to fluctuate by approximately 15%. In this context, the EESC would also draw attention to its opinion on the impact of enlargement on EMU¹⁵.

3.4 In fact - and even if they do not immediately recognise themselves under this title, as defined by the Committee in its 2000 opinion¹⁶ - the **social economy organisations** (cooperatives, mutual societies, associations, foundations, NGOs) have played a very important role in filling the gaps left by the public authorities in assistance to marginalised groups in society. But above all they have acted and continue to act as a catalyst for public participation and democratisation - not always to the same degree but always making a substantial contribution - in all the applicant states. The Committee thinks that it would be extremely harmful if, bearing in mind their present fragile structure and the fragmentation and isolation of their diverse forms, the organisations and enterprises of the social economy in the candidate countries were to wither or die. This would result in enormous social, political, financial and cultural costs which would have to be borne not only by these countries but also by the current Member States. The Committee therefore calls for the launch of a "development fund for the social economy" in the present and future member states aimed at consolidating this important force for social, economic and democratic cohesion in an enlarged Union.

3.5 **Enhancing people's quality of life**

3.5.1 **Social policy and employment**

3.5.1.1 Enlargement will only prove successful if it receives the support of the public in both the present EU Member States and the candidate states. A key prerequisite for success is that enlargement should also represent a "social" project. Social policy has now become one of the policies which back up the single market; in this context it is essential that the candidate states set themselves the goal of introducing the **European social model**, with its principles of social and territorial cohesion, as a key feature of the transformation process. The expected achievement of economic growth in the candidate states must also be utilised to consolidate their social security systems.

3.5.1.2 The goal of full employment, as set out in the Community decisions taken at the Lisbon European Council, must also be rigorously pursued in all policy areas throughout the enlarged Union. In this connection the Committee is pleased that the candidate countries already take part in the appropriate EU programmes and action plans (including the combating of poverty).

3.5.1.3 In chapter 13, relating to social policy and employment, a number of candidate states have requested **transitional periods** in respect of the field of health and safety at the work place. The EESC basically understands the need for transitional arrangements but would point out that it advocates a restrictive use of such arrangements, since they may give rise to distortions in competition in the single market and would undermine the quality of the European social model. On the other hand, the EESC acknowledges that many SMEs would simply be unable to afford to bring their

¹⁵ EESC opinion on the impact of enlargement on EMU (CES 1018/2002); this opinion has not yet been published

¹⁶ EESC opinion on the social economy, O.J. C117 of 26.04.2000 (rapporteur **Mr Olsson**)

operations into line with the existing body of EU law. Once these states join the EU, it is likely to be necessary for SMEs, in particular, to invest heavily in order to meet the requirements attendant upon compiling with the existing body of EU legislation.

3.5.1.4 In addition to introducing rules in respect of migrant workers and equal treatment, the EU has also managed to establish minimum standards in a number of key individual fields. To quote an example, a large number of labour law directives have been adopted covering areas ranging from health protection, working hours, annual leave, protective measures to safeguard working mothers and parental leave to technical measures to protect workers. Areas in which laws have been harmonised will clearly need to be revised and brought into line with new conditions, on an ongoing basis. It will, however, also be even more necessary in future to introduce EU provisions in additional areas, such as protection against unfair dismissal and a number of individual aspects of collective labour law. If the quality of the European social model is to be sustained, this model will have to be subject to constant **development**; this applies also – and indeed in particular – to the enlarged Union.

3.5.2 Social dialogue

3.5.2.1 The involvement of the **social partners** and civil society in all issues affecting them is a further key element of the European social model. With this aim in view, the EESC welcomes the fact that the Commission is consulting the social partners and representatives of civil society in the candidate states on a large number of issues and calls on the governments of the candidate states to follow this example. Many governments in the candidate states still have problems with involving the social partners and civil society organisations adequately in the enlargement process.

3.5.2.2 It is at the same time a matter of concern that both employers' organisations and bodies representing workers are frequently established on a relatively insecure footing in the candidate states and the bilateral social dialogue, i.e. collective negotiations and agreements between employers' and employees' organisations, is not yet sufficiently developed. It is vital to strengthen these institutions if we are to secure a social dialogue which operates smoothly and to implement the Community *acquis*, especially in the social sector.

3.5.2.3 Stepping up the support provided by organisations in the existing Member States could help to bring about an effective social dialogue, as could the establishment of economic and social committees. Strengthening of the social dialogue at EU level would also be a desirable measure, especially in the form of regular participation of the applicant countries' social partners from 2003 onwards in the structures of the European Social Dialogue Committee, as provided for by the European social partners in their work programme for 2003-2005, presented at the Social Dialogue Summit held in Genval on 28 November 2002. In this connection it will be important to ensure that the organisations representing SMEs and small businesses are given their due place in these structures.

3.5.3 Social security systems

3.5.3.1 In the candidate states, the process of adopting the existing body of EU law is overlapped by the process of transforming the whole economic and social system, a process which is supported by the World Bank and the IMF. These latter bodies act on the bases of the US social model

and at the same time have a much more comprehensive remit than the EU, whose legislation is not strongly developed in many fields. The EU, whose Member States exhibit distinctive, if different, social systems, attaches great value to the "European social model" and its principles of social and regional cohesion. However, the EU is playing hardly any role in the above-mentioned reforms because of a lack of legitimacy deriving from treaties or laws (there is very little EU legislation covering this field). As a result, in many areas, including the social security field, the way has been paved for a social model that, in the EESC's view, cannot serve as a model for Europe¹⁷. The EESC recommends that more attention be paid to these questions within the framework of the open coordination process developed at Lisbon, in which the candidate states have also been included since Barcelona.

