To the Minister of Foreign Affairs
H.A.F.M.O. van Mierlo

Date: 10 December 1997 *Our ref.:* AIV-98/97
Re: Advice on the enlargement of the European Union

On 12 June 1997, the Minister of Foreign Affairs, the Minister of Defence, the Minister for Development Cooperation and the State Secretary for Foreign Affairs asked the Advisory Council on International Affairs (AIV) to produce an advisory report on the enlargement of the European Union. The Advisory Council on International Affairs issued a first report *An inclusive Europe* in October, at which time it also announced that it would be publishing a follow-up report dealing with specific aspects of enlargement.

The Luxembourg European Council will decide on 12 and 13 December with which Central and Eastern European countries it will start accession negotiations. Enlargement of the Union will have consequences for other EU policy, such as the structural funds and the Common Agricultural Policy (CAP). On 3 November 1997, the Minister of Foreign Affairs and the State Secretary for Foreign Affairs sent the Lower House a memorandum on Agenda 2000 concerning the relationship between accession and EU policy such as the CAP, the structural funds and EU funding. The present advisory letter is a response to that memorandum. The AIV will publish the aforementioned follow-up advisory report at a later stage, well in advance of the start of accession negotiations. This advisory letter addresses the following concerns:

- accession of new member states:
    - opening accession negotiations with all or only some countries;
    - demanding full application or partial application of the *acquis*;
    - setting priorities for application of the *acquis;*
- structural funds:
    - the budget;
    - funding criteria;
- Common Agricultural Policy:
    - future reforms;
    - the budget;
    - transitional provisions;
- funding:
    - the net contribution problem;
    - defining net contributions;
    - a new system for financing the EU.

Accession
In the *Memorandum to the Lower House on Agenda 2000*, the government expressed its support for the European Commission’s proposal to open accession negotiations with the Czech Republic, Estonia, Hungary, Poland and Slovenia. The AIV largely agreed with the Commission’s selection in its advisory report, *An Inclusive Europe*.

In its memorandum, the government justifiably underscored the importance of a more muscular pre-accession strategy, as “the institutional and administrative capacity in all these Central European states is not yet of a sufficiently high quality” to implement the *acquis*. It also wrote that accession should be conditional on “every applicant [having] adopted and actually applied the *acquis communautaire* before it joins”. The AIV would point out the disparity between the countries’ limited capacity and the requirement to apply the *acquis* in full. Insisting on full application of the *acquis* regardless of the inadequate economic and administrative capacities of the Central and Eastern European countries would delay their accession until the distant future. This would strain relations with the countries in question, which have been led to expect accession in five to seven years. If the aim is accession in the short term, the requirement to apply the *acquis* in full should be reviewed.

In the light of the current situation in the Central and Eastern European countries, the AIV feels it would be unrealistic to expect the *acquis* to be applied in full on accession, even if accession were to be significantly delayed. It is understandable that the government has adopted this requirement as part of its negotiation strategy, since it was also a condition of previous enlargements, but past experience has also shown it to have limited effect. Transitional periods were often set instead, but these have the same shortcoming, namely that transposition of the *acquis* does not ensure its proper application.

It would be well to let go of the idea that the new member states will be able to apply the entire *acquis* on accession. Accepting that economic and administrative limitations stand in the way of full application of the *acquis* does not, however, excuse the new member states from making every effort to adopt and apply it, in part by strengthening their economic and administrative capacity. The need for capacity development should also be addressed in the pre-accession strategy. Of the 45 thousand million euros designated for the accession countries, the European Commission has proposed paying 7 thousand million euros in the pre-accession stage and the remaining amount after accession (until 2006). This proposal is based on the assumption that the five countries will join the Union in 2002. The AIV would ask what purpose is served by this payment in stages, especially in view of the recent expectation that accession will be delayed, in which case pre-accession aid would be very low compared to the amount available immediately after accession. Considering the difficulties to be encountered by the new member states in applying the *acquis*, it would be more prudent to increase pre-accession aid, so that the acceding countries could develop the necessary capacity to apply as much of the *acquis* as possible on accession.

The capacity to apply elements of the *acquis* will be an important point in the accession negotiations. The AIV would therefore recommend that a list be made of all elements that would need to apply immediately on accession and others that could be implemented gradually through a transitional period or other instruments. The criteria formulated at the Copenhagen Summit, including guarantees of democracy and the rule of law, are certainly among the elements that would have to be applied on accession.

Structural funds
The European Commission has proposed setting the structural fund budget at 0.46% of GNP for the period 2000-2006. In the *Memorandum to the Lower House on Agenda 2000*, the government called for a cut in funding and a nominal ceiling as opposed to one that would rise with GNP. The government also pointed out that a budget ceiling should not be interpreted as a spending objective. The AIV would interpret this position as critical of the Financial Perspective. The European Commission expressly adopted existing funding agreements in its proposals to avoid debate about this matter.

