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Foreword

As it indicated in October 1977,¹ the Commission considers it essential to inform the Council of the state of its thinking on the question of enlargement. Each of the applicant countries is at a different stage in the accession process. Greece is at a stage such that the Council recently envisaged that the main part of the negotiation² would be completed by the end of this year, which suggests that Greece's accession should take place by 1981. The Commission will shortly be forwarding its opinion on Portugal's application,³ and has begun preparatory work for the drawing up of its opinion on Spain;⁴ this work will be so conducted that, by the time Greece joins, substantial progress should be made in the negotiations for the accession of Portugal and Spain.

The Commission therefore thinks it useful to convey to the Council its preliminary views on the conditions for the enlargement of the Community to succeed. Accompanying the document are more detailed analyses of the economic⁵ and institutional⁶ aspects of enlargement, which have served as background material for the Commission's reflections.

¹ Bull. EC 10-1977, point 2.2.1.

² Bull. EC 2-1978, points 1.4.1 to 1.4.5.

³ Bull. EC 3-1978, points 1.1.4 to 1.1.7.

⁴ Bull. EC 7/8-1977, points 1.1.1 to 1.1.5.

⁵ Supplement 3/1978 — Bull. EC.

⁶ Supplement 2/1978 — Bull. EC.

The challenge of enlargement

1. When Greece, Portugal and Spain, newly emerging as democratic States after a long period of dictatorship, asked to be admitted to the Community, they were making a commitment which is primarily a political one. Their choice is doubly significant, both reflecting the concern of these three new democracies for their own consolidation and protection against the return of dictatorship and constituting an act of faith in a united Europe, which demonstrates that the ideas inspiring the creation of the Community have lost none of their vigour or relevance. The three countries have entrusted the Community with a political responsibility which it cannot refuse, except at the price of denying the principles in which it is itself grounded. These principles are enshrined in the preamble to the EEC Treaty, where the founders of the Community, 'being resolved... to preserve and strengthen peace and liberty, [called] upon the other peoples of Europe who share their ideal to join in their efforts'.

The Heads of State or Government have recently solemnly proclaimed their faith in this ideal,¹ which requires the Community to give a positive answer to the applicant countries.

2. Greece, Portugal and Spain want to be part of a strong Community. If it were diluted, weakened or nothing more than a free trade area or even a customs union, it would be of only limited interest to the three applicant States and to the present nine Member States. Enlargement presents economic difficulties² and poses problems of an institutional nature³ which are examined below. Enlargement of the Community might therefore weaken it to such an extent that its fundamental objectives would be called into question.

3. In order to ensure the success of the new enlargement and because it does not want to run the risk of failing in its mission, the Community must, in negotiating the entry of the three new States and organizing the

transitional period, anticipate the difficulties to which enlargement could give rise for both the applicant States and the present Community. It must also rapidly strengthen its cohesion and its structures and progress towards union. This means that the Community can no longer defer taking urgent decisions for the purpose of completing the common market and of extending in depth the common policies essential to the success of enlargement.

Recently the Commission has made a number of proposals intended to enable real progress to be made towards economic and monetary union and subsequently towards European union.⁴ This policy is essential for the present Community; it is also the *sine qua non* for the viability and progress of a Community of Twelve.

¹ Bull. EC 3-1978, preliminary chapter.

² Points 6 to 30.

³ Points 50 to 57.

⁴ Bull. EC 2-1978, points 1.2.1 to 1.2.4.

Economic problems

4. The present Community has attained a high level of economic development, and its structures are in the main comparatively homogeneous.

For some years now it has been plagued by problems made considerably worse by the crisis which struck at the very moment when it was attempting to come to terms with its first enlargement. It is thus faced with economic problems, which in certain industries are particularly acute; with social problems (it has over 6 million unemployed, whereas it has hitherto been the main opening for migrant labour coming largely from Mediterranean Europe, especially the applicant countries); and with striking regional disparities.

5. The common market, consisting of common policies and the free movement of goods, persons, services and capital, is the basis of the European Community. But the Community must do more than keep the common market running smoothly. Its objective is to achieve union, especially economic and monetary union, for which it has adopted a five-year programme. The achievement of this objective rests on better convergence of the Member States' economies, abolition of the last impediments to the single market, gradual solution of the main structural problems, and deepening of the common policies.

6. Spain, Greece and Portugal differ considerably: Spain's economic weight and growth potential are much greater than Greece's or Portugal's. All three countries, however, are less economically developed than the present Community; their presence will increase the relative share of regions and sectors in difficulty in the Community; their agricultural, industrial and social structures are to a great extent dissimilar to those of the present nine Member States. This being so, the cohesion of the common market and achievement of economic and monetary union could be adversely affected by the new disparity which enlargement will produce.

