

E U R O P E A N E C O N O M I C A R E A

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JOINT PARLIAMENTARY COMMITTEE

REPORT

on

**the enlargement of the European Union
and its effects on the EEA**

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I INTRODUCTION

1. The EEA Joint Parliamentary Commission welcomes the start of the accession negotiations with Estonia, Poland, Hungary, The Czech Republic, Slovenia and Cyprus. They open the way to the enlargement of the EU in the near future. This will enhance stability and security in Europe, increase prosperity in the countries of Central- and Eastern Europe and ensure their lasting integration in the community of European democracies. Since new EU members also join the EEA, enlargement will have its effects on the EEA/EFTA states as well. Accession of the applicant countries will create an internal market of approximately half a billion people, the world's largest integrated market. This step in the further integration of Europe will create new economic benefits although some difficulties can be expected to arise during the period of transition and adaptation of the economies of the acceding countries to the EEA. These difficulties are due to the different economic structures and different stages of development, which will cause unwanted disruptions unless appropriate transitional arrangements are applied to smoothen the integration to the greatest possible extent. Since EEA/EFTA states are not a party to the enlargement negotiations, it is important that they will be informed about the development of the negotiations and that they will be able to express their views on the enlargement process when EEA relevant issues will be touched upon.

II FOUR FREEDOMS

2. The EEA Agreement came into effect at the beginning of 1994. According to Article 1 of the agreement its main aim is:

"To promote a continuous and balanced strengthening of trade and economic relations between the Contracting Parties (i.e. the EFTA states, except Switzerland, and the EU members states) with equal conditions of competition, and the respect of the same rules, with a view to creating a homogeneous European Economic Area".

3. To achieve this, the agreement covers the free movement of goods, workers, services and capital. Together these constitute the "Four Freedoms", through which the EU single market is extended to Norway, Iceland and Liechtenstein. The agreement also covers certain policies "flanking" the Single Market. To ensure the achievements of the objectives of the EEA agreement about 80% of the Single Market Legislation (some 1500 directives, regulations and decisions) applies within the EEA, as will future Single Market Legislation.

III LEGAL BASIS

4. When the applicant countries will join the EU in the near future they should accept the real and potential rights of the EU system and its institutional framework as it exists at the time of accession. This "acquis communautaire" concerns all EU commitments and policies, including the European Economic Area, to which the applicant countries will adhere after their EU accession.

5. The legal basis for this is given in Article 128 of the agreement on the European Economic Area:

1. Any European state becoming a member of the Community shall, and the Swiss Confederation or any European State becoming a member of EFTA may, apply to become a party to this agreement. It shall address its application to the EEA council
2. The terms and conditions for such participation shall be subject of an agreement between the contracting parties and the applicant state. That agreement shall be submitted for ratification or approval by all contracting parties in accordance with their own procedures.

IV PREVIOUS ENLARGEMENT

6. It is important to stress the difference between the upcoming enlargement and the last one in 1995. Austria, Sweden and Finland were already members of the European Economic Area and most of the internal market regulations were already in place in these countries. The new applicant countries, however, only recently shook off the limitations of the communist planning economy. Still today they are in an ongoing process of change and adoption to restyle their economies into modern free market economies that can be competitive on a European and world-wide scale. While the EU has designed a significant pre/accession strategy to support, also financially, the preparations for accession, other countries are supporting the transformation process bilaterally or through co-ordinated multilateral action. It should also be noted that the economies of the EEA/EFTA states are so deeply integrated into the EU that they will in that sense be in a superior state compared to what is likely for acceding countries at their time of entry in to the EU. However, in the framework of the pre-accession strategy and the Phare programme the candidate countries receive assistance to prepare themselves for future membership.