The AIV would agree that a fundamental review of the structural funds has much to recommend it. The structural funds are intended as temporary measures, although this may have been forgotten by some. It should therefore be up to those who favour prolonging the current system to present their arguments. In a reform of the structural funds, eligibility should be limited to economically underdeveloped member states and be in accordance with the subsidiarity principle. The structural fund budget could then be based on the number of eligible member states. This approach would reduce member states' contribution to the structural fund budget. It could also lead to a redistribution of funding that would especially benefit the new member states.

Common Agricultural Policy (CAP)
The government largely supports the European Commission's drive for further CAP reforms. In the reform process, started in 1993, market regulation will be phased out and replaced by a system of income support. The AIV holds the view that the reforms need to be intensified within sectors and extended to other sectors for the following reasons:

- to prevent surpluses, which may be imminent for cereals and beef;
- to be ready for the next round of WTO negotiations, which are certain to result in more trade liberalisation;
- to ease the integration of the new member states;
- to safeguard access to the world market.

The European Commission wishes to give rural development a more prominent role in the new policy. In the opinion of the AIV, under the subsidiarity principle, rural development is a responsibility of the member states, not of the European Union.

Direct income payments would compensate for reductions in price support. The AIV holds the view that direct payments should not affect the member states' competitiveness on the internal market and should therefore be based on production volume.

The AIV would suggest that a study be carried out into the possibility of simplifying CAP regulations at Community level. One possibility might be a legislative framework at Community level within which member states could draw up their own national rules. Such an approach might better address regional needs and circumstances.

The guiding principle of CAP reform should be that further reforms are introduced gradually, so that the sectors have time to adapt to the new situation.

When the Central and Eastern European countries join the Union, prices of food and farm products will rise sharply there. As households in these countries spend between 40 and 60% of their income on foodstuffs, compared to an average of 19% for the Union, this could give rise to steep drops in demand and social unrest. In the opinion of the AIV, this underscores the importance of long transitional periods for the implementation of EU agriculture policy in the new member states.

Financing the Union
The AIV endorses the emphasis placed on the financial aspects of enlargement in the government's memorandum. Although this issue is strictly speaking unconnected with enlargement, the fact is that the Netherlands is becoming a greater net contributor. In view of the debate that it engenders, it is important not to underestimate the weight of this issue. But it should also be noted that the Netherlands was a net recipient for many years, despite an intermediate level of prosperity and a relatively large share of Customs duties. This response to the government memorandum is, however, not the place for an exhaustive analysis of such a fundamental, wide-ranging issue as EU finances. On the other hand, the financial aspect is so essential to the government's position it would be inappropriate to disregard it here entirely.

The AIV sees no reason to doubt the figures presented by the European Commission concerning the cost of enlargement and the ability to finance enlargement with the existing ceiling (1.27% of GNP), assuming that the assumptions on which they are based are correct. The AIV assumes that enlargement will not cause external financial problems at macro level. Existing financial buffers at macro level would be sufficient to absorb possible financial consequences.

The same cannot be said for all the individual member states, or for groups of member states. The controversy between net contributors and net recipients brings with it many difficult dilemmas. The AIV holds the view that the idea of having to pay more or receiving less should not be so unpalatable for any of the EU 15 as to impede continuation of the accession negotiations. The AIV thus affirms its earlier position, as stated in the first interim advisory report on the resolution of institutional problems and problems concerning acceptance of the *acquis*. Nevertheless, it must be admitted that this is a serious political problem, as evidenced by recent statements by net recipients (such as Spain) and net contributors (such as the Netherlands).

Having analysed the European Commission's position, the AIV would conclude that the Commission appears to have higher expectations of net contributors than of net recipients. This seems odd from an objective point of view, though if the net recipients were significantly worse off in economic terms, it might be supported by public opinion in the net contributing countries. The Dutch government apparently believes that the disparity is not enough to justify this approach and has decided to strive for a reduction of its relative contribution to the Union budget, i.e. a review of the own resources decision. A more fundamental approach to financing the Union is a road down which the European Commission explicitly does not wish to go. It would indeed open a Pandora's box, but not for the first time. This step was also taken in 1988, and the enormous effort required then was ultimately successful. This leads the AIV to disagree with the Commission's current approach. As the number of less wealthy member states will only increase in the future, the funding problem is not likely to go away. It would be best if the Commission took the lead in this process of change, as in 1988, since the results are not likely to be satisfactory without Commission coordination. Obviously, a debate on the funding of the Union could not be restricted to rates and net contributions, but should take place in the broader perspective of an EU of 25. Important subjects to be discussed would include:

- VAT as a basis of assessment in view of its future role;
- the definition of own resources such as import duties and agricultural levies in relation to their effect on the *national* economy and the public;
- the wish to strengthen the role of the GNP as a basis of assessment;
- the question whether the EU should introduce its own tax instrument.

At this stage, the AIV only identifies these points as needing to be resolved in order for a more fundamental approach to be developed. A debate about principles could also open the way to a more satisfactory discussion of the net contributor issue. As regards this issue, the AIV shares this view of the Dutch government, which does not object to being a net contributor as such, but rather to paying what it regards as a disproportionately large percentage. It is this that prompted the government's criticism of the current financing system.

Yours sincerely,

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