7. It will therefore be necessary, in order to reconcile the Community's fundamental objectives and its political will to accept three new members, not to let the bases and objectives of the Community be called into question, nor the development of the three new applicants be put at risk.

Accordingly, and in view of the economic difficulties enlargement will produce, the guidelines set out below should be implemented to ensure maximum cohesion for an enlarged Community.

8. In the first place, the prospect of enlargement means that the Community must deploy the necessary means to ensure as vigorous a growth as possible. Solution of the economic problems connected with enlargement will depend to a very great extent on the growth achieved in the present Community and, consequently, in Spain, Greece and Portugal as well. With a high level of growth in the Community and, as in recent years, comparatively higher levels of growth in the three applicant countries, the specific problems would be easier to solve; with average growth, adjustment would be more difficult.

But the three applicant countries' integration into the Community will also have to be prepared and facilitated by specific sectoral measures. What will have to be done to achieve this will have to be worked out in the light of the main difficulties which enlargement will produce.

9. As soon as negotiations begin, care will have to be taken to avoid any measures which would put the Community's cohesion at risk, and to take only measures which would strengthen it. The Community and the applicant countries will have during this time to prepare for an enlarged common market. This means that the Community should help the applicant countries to expand certain industries which enlargement could revitalize; it could also ask them to observe some common discipline in certain well-defined areas even before accession; Spain, Greece and Portugal could be given corresponding financial aids.

10. These measures could on no account be general ones; they will have to be specific, worked out with the applicant country in connection with specific sectoral objectives and, where appropriate, integrated in multi-annual programmes taking account of the Community's general interests. The European Investment Bank (EIB) could help to finance joint measures and its capital be increased accordingly. It would be premature at this stage to assess the amount of the assistance required more accurately. This, like the amount of the credits from other sources which would be necessary, can only be indicated when the programmes corresponding to specific objectives have been worked out.

11. Measures of this sort should prove adequate for Greece, where *per capita* income is scarcely lower than Ireland, and Spain, in many ways comparable to Italy. Portugal, with a much lower *per capita* income than any other member of the enlarged Community and with structures which are still under-developed, could receive Community aid to facilitate its growth. The Community has contributed substantially to the financial aids granted to Portugal since 1974; it should continue, particularly in the International Monetary Fund, to support Portugal's balance of payments and to facilitate expansion of the necessary investment, for instance by granting EIB loans.

12. *After accession*, the exceptional aid for Portugal's growth will probably have to be continued. For the three applicant countries, the specific programmes worked out in common before accession, will have to be pursued so that they can adjust as quickly as possible to the new constraints accession will place on them. These financial measures will in the main be carried out via the Community budget. Estimates based on projections of the 1978 budget according to present mechanisms and on the basis of the present funds show that their full share of Budget expenditure and resources would result in a net balance corresponding, for Greece to

2.30% of its gross domestic product, for Portugal to 2.5% and for Spain to 0.40%, assuming maximum contributions. It is of course difficult for projections of this kind to be accurate. If, moreover, the three applicant countries are allowed to contribute to own resources during the transitional period on the sort of favourable terms granted to Britain, Denmark and Ireland in 1973, their relative advantage will be considerably greater. In the present state of their economic structures, it is not certain that the three new Member States would have the capacity to absorb more substantial transfers over shorter periods.

13. The transfers of resources referred to above will make it necessary to develop and adjust the budgetary instruments at the Community's disposal and ensure that optimum use is made of their resources. A start must be made with this right away, for it is necessary to step up the present efforts to increase transfers to the weak regions of the Community which will be affected by enlargement to enable them to stand up to its consequences.

14. This financial approach is only meaningful if it forms part of a policy. An overall Community approach in economic, industrial, agricultural, social and regional policy makes it possible to take a more positive view of the consequences of enlargement and to assure the common market's cohesion. Enlargement will be much easier if the Community is strong and if it has made headway with economic and monetary union; in that case it would be possible to ensure that macroeconomic objectives were compatible with structural objectives and that the latter were compatible with each other, to facilitate a solution of the problems which enlargement will produce in both the present Community and the three applicant countries, and gradually to reduce the inequalities and incompatibilities remaining between States and regions of the enlarged Community.

Agriculture

15. If the three applicant countries join the Community there would be a considerable increase in the number of people working in agriculture (+55%), the area given over to agriculture (+49%), the number of farms (+57%) and agricultural production (+24%). Agriculture plays a far less important role in the Community than in the applicant countries.