V THE BENEFITS OF ENLARGEMENT

7. The enlargement of the EU will extend and strengthen the European Economic Area. The EU is by far EFTA's largest trading partner, responsible for 67% of EFTA's exports. Furthermore, EFTA countries concluded Free Trade Agreements with all Central- and Eastern European countries that have applied for EU-membership. Through the system of European cumulation, the trade advantages resulting from these agreements and those of the European Agreements between the EU and CEECs were interlinked in order to support a European wide division of labour. As the scope of the EEA Agreement is broader than a FTA, figures on trade (mainly in services) and other exchanges have good prospects to increase with the accession of new members to the EEA. However, as trade in fish under EFTA FTAs takes place under more advantageous conditions than in the EEA, there will also be potential trade losses.

8. Through the enlargement of the EU, the EEA/EFTA countries are in most cases likely to have access to the applicant countries on conditions more favourable than those of

the present Free Trade Agreements. This is due to the change from a standard, static free trade agreement to an economic area based on the 4 freedoms, legal harmonisation and leading to far-reaching integration. As mentioned above, the enlargement will create the world's largest free trade area and its member states will largely have the same regulations. This will have great benefits both for the member states involved, and for the enlarged free trade area as a whole. Greater legal security, removal of distortions of competition, improved market access, and strengthened division of labour will shape the conditions for prosperity and economic growth on a European level and therefore enhance competition at a global scale.

VI THE PROBLEMS OF ENLARGEMENT

9. Given the different political and economic systems of the applicant countries during recent decades, and their general stage of economic development, it will be a true challenge to integrate these countries into the EU/EEA structures. Greater opportunities for expansion are accompanied by stronger competition on a European wide scale. This will not only effect enterprises in the new member states, but enterprises in the EEA states as well. Generally, the more similar the economies, the less likely that the increased competition will lead to serious disruptions of the benefits of enlargement.

10. Many of the EU Member States are especially concerned with the integration of the agriculture of the acceding countries into the CAP, but this is not relevant for the EEA/EFTA states, since agricultural policy is not included in the EEA. Others are concerned with the effects of the free movement of labour, which is certainly EEA relevant, since too large and sudden a movement of persons could cause strains on our social support systems. No special problems are foreseen in the integration of financial and service markets, which are also EEA relevant.

11. It is important that the EEA/EFTA states are informed about all negotiations of transitional arrangements which are EEA relevant and that they are given an opportunity to bring their comments to the attention of the negotiating partners.

VII FINANCIAL ASPECTS OF ENLARGEMENT

12. As a precondition of enlargement, the EU is currently reconsidering its major financial flows: CAP and the Structural Funds. As regards the EEA Agreement, it is important to stress that these measures will not have an effect on the Financial Mechanism established in Articles 115 and 117 as well as Protocol 38 to the EEA Agreement. The mechanism provides for 500 MECU in grants and interest rebates on loans of 1500 MECU to certain beneficiary EU regions in order to "reduce economic and social disparities". The mechanism expires after 5 years, i.e. at the end of 1998, after fulfilment of all agreed payments by the EFTA countries. Therefore, there is no legal obligation for a perpetuation of these payments after 1 January 1999. In this connection the rapporteurs point to the wording of Article 117 which states that "Provisions governing the Financial Mechanism are set out in Protocol 38 " and to Article 2.5 in Protocol 38 which states that .." The total volume of loans....provided for in Article 1...shall be ECU 1500 million " and to Article

3.1 in Protocol 38 which states that " The total amount of the grants provided for in Article 1 shall be ECU 500 million...". This, as well as other written documentation makes it clear, that a continuation of the Financial Mechanism with amounts larger than those specified above and beyond 1998 has no legal basis in the EEA Agreement. However, this does not prevent new financial contributions from the EEA/EFTA side, but such contributions must be based on new agreements and protocols. The rapporteurs note with satisfaction, in spite of the lack of a legal basis, that the EEA/EFTA states have shown a willingness to discuss the possibility of a new co-ordinated effort toward the overall objective of reducing socio-economic differences in the context of a balanced framework of mutual rights and obligations.