3.5.3.2 The limited legal competence of the EU means that all the internal market effects - such as the impact on the capital market or effects on worker mobility - deriving from the organisation of social systems (e.g. pension schemes) are very clearly expedited at EU level without the associated underlying issues relating to the organisation of social systems being subject to systematic and comprehensive debate.

3.5.4 Services of general interest

3.5.4.1 At European level, liberalisation and deregulation have been justified and implemented not only in the traditional infrastructure areas such as transport, energy, telecommunications, water supply, waste disposal and environmental services, but also in the area of social services as well as in health and education or financial services, particularly with the completion of the internal market.

3.5.4.2 The candidate states still have to undergo some of these stages of liberalisation and have requested transitional periods. The EESC would point out that the steps towards opening up these states' hitherto protected markets will only have the positive results hoped for if equal account is taken of the interests of consumers, owners and employees and the specific features of the services involved.

3.5.4.3 These services show features which make their adaptation to exclusively market criteria unsuitable. It must therefore be specified in which sectors and to what extent competition and internal market rules are to actually apply to services of general interest. Care must be taken here to see that the services involved have a very considerable impact on people's quality of life and social security. It is therefore important to know whether, to what extent and in what capacity people have access to such services.

3.5.4.4 In addition, it is essential to prevent the emergence of new monopolies/oligopolies as well as out-and-out competitive dumping. Instead Europe needs **fair rules** and **non-discriminatory treatment** of public-sector, public-service and municipal corporations.

¹⁷ See "Employment, Economic Reform and Social Cohesion – Towards a Europe of Innovation and Knowledge"; opinion of the EESC, OJ C 117 of 26 April 2000

3.5.5 Environmental issues

3.5.5.1 Large areas of **environmental law** are regulated for the whole Community, either through the establishment of general environmental requirements or environmental quality standards (ground level concentration limits), production-related measures (emission limits) or through general procedural rules. Community law does, in principle, provide for a large measure of flexibility in environmental policy, which is, in the final analysis, designed to take account of the goals of the economic and social development of the Community and the balanced development of its regions. Although this allows considerable scope for granting exemptions to individual Member States in specific plans for directives, it should not be forgotten that such possibilities could all too easily be over-used in the enlarged union.

3.5.5.2 In view of the environmental damage which is often found in the candidate states and still has to be overcome, extensive demands have been made for transitional periods in order to bring in the existing *acquis*. The EESC would point out here that an intact environment represents one of the most precious assets for preserving and developing the quality of life, and every effort must be made to repair environmental damage, remove risks to the environment, such as those posed by nuclear power stations, and prevent such damage and risks from occurring in the future. Large-scale exemptions and transitional measures would not only lead to distortions of competition but would also have a detrimental impact on the future development of the environment and would pose difficulties for a continuous development of Community environmental law according to the principle of sustainability.

3.5.6 In the field of **consumer protection** too, considerable improvements have been achieved for Europe's consumers over the past few decades. In addition to central regulations in the areas of consumer safety and consumer health, major progress has been made above all in protecting consumers' economic interests. A key marker here was the Product Liability Directive¹⁸. Its need of amendment was well-known and its scope was expanded to include agricultural products, not least as a result of the BSE crisis. Care should be taken to see that such improvements in consumer protection can still be decided in an enlarged EU. Appropriate pressure by consumers can also help ensure that development continues.

3.6 Preparations for accession

3.6.1 In addition to the inclusion of the candidate states in EU programmes, which has already begun, there are also specific programmes for preparing these states for accession. Particularly worthy of mention here is the twinning programme to prepare administrative authorities for their future tasks. The demand for this programme will continue even after accession, in accordance with the need mentioned above for the further development and adaptation of the administrative authorities even after accession.

18

Directive 85/374/EEC, as amended by the Directive 1999/34/EC, OJ L 283 of 6 November 1999

3.6.2 It is unfortunate in this context that the implementation of the programmes is often so complicated that potential applicants are scared off or cannot work out how to take part¹⁹. Thus the SAPARD programme for the conversion of agriculture has not yet received any applications in a number of candidate states, even though agriculture is undoubtedly one of the sectors where there is most need for action. The EESC would refer here to its proposals on the continuation and reform of structural policy and the Structural Funds²⁰.

3.6.3 The EESC has already made a number of proposals in its first opinion on this topic²¹ in order not only to advance the candidate states to the internal market, but also to give them the possibility of preparing themselves for future internal market developments. It would particularly refer to the proposal to set up single market coordination centres and contact points for businesses and the general public.

3.6.4 The EESC itself regularly carries out hearings in the candidate states, to which the relevant economic and social groups are invited. In addition, with the PRISM database it has created a tool containing essential initiatives of relevance to the single market, which is available as a source of information on the EESC website.

Brussels, 12 December 2002.

The President
of the
European Economic and Social Committee

The Secretary-General
of the
European Economic and Social Committee

Roger Briesch

Patrick Venturini

¹⁹ See "Financial assistance for pre-accession, Phare, ISPA and SAPARD" (CES 1023/2002), opinion of the EESC which has not yet been published

²⁰ See "The EU's economic and social cohesion strategy", opinion of the EESC, OJ C 241 of 7 October 2002; "The future of cohesion policy", opinion of the EESC, OJ C 241 of 7 October 2002

²¹ See "The impact of the enlargement of the European Union on the single market", opinion of the EESC, OJ C 329 of 17 November 1999