16. Greece, Portugal and Spain are very different, but agriculture in these three countries has common characteristics, which are also shared by the present Mediterranean regions of the Community. The imbalances existing within the present Community will therefore be magnified by the accession of these three countries.

17. There is a real danger of an increase in the rate of self-supply in some sectors which are already in surplus or bordering on surplus (wine, olive oil, certain fresh fruit and vegetables), especially as the adoption of common agricultural policy support mechanisms and the often higher level of prices in the Community of Nine might lead in the applicant countries to increased production, in particular production of interest to non-member countries with which the Community has established special relations. As regards other types of production which are in surplus in the present Community but in deficit in the applicant countries (milk products, meat), enlargement may have some effect on the balance in the Community, although it cannot be expected to redress it, as the present imbalance is so great.

18. Application of the rules of the common agricultural policy to products in deficit in the applicant countries will have adverse effects on their trade balance, but will make it easier for them to dispose of some of their other products. It is difficult at present to assess what the overall result will be from the point of view of the balance of payments, but in any event care must be taken to ensure that it does not afford them any incen-

tives to expand uneconomic types of production.

19. The solutions to these problems must first of all be concerned with maintaining what the Community has achieved (*acquis communautaire*) in the agricultural sphere and with continuing the integration process in the agricultural sectors. They must be incorporated among the common agricultural policy's objectives, for instance the rational use of resources, the guaranteeing of equitable levels of income for producers, and the adaptation of the level and quality of agricultural output to the internal and external markets of the enlarged Community.

20. In the light of the problems referred to and the nature and characteristics of the problems it will be necessary to study with the applicant countries the joint measures to be applied in the agricultural sector in accordance with the approach outlined above.

21. Internally, it will be necessary to improve production structures as well as the quality though not the volume of output. In addition, the trend of certain types of production must be kept under better control, account being taken of the market situation at Community level and the need to promote the development of the various regions of the Community of Twelve. The process already started in the Community of Nine of converting from certain types of production to products of which there is a deficit in the Community should be taken further. The agricultural structures in the applicant countries, however, are even less suited than those of the Mediterranean regions of the Community of Nine to such types of production, which are largely extensive.

The structural problems of agriculture in the enlarged Community will at the same time make it necessary to continue and strengthen the effort begun in the Community of Nine and to apply wide-ranging measures in the applicant countries. These measures could be based on the Mediterranean policy instituted by the Community; as indicated below, they should therefore go beyond the

context of the common agricultural policy. In view of the nature and magnitude of the structural problems in the new Member States, the types of production at issue and the general economic situation such action will not yield results in the short term. In the enlarged Community, as in the present Community, it will therefore be essential to maintain an active market support policy during the period required for the restructuring efforts to be successful.

22. Whatever the common agricultural policy's response to the problems of enlargement, it is clear that any improvement in the agricultural sector will have specific consequences for employment and will inevitably lead to a significant reduction in the number of people employed, or rather underemployed, in agriculture and make it necessary for them to be absorbed in other sectors of the economy. This implies, and emphasises up once again, the need already encountered and accepted, as regards the Mediterranean regions of the Community of Nine, to seek the response beyond the framework of the common agricultural policy and to promote integrated, parallel development of all sectors of the economy together with the necessary coordination of Community, national and regional efforts.

Industry

23. Industry in the Community of Nine is still suffering from the negative effects of the general economic crisis. It is also engaged in a process of adjustment to the new international division of labour which is taking shape following the increased participation of a growing number of countries in international production and trade.

In certain sectors a set of measures has already had to be taken to deal with the particularly acute problems involved in adjusting to this trend: in the immediate future these measures involve safeguarding the common market and the principles underpinning the system of international trade, the essential

restructuring of the industries concerned and the conversion, on socially acceptable terms, of the regions particularly affected. Alongside these measures, a promotion effort will have to be undertaken in growth sectors where production capacities are at present not utilized or where capacity will be released as a result of restructuring, so that they are employed more in accordance with the requirements of demand.

24. The economies of the three applicant countries have not escaped the economic crisis. Since they are, albeit at different levels, at a less advanced stage of economic development than most of the Community of the Nine, the structure of their industrial production and of demand is appreciably different from that of the Community as a whole.

25. Enlargement will therefore add to production capacities in certain sensitive sectors of the Community and increase the disparity as regards the conditions of production existing in other sectors. It will also raise the problem of involving the three applicant countries in the major effort to adapt the Community's industrial production apparatus to the new conditions of the world market. Technical discussions on the sectors likely to be concerned are to begin as soon as possible.