VIII INFORMATION PROCEDURES

13. At the Ninth meeting of the EEA council in Luxembourg, the EEA council welcomed the launch of the comprehensive, inclusive and ongoing process of enlargement. It recalled however, that the EEA/EFTA states are to be kept informed on the process of enlargement, with a view to jointly evaluating and, where necessary addressing its possible consequences for the functioning of the EEA agreement. The JPC shares this view. With regard to Article 128, sufficient information on the process of enlargement only seems natural. Furthermore, during the negotiations transitional arrangements on EEA relevant issues might be decided upon. To the extent these concern EU legislation also incorporated in the EEA Agreement, such arrangements will have a direct impact on the rights and obligations under the EEA. These set the parameters for accession of the candidate countries to the EEA. In order to avoid problems or difficult situations resulting from a lack of information and consultation, the EEA/EFTA countries have insisted on being informed as closely as possible on the progress of the negotiations. While the Commission has already briefed the Joint Committee, the Council is still wondering how it could fulfil the obligation of Article 99/2 EEA – which speaks of transmission of copies of proposals to the EFTA states – without, however, giving EEA/EFTA states access to written information concerning the negotiations. This is an embarrassing situation. It is also unfortunate that this has not (yet) led to an official position or paper of the Commission concerning the possible effects of the enlargement. This is unfortunate because sufficient information on the consequences of EU enlargement on the EEA is still lacking, even in such areas as economics and trade. The JPC therefore strongly appeals to the Commission to produce such a paper before its next meeting in March 1999 to fill this "information gap".

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RESOLUTION**on the EU enlargement and its effects on the EEA**

The Joint Parliamentary Committee of the European Economic Area:

- A. noting that new member states of the EU will have to adhere to the EEA according to the procedure set out in Article 128 of the EEA Agreement; and noting further the statement of the President of the Council of the EU in March 1998 to the effect that any new Member State of the EU shall accede to all existing agreements concluded by the EU,
- B. noting that the EU in practical terms also conducts enlargement negotiations on behalf of the EFTA/EEA states,
- C. welcoming the enlargement of the EEA as a consequence of the enlargement of the European Union and believes that this will improve economic prosperity within this area; notes that with the forthcoming enlargement the EEA will be the largest free-trade area in the world,
- D. noting that the accession of three former EFTA-states into the EU was relatively easy because the similarities of the economies, but that this will not be the case for the new applicant countries,
- E. is of the opinion that, even if the enlargement will be beneficial to all participants, transition difficulties cannot be excluded either in the applicant countries or in the countries already members of the EEA, as many enterprises will meet new and stronger competition with the enlarged EEA; believes that the intensified competition might on the one hand eliminate some enterprises and on the other hand give expansion possibilities for other enterprises,
- F. noting that, even if the biggest transitional difficulties will occur in relation to the free movement of agricultural goods and labour, the free movement of capital and services might also create some transitional problems and the same could apply to energy policy,
- G. notes with satisfaction that the EEA/EFTA states have fulfilled their financial obligations as stipulated in Protocol 38 regarding the total volumes of loans and grants,
- H. is of the opinion that the Financial Mechanism provided for in Articles 115-117 of the EEA Agreement expired at the end of 1998, and that there is no legal basis in the Agreement for increasing the total volumes of payments in loans and grants over the sums explicitly stated in Protocol 38,
- 1. calls on the Commission and Council to keep the EFTA/EEA countries well

informed about the state of the accession negotiations;

2. calls on the EFTA states to analyse the possible effects of accession of partner countries, with which they have free trade agreements to the EU, calls upon all parties to ensure that their accessions do limit the negative impact as far as possible on free trade and free trade patterns between the EFTA states and their current free trade partners;
3. calls on the Commission to handle transitional difficulties with the utmost care, and to take adequate transitional measures that could limit the negative effects of enlargement without sacrificing the benefits of integration;
4. requests the EEA Joint Committee to draw up a report on the effects of the enlargement on the EEA Agreement as soon as feasible;
5. calls on the EFTA/EEA states to be in principle positive towards participating financially in a co-ordinated joint effort to reduce social and economic disparities between the acceding countries and the current members of the EEA, as enlargement occurs;
6. urges the contracting parties to be very clear on setting time limits and total volumes of support in any future agreement on new financial contributions referred to in paragraph 5 in order to avoid possible misinterpretations.

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