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EC Enlargement: Problems Ahead

Will the European Council in Dublin succeed in resolving the remaining controversial issues among EC member countries regarding the accession of Spain and Portugal? The Heads of State and Government are under heavy time-pressure. The "final" deadline for the conclusion of negotiations, Sept. 30, 1984, a deadline agreed in Fontainebleau has not been met. Now the target date for membership, January 1, 1986, is getting close, almost too close in view of the fact that the applicants cannot be expected to accept the EC bargaining position off-hand, and that the accession treaties have to undergo a time-consuming parliamentary ratification process in all twelve countries concerned.

Two more fundamental considerations may add momentum to the deliberations in Dublin and beyond. In Spain Felipe Gonzalez made NATO membership *de facto* contingent upon access to the Community by setting the date for the NATO referendum at February 1986. This signal cannot be overlooked in the Western European capitals. And in the Community the link between EC enlargement and the raising of the EC's own resources from 1 to 1.4 percent of the VAT base, a link that made good sense when it was agreed at the Stuttgart summit, increasingly turns into a trap for the member countries since the Community is already running out of money now.

Policy-makers are therefore under great temptation to arrive at a settlement at almost any cost, and the odds are that the compromise will consist in postponing the controversial points to some more distant future in the hope that by then some "invisible hand" will solve them or that the present governments will then no longer be in office.

This approach has already been adopted in a number of instances. Access of the Spanish fishing fleet to the EC waters, a fleet that alone is as large as 70 percent of the combined fleets of all present member countries, is to be delayed by 10, if not 15, years (to the year 2002). More important still: negotiations on the terms of admittance are not to start until 8 years have passed. In the case of olive oil, the Council of Ministers has avoided a decision although the problem is only too manifest: while the production in the Community of Ten covers 95 percent of total consumption, it will surpass demand by at least 10 percent after enlargement, and possibly by much more. There is therefore an obvious need to agree on production cuts, either through a substantial reduction of guarantee prices – from an economic viewpoint clearly the logical solution, but politically without a chance – or through setting an upper limit to the quantities benefitting from the high guarantee price. According to the "solution" adopted by the Council of Ministers under Italian pressure, the Commission will present its proposals for dealing with the surplus only after the situation has actually materialized, that is after Spain has become a member. The result is foreseeable: if a volume limitation is agreed at all, that volume will be in the neighbourhood of the production then achieved. Following the precedent set on the milk market, the production of waste will be perpetuated – at the expense of the taxpayers, the consumers, and of efficient third-country producers. The same outcome is likely for the wine market, where already now the Community is flooded by an annual surplus of 40 million hectoliters – 25 percent of total production with a rising trend. After enlargement, the Community may well be drained financially.

No great imagination is therefore needed to foresee the problems forthcoming to the Community in the agricultural field alone. These problems will be all the greater since the Finance Ministers, yielding all too readily to the pressure of the agricultural lobby, have effectively exempted agriculture from the mechanism of "budgetary discipline", prematurely announced by the European Council. It will not take long until the 1.4 percent, and even the 1.6 percent VAT revenue has gone down the drain and the Community will again be in financial distress.

In the meantime the Community will try to solve its problems at the expense of other Mediterranean countries and the Third World at large. Israel has already protested against the likely curb of its citrus fruit exports to the EC and other countries have voiced their concern. That the Community may become a closed shop for a range of less sophisticated manufactured products as well, is a consequence of enlargement that the Ministers have all too readily banned from their thoughts. Yet it is obvious that the gradual removal of restrictions on imports of steel, textiles and shoes from the Iberian peninsula will not only increase adjustment pressure in the respective industries and regions of the Ten. Spain and Portugal will also insist that their own infant industries enjoy preferential treatment over competitors from other Mediterranean and newly industrialising countries. Altogether, the protectionist and interventionist faction in the Community will be strengthened. Yet, a "Fortress Europe" shielded from foreign competition, would be opposed to the very philosophy of the Rome Treaty and the very long-term interests of its member countries.

On the whole it appears that the costs of enlargement are likely to outweigh the benefits, even if it is accepted that the accession of Spain and – to a much lesser degree – Portugal will only magnify existing short-comings and weaknesses of the present Community mechanisms rather than add a new quality of problems. The dilettantism with which the enlargement procedure has been handled on the part of the policy-makers concerned (including the German Government) has recently been strongly criticized by F. J. Strauß, a highly controversial figure, it is true, but one of the few outspoken politicians. He said: "Again and again the Spanish and the Portuguese have been promised access to the Community . . . but it has never been calculated what their membership will cost or to what extent the services rendered by the Community will have to be curtailed in order to enable the new countries to draw benefits from them, countries which want to get more out of the Community than they pay in. There is much European rhetoric involved and little sense of realism."

Yet, lamenting about missed opportunities in the past won't take us much further. And given the stage reached by the negotiations, however scanty their contents may be, it is to be expected that they will indeed be brought to some end. It is therefore imperative to start planning for the future. This planning should proceed along two lines. One line should be concerned with policy within the Community. Here, all efforts should be directed towards lowering the huge income disparities between the North and the South. It must be admitted though, that the ability and willingness of the large net contributors to the Community to provide finance for that purpose has some natural limits. With an annual net contribution forecast at DM 20 billion for 1990, Germany will certainly have reached that limit. If the situation of the South is to be improved, this can only be done by fundamental changes in the methods of allocating money to regions and purposes. Just extending the mechanisms of the obsolete Common Agricultural Policy to Southern products will impoverish the Community without materially improving the living standards of the alleged beneficiaries.

An indispensable step towards stimulating discussion on the changes required would be firm resistance to any further increase in Community revenues. The quantum jump in agricultural expenditures consequent upon enlargement must – and can – be mastered within the given financial bounds. Ministers of Agriculture, like other policy-makers, will have to orient their policies towards the means available rather than vice versa. They should keep the larger distributional objectives of the Community in mind as they do this. In trade and industrial policy, any further restriction on the market access of foreign producers, be it via higher customs duties or the imposition of non-tariff barriers, must be strongly resisted, if necessary by making full use of the veto-powers under the "Strasbourg compromise". Only if producers are fully subjected to the challenges of international competition can the Community hope to improve income and employment and thus generate the means to be distributed.

At the same time, thoughts should be directed towards devising alternatives to the cartel approach to policy-making typical of the Community, alternatives which allow countries to pursue their interests at less political and economic cost, and which encourage competition in Europe on the best economic strategy. Seen from this angle, the accession of Spain and Portugal may well turn out to be the catalyst necessary to break taboos which stand in the way of a true "relaunching" of Europe.

Hans-Eckart Scharrer