26. In framing its industrial policy the Community must take account of the prospect of enlargement and prepare now, in conjunction with the applicant countries, for integrating the latter in the existing mechanisms by making the necessary adjustments. These adjustments must first of all involve common disciplines concerted with the applicant countries in order to assure the industrial operations of full success from the outset; if these disciplines were to work satisfactorily, the applicant countries could be exempted from the protective measures the Community has had to adopt *vis-à-vis* non-member countries, at any rate in the case of exports which are important to their balance of trade.

Energy problems

27. The three applicant countries are severally between 78 and 88% import-dependent for energy. Their accession will further increase the import-dependence of the Community of Nine, which already has to bring in 57% of its supplies—more particularly of oil—from outside. This prospect is the more disquieting inasmuch as in all three applicant countries, owing to the different starting level, gross energy consumption is still climbing exceptionally steeply. The movement of energy prices and the foreseeable increase in energy imports in the three countries are liable to worsen their balance of payments disequilibria and to endanger economic growth and the convergence of economic structures within the enlarged Community.

28. A fresh political impetus to Community efforts to reduce import-dependence is therefore vital. This means the establishment of a genuine common energy market, joint utilization of resources, more intensive energy-saving, and a common policy *vis-à-vis* third countries for securing our long-term flow of supplies.

Social aspects

29. Industrial and agricultural restructuring and the trend towards capital-intensive production systems will release manpower and seriously worsen unemployment in the Community. The number of jobless in the twelve countries combined now totals over 7.5 million. The arrival on the labour market of considerable numbers of young people, in view of the high rate of unemployment among these age groups,¹ will aggravate the problem and make this phenomenon one of the main challenges and policy constraints in the 1980s.

30. To meet this challenge, the Commission considers that as a matter of urgency a bold employment policy should be defined—particularly in the field of vocational training—in the framework of an overall so-

cial policy to be implemented at Community level. This employment policy should be able to mobilize all the financial resources of the enlarged Community.

31. Freedom of movement of people, in particular workers, is a fundamental right that the Community cannot deny its members. While it is true that freedom of movement alone does not result in significant migratory flows in times of unemployment, it could give rise to severe strains when labour markets are under so much pressure. Therefore, both by promoting regional development and by adopting appropriate transitional measures, freedom of movement and work throughout the Community can progressively be ensured for nationals of the new Member States.

Regional aspects

32. The regional disparities in the Community will be aggravated by enlargement, the applicant countries having considerable internal regional imbalances which, in the absence of large-scale regional policies, will tend to grow.

Enlargement is bound to intensify trade flows between the present Community and the three applicant countries and give a fresh boost to economic growth: this, however, is liable to be of greater benefit to the developed regions whose economic fabric is sufficiently flexible and dynamic to take greater advantage of the opportunities offered by a larger market. In the absence of suitable corrective policies, trade liberalization might even go so far as to jeopardize the continued development of a number of weak regions in the enlarged Community. In the social field, the increase in regional imbalances may result in major differences in living standards, giving rise to considerable migratory flows to certain very wealthy regions, which would accentuate the depopulation of the former

¹ Bull. EC 10-1977, points 1.4.1 to 1.4.10.

and the concentration of population in the latter.

33. In a Community of Twelve, policies must therefore be introduced to reduce the regional gaps by means of the development of the poorer regions. These policies, with adequate financial resources at their disposal, should dovetail in with the action referred to in this Chapter.

The place of the enlarged Community in the world

34. Enlargement will strengthen the role which the Community is destined to play in the world: in the Mediterranean, since it will account for a great part of the northern side of the Mediterranean, and also in Africa and Latin America, in view of the historical links of two of the applicant countries with important countries in those areas. Already the world's largest trading power, the Community's weight in international trade will increase still further as a result of enlargement, but this is bound to have notable repercussions on its relations with its main trading partners.

35. The development of the external policy of an enlarged Community presupposes the strengthening of its Members' cohesion. This cannot occur unless at the same time the Governments intensify their cooperation on all matters of foreign policy. The strengthening of this solidarity underscores the importance of Political Cooperation for the European Communities, which 'remain the original nucleus from which European Union develops.' The most appropriate methods must be devised for the applicant States to be associated according to the most suitable methods in the action defined in Political Cooperation.

36. The consequences will be particularly marked in the Community's trade with the Mediterranean and the developing countries. There is no avoiding the fact that, as matters stand, the Community market's capacity to absorb its agricultural and industrial consumer goods, trade in which is important to the economies of some non-member countries, particularly in the Mediterranean region, will be limited. The agreements with these countries, however, are designed to promote trade for the benefit of both sides, and this objec-

¹ Luxembourg Report on political cooperation, 27 October 1970; Bull. EC 11-1970, Part